

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Solid Waste Service Contracts and Landfill Tipping Fees
DATE: November 15, 2011

NEEDS: For the City Council to consider outsourcing solid waste contract development and landfill tipping fee calculations.

FACTS:

1. On August 2, 2011 City Council received operational and financial audits for Paso Robles Waste Disposal, Paso Robles Roll-Off, and Pacific Waste Services.
2. The landfill operations and the waste collection contracts have been in place for 11 and 17 years respectively. The agreement for roll-off services has been in place for seven 7 years.
3. Landfill tipping fees were last adjusted in 2003 and have not kept pace with expenses, inflation or payments to the contract operator.
5. City Council directed development of updated contracts.

ANALYSIS &

CONCLUSION: The July 2011 audits found that existing agreements for solid waste collection and landfill operation are outmoded and should be restructured to protect the City's financial interests.

The auditor found that current Paso Robles Waste Disposal and Paso Robles Roll-Off contract language does not adequately define or set limits on expenses, rent, salaries, benefits, etc. The auditor recommended an overhaul of the agreements. In the case of landfill operations, Pacific Waste Services' contract guarantees an annual increase in compensation even though tonnage is declining.

Without an adjustment to landfill revenues the City will not be able to implement any of the efficiency measures outlined in the 2010 Landfill Master Plan (attached).

Amending terms of the solid waste contracts and updating landfill tipping fees will require analytical and administrative support services. The audit team is familiar with Paso Robles' solid waste setting, service contracts and has unique and extensive expertise in negotiating contract terms for other jurisdictions. Retaining the services of the audit team (R3 Consulting Group, Inc. and TJ Cross Engineers) would lend continuity to dialogue with the contractors and bring industry expertise to the City in this regard.

POLICY

REFERENCE: Economic Strategy; 2010 Landfill Master Plan

FISCAL IMPACT: Solid waste is a General Fund service. City Council has allocated funds derived from the sale of right of way frontage to the State of California (Cal Trans) in FY 08/09 to offset preparation cost of the Landfill Master Plan and audit. Approximately \$128,000 remains available in the fund.

Amending terms of the solid waste contracts and updating landfill tipping fees will require analytical and administrative support services as follows:

Task	R3	TJ Cross	Total
Paso Waste Contract			
	\$25,000	\$11,550	\$36,550
Landfill Operation Agreement			
	\$35,000	\$7,050	\$42,050
Tipping Fee Study			
	\$5,000	\$1,500	\$6,500
Total Estimate Budget	\$65,000	\$20,100	\$85,100

Alternatively, each firm's role could be modified (as described below) to reduce costs to \$65,100. The anomalies of Paso Robles Waste's contract could be economically completed by TJ Cross acting as the primary contact limiting R3's role to that of support.

Conversely, due to regulatory monitoring and compliance requirements associated with landfill operations, R3 would be the lead in addressing Pacific Waste Service's contract with TJ Cross' role limited to that of support and review.

Task	R3	TJ Cross	Total
Paso Waste Contract			
	\$5,000	\$11,550	\$16,550
Landfill Operation Agreement			
	\$35,000	\$7,050	\$42,050
Tipping Fee Study			
	\$5,000	\$1,500	\$6,500
Total Estimate Budget	\$45,000	\$20,100	\$65,100

- OPTIONS:
- Adopt resolution allocating \$65,100 and authorize the City Manager to enter into 'not-to-exceed' contracts with R3 Consulting Group, Inc. and TJ Cross Engineers to negotiate terms of amended contracts with the City's solid waste vendors and recommend adjustments to tipping fees.
 - Adopt resolution allocating \$85,100 and authorize the City Manager to enter into 'not-to-exceed' contracts with R3 Consulting Group, Inc. and TJ Cross Engineers to negotiate terms of amended contracts with the City's solid waste vendors and recommend adjustments to tipping fees.
 - Amend, modify, or reject the above option.

