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CONSENT CALENDAR

DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE BOARD OF DIRECTORS
February 28, 2013 – 2:00 p.m.
San Carlos Library Conference Room A/B

1. CTO: 2:04 PM
Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X	
Belmont		X	Redwood City	X	
Burlingame		X	San Carlos	X	
East Palo Alto	X		San Mateo	X	
Foster City	X		County of San Mateo	X	
Hillsborough	X		West Bay Sanitary District	X	

2. **Adjourn to Closed Session** - Pursuant to Government Code Section 54956.9(A): Conference with Legal Counsel – anticipated litigation – one case.

The Regular Portion of the meeting was called to order at 2:10 PM

3. **Report from Closed Session**

None

4. **Public Comment**

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting.

If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

5. **Approval of Consent Calendar:**

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Board, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion.*

- A. Adopt the January 24, 2013 BOD Meeting Minutes
- B. Approval of Quarterly Investment Report as of 12/31/12
- C. Receipt of Recology and SBR Monthly Reports

Motion/Second: Gibbons/Rodericks

Voice Vote: All in Favor

6. New Business:

A. Discussion on Expanded Board Executive Committee

Chair Doughty explained that he was looking to expand the informal executive committee which serves the purpose of agenda review. He added that he hoped the additional members would build a basis for future leadership. He noted that he had spoken with past chairs Jim Porter and Larry Patterson who agreed to join the committee and had left a message for Afshin Oskoui from Belmont.

Member Moura requested that the members of the ad hoc subcommittees be posted on the website as well as Board member requirements and voting rights.

B. Resolution Approving Mid-Year Budget Adjustments FY2013

Executive Director McCarthy explained that the only reason to have mid-year budget adoption is because of the addition of the Burlingame HHW program which caused the budget to go over the adopted annual budget amount. He then noted that these costs are all pass through expenses covered by the City of Burlingame and have no net impact on the budget. He added that the Board may want to consider a policy change in this area so that if a pass through expense causes a budget fluctuation but no net impact then formal adoption wouldn't be required.

Chair Doughty asked the Board members if they should direct the Executive Director to draft a policy reflecting those changes regarding no net changes.

Member Moura suggested developing a draft policy and putting in on a future agenda for discussion.

Motion/Second: Moura/LaMariana

Roll Call Vote: 10-0-0-2

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park	X			
Belmont				X	Redwood City	X			
Burlingame				X	San Carlos	X			
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo	X			
Hillsborough	X				West Bay Sanitary District	X			

D. Resolution Approving Schedule for 2013/2014 Solid Waste Rate Setting Process

Executive Director McCarthy gave an overview of the proposed changes to the rate setting schedule, and highlighted some of the notable changes. He added that at the April Board meeting staff would be presenting the revised rate application format, with the goal of trying to address the issues and concerns that have come up about the ease of understanding that report.

Member LaMariana thanked staff and Recology for their work on the more favorable time line.

Member Gibbons asked if conceptually, as we move closer to all index based adjustments, if the compensation application would become simpler.

Executive Director McCarthy answered that the process will be the same and that the allocation will be the same, but it may be a little simpler because anything non index based won't be there, and there won't need to be text explaining the non-index based items.

Motion/Second: LaMariana/Fotu
 Roll Call Vote: 10-0-0-2

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park	X			
Belmont				X	Redwood City	X			
Burlingame				X	San Carlos	X			
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo	X			
Hillsborough	X				West Bay Sanitary District	X			

D. Resolution Approving Annual Public Education Plan for Franchised Collection Services

Staff Devincenzi gave an overview of the staff report and noted that many of the changes have already been implemented. One of the changes was the elimination of the Recology Public Education Manager and with that the SBWMA would take over the development and management of public outreach. She noted that this resolution only approves the Public Education outreach in the Franchise Agreements, but that going forward starting for calendar year 2014 there will be a more comprehensive public education plan which would include both the franchise agreement items as well as any SBWMA programs.

Member Rodericks asked if digital versions would be available to the member agencies of any outreach that is produced.

Staff Devincenzi answered yes.

Member Gibbons asked how billing inserts work for Redwood City since they do their own billing.

Staff Devincenzi answered that inserts are submitted directly to Redwood City for inserting into the bills.

Chair Doughty asked a similar question because East Palo Alto is billed through the property tax bill those residents wouldn't get bill inserts.

Staff Devincenzi answered that East Palo Alto gets their material direct mailed to the customer address in Recology's data base.

Chair Doughty explained that he has a concern that with EPA's high percentage of renters that the information may be going to the actual tenant of the building.

Member Galli asked about the number of inserts allowed versus planned, against how many bills per year go out and asked if there would be overlap.

Staff Devincenzi answered yes, that there will be times when 2-3 inserts will go at once.

Motion/Second: Fotu/LaMariana

Roll Call Vote: 10-0-0-2

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park	X			
Belmont				X	Redwood City	X			
Burlingame				X	San Carlos	X			
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo	X			
Hillsborough	X				West Bay Sanitary District	X			

7. Old Business:

A. Update on Shoreway Remediation Project

Staff Gans gave an overview of the history and current status of the Shoreway remediation project. He noted that from the \$1.5M settlement money with Allied there is currently about \$1.3M left, and after a 10 year effort we are now at the end of the identification, treatment and assessment of the contamination. He added that we are now in a position to submit a closure report to the San Mateo County Department of Environmental Health that explains the existing level of contamination and asks the County to agree with Iris Environmental's recommendation that the site can be managed through natural attenuation, and no further threat exists. He added that one important component of the report submitted is a covenant to restrict property use, which will limit how the land can be used in the future. It limits the land use to industrial use only it cannot become residential land in the future. He added that he would update the Board once he got responses back from the County.

