

**CITY OF CLOVERDALE  
CITY COUNCIL**

**RESOLUTION NO. 030-2022**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CLOVERDALE APPROVING AN AGREEMENT WITH THE R3 CONSULTING GROUP TO CONDUCT A SPECIAL RATE REVIEW OF RECOLOGY'S RATE ADJUSTMENT APPLICATION AND A PERFORMANCE REVIEW OF THE FRANCHISE AGREEMENT BETWEEN THE CITY AND RECOLOGY FOR REGULATORY COMPLIANCE AND OPERATIONAL PERFORMANCE AND AUTHORIZING THE CITY MANAGER TO EXECUTE A PROFESSIONAL SERVICES AGREEMENT WITH R3.**

**WHEREAS**, Recology submitted a Rate Adjustment Application requesting various amendment to the City's Solid Waste Franchise Agreement with Recology Sonoma Marin; and

**WHEREAS**, per the franchise agreement between the City and Recology, a special rate review (Section 6.6) may occur in conjunction with a performance review (Section 8.3); and

**WHEREAS**, the franchise agreement states that Contractor shall pay the cost for the special rate review and performance review; and

**WHEREAS**, R3 Consulting Group, Inc. (R3) submitted the attached proposal (Exhibit A) to the City of Cloverdale (City) to conduct a Special Rate Review of Recology's Rate Adjustment Application and a Performance Review of the franchise agreement between the City and Recology for regulatory compliance and operational performance; and

**WHEREAS**, is uniquely qualified to provide the requested services to the City, in that we can leverage our current work efforts with neighboring jurisdictions; and

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Cloverdale hereby takes the following actions:

1. Approves an Agreement with R3 Consulting Group Inc. in the amount of \$125,000.00;
2. Authorizes the City Manager to enforce the franchise agreement requirement that requires the Contractor to pay the cost for the special rate review and performance review; and
3. Authorizes the City Manager to execute the agreement with R3 Consulting Group Inc. in a form approved by the City Attorney.

**REGULARLY PASSED AND ADOPTED** by the City Council of the City of Cloverdale on this 23<sup>rd</sup> day of March, 2022 by the following vote:


**AYES: (4) Mayor Lands, Vice Mayor Wolter, and Councilmembers: Bagby, Palla**

**NOES: (0)**

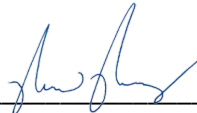
**ABSTAIN: (0)**

**ABSENT: (1) Councilmember Cruz**

APPROVED:

  
Todd Lands (Jun 15, 2022 09:56 PDT)  
Todd Lands, Mayor

ATTEST:

  
\_\_\_\_\_  
Mike Maloney, City Clerk

November 1, 2021

Mr. David Kelley  
City of Cloverdale  
124 N Cloverdale Boulevard, Cloverdale, CA 95425  
*submitted electronically: dkelley@ci.cloverdale.ca.us*

**SUBJECT: Proposal to Conduct a Performance Review and Special Rate Review of  
Recology's Rate Adjustment Application**

Dear Mr. Kelley,

R3 Consulting Group, Inc. (R3) is pleased to submit the attached proposal to the City of Cloverdale (City) to conduct a Special Rate Review of Recology's Rate Adjustment Application and a Performance Review of the franchise agreement between the City and Recology for regulatory compliance and operational performance. Our team is uniquely qualified to provide the requested services to the City, in that we can leverage our current work efforts with neighboring jurisdictions. The proposed team has conducted similar audits for many clients – most recently, for the Cities of **Cotati, Davis, Fairfield, Folsom, Petaluma, Santa Rosa, Rohnert Park**, the **County of Napa**, and the **Town of Windsor**.

Per the franchise agreement between the City and Recology, a special rate review (Section 6.6) may occur in conjunction with a performance review (Section 8.3). In addition, the franchise agreement states that Contractor shall pay the cost for the special rate review and performance review. R3's approach to reviewing the special rate application from Recology will consist of reviewing and assessing the reasonableness of the rate application as per the terms and conditions of the franchise agreement. Performance review work will include R3 project staff performing on-site reviews of records, conducting staff interviews, analyzing policies, procedures, and internal controls, and conducting field audits. We will identify and review contractual obligations and review contracted hauler's operations. This will include review of billing and franchise fee payments, collection operations efficiency, roll-off box service management, street sweeping services, and their diversion efforts, among other items. Additionally, we will compare Recology's performance for various safety, customer service, collection productivity, calculated diversion rate, and vehicle maintenance benchmarks to industry standards.