ATTACHMENTS:

Resolution 11-XX

Task List and Fee Worksheet at \$65,100

Task List and Fee Worksheet at \$85,100

2010 Executive Summary Landfill Master Plan

2011 Executive Summary Solid Waste Franchise Contract Financial Operational Audit of PWS

2011 Executive Summary Solid Waste Franchise Contract Financial Operational Audit of PRWD & PRRO

RESOLUTION NO. 11-xx

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
AWARDING CONTRACTS TO R3 CONSULTING GROUP, INC., AND TJ CROSS ENGINEERS
FOR PROFESSIONAL ENGINEERING SERVICES ASSOCIATED WITH
FINALIZING SOLID WASTE CONTRACTS AND UPDATING LANDFILL TIPPING FEES

WHEREAS, the City of Paso Robles owns and operates a Class III solid waste landfill near the intersection of Union Road and Highway 46 under Solid Waste Facility Permit No. 40-AA-0001 from the California Integrated Waste Management Board; and

WHEREAS, the approximately 145-acre facility has been in operation since 1970, currently accepting an estimated 32,000 tons per year of waste; and

WHEREAS, since 1999, Pacific Waste Services has operated the Paso Robles Landfill under an agreement with the City; and

WHEREAS, that agreement has been amended several times such that the term of contract with Pacific Waste Services extends through 2020; and

WHEREAS, since 1957, Paso Robles Waste Disposal has collected solid waste within the City; and

WHEREAS, that agreement has been amended several times such that the term of contract with Paso Robles Waste Disposal extends through 2014; and

WHEREAS, since 2003, Paso Robles Roll-Off, Inc. has provided roll-off services in Paso Robles under an agreement with the City; and

WHEREAS, audits of the landfill operations, garbage collection, and roll-off services contracts were completed in July 2011 by R3 Consulting Group Inc. and

WHEREAS, the auditor found that found that the existing agreements for garbage collection and landfill operation are outmoded and should be restructured to protect the City's financial interests, and;

WHEREAS, tipping fees have not been adjusted for eight years.

NOW THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The City Council of the City of Paso Robles does approve a one time supplemental budget appropriation from the monies set aside in the General Fund from the sale of right of way at the landfill in the amount of \$_____ (\$_____ for R3 Consulting Group, Inc., and \$_____ for T. J. Cross Engineers) to budget account 100-310-5224-432 and;

SECTION 2. The City Council does hereby award contracts to R3 Consulting Group, Inc. and TJ Cross Engineers for Professional Engineering Services associated with finalizing solid waste contracts and updating landfill tipping fees and authorizes the City Manager to execute such contracts.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 15th day of November 2011 by the following votes:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

Duane Picanco, Mayor

Caryn Jackson, Deputy City Clerk

City of Paso Robles
Landfill Contract Negotiations and Tipping Fee Study
Task List and Fee Worksheet

C Halley; Rev E

10/12/2011

Task	R3 Team 1		TJCross Fee Estimate ²	Total
	R3 Consulting Group	Blue Ridge Services (subconsultant)		
1. Solid Waste Collection Services Agreement				
1.1 Prepare draft agreement language for City review; revise per City comments (maintaining general format and content of City of Aliso Viejo and CR&R agreement) and submit proposed language to City and to PRWD.	\$5,000	\$0	\$4,500	\$9,500
1.2 Dialogue with PRWD regarding contract terms.			\$1,200	\$1,200
Meeting attendance (fee est. based on 3 meetings in Paso attended by C. Halley with R3 via phone)			\$3,150	\$3,150
1.3 Prepare staff report for execution of Collection Services Agreement. R3 to attend City Council meeting to present findings.			\$2,700	\$2,700
Subtotal Solid Waste Collection Services Agreement =	\$5,000	\$0	\$11,550	\$16,550
2. Landfill Operations Agreement				
2.1 Provide complete agreement for City review.	\$0	\$20,000	\$1,200	\$21,200
2.2 Prepare detailed Operating Cost Estimate		\$15,000		\$15,000
2.3 Dialogue with PWS. Meeting attendance by C. Halley and N. Bolton, Blue Ridge Services. Includes R3 teleconferencing in up to 3 meetings in Paso Robles.			\$3,150	\$3,150
2.4 Prepare staff report for execution of Landfill Operations Agreement.			\$2,700	\$2,700
Subtotal Landfill Operations Agreement =	\$0	\$35,000	\$7,050	\$42,050
3. Tipping Fee Study				
3.1 Research area landfill fees and propose adjustments to Paso fee schedule	\$5,000		\$1,500	\$6,500
3.2 Prepare tipping fee report; revise as-needed				
3.3 Draft staff report; participate in Council briefings; make public presentation at City Council meeting				
3.4 C. Halley to attend up to 2 meetings to discuss progress and findings; R3 via phone.				
Subtotal Tipping Fee Study =	\$5,000	\$0	\$1,500	\$6,500
TOTAL EST. TIME AND MATERIALS BUDGET =	\$45,000		\$20,100	\$65,100

¹ Time and materials task effort based on attached R3 and Blue Ridge Services fee schedules