Executive Director McCarthy added that the deed restriction Hilary is referring to will come to the Board for approval. He also noted that staff would recommend the Board consider using the remaining settlement money to remove the 3 single walled underground storage tanks which are compliant but do leave us with some exposure. He noted that Staff Gans is in the beginning stages of getting cost estimates for that work, and that any left-over settlement money would be unrestricted.

Member Moura asked if the deed restriction had been brought up with the community development department in San Carlos, and recommended going through that notification process so that the City of San Carlos would be aware that it is happening.

Staff Gans noted that he would follow up with the community development department.

Member La Mariana asked if there was any other reserve that would cover contamination if we used the rest of the settlement money and then additional contamination occurred.

Executive Director McCarthy answered that if it came up we would have to request capital funds for a capital repair, but noted that staff's thought is that we don't want another contamination clean up situation and removing those tanks would limit exposure to that possibility. He noted that there is other future challenges tied in, for example any future collection fleet wouldn't likely use diesel, and we have to consider all options to reduce the Agency's risk for contamination exposure.

Member LaMariana asked when the underground storage tanks were put in.

Staff Gans guessed that they were installed around 1980, and that we wouldn't be allowed to install these tanks today.

Member Moura suggested that the Board strategic plan around the possibility of a natural gas power fleet.

B. Discussion on Potential Amendments to the Uniform Franchise Agreement for Collection Services

Executive Director McCarthy gave a recap of this item noting that these issues came up during the last budget cycle when staff looked at any overlap between the SBWMA staff and Recology to see if there was any streamlining and clean up that could occur. He noted that Recology voluntarily implemented some staff reductions which, combined with SBWMA cuts, saved \$325,000 per year, and those savings were in the rate application. He also pointed out that with the exception of 3 items these changes are administrative in nature and they are discretionary whether a City or Town Manager approves them, or they go to council. He noted if the Board approved the changes, staff would provide a model staff report, and include an addendum to the Agency's Franchise Agreements.

Executive Director McCarthy then explained page 2 of the staff report which explained 3 items that would require formal Council action to change the Franchise Agreements. 1) relates to a change in the scope of the agreement, 2) relates to performance incentives and disincentives and 3) relates to formally capturing this administrative change approval. He noted that approval of item number 2 would save the agencies money.

Executive Director McCarthy then noted 3 items that have been discussed, but that there is not full consensus on. 1) Quality Assurance program, Recology has noted that they're not getting a lot of feedback from these calls, but we have not been able to arrive at an acceptable program alternative. 2) Targeted commercial recycling program, which would reduce the number of assessments but increase the assessment numbers in higher populated areas.

Staff Feldman then gave an overview of the third item without consensus 3) change in scope of the agreement. This would include organic material in the exclusive right to collect provision of the contract that is not currently exclusive for the company to collect. He noted that this would not affect back haulers but would protect the material that Recology is currently collecting.

Mario Puccinelli noted that Cal Recycle reports that approximately 2/3 of what is at the landfill is compostable, which is why Recology feels that it's imperative to franchise local organics, and agencies would retain the franchise fees, and optimize capital investment. He also noted that Recology has identified over 30,000 tons annually.

Staff Feldman added that if agencies lose 30,000 tons of material the cost to pick that up is still in the rate application.

Executive Director McCarthy also added that if Member Agencies wanted to adopt this item into their Franchise Agreements there is a 5 year notice period, so it couldn't take effect until 5 years after the notice period.

Member Scott asked if it would only then effect the last two years of the contract, and if this was an item that every member agency needed to agree on.

Executive Director McCarthy answered yes; it would be the last two to three years of the contract. He added there is no unanimous requirement for any of the proposed changes, these are all for the most part (except where noted) agreed upon by staff, Recology and the subcommittee. He did note that this same group thinks it is an item that would need to be approved by City Council or Board.

Member Moura noted that San Carlos would probably bring it all to council, but would like it parceled out, due to the controversial nature of the Scope of the Agreement and how it would affect cost. He also pondered if all of the Agencies don't approve this how would that affect all of our costs.

Executive Director McCarthy answered the first part noting staff could structure the staff reports any way Board Members would like. He also added that the scope of the agreement change tries to look out over the horizon and trying to protect the franchise especially in light of the 75% goal.

Staff Feldman explained cost allocation and answered the second half of Member Moura's question.

Member Galli asked what is driving the thought that some accounts may be potentially at risk in the future.

Mario Puccinelli answered that it's about protecting the franchise, and explained anaerobic digestion.

Executive Director McCarthy added that with new technologies coming on line it's going to make it easier for a customer to claim something is compostable and then the account is lost.

Member Masbad followed up on the cost allocation question asked that if collectively we lose the tons we are all at risk, because we will still be paying for it without the revenues.

Staff Feldman answered correct; but the burden of the revenues gets shifted.

Vice Chair Fotu explained what some of the subcommittees concerns over the scope of service change. She noted that Agencies pay \$100/ton to dispose of commercial food waste, noting that many Agencies offer some kind of a discount to commercial organics customers. She noted that she was trying to figure out the rate impact if we lost some business or put more on because of the discount, and asked for more account analysis, and business community engagement before heading down this path.

Vice Chair Fotu then asked if anaerobic digestion is one of the threats to the franchise, and if yes, why aren't we looking at the technology.

Executive Director McCarthy explained the Palo Alto digester isn't going to be big enough to make a dent in our needs. We are watching the ZWED facility closely; we don't know the pricing and it's too soon to tell if they're friend or foe.

Staff Gans added that there is interest in getting energy out of waste, but it is hard.

Vice Chair Fotu stated that it sounded like the risk/threat is about the technology, and she asked that the staff report be very thorough to explain what the risks are and what the rate impact could potentially be.