Because R3 only provides services to public agencies like the City, we are able to provide unbiased opinions and recommendations in our audits, with no potential conflicts of interest vis-à-vis haulers. We do not have any relationship and/or employment agreement, nor do we provide services to any private waste haulers or facility operators. We maintain excellent, professional working relationships with many regional haulers, including the City's hauler, Recology, because we are respectful and provide the audited hauler(s) with opportunities to provide input during the course of our projects, and review and comment on our preliminary findings before they are presented in a public document.

**Carrie Baxter** will serve as Project Manager and primary point of contact for this specific engagement. She brings over a decade of experience with a wide range of solid waste operational, planning, and financial projects, including direct experience working with Recology. Thank you for this opportunity to submit our proposal to the City. Should you have any questions regarding our proposal or need any additional information, please don't hesitate to reach out directly.

Sincerely,



Carrie Baxter | Project Manager  
**R3 Consulting Group, Inc.**  
916.878.7413 | cbaxter@r3cgi.com

# 1. SCOPE OF WORK

## Project Background

In March 2011, the City entered into a solid waste and recycling collection franchise agreement (Agreement) with Redwood Empire Disposal, Inc. (“RED”) for the exclusive right to perform collection services in Cloverdale. On August 18, 2017, the City received a request from RED to assign the Agreement to Recology Sonoma Marin (“RSM”), which is a wholly owned subsidiary of Recology, Inc. (“Recology”). In December 2017, the City Council adopted Resolution No. 084-2017, approving the assignment of the Agreement with RED to Recology. Among other things, the Assignment and Assumption Agreement that was signed by the City and Recology in the assignment of the City’s Agreement to Contractor included acknowledgement that neither Recology nor the City could request a special review to adjust rates for any period before September 1, 2020.

Per the Agreement between the City and Recology, a special rate review (Section 6.6) may occur in conjunction with a performance review (Section 8.3). Per Section 6.6, a special rate review shall be requested in writing at least six (6) months prior to the proposed effective date of any rate adjustment. In addition, Section 6.6 states that Contractor shall pay the cost for the Special Rate Review and Section 8.3 states that Contractor shall pay the cost of Performance Reviews.

R3 understands that Recology is seeking changes to the rate structure, as well as other changes to terms and services, that will require evaluation during the rate review process; and to comply with SB 1383 regulations.

## Project Approach

### Performance Review

***To successfully complete the City’s project objectives, we organized the Performance Review approach into three areas of review:***

1. Franchise Agreement Compliance and Regulatory Compliance Review (Task 2);
2. Operational Performance Review (Task 3); and
3. Financial Review and Audit of Billings (Task 4).

***The Performance Review is to address and provide specific recommendations, as appropriate, for improvement in all appropriate areas which may include but are not limited to the following areas:***

- » Compliance with the Performance Requirements of Exhibit “B”;
- » Compliance with the terms of the Agreement;
- » Overall organizational structure and management systems and procedure;
- » Efficiency of collection operations and street sweeping, including an analysis of routes, schedules, and missed pickups;
- » Staffing practices, including the deployment of management and supervisory personnel;
- » Personnel management practices, including the resolution of employee grievances;
- » Employee job and safety training, and management of Hazardous Waste;
- » Procedures for receiving and resolving customer complaints and concerns;
- » Procedures for the acquisition, maintenance, safety check, and replacement of equipment;
- » Utilization and management of facilities, equipment, and personnel;
- » Comparison with practices of businesses deemed similar to Recology; and
- » Financial management practices, including Recology’s billing and collection system and its policies with regard to uncollected customer accounts.

## Special Rate Review

R3 will review the completeness of the Contractor's Rate Application as per the terms and conditions of Section 6.6 of the Agreement. R3 will request relevant financial information from Contractor.

### *The special rate review process will include, but not be limited to:*

- » Review and assessment of the reasonableness of the Contractor's identified non-allowable expenses;
- » Review and assessment of the reasonableness of the Contractor's revenue and expense allocations to the City's franchise;
- » Review of the reasonableness of the forecasted costs for the upcoming year; and
- » Review of the accuracy of the Contractor's calculated rate adjustment, and reasonableness of Contractor's operating ratio.

## Scope of Work: Performance Review

### Task 1 Data Collection and Kick-off Meeting

#### Task 1.1 Kick-Off Meeting

R3 will schedule a virtual Kick-Off Meeting with the City within two (2) weeks of authorization to proceed.

#### Task 1.2 Document Request and Review

Upon City authorization to proceed, R3 requests that the City and Recology provide the following information, as available.