² Time and materials task effort based on attached TJCross fee schedule

City of Paso Robles
Landfill Contract Negotiations and Tipping Fee Study
Fee Worksheet
 C Halley; Rev C

9/27/2011

Task	R3 and Blue Ridge Consulting Fee Estimate ¹	TJCross Fee Estimate ²	Total
1. Solid Waste Collection Services Agreement			
1.1 Prepare draft agreement language for City review; revise per City comments (maintaining general format and content of City of Aliso Viejo and CR&R agreement) and submit proposed language to City and to PRWD.	\$ 25,000	\$4,500	\$29,500
1.2 Dialogue with PRWD regarding contract terms. Meeting attendance (fee est. based on 3 meetings in Paso attended by C. Halley with R3 via phone)		\$1,200	\$1,200
1.3 Prepare staff report for execution of Collection Services Agreement. R3 to attend City Council meeting to present findings.		\$3,150	\$3,150
		\$2,700	\$2,700
Subtotal Solid Waste Collection Services Agreement =	\$ 25,000	\$11,550	\$36,550
2. Landfill Operations Agreement			
2.1 Provide complete agreement for City review.	\$ 20,000	\$1,200	\$21,200
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Subtotal Landfill Operations Agreement =	\$ 35,000	\$7,050	\$42,050
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3.4 C. Halley to attend up to 2 meetings to discuss progress and findings; R3 via phone.			
Subtotal Tipping Fee Study =	\$ 5,000	\$1,500	\$6,500
TOTAL EST. TIME AND MATERIALS BUDGET =	\$ 65,000	\$20,100	\$85,100

¹ Time and materials task effort based on attached R3 and Blue Ridge Services fee schedules

² Time and materials task effort based on attached TJCross fee schedule

\$150 CMH hourly per 1/1/11 Rate Schedule



EXECUTIVE SUMMARY

The City of Paso Robles generates 45,000 tons of solid waste annually. It dumps this waste into its own landfill. Rather than just bury trash and manage the effects of its decay, this Plan identifies options to use waste beneficially.

Ideally, the City could achieve a state of "zero waste" wherein all collected solid waste is put to beneficial use and none is buried in a landfill. Such an approach (illustrated in Figure E-1) presents economic and environmental benefits:

WASTE-TO-ENERGY

Energy generating opportunities include:

Landfill Gas-to-Energy As buried trash decomposes, it releases gases (methane and other). A gas collection and microturbine system could generate 1,100 - 5,500 MWh/yr of electricity.

Solar Energy Twenty acres of land are available for solar panels. In addition, it may be possible to install a flexible solar module (landfill cap with flexible solar covers) on the southern exposed face of the inactive portion of the landfill.

The total energy production could amount to 8,300 MWh/yr. Every additional 8 acres dedicated to solar panel installation may generate an additional 2,200 MWh/yr.

Thermal Conversion Technology A thermal conversion technology facility (50 ton per day gasification plant) could produce 9,855 MWh/yr.

In summary, some energy production is possible – to what degree is a function of technology, cost and impact on other possible beneficial uses.

ZERO WASTE PROGRAMS (DIVERSION)

An estimated 28 percent of all solid waste is now diverted (recycled). This could potentially increase to over 50 percent.

The single largest material type in Paso Robles' residential waste stream is food waste. Food waste could be used in composting or harvested in an anaerobic digester (see Figure E-1). Paso Robles could arrange for a composting program, or pursue anaerobic digestion of its estimated 100 tons per day of food waste, green waste, etc. Anaerobic digestion at this scale could generate 5,500 MWh/yr.



Recycling, making use of food waste, and other solid waste programs all depend on sorting trash. Paso Robles needs the means to separate recyclables from construction debris, roll-off and self-haul loads.

LANDFILL OPERATIONS

What is the best way to achieve zero waste? – should the City operate its landfill, diversion, and/or energy generation programs? Operational control should be determined based on consideration of public benefit, cost control, value of self-determination/independence, and liability.

ECONOMIC CONSIDERATIONS

Revenues are declining while mandates and regulations are increasing costs. More revenue is needed to implement and run the programs outlined herein. Potential revenue generating mechanisms include:

Sale of energy	Landfill tipping fees
Hauler fees	Sale of recyclables and compost
Sale of carbon credits	Solid waste development impact fees
Grant opportunities	Street sweeping fees
Host fees assessed on solid waste facilities	
Vehicle impact fees to recover street maintenance costs resulting from waste collection	Extended producer responsibility fees and advanced disposal or advanced recycling fees

NEXT STEPS

1. Promote recycling programs, particularly to commercial and multi-family residential accounts. Establish a recyclables material sorting facility at the landfill;
2. Prepare an updated landfill capital improvement program and operations budget. Proceed with a financial analysis and proposed amended fee structure;
3. Once a sufficient revenue stream is approved, proceed with the solar project;
4. Improve the efficiency of the landfill gas collection system, then make a decision regarding the landfill gas-to-energy projects;
5. Establish feasibility of waste-to-energy conversion technology for the Paso Robles Landfill;
6. Proceed with anaerobic digestion or composting of food waste, green waste, etc.; and
7. Acquire more property as both a buffer and potential solar panel installation.