Executive Director McCarthy noted that if this is an item that remains challenging or difficult for agencies to approve it may be that you decide to file the notice but not amend your franchise agreements.

Member Scott asked if there was a digester in the county that Recology could take the organics to, that would at least get to the point where it could then be taken to the SBSA, would that be a financial benefit to the member Agencies.

Executive Director McCarthy answered only if it was cheaper to do that, at the end of 2014 our two compost contracts expire so Hilary is looking at all alternative options so that when those contracts expire we know what we need to do.

Member La Mariana supported separating the two issues and proceeding on a track to approve and adopt the items Recology, staff and the subcommittee have all agreed on. He thought the topic of commercial organics being franchised is worthy of more thought and discussion, noting that he could see both sides of the argument, but also noted that his general sense would be to go forward with the 5 year notice to have that option down the road.

Vice Chair Fotu asked if it would be possible and what the cost would be to consider text survey's as part of the quality assurance program or possibly post cards.

Chair Doughty clarified that these pieces can be approved independent of each other and they are not a package, and asked what has to go together.

Executive Director McCarthy answered most of them are one off, but some of the administrative items are tied together - for example the public education items. Given the discussion today, it seems staff can come back at the March meeting with approval of the items except the scope of agreement, which you would then take back to your councils for individual action, and how you want to bundle them is up to you.

Member Galli asked if we would get a redline version of the Franchise Agreement.

Executive Director McCarthy answered that on the administrative items you would get an attachment that would summarize the changes, because a red line would be too expensive, but on the 3 that need council approval you would get a redline.

C. Update on "RethinkWaste" Trade Name

Counsel Savaree announced that the name "RethinkWaste" has been successfully trademarked (will use a service mark).

Executive Director McCarthy added that without adding any extra expense we will look for opportunities to use the Trademark symbol, there are legal issues that once you get a trade name, you need to start using in in commerce.

D. Discussion on SBWMA Governance

Chair Doughty noted that we will keep this on the agenda as a place holder to keep discussing status of

the governance issue. Perhaps at the next meeting we can get an official accounting of what agencies have taken official action, but noted that he wanted to provide an opportunity to keep the discussion open.

Member Chan updated the Board on San Mateo's action, noting that their Council agreed to participate in the blue ribbon task force, and that 3 council members don't want to change the current structure and two were not sure, but that all of the San Mateo council agree that if we consider changing the JPA we should consider special voting procedures. The council also asked for more public education in how the contract and rates work.

Member Rodericks updated the Board that Atherton has appointed a Council Member to the Blue Ribbon task force.

Member Scott updated the Board that West Bay Sanitary Dist. has appointed a Council Member to the Blue Ribbon task force.

Member Hardy updated the Board that Foster City has appointed a Council Member to the Blue Ribbon task force.

Member Masbad updated the Board that Hillsborough has appointed a Council Member to the Blue Ribbon task force

Member LaMariana updated the Board that Supervisor Groom had been appointed to the Blue Ribbon task force.

The first meeting of the Blue Ribbon task forces will be March 20th at 6PM at Redwood City Hall.

8. Staff Updates

- a) Update on Recology Commercial Recycling Outreach Efforts
- b) Recycling and Outreach Programs Update
- c) Shoreway Operations and Master Plan Update
- d) Preview of Upcoming Board meetings

Executive Director McCarthy reminded the Board that there was a 2 Million ton event at Shoreway tomorrow and asked the Board who was coming.

9. Board Member Comments

Member LaMariana announced that the County is reactivating the green business program, and looking forward to county wide participation.

10. Adjourn 3:54PM



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Marshall Moran, Finance Manager
Date: March 28, 2013 Board of Director's Meeting
Subject: Resolution Approving Amended Budget Policies

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2013-05 attached hereto authorizing the following action:

Approval of amended budget policies related to pass through expenses.

Analysis

The Board adopted budget policies require Board approval for any appropriations, included in the adopted budget, in excess of total expenditures. The staff recommendation is to modify such policy to allow for appropriations in excess of total expenditures in cases in which the appropriations are for pass through expenses that is 100% offset by revenues. The amended budget policy would be as follows as shown in redline:

"Any appropriations, with the exception of pass through expenses that are 100% offset by revenue from the same source, in excess of the total expenditures (sum of all four programs areas) included in the adopted budget are subject to Board approval. In the case of pass through expenses, the Executive Director shall provide an update at a Board meeting notifying the Board of the planned expenditures."

At the February 28, 2013 Board meeting a mid-year budget adjustment was approved by the Board due to such pass through expenses, in this case for the door-to-door HHW services, causing the overall expenditures to exceed the adopted budget expenditures even though they are 100% covered by additional revenue. This policy change would eliminate the need for the Board to adopt a revised budget in the future.

Background

On February 26, 2009, the Board of Directors adopted budget policies related to transfer of funds within the SBWMA's operating budget and capital budget; and staffing authorization. Policy details on the transfer of funds are as follows:

Transfer of funds:

1. The Executive Director is authorized to approve all appropriation transfers within and between the four program areas.
2. Any appropriations in excess of the total expenditures (sum of all four programs areas) included in the adopted budget are subject to Board approval.
3. Any appropriations transfers between capital projects are subject to Board approval. The Executive Director can transfer funds within a specific capital project.

As a matter of background, the SBWMA program budget is organized in four program (category) areas:

- Administrative Expenses
- Contract Compliance & Support
- Recycling & AB 939 Compliance
- Shoreway Operations

There is also a separate capital projects portion of the budget.

Fiscal Impact

There is no fiscal impact associated with approval of these revised budget policies.