##### **From the City<sup>1</sup>**

- » Current solid waste ordinances and resolutions;
- » Current Agreement and all amendments;
- » Correspondence between the City and Recology regarding any relevant contractual matters (e.g., service complaints, financial issues);
- » Annual Audit of Billings for the past 3 years;
- » Annual Reporting submitted by Recology as required by Article 8.2.3 of the Agreement for the past three years;
- » The current approved rate schedule;
- » Accounting of Franchise Fee and any other applicable payments received from Recology for the past twelve months;
- » CalRecycle Annual Report for 2020;
- » CalRecycle Form 303 Household Hazardous Waste Report for 2020; and
- » Notifications to assess liquidated damages and any other information related to the findings associated with those notices.

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<sup>1</sup> Some of these documents have already been provided to R3.

## From Recology<sup>2</sup>

- » Organizational Chart and all applicable job descriptions;
- » List of daily routes by line of business;
- » Copies of historical Annual Reports for the past three (3) years; and
- » List of safety, maintenance, operational, financial and other performance metrics that are tracked, and historical results relative to those metrics for the past three (3) years.

## Collection Operations

- » Employee handbook, policies and procedures, safety handbook, employee manuals and/or work rules;
- » Workers' compensation and on-the-job injury summaries (OSHA Form 300 and Form 300A) for the past three years; Historical TRIR, DART, and VARR rates (if tracked);
- » Record of collection for bulky waste (date service requested, date service received, CY collected, etc.) for selected audit periods: Spring 2019, Spring 2020, Spring 2021
- » Record of collection of oil (date service requested, date service received & any other info), if any;
- » Description of routing/mapping software used, and any monitoring software (GPS/GIS) used, if applicable;
- » Copies of Basic Inspection of Terminus (BIT) inspections, if conducted;
- » Experience modification factors for the past three years;
- » Name of safety officer and frequency of trainings;
- » Documentation of any Regulatory Violations;
- » Copies of all management reports that are regularly produced;
- » New hire and refresher training program documentation;
- » Copies of annual training schedules and documentation of training completed;
- » Supervisor route observation policies and procedures;
- » Copies of vehicle load overweights for the past twelve months;
- » Policies and procedures for monitoring overweight vehicles;
- » Vehicle list, including vehicle legal load weights, and vehicle replacement schedule;
- » Vehicle maintenance records;
- » Vehicle spill log for the last twelve months;
- » Documentation of compliance with vehicle requirements;
- » Contingency Plan for service interruptions;
- » Copy of a non-service warning tag (such as incorrect setouts);
- » Record of use of non-service warning tag (for 2019, 2020, and 2021);
- » Copy of HHW waste manifests, waste characterizations, inspection records, incident reports, and training records; and
- » Collection from public school facilities and associated diversion rate for the past three years.

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<sup>2</sup> Some of these items can be reviewed on site.

## **Customer Subscription, Billings, and Fee Payments**

- » Excel file with customer subscription levels detailing customer service level, billing rate, service address, day of service, and special categories such as on-premises service, key service, etc. (SFD, MFD, Commercial, City);
- » A complete list of billing codes;
- » The current approved rate schedule;
- » A listing of all commercial accounts with weekly solid waste, recycling and organic service levels;
- » AB 341 and AB 1826 List of Covered Generators, and Covered Generators that have and have not subscribed to commercial recycling and commercial organics programs;
- » Monthly, quarterly, and annual billing register (for 2019, 2020, and 2021);
- » Current route maps by service day (residential);
- » Commercial route sheets for two routes (Monday-Saturday);
- » Roll-off permanent customers with addresses;
- » Historical diversion and disposal tonnages by material stream, line of business (residential, commercial, roll-off) and program (e.g., residential curbside, residential organics, commercial recycling, C&D recovery, etc.); and supporting documentation for 2019, 2020, and 2021 reported diversion rates;
- » Monthly summary of gross receipts and corresponding franchise fees paid to City (for 2019, 2020, and 2021);
- » Documentation providing proof of payment for franchise fees paid to City;
- » Documentation of all other applicable payments to the City including liquidated damages;
- » Audited financial statements supporting annual "Gross Rate Revenues" (for 2019, 2020, and 2021);
- » Reconciliation of all applicable fee payments with audited Gross Rate Revenues (for 2019, 2020, and 2021);
- » A summary of the City-sponsored and Non-City-sponsored special events Contractor serviced in 2019, 2020, and 2021 (CY provided of each material type); and
- » Notice of rate increase provided to customers and date provided for 2021 rate increase.

## **Customer Service and Public Education and Outreach**

- » Customer complaint log w/ resolutions for selected audit periods: Q4 2020 & Q3 2021;
- » Missed pickup records for 2019, 2020, and 2021;
- » Emails, letters, or other logs from residents expressing thanks/good service for 2019, 2020, and 2021
- » Report on outreach activities undertaken for 2019, 2020, and 2021;
- » Report on notifications, technical assistance, and site visit activities undertaken for 2019, 2020, and 2021; and
- » Publicity and advertising materials provided to the public, including materials regarding HHW services for 2019, 2020, and 2021.