Prepared by Project Manager Christine Halley, PE

Executive Summary

The major objectives of the review of Pacific Waste Services (PWS) were to:

- Determine if all required contract payments have been made;
- Determine if the allocation of revenues is in relatively the same proportion intended by the Agreement;
- Determine if PWS is in compliance with the major terms and conditions of the operating agreement (Agreement);
- Provide an assessment of PWS's operational performance specific to the Agreement; and
- Provide a general assessment of the effectiveness of PWS's operations and costs.

As part of our review we:

- Reviewed and analyzed documents provided to us by both the City and PWS;
- Conducted site visits of the landfill and scale house operations and observed operations;
- Interviewed management and staff; and
- Reviewed and analyzed various financial and operating data.

We also compared the findings from this review to those presented in the City's Landfill Master Plan. In those cases where the two reviews addressed similar issues we found the resulting findings to be generally consistent.

Contractor Payments

- The Agreement does not clearly define "revenues" or "gross revenues" for purposes of establishing the basis upon which the City's payments are calculated. PWS does not include revenues from the sale of recovered materials (~\$300,000 total for 2006-2010) in the base it uses to calculate City payments¹;
- PWS generally appears to have reasonable internal controls in place to track and monitor tonnages and revenues; and

¹ PWS's position is that those revenues were not intended to be included in any revenue sharing with the City per Section 6 of the Agreement (Distribution of Revenues).

Solid Waste Franchise Contract Financial and Operational Audit of Pacific Waste Services

R3

Solid Waste Franchise Contract Financial and Operational Audit of Pacific Waste Services

- PWS's reported Gross Revenues, which serve as the basis for its payments to the City, were approximately \$23,000 less than those reported on its financial statements after supporting adjustments;

Review of Distribution of Revenues

In the event that the average growth in gross revenues received from the operations at the landfill is two and a half percent (2.5%) per year or less, over three consecutive years, the Agreement provides for the City and Contractor meeting to make adjustments in the allocation of revenues to each party. Gross revenues at the landfill have been less than 2.5% for the past four years, and as discussed below under Review of Operating Agreement, unless something is changed it is very likely that the City will experience negative cash flow related to the landfill at some point over the remaining term of the Agreement.

Contract Compliance

PWS is operating the landfill at a level consistent with industry standards, although there have been a number of regulatory issues. The Local Enforcement Agency has issued 10 notices of violation (NOV) and 26 areas of concern (AOC) since January 2002, although no NOV's have been received since 2006. Most of the NOV's have been related to exceeding the daily tonnage limit of 250 tons per day, which is a not uncommon NOV for landfills throughout the State. The maximum daily tonnage has since been increased to 450 tons per day. PWS also reported that a number of the AOC's were out of PWS's control, and various others were corrected immediately upon observation.

Review of Operating Agreement

PWS is generally in compliance with the operational aspects of the contract with the exception of litter fencing and long-term planning.

With respect to litter, the Agreement requires that litter be controlled *"by constructing and maintaining movable fencing adjacent to areas in use..."* While PWS does not have movable fencing, the fencing it does use (T-posts and wire fencing) is adequate for controlling litter and well within industry standards.²

The issue of compliance with respect to long term planning relates to the appropriate planning of *"new waste disposal cells."* While

² PWS's contention is that the existing T-posts and wire fencing is "moveable" and that there has never been any fencing at the landfill other than T-post and wire fencing. Our position is that movable fencing is fencing that can be readily and repeatedly moved in order to adapt for shifting winds (i.e., fencing on movable skids).