Attachments:

Resolution 2013-05



RESOLUTION NO. 2013-05

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING REVISED BUDGET POLICIES

WHEREAS, the South Bayside Waste Management Authority (SBWMA) adopted budget policies on February 26, 2009;

WHEREAS, it is recommended that the SBWMA approve revised budget policies related to pass through expenses;

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the revised budget policies related to pass through expenses.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 28th day of March, 2013, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				

I HEREBY CERTIFY that the foregoing Resolution No. 2013-05 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on March 28, 2013.

ATTEST:

John Doughty, Chairperson of SBWMA

Cyndi Urman, Board Secretary



STAFF REPORT

To: SBWMA Board Members
From: Marshall Moran, Finance Manager
Date: March 28, 2013 Board of Director's Meeting
Subject: Resolution Approving a Contract with Hilton, Farnkopf and Hobson Consulting, LLC for Financial Systems Audit of Collection Services and Facility Operations Contractors

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2013-06 attached hereto authorizing the following action:

Authorize the Executive Director to execute a contract with Hilton, Farnkopf and Hobson Consulting, LLC for a Financial Systems Audit of Collection Services and Facility Operations Contractors with a not-to-exceed budget of \$56,881.

Analysis

The SBWMA is seeking to contract with HFH to perform a financial systems audit of our two contractors, Recology and South Bay Recycling (SBR). Last year, the SBWMA issued a Request for Proposal (RFP) for a Financial Systems Audit of Collection Services and Facility Operations Contractors to nine potential proposers. Based on the results of that RFP process and the work performed by HFH, staff is recommending contracting with HF&H to perform this work for calendar year 2012 for a cost not to exceed \$56,881 including a 10% contingency. Last year HF&H was paid \$70,412 for this scope of work. Depending upon the scope of this work going forward and estimated budget, staff may consider re-bidding this work for FY2014.

The scope of work is provided in the HFH proposal attached (**Exhibit A**). To summarize the scope of work, this project will entail a thorough review and verification of Recology San Mateo County's (Recology) Annual Revenue Reconciliation, Attachment Q revenue and costs, and cost allocation methodology for 2012. The South Bay Recycling review and verification will include public revenue and commodity revenue reported and paid to the SBWMA for 2012.

The general rationale for this project is to ensure the accurate reporting of financial data, balances owed to/from Member Agencies and Recology and various contractor payments to the agencies and the SBWMA. Thus, the audit work will verify that both Recology and SBR are accurately obtaining, compiling and reporting financial data to the Member Agencies and the SBWMA per the requirements prescribed in the Franchise Agreement(s) and Shoreway Environmental Center (SEC) Facility Operations Agreement, respectively.

Background

The Member Agencies Collection Services Franchise Agreements with Recology prescribe numerous reporting requirements that ultimately have a direct effect on Member Agency garbage collection rates charged to their customers. It is very important that the total Collection cost of approximately \$93,000,000 is correctly reported and verified by Member Agency. In particular, Recology will submit on March 31, 2013, a Revenue Reconciliation for 2012 that will show the surplus or shortfall in compensation retained by Recology in comparison to what they are owed by Member Agency. It is based on billed revenue, less fees paid by Recology to the Member Agencies and

payments to the SBWMA for disposal and processing at Shoreway. Last year, the net balance owed was over \$3,400,000. This audit will review in detail the Revenue Reconciliation and the cost allocation process for 2012. Based on the terms of the Facility Operations Agreement, SBR paid to the SBWMA in 2012 all public gate revenue of approximately \$4,600,000 and all commodity revenue of approximately \$10,700,000. This audit will review in detail the backup to their calculation and payments to ensure that the proper amounts were reported and paid.

The information and data contained in the contractor's reports and payments are substantially self-reported and needs to be verified. The result of last year's audit found \$67,000 in underpayments from SBR which more than covered the cost of the audit.

Fiscal Impact

The SBWMA FY2013 budget includes \$60,000 for Contract Management Support. The contract with HF&H Consulting, LLC for a not-to-exceed amount of \$56,881 will be paid with these funds.

Attachments:

Resolution 2013-06

Exhibit A – Proposal from HF&H Consulting, LLC



RESOLUTION NO. 2013-06

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A CONTRACT WITH HF&H CONSULTING LLC FOR A FINANCIAL SYSTEMS AUDIT OF COLLECTION SERVICES AND FACILITY OPERATIONS CONTRACTORS FOR CALENDAR YEAR 2012

WHEREAS, the South Bayside Waste Management Authority (SBWMA) Board of Directors has considered entering into a contract with Hilton, Farnkopf and Hobson Consulting, LLC, for the purpose of providing a financial systems audit of collection services and facility operations contractors 2012 financial reporting and payments; and

WHEREAS, the Hilton, Farnkopf and Hobson Consulting, LLC firm successfully performed a similar audit last year after an RFP selection process and has the appropriate experience in the industry and with our unique contracts; and

WHEREAS, attached as **Exhibit A** hereto is the HF&H proposal with the scope of work.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby authorizes Executive Director to execute an Agreement with Hilton, Farnkopf and Hobson Consulting, LLC with a not-to-exceed budget of \$56,881.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 28th day of March, 2013, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				

I HEREBY CERTIFY that the foregoing Resolution No. 2013-06 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on March 28, 2013.

ATTEST:

John Doughty, Chairperson of SBWMA

Cyndi Urman, Board Secretary

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Robert D. Hilton, CMC
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC
Marva M. Sheehan, CPA

Sent via email

March 5, 2013

Mr. Marshall Moran
Finance Manager
RethinkWaste
610 Elm Street, Suite 202
San Carlos, CA 94070

Subject: Proposal – Financial Systems Audit of Collection Services and Facility Operations Contractors

Dear Mr. Moran:

HF&H Consultants, LLC (HF&H) is pleased to present this proposal to the South Bayside Waste Management Authority (SBWMA) to conduct the financial systems audit of the SBWMA's collection services and facility operations contractors.