## **Facilities**

- » Documentation on approved facilities for processing of collected materials.

## **Task 2 Franchise Agreement Compliance Review and Regulatory Compliance Review**

R3 will document and review the items in the Agreement that require, among other things, that Recology provide specific services, meet specific performance standards, track and document information, and submit payments, information, or reports.

R3 will also perform a compliance gap analysis with the Agreement to identify any current resource and programmatic shortfalls.

### ***Examples of items that will be reviewed, as listed in the Agreement:***

- » Monthly Franchise Statement and Payment (Section 7.4);
- » Audit of Billings and Financial Reports (Section 8.4);
- » Annual Reporting (Section 8.2.3); and
- » Insurance Scope and Limits (Section 9.2).

### ***Other examples of items that will be reviewed, as listed in Exhibits A and B of the Agreement:***

- » Hours of Collection (Exhibit A, Section 1.16);
- » Public Education and Information Program (Exhibit A, Section 2);
- » Street Sweeping routes and records of service (Exhibit A, Section 3);
- » Customer Service Accessibility, including Complaints and Resolutions (Exhibit A, Section 4.1 and 4.2); and
- » Performance Requirements related to Personnel; Customer Service; Collection; Collection Containers; Collection and Street Sweeping Vehicles; Corporation Yard, Recyclables and GW/FW Processing and Marketing; Insurance and Bonds; Reporting; and Diversion. (Exhibit B).

### ***Regulatory compliance areas that will be reviewed include:***

- » Collection Container colors and labeling;
- » Contamination Monitoring / Route Reviews;
- » Public Education and Outreach;
- » Inspection and Enforcement;
- » Reporting and Data Tracking; and
- » Regulation of Processing Facilities Used.

## **Task 3 Operational Performance Review**

### **Task 3.1 Management and Administration Review**

This section will provide the City with an assessment of the effectiveness of Recology's management and administrative systems, and identify potential changes or improvements to management practices, policies, and procedures.

#### ***This section will include, but is not limited to, the review of the following items:***

- » Overall organizational structure and management systems and procedures;
- » Staffing practices, including the deployment of management and supervisory personnel;
- » Personnel management practices, including the resolution of employee grievances;
- » Employee job and safety training, and management of Hazardous Waste;



- » Utilization and management of facilities, equipment and personnel;
- » Staffing ratios, including the ratio of customers to management staff, supervisors, dispatchers, drivers, maintenance personnel, customer service and billing representatives, etc.;
- » Data tracking and reporting procedures, including what data is continuously tracked and how data is used to manage the collection operations; and
- » Employee management policies and procedures.

In conducting this section, we will meet with management and supervisors of Recology and review the structure and staffing of their management and administrative systems and operations. We may also engage various front-line staff through a combination of in-person or virtual interviews depending on schedule and availability. Policies and procedures will be reviewed with a focus on how those policies and procedures are implemented and the associated training that is provided to staff. We will also review if and what performance benchmarks have been established and the historical performance relative to those benchmarks.

Systems for collecting and reporting data will also be reviewed. As part of that process, we will request and review all management reports that are regularly produced, identify who receives that data, how it is used, and to what extent Recology conducts diagnostic reviews based on that data to identify areas that need improvement. We will also review management's business planning processes, and if and how Recology establishes and executes operational and other priorities.

**Key questions to be answered include:**

- » Is there effective, functional management, responsibility and accountability for the primary franchise functions?
- » Are there clearly defined and documented responsibilities for key management, administrative, and operational functions?
- » Is there a clearly defined chain of command and reporting relationships?
- » Are there clear and established performance standards (benchmarks)? Is performance tracked according to those standards? Is staff held accountable for performance, both good and bad?
- » Is there a formally documented annual staff performance review process?
- » What are Recology's strengths, limitations, and opportunities for improvement?

### **Task 3.2 Collection Operations Review**

As part of this section, we will provide the City with an assessment of the effectiveness of Recology collection operations to determine if Recology has an effective driver training program and if they have a reasonable number of route supervisors. Additionally, we will gauge the effectiveness of route supervision, if Recology is actively monitoring driver performance, and whether drivers are providing collection services in a safe and effective manner while adhering to the associated requirements of the Agreement. An area that we specifically focus on is the impact of current routing and vehicle maintenance as it relates to future growth in accounts and additional/expanded services (i.e., commercial source-separated food waste). This will also tie to Task 3.4.

***This subsection will include, but is not necessarily limited to, a review of the following items:***

- » Review of the efficiency of collection operations, including an analysis of routes, schedules, and the impact of Agreement requirements;
- » Field observations/route audits of Recology residential and commercial collection services, including driver start and end times and visual inspections of residential and commercial routes before and after collection to evaluate cart and bin placement, correlation of billing records to containers on-site, cleanliness of streets; and physical condition of streets and sidewalks;



- » Review of the method of collection and types of materials collected from City facilities;
- » Review of missed pickup records;
- » Review of incidental services;
- » Review of worker training program(s);
- » Review of supervisor roles and responsibilities;
- » Review the current route to supervisor ratio; and
- » Review of vehicle load weights and procedures for tracking and addressing overloaded vehicles.

Our Collection Operations Review will start by reviewing the vehicle and crew configurations used to provide franchised services, the schedules for those services, and the macro-routing and micro-routing systems. We will also assess the overall collection system productivity and the basis for establishing daily productivity targets. The systems for communication between route drivers and customer service representatives will also be reviewed, including what, if any, on-board computer systems are being used. The interviews and interactions with Recology route supervisors will take place during on-site work. Driver interviews may also be conducted.

### **Task 3.3 Customer Service Review and Financial Management Practices Review**

***This section will cover the following items:***

- » Financial Management practices, including Recology’s billing and collection system and its policies with regard to uncollected customer accounts; and
- » Procedures for receiving and resolving customer and service recipient complaints and concerns.

R3 will review the current customer service functions and structure utilized by Recology, their financial management practices specific to Recology’s billing and collection system, and its policies with regards to uncollected customer accounts. This will include the protocol for addressing customer complaints, and service interruption procedures. Complaint logs will be reviewed and classified into complaint categories, if not already delineated, and missed-pickup records will be reviewed to identify and report statistics of chronically missed customers by customer type and service rendered. We will also review the responsiveness of Recology’s customer service representatives to customer inquiries, requests and complaints, average telephone response times, including a sampling during at least one quarterly billing period, courteousness of representatives, accuracy of information given, and willingness and ability to resolve complaints where applicable.

As part of this section, R3 will conduct separate interviews with customer service and billing staff.

***During these interviews, we will review the internal organizational processes for the following customer service and billing functions:***

- » Data exchange and communication between customer service, routing, marketing/sales, billing, and operations;
- » Responding to calls from residential and commercial customers regarding inquiries for new service;
- » Establishing new customer accounts in the billing system;
- » Coordinating delivery of refuse, recycling, and organics bins or carts;
- » Establishing service level and collection frequency for new accounts;
- » Establishing start-dates and service initiation for new accounts;
- » Establishing end-dates and service termination for closing accounts;

- » The process and procedures for addressing customer complaints and calls, including missed collection, broken or stolen carts, etc.;
- » How special billing arrangements for non-standard services are completed;
- » Resolving delinquent payment (uncollected) customer accounts;
- » Resolving billing inquiries and complaints;
- » Generating and updating route lists;
- » Processing and closing work orders in the customer service system;
- » Tracking of bin placement by number and address; and
- » Confirming delivery of bins and/or carts.

### **Task 3.4 Vehicle and Equipment Maintenance, Repair and Replacement Review**

The primary objective of this section is to determine if Recology are maintaining vehicles and equipment in a safe operating condition.

***The vehicle and equipment maintenance, repair and replacement review will include, but is not limited to the following review of:***

- » Procedures for the acquisition, maintenance, color, labels, signage, safety check, and replacement of equipment;
- » Routine maintenance procedures and schedules for residential collection and commercial collection vehicles;
- » Utilization, safety, and suitability of facilities and equipment;
- » Procedures for maintenance, safety check, and replacement of equipment;
- » Pre- and post-trip inspection practices, and communication between drivers, dispatchers, and maintenance personnel;
- » Historical BIT results;
- » General appearance of Recology’s fleet; and
- » Any established performance benchmarks and performance relative to those benchmarks.

Our review of Recology’s vehicle maintenance functions will be conducted through both review of available information and on-site field work. One of the first things we will do is establish the reasonableness of the level of maintenance staffing, and the scheduling of maintenance functions (e.g., single-shift, swing shift). We will also interview maintenance management and document existing performance standards (benchmarks), the process for tracking performance against those standards, and historical performance.

### **Task 3.5 Assessment of Performance Monitoring and Benchmarking Systems**

R3 will also assess the performance benchmarking systems Recology has in place for monitoring and improving performance.

“That which is not measured is not managed” is an adage that R3 has found to be very applicable to solid waste management operations. Establishing contractual baseline requirements and internal performance benchmarks, measuring progress against those benchmarks and conducting associated diagnostic review to identify opportunities for improvement is one of the foundation blocks of an effective management system.