This letter briefly describes the background leading to this proposal, the proposed scope of work, our fee estimate, and staffing.

BACKGROUND

The SBWMA developed a model franchise agreement that each of its member agencies used to develop their own franchise agreement with Recology San Mateo County (Recology) for recyclable materials, organic materials, and solid waste collection services. In addition, the SBWMA executed an operating agreement with South Bay Recycling (SBR) to operate the SBWMA-owned Shoreway Environmental Center (SEC) in the City of San Carlos.

The two contracts have various financial aspects that need to be verified and audited. Annually, Recology reports, by member agency, the net revenue billed compared to the amount owed to Recology for service (based on the Board-approved compensation). In addition, SBR reports (and transmits) all commodity revenue and public gate revenue to the SBWMA.

In 2012, HF&H conducted a review of the reports submitted by the Contractors during calendar year 2011. The SBWMA is interested in having HF&H conduct a similar review of the reports submitted by the Contractors during calendar year 2012.

Mr. Marshall Moran
March 5, 2013
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SCOPE OF WORK

Task 1 – Kick-off Meetings and Project Status Meetings

Purpose: To facilitate an efficient and effective review, which focuses on specific goals and objectives described in the Authority's Request for Proposal (RFP). In addition, identify concerns/goals that may not have been expressed in the RFP or have been raised by Member Agencies since the release of the RFP.

Subtask 1a – Kick-off Meeting with Authority and/or Recology and SBR Staff

Our HF&H project team will meet with Authority staff to: (1) discuss the goals and objectives of the reporting audit; (2) reach agreement on the roles and responsibilities of HF&H, Authority, and Contractor staff; (3) discuss the structure and components to be included in the final project report; and, (4) reach agreement on a project timeline.

If practical, the meeting would include Recology and/or SBR staff to:

1. Discuss the goals and objectives of the revenue reconciliation review, expense allocator review, and commodity revenue review;
2. Discuss and understand Recology's methodology for gathering and documenting their operating statistics necessary to allocate expenses (i.e., labor, fuel, disposal, etc.) in accordance with the Franchise Agreements;
3. Discuss and understand Recology's methodology for calculating and paying the applicable fees due each Agency in accordance with their Franchise Agreements;
4. Discuss and understand Recology's policies and procedures relating to bad debt;
5. Discuss and understand SBR's methodology for receiving, documenting, reporting, and transferring gate house revenue and recyclable material revenues to the Authority in accordance with the Operating Agreement;
6. Discuss and reach agreement on the procedures to be used by the HF&H team to assess compliance with the Franchise Agreement(s) performance and reporting standards;
7. Discuss the roles and responsibilities of HF&H, Recology, and SBR staff; and,
8. Discuss and reach agreement on a project timeline.

Subtask 1b – Follow-up Meetings/Conference Calls as Needed

The HF&H team will be available for periodic project status meetings and/or conference calls with Authority staff. These status meetings will allow Authority staff to remain up to date on our team's progress on the project, as well as, understanding what roadblocks we may be facing for which the Authority can provide guidance on how to remove the road block or provide direction on a revised work plan to accomplish the necessary task.

Mr. Marshall Moran
March 5, 2013
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Task 2 – Review of Recology's 2012 Revenue Reconciliation

Purpose: Verify Recology has accurately calculated each Member Agency's 2012 revenue surplus/shortfall for the franchised services provided by Recology during calendar year 2012. In accordance with each Member Agency's Franchise Agreement, the 2012 surplus/shortfall will be added to or subtracted from Recology's 2014 compensation.

Subtask 2a – Verify Annual Amounts in Revenue Reconciliation Report Ties to Accounting Records

We will meet with the appropriate Recology staff to discuss the source documents used to populate each section of the revenue reconciliation report (i.e., Gross Revenues Billed, Payments to Authority, Payments to Agencies for Agency Fees, and Revenues Attributable to Unscheduled Services).

For each Member Agency, we will verify the amounts of each section ties to Recology's general ledger and billing records. By verifying that each section of the revenue reconciliation report ties to Recology's accounting records, we will also be verifying that the net revenue retained by Recology ties to the accounting records in total and by Member Agency.

It should be noted that the annual revenue reconciliation is based on gross revenues billed; therefore, we will verify the surplus/shortfall calculations properly reflect gross revenues billed before any adjustments for uncollectable accounts/bad debt, unbilled revenues, or deferred revenue adjustments.

We will request explanations for any discrepancies until the ultimate source documents have been accurately determined.

It is important to verify the source documents at this stage of the review so that the detailed testing of the accuracy of the individual transactions (discussed below) can be conducted in an efficient manner.

Subtask 2b – Review Revenue Allocation

For each Member Agency, we will verify that the Gross Revenues Billed were properly attributed to the correct Member Agency. We will compare the actual revenue reported to the projected revenue when rates were set and ask for an explanation of any significant variances.

We will verify that the accounts that were indentified (last year) as being mis-coded to the County areas have been properly re-coded and that the revenues of the affected Member Agencies have been correctly adjusted.

In addition, we will randomly select residential and commercial accounts from each Member Agency to verify that the approved rates (in accordance with the Council/Board actions at each Member Agency) were correctly charged. We will test the billed rates for each customer one month prior to and one month after the approved effective date to verify the rate changes were made in the correct month. If we find the rate change was not made in the proper month, we will follow up with Recology to see if the rate change was made in a later month. If the rate change was made in a later month, we will verify that the rate change was made retroactive to the appropriate month.

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Subtask 2c – Review Collection Expense Allocation

We will verify Recology's 2012 Revenue Reconciliation properly allocated their approved 2012 Contractor's Compensation to each Member Agency.