As part of our review, and in support of comparing Recology's practices and performance with similar businesses, we will document their existing safety, customer service, and performance benchmarking systems, and their current and historical performance relative to those benchmarks.

***Based on the information provided, and additional information gathered as part of our review, we will develop a comparison of the current performance of Recology to:***

- » Their internal historical performance;
- » Established internal benchmarks; and
- » Their performance relative to industry standards, and other operations to the extent that information is available.

In the case that Recology does not have established benchmarks or are not directly tracking and reporting certain appropriate safety or operational information, we may recommend that they begin tracking and reporting that information.

***This includes the following:***

- » Total Recordable Injury Rate (TRIR) – The number of OSHA recordable injuries incurred per 100 full time employees. The lower the TRIR the better.
- » Vehicle Accident Rate Report (VARR) – The number of operational hours between auto accidents. The higher the VARR the better.
- » Lost Time Work Rate – The number of paid total temporary disability employees per 100 employees.
- » Property Accident Recordable Rate (PARR) – The number of operational hours between property accidents. The higher the PARR the better.
- » Customer Service Metrics, including:
  - Total number of incoming calls;
  - Average customer hold time;
  - Dropped calls percentage;
  - Call log by type of call: missed pickups, bill payments, complaints, compliments, service changes, bulky, etc.; and
  - Number of accounts per customer service representative.

## **Task 4 Billings Audit and Audit of Revenue Reporting**

***Our Audit of Billings and Audit of Revenue Reporting is designed to address the following:***

- 1. Audit of Billings** – to verify that each customer is receiving the service for which the customer is being billed;
- 2. Audit of Revenue Reporting** – to verify that Recology is correctly calculating Gross Rate Revenues, and is properly remitting franchise fees, all other applicable fees, and any assessed liquidated damages; and
- 3. Calculation of Customer Rates** – to verify that customer rates have been correctly calculated and applied.

R3 anticipates that Recology will provide access to all required financial and operational records, including monthly and annual reports. In the event that access to the records is not granted, or the records are unavailable, the testing protocol will be modified to include records that are available.

## Task 4.1 Audit of Billings

The purpose of the Audit of Billings is to determine the extent to which residential and commercial subscribers are billed correctly for the level of service provided, and whether or not billings are consistent with the appropriate rate schedule.

### ***The Audit of Billings will include the following items:***

- » A review of service levels and charges from a recent billing cycle to determine if the rates charged for the various service levels are consistent with the approved rate schedule;
- » A review of a recent billing cycle to determine if all rates charged have been approved (e.g., are there any charges that are billed but are not listed on the approved rate schedule such as finance charges, push/pull charges, etc.); and
- » Field audits (route audits) of selected routes to compare the rates charged to various residential and commercial accounts to the actual level of service observed in the field. Any identified discrepancies will be documented. R3 will also review any billing or route audit procedures Recology employs to verify service levels and correct any billing errors.

At the conclusion of these tests, R3 will make a determination of the level of accuracy of Recology's subscriber billing system, and formulate suggestions, as appropriate, to improve the accuracy of the system. As part of this section, R3 will review the status of delinquent accounts and collections.

## Task 4.2 Audit of Revenue Reporting

The purpose of the Audit of Revenue Reporting is to determine if Recology is correctly calculating Gross Rate Revenues, and is properly remitting franchise fees, other applicable fees and any assessed liquidated damages.

### ***R3 takes a two-step approach to auditing revenues and fees:***

- 1. Test Revenue Transactions** – Determine if revenues from subscription services are properly recorded in Recology's accounting system; and
- 2. Test of Franchise Fee and Other Applicable Fees Transactions** – Determine whether franchise fees paid were properly calculated in accordance with the terms of the Agreement.

For the Test of Revenue Transactions, R3 will work with Recology's accounting staff to verify that the rates, billed amounts, and corresponding payments of a set of randomly selected residential and commercial subscribers were correct and properly posted to the accounting system. If payments were not received, the test procedure will include a review of the documentation of the authorization to write-off the account as uncollectible. The calculation of Gross Rate Revenues examination will include, but not be limited to, deposits recorded to the Accounts Receivable records and deposits in transit.

### ***As part of the Audit of Revenue Reporting, R3 will also:***

- » Review the status of delinquent accounts and collections and the reasonableness of Recology's bad debt percentage;
- » Review financial management practices, including Recology's billing and collection system, and its policies regarding uncollected customer accounts; and
- » Examine the material classification between franchise and non-franchise materials on the Monthly Gross Rate Revenue reports to verify that Recology is correctly reporting gross rate revenues to the City.

For the Test of Franchise Fee and Other Applicable Fees Transactions, R3 will review the check register for all such payments made to the City for calendar years 2019 and 2020, to determine if the total

franchise fees reported as paid per year tie to Recology's financial statements. R3 may also compare the financial statement figures to the total gross revenues posted to Recology's General Ledgers. R3 will also inquire about Recology's application of property liens, if any, as well as the number and frequency of occurrences in which refusal of service has been applied due to customer account delinquency.

### **Customer Rates**

R3 will review the rate increases that Recology has received the past three (3) years to determine if they have been calculated correctly and properly applied.

### **Liquidated Damages**

R3 will review any notices to assess liquidated damages and associated calculations of those applied liquidated damages, if any, and verify with the City that those payments have been made and were correctly calculated.

## **Task 5 Draft and Final Reports and Presentations**

### **Task 5.1 Preliminary Findings and Draft Report**

Upon completion of Tasks 2, 3, and 4, R3 recommends that we present our preliminary findings to Recology for their review. This step is undertaken to ensure that we have not misinterpreted any of the information that has been provided. Based on comments received from Recology, we will make any appropriate adjustments to our findings prior to presenting our Draft Report.

R3 will prepare an electronic Draft Report in both Microsoft Word and PDF formats that incorporate the work performed in Tasks 2 through 4. R3 anticipates that the Draft Report will include, but not be limited to the following sections:

- » Executive Summary;
- » Introduction;
- » Methodology;
- » Findings of the Performance Review with recommendations for performance enhancements and improvements;
- » Findings of the Audit of Billings and Audit of Revenue Reporting with recommendations for improvements and summaries of any monetary variances; and
- » Recommendations of potential liquidated damages in accordance with Section 10.4 and Exhibit C, as appropriate.

### **Task 5.2 Final Report**

Based on written or verbal comments from City staff on the Draft Report, R3 will prepare and submit a Final Report to the City in an electronic PDF format.

### **Task 5.3 Presentations**

Together with City staff, and as necessary, R3 will prepare a PowerPoint presentation that summarizes the findings in our Final Report, with one (1) round of revision. Two (2) virtual presentations will be conducted: one (1) presentation to appropriate staff and subcommittee(s); and one (1) to the City Council.

## Performance Review Deliverables

- » On-site review and testing of Recology's financial records;
- » Route audits to verify the service level at specific addresses included in the test group;
- » Results of the Audit of Billings and Financial Assessment
- » Recommended list of actions to take to achieve regulatory compliance;
- » Recommended performance metrics to be tracked and reported;
- » Electronic copy of the Draft Report (Word and PDF);
- » Electronic copy of the Final Report (PDF);
- » One (1) PowerPoint presentation with one (1) round of revision;
- » One (1) virtual presentation of findings to appropriate staff and/or subcommittee; and
- » One (1) virtual presentation of findings to City Council.

## Scope of Work: Special Rate Review

### Task 6 Initial Rate Review

R3 will review the Application submitted by the Contractor for accuracy and completeness and request additional information necessary to conduct the Special Rate Review.

***It is anticipated that the following documents (collectively referred to as "Application") will be submitted by the Contractor at the start of the Special Rate Review:***

- » The Contractor's support for its reported expenses which serve as the basis for its calculated rate adjustment;
- » Support for the Regional Allocations and Corporate Allocations assigned to the City's franchise;
- » Historical revenues by quarter, by line of business (residential, commercial, roll-off) for January 1, 2018 – September 30, 2020;
- » The basis for the Contractor's revenue projections;
- » An accounting of expenses that are directly assigned versus allocated to the City's franchise;
- » A description of the basis for the allocation of expenses to the City's franchise along with supporting documentation for such allocations;
- » An accounting of costs associated with the Contractor's commercial food waste collection programs;
- » A listing of related party expenses charged to the Contractor and support for the reasonableness of related party expenses (i.e., documentation supporting that such charges are no more than that which would have been charged by an independent third party);
- » The Contractor's forecasted revenues and expenses for the City's franchise and calculated rate adjustment and supporting documentation and assumptions, including forecasted changes in disposal or processing fees, governmental fees, etc.;
- » Information on historical tonnages collected, diverted and disposed by waste stream and material type (e.g., residential and commercial recyclables, commercial organics, commercial dry mixed waste, solid waste etc.), and forecasted per ton material sales revenues;
- » An accounting of the basis for the Contractor's reported recyclables processing costs; and
- » Other information relevant to the review of the Contractor's application.

## Task 7      **Verify Completeness, Mathematical Accuracy and Reasonableness of the Rate Application Base and Projected Revenues and Expenses**

As part of this task, we will review the documentation submitted by the Contractor to confirm that it is mathematically accurate and logically consistent.