Subtask 2d – Review Agency Fee Allocation

Verify Proper Calculation of Agency Fees

We will obtain Recology's Agency Fee calculation worksheets for each month of 2012 and verify the mathematical accuracy of their calculations. We will verify Recology calculated the proper amounts based on the type and amount of Agency Fees included in Attachment M of each Member Agency's Franchise Agreement and any subsequent changes. We will rely on the SBWMA staff to gather the current Agency Fees approved by each Member Agency during calendar year 2012.

Reconcile Monthly Agency Fee Payments to Supporting Documentation

We will reconcile gross revenue billed amounts from monthly Agency Fee payment worksheets to Recology's supporting documentation (i.e., general ledger, billing reports, etc.) and research any discrepancies. The billed amounts should also tie to the revenue included in Recology's annual revenue reconciliation report which shall be reviewed in Task 2 above.

We will reconcile the total amounts due each Member Agency (resulting from the conduct of Subtask 5b above) with the actual payments received documented in Subtask 5.a.ii above, and resolve any discrepancies. Discrepancies identified during the conduct of this task will result in a Member Agency being owed underpaid Agency Fees from Recology or owing overpaid Agency Fees back to Recology. Any discrepancies identified will be discussed independently with each Member Agency affected to resolve how such payments will be paid between the parties.

Subtask 2e – Review Disposal Expense Allocation

Having successfully worked with Recology to verify the payments to the Authority included in their revenue reconciliation report ties to their general ledger in Task 2 above, we will then test the individual transactions that make up the monthly payment amounts.

We will contact the Authority to verify the applicable per-ton rates during calendar 2012 for delivery of solid waste and organic materials to the designated transfer and disposal facility.

We will obtain Recology's processing/disposal calculation worksheets for each month of 2012 and verify the mathematical accuracy of their calculations, based on the monthly solid waste and organic material tonnages reported and included in Recology's annual report to the Authority. This task will rely on the total tons, and the proper allocation of those tons to each Member Agency, as reported by Recology and reviewed by HF&H in a separate engagement.

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Task 3 – Review of Recology's Unscheduled Services Revenues

Purpose: In accordance with the annual revenue reconciliation process described in Section 11.03 of the Franchise Agreements, Recology retains 100% of the revenue collected for the provision of unscheduled or intermittent services identified in Attachment Q since "the amount of such services may vary from year to year and is unpredictable, the costs and revenues associated with them are not included in the Authority's prospective calculation of Contractor's Compensation". Therefore, this task shall verify Recology has charged the appropriate rates in accordance with Attachment Q, that the total Attachment Q revenue excluded from the revenue reconciliation is accurate, and that the Attachment Q revenue that has been excluded does not mistakenly include revenue for base services.

Having successfully worked with Recology to verify the Attachment Q revenue, by Member Agency, included in their revenue reconciliation report ties to their general ledger in Task 2 above, we will then verify the accuracy of the individual transactions that make up the monthly revenue amounts for each Member Agency.

Specifically, we will:

- a. Confirm the methodology used to calculate all Attachment Q revenue sources. For example, how bin lock charges are calculated.
- b. Confirm the rates billed for all Attachment Q services tie to the rates approved by each Member Agency.
- c. Confirm the total costs charged by Recology to each Member Agency (i.e., Recology's allowable compensation) for Attachment Q services are correct. Recology's allowable compensation may be different than the rate charged to customers and the difference is not to be kept by Recology.
- d. Verify that the credit for the first 20% of residential backyard service customer is correct.
- e. Report any issues or concerns on how Attachment Q services are calculated and reported by Recology for both the revenue calculations and the cost calculation.

Task 4 – Review 2012 Allocators (used in 2013 Compensation Application)

Purpose: Verify Recology has accurately gathered and applied the operating statistics to properly allocate various costs to each Member Agency (i.e., labor costs are allocated among the Member Agencies based on their respective percentage share of annual labor hours, fuel costs are allocated among the Member Agencies based on their respective percentage share of annual route hours, etc.).

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Subtask 4a - Gather Source Documents

In accordance with Section 7.12 of each Member Agency's Franchise Agreement, Recology is responsible for conducting an annual route audit to gather customer account and service level data allocating the inbound tonnage (by member agency) to the Authority on a monthly basis. Based on our understanding of the allocation methodology presented during the conduct of subtask 1a above, we will gather the applicable supporting documents to test the accuracy of Recology's allocations for each cost category listed in Attachment K, Section 6 of each Member Agency's Franchise Agreement. Typically, these documents include tonnage reports, customer account data reports, labor hour reports, etc. We will verify the reports properly collect the necessary data.

Subtask 4b – Verify Mathematical Accuracy of Cost Allocations

We will verify Recology has used the appropriate allocators identified in Attachment K, Section 6 of each Member Agency's Franchise Agreement for each cost category (i.e., route hours are used to allocate fuel costs, vehicle depreciation, etc. and number of containers were used to allocate container maintenance and depreciation costs, etc.). If a route collects exclusively within one Member Agency, we will verify 100% of those costs have been allocated to that Member Agency. We will conduct an analysis applying the proper allocators to each cost category for each Member Agency and compare our results to those submitted in Recology's application. We will review the results with Recology and request explanations for any variances. This subtask relies on the accuracy of Recology's customer/billing database.

This task shall include re-allocating costs among Member Agencies if we find the statistics used were not valid.

Task 5 – Financial Review of South Bay Recycling (SBR)

Subtask 5a - Self-Haul Transfer Station Revenue Review

Purpose: Verify SBR has accurately accounted for and remitted to the Authority all gate fee revenue collected from persons delivering self-haul materials to the transfer station during 2012.

We will request (from Authority staff) documentation of all self-haul revenue reported and remitted by SBR to the Authority during 2012. We will trace and agree the amounts remitted to the Authority to SBR's supporting documentation (i.e., general ledger, daily cash receipts report, etc.) and resolve any discrepancies.