*In addition, this task will include the following:*

- » **Review Basis for Reported Expenses.** R3 will review the Contractor's basis for its reported expenses to determine the reasonableness of the supporting documentation (e.g., general ledger), and if the expenses reported in the Rate Application tie to the supporting documentation;
- » **Review Allocation of Revenues and Expenses.** R3 will review and assess the reasonableness of the Contractor's methods used to allocate revenues and/or expenses that cannot be directly assigned to a specific operation. As appropriate, R3 will recommend adjustments to those allocations;
- » **Review Forecasted Costs.** R3 will review the reasonableness and basis for the Contractor's forecasted labor-related costs, vehicle-related costs, other costs, and depreciation expenses. In addition to a review of the reasonableness of each individual line-item expense, R3 will also confirm the proper handling of pass-through and non-allowable expenses;
- » **Review Forecasted Revenues.** R3 will review the reasonableness and basis for the Contractor's forecasted revenues for services at current rates; and
- » **Review Operating Ratio.** R3 will review the Contractor's Operating Ratio to determine if it is set at an appropriate amount.

Following our review of the Contractor's Application, R3 will present our preliminary findings to the Contractor. This is done to ensure that we have not misunderstood, or misrepresented, information provided by the Contractor, and to provide the Contractor with an opportunity to comment on our preliminary findings.

Based on consolidated written comments received from the Contractor, we will make appropriate revisions to our preliminary findings.

## Task 8      **Draft and Final Reports and Presentations**

Following our review of preliminary findings with the Contractor, R3 will prepare and issue an electronic draft report to the City. We will then revise the draft as necessary, based on consolidated written comments received from the City and issue an electronic final report.

As requested by City staff, R3 will participate in additional virtual meetings (above and beyond those included in Tasks 6 and 7 above) to meet with Recology and City staff to discuss amendments to the Agreement, or present findings to the Solid Waste and Recycling Committee and/or City Council. R3 does note that our presence at Committee and/or Council meetings is generally requested by clients and has proven to be beneficial especially when considering larger than normal rate increases, as is expected to be the case with the Contractor's current application.

R3 staff will also be available for teleconferencing with the City throughout the project, as necessary.

### **Special Rate Review Deliverables**

- » One (1) preliminary finding meeting with Contractor; and
- » One (1) draft and one (1) final electronic report.



## Schedule

We anticipate a project start date in January 2022 and submitting our draft report by May 2022, with the understanding that we will be provided with necessary information in a complete and timely manner.

## Limitations

Our Scope of Work is designed to focus on the major objective contractual requirements, with a more detailed focus on those that are of most interest and importance to the City. In addition to rendering an opinion as to Recology's compliance (with respect to the contractual requirements that are reviewed), it is our intent to also provide the City with an overall assessment of Recology's performance relative to safety, customer service, and effectiveness.

To enable us to conduct as thorough and comprehensive a review as possible, our initial information request (Performance Review Task 1.1) is designed to obtain much of the information that we need to effectively undertake our review and determine Recology's compliance with the related requirements covered under each of our work scope tasks. If requested information is not, or cannot be made available, we will note that in our report and adjust our review and focus accordingly.

## 2. PROJECT BUDGET

We propose to complete the Project Scope of Work on a time-and-materials basis for a not-to-exceed budget totaling **\$125,000**. Our project budget includes labor and project expenses for the work and deliverables as listed in the Scope of Work.

We would be happy to discuss changes to our scope or budget as may be needed to align with the City's needs. Please note: Our budget accounts for virtual presentations and meetings. Should in-person attendance be required, additional costs may be incurred.

### Billing Rates & Payments

In the table below, we have provided our hourly billing rates for the R3 Project Team that may be involved in providing the City solid waste consultant services. These hourly rates are subject to periodic adjustments based on CPI.

Unless otherwise agreed in writing, fees for work completed will be billed monthly at the first of each month for the preceding month and will be payable within 30 days of the invoice date.



CLASSIFICATION	HOURLY RATE
Principal	\$285 per hour
Senior Project Director	\$285 per hour
Project Director	\$240 per hour
Senior Project Manager	\$220 per hour
Project Manager	\$200 per hour
Senior Project Analyst	\$190 per hour
Senior Administrative Support	\$170 per hour
Project Analyst	\$170 per hour
Associate Analyst	\$155 per hour
Administrative Support	\$125 per hour
REIMBURSABLE COSTS	
Consultants/Subcontractors	Cost plus 10%
Lodging and meals	Direct cost
Travel - <i>Private or company car</i>	At Current Federal Rate
Travel - <i>Other</i>	Direct cost
Delivery and other expenses	Direct cost

# 030-2022

Final Audit Report

2022-06-15

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