SBR charges self-haul customers on a per yard basis. Therefore, SBR gate staff is tasked with estimating the volume of material being delivered to the Transfer Station and charging accordingly. SBR's monthly payments for operating the SEC are based on the weight of material leaving the facility. Therefore, this task will include reviewing SBR's effective yards-to-tons ratio experienced during 2012 and comparing the results to industry standards.

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Task 5b – MRF Revenue Review

Purpose: Verify SBR has accurately accounted for and remitted to the Authority all recyclable material commodity revenue (including CRV monies received from the State of California) collected from persons delivering self-haul materials to the transfer station during 2012.

Commodity Revenue Review

We will request (from Authority staff) documentation of all commodity revenue reported and remitted by SBR to the Authority during 2012. We will trace and agree the amounts remitted to the Authority to SBR's supporting documentation (i.e., general ledger, daily cash receipts report, third-party invoices, etc.), and resolve any discrepancies.

Commodity Prices Review

We will verify that the commodity prices (i.e., scrap value) used to calculate the commodity revenue reported to the SBWMA ties to the prices actually received by SBR.

CRV Revenue Review

We will request (from Authority staff) documentation of all CRV revenue reported and remitted by SBR to the Authority during 2012. We will trace and agree the amounts remitted to the Authority to SBR's supporting documentation (i.e., monthly reports to the State of California, general ledger, daily cash receipts report, etc.), and resolve any discrepancies. We will verify that SBR correctly used the actual state paid CRV rates in their payments to the SBWMA.

Buyback Payout Review

We will request (from Authority staff) documentation of all payments made to SEC buyback center customers (by SBR) and reimbursed by the Authority during 2012. We will trace and agree the amounts paid to the buyback customers to the supporting documentation (i.e., general ledger, weight tickets, daily cash payment reports, etc.), and resolve any discrepancies. Our process will include reviewing individual transactions within the general ledger account utilized to summarize the payout transactions to verify that the account only includes buyback payouts and not other accounts payable activities (i.e., miscoded invoices for baling wire, temporary labor, etc.).

CRV Outstanding Balance Review

We will verify that the CRV outstanding balance of due to the SBWMA as of December 31, 2012 is accurately reflected in SBR's 2012 annual report.

Task 6 – Communicate Results

Purpose: Summarize the work performed and resulting findings and recommendations. The process outlined below allows for input from the Authority and Contractors to ensure all goals

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and objectives have been met and all matters have been satisfactorily reviewed and consensus has been achieved among all parties affected.

Subtask 6a - Preliminary Draft of Findings and Recommendations

We will prepare and review our work papers documenting the results of our analysis and our preliminary findings based on the results of our review described above. We will prepare a summary of recommended adjustments. The preliminary findings and recommendations shall include any recommendations for revised reporting and tracking documents and additional written procedures for administering and enforcing the contract.

Subtask 6b - Meet and Confer with Authority and Contractors

We will meet with Authority, Recology, and SBR management to review our preliminary findings and receive their comments and any additional information. Based on comments and/or additional information provided at the meeting(s), we will perform additional analyses and adjust our preliminary findings (if warranted) to ensure that all matters have been satisfactorily reviewed and consensus has been achieved with Recology, SBR and Authority staff.

Subtask 6c - Draft Report

We will prepare and distribute a draft report documenting our findings and recommendations from the conduct of the tasks described above for review by the Authority, Recology, and SBR management. Our report shall include a matrix which summarizes the pertinent sections of the franchise agreements regarding record keeping, data management, and reporting; how the contractor(s) performed in regard to such sections (providing qualitative and quantitative support); and, any recommendations for revised procedures. In addition, our draft report shall include a narrative of findings and recommendations regarding the reasonableness and accuracy of the member agency tonnage allocations by SBR and Recology.

Subtask 6d - Final Report

Based on comments by the Authority, Recology, and SBR management, and any changes resulting from the follow-up discussions, we will amend the draft report and issue the final report.

Subtask 6e – Attend Board Meeting

With the assistance of Authority staff, we will attend a Board meeting to present our findings and recommendations and respond to Board member questions regarding our report and presentation.

Task 8 – Engagement Management

Purpose: Manage the project to ensure the work is performed in a professional and timely manner; properly planned and efficiently executed, with the appropriate level of management supervision and review.

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We will prepare and amend detailed work plans for each task described above, monitor engagement progress, and provide sufficient resources to ensure timely completion of the engagement, review analytical results and interim findings, and respond to questions regarding the progress of the engagement and other issues.

HF&H also maintains a project management system which is capable of tracking project progress and schedule in real-time and can provide periodic updates to the Authority from this system upon request.

STAFFING

Rick Simonson, CMC, Vice President - Engagement Director

As I was for last year's review, I will be the Engagement Director. As Engagement Director, I will provide the leadership, guidance, and perspective needed to ensure the review of the Contractors' reports is performed with the SBWMA's objectives in mind. In this regard, I will:

- Attend all key meetings with SBWMA and Contractor staff;
- Review the detailed task plans and work products to ensure that they address the engagement objectives;
- Monitor performance against the work plan and schedule through the timely and frequent review of interim and final work papers and reports; and,
- Present our findings and recommendations to the SBWMA.

Colleen Costine, Senior Associate - Engagement Manager

As she was for last year's review, Ms. Colleen Costine will serve as the Engagement Manager. As Engagement Manager, Ms. Costine will prepare and supervise the performance of our proposed scope of work, manage the project schedule, and draft the findings and recommendations, and other work products, for Mr. Simonson's review. She will supervise and review the work performed by staff assigned to the project to ensure that it is performed in accordance with the proposed scope of work, our detailed work plans, and meets the SBWMA's objectives. Ms. Costine has 30 years of financial and accounting experience, with nearly 20 years in the solid waste industry, including 8 year as regional/district controller for Allied Waste Industries.

Additional Staff

Mr. Simonson and Ms. Costine will be assisted by other well-qualified staff in the gathering and analyses of data under his/her direct supervision.

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SCHEDULE

We will schedule a kick-off meeting with SBWMA staff upon receipt of a notice to proceed. The review and final report will be completed for inclusion in Board packet compiled by staff for the June 27, 2013 Board Meeting. At the kick-off meeting we will work with the SBWMA staff to develop a more detailed schedule that will consist of periodic dates for status meetings and delivery dates for the draft and final report.

FEE ESTIMATE

Our fees are based on an estimated 303 hours to perform the tasks described above by HF&H staff assigned at their standard hourly billing rates. We propose to perform this engagement for a not-to-exceed fee of \$56,881 (see Attachment A), including a 10% contingency.

If fewer hours than budgeted are required, we will bill you the lesser amount.

* * * *

We sincerely appreciate the opportunity to be of continued service to the SBWMA. We value our relationship, and we will continue to strive to provide the best value to the members and their ratepayers.

Very truly yours,

HF&H Consultants, LLC



Richard J. Simonson, CMC
Vice President

Attachment: Fee Estimate

ATTACHMENT A: FEE ESTIMATE

		R. Simonson	C. Costine	L. Barbieri	D. Hilton	K. Erwin	Total	Proposed	
		\$235	\$185	\$135	\$110	\$95	Hours	Cost	
Task 1 Kick-off Meetings and Project Status Meetings									
a	Project Kick-off Meeting	3	3	0	0	0	6	\$1,260	
b	Status Meetings/ Conference Calls as Needed	8	8	2	2	0	20	\$3,850	
Task 1		11	11	2	2	0	26	\$5,110	
Task 2 Review of Recology's 2012 Revenue Reconciliation Report									
a	Verify Report ties to Accounting Records	2	4	0	8	0	14	\$2,090	
b	Review Revenue Allocation	4	4	6	6	0	20	\$3,150	
c	Review Collection Expense Allocation	0	1	0	2	0	3	\$405	
d	Review Agency Fee Allocation	1	2	0	4	0	7	\$1,045	
e	Review Disposal Expense Allocation	1	4	0	4	0	9	\$1,415	
Task 2		8	15	6	24	0	53	\$8,105	
Task 3 Review of Unscheduled Services Revenue									
		1	6	14	0	0	21	\$3,235	
Task 4 Review 2012 Allocators (used in 2013 Compensation Application)									
a	Gather Source Documents	2	4	8	0	0	14	\$2,290	
b	Verify Mathematical Accuracy of Cost Allocations	4	12	26	0	0	42	\$6,670	
Task 4		6	16	34	0	0	56	\$8,960	
Task 5 Financial Review of SBR									
a	Self-haul Transfer Station Revenue Review	1	4	0	8	0	13	\$1,855	
b	MRF Revenue Review	4	24	0	16	0	44	\$7,140	
Task 5		5	28	0	24	0	57	\$8,995	
Task 6 Communicate Results									
a	Preliminary Draft of Findings and Recommendations	2	8	2	2	0	14	\$2,440	
b	Meet and Confer with SBWMA and Contractors	4	6	0	0	0	10	\$2,050	
c	Draft Report	12	12	2	2	6	34	\$6,100	
d	Final Report	4	4	0	0	2	10	\$1,870	
e	Prepare for and Attend Board Meeting	4	2	0	0	2	8	\$1,500	
Task 6		26	32	4	4	10	76	\$13,960	
Task 7 Engagement Management									
		6	8	0	0	0	14	\$2,890	
Total Costs									
		Labor	63	116	60	54	10	303	\$51,255
		Out-of-Pocket Expenses							\$500
		Contingency (10%)							\$5,126
		Total Budget							\$56,881



STAFF UPDATE

To: SBWMA Board Members
From: Cliff Feldman, Recycling Programs Manager
Hilary Gans, Operations Contracts Manager
Date: March 28, 2013 Board of Director's Meeting
Subject: Receipt of Recology and SBR Monthly Reports

Recommendation

This is an informational report and no action is necessary.

Analysis

Recology San Mateo County (Recology) and South Bay Recycling (SBR) are required to submit monthly reports 15 days after the end of each month. The attached Monthly Reports were submitted on time by both companies.

It's important to note that the tonnage information presented in Recology's Monthly Report is derived from data compiled by SBR as the Shoreway Environmental Center facility operator. Therefore, regarding the reporting of tonnage, the Recology and SBR reports are redundant. In addition, the SBR report provides details on the transfer station and buy-back center activities and therefore includes more facility tonnage data than the Recology Monthly Report. Recology's report includes collection data, monthly updates on various operations, and call center complaint/inquiry related metrics.

Background

Article 9, section 9.05 of the Member Agencies Franchise Agreement(s) with RSMC require the company to prepare and submit a monthly report. Similarly, Article 8, section 8.07 of the Operations Agreement between the SBWMA and SBR requires the company to submit a monthly report. The guidelines and reporting requirements for each company are specified in their respective Agreements.

Attachments:

- Attachment A - Recology February 2013 Monthly Report
- Attachment B - SBR February 2013 Monthly Report



Agenda Item: 5D

Receipt of Recology and SBR Monthly Reports

Attachment A – Recology February 2013 Monthly Report

Attachment B – SBR February 2013 Monthly Report

Files too large to be included in packet Posted on Website: www.rethinkwaste.org

- Attachment A: Recology February 2013 Monthly Report
- Attachment B: SBR February 2013 Monthly Report