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the basics of access and slope development (for drainage) have been established it is not clear that soil removal is effectively focused on the next area to be excavated and lined. If the solid is not first removed from the next liner area the City may end up having to hire a contractor to excavate soil that PWS could have removed as part of its daily operations.³

Overall impressions of the Agreement include:

- It has a longer term than most landfill contracts (20 years, with approximately 9 years remaining (July 31, 2020)), which puts the City at a significant disadvantage in terms of negotiating contract changes;
- The 2.5% annual payment increase is extremely detrimental to the City. Declining waste tonnages and revenues may soon put the City in a negative cash flow situation requiring subsidization of landfill operations; and
- The requirement that PWS is responsible for paying for and constructing the landfill liner system creates a strong incentive for PWS to conserve existing airspace and therefore, as discussed above, they appear to be doing a good job.

For purposes of assessing the impact to the City of potential future negative cash flow associated with the 2.5% annual payment increase three scenarios were evaluated:

1. ***Waste tonnage continuing to decline at current rate (Worst Case Scenario)*** – Under this scenario cash flow will drop below zero in 2012; By December 2016, the monthly deficit will surpass \$50,000 per month. Total projected deficit for the remaining term of the Agreement = \$4,399,000.
2. ***Waste tonnage flattening at the current level*** – Under this scenario the City would have to periodically subsidize PWS beginning with a deficit of just over \$10,000 in 2011. Total projected deficit for the remaining term of the Agreement = \$340,000.
3. ***Waste tonnage increasing at 1% per year*** – In this third scenario the first negative “hit” to the City is likely to occur in October 2011. Total projected deficit for the remaining term of the Agreement = \$161,000.

Note: PWS has identified a potential new source of landfill tonnage that could generate additional monthly tipping

³ In response to our draft report, PWS stated that existing excavation plans will be expanded to provide site development excavation planning and sequential landfill module development covering the next 20 years,

Solid Waste Franchise Contract Financial and Operational Audit of Pacific Waste Services

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Solid Waste Franchise Contract Financial and Operational Audit of Pacific Waste Services

fees of as much as \$40,000, which it has reported to the City

Operational Review

PWS's operations are lean but functional. PWS is meeting the minimum requirements for regulatory and contractual compliance however some aspects of PWS's operations are not in line with industry standards⁴. While most of the equipment is generally older it is of the appropriate size, type and quantity to handle the inbound tonnage and perform most of the necessary site development projects. Staffing levels are also reasonable given the inbound tonnage. Observations include the following:

- Access roads were in good condition, litter was properly controlled and the wet-weather tipping pad was properly set up. Entrance signage however, should be updated to reflect a more professional status and provide clearer direction for facility users;
- Equipment operators are clearly skilled and work efficiently;
- The current waste cell was properly covered with soil and adequate tarps were available for use as alternative daily cover (ADC);
- The waste on the working face was properly segregated and very well compacted;
- There was relatively little differential settlement or broad settlement on the older landfill slopes indicating good waste compaction;
- Short-term planning (e.g., fill sequencing, access road placement, use of temporary soil stockpiles, etc.) was well organized and in-line with industry standards. Long-range planning, however, particularly in regard to future soil excavation areas, as previously discussed, requires attention to minimize expenses associated with future double-handling of soil.

Cost Category Examination

A review of PWS's financial statements for fiscal years 2006 through 2010 found that:

⁴ As an example the secondary containment for the fuel tank consists of a soil berm with a piece of geosynthetic material held in place with random chunks of concrete.

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- PWS realized a total net income of approximately \$1.15 million⁵; and
- Revenues decreased by 28% while expense decreased by 18% although during that time there were significant increases in Salaries (~ \$162,000 (41%)) and Subcontractor expense (~\$285,000 (374%))⁶.

Recommendations

- Upgrade entrance signage to reflect a more professional status and provide clearer direction for facility users⁷;
- Have PWS track soil used for daily and intermediate cover and reconcile that usage with periodic topographic maps to provide a more accurate cover soil ratio⁸;
- Require PWS to develop and implement a long-term excavation plan that focuses soil excavation in the appropriate area; and
- Consider options for reducing the declining revenue stream, including importing waste, increased tipping fee and renegotiating the revenue allocations set forth in the Agreement, as specifically provided in the Agreement (Section 6 (d)), so that the parties are receiving the intended relative proportions.

Solid Waste Franchise Contract Financial and Operational Audit of Pacific Waste Services

⁵ PWS reported cumulative net income of \$343,000 for the first five (5) years of the contract (2001 – 2005)

⁶ PWS reported that the increase in both Salaries and Subcontractor expense was largely attributed to costs in contract year 2009/2010 attributed to the design and construction of a new landfill module (Module 3B).

⁷ Since our on-site review was conducted PWS has upgraded signage at the scale house and on the routes to the active landfill and wood waste stockpile areas.

⁸ In response to this recommendation in our draft report, PWS reported that it will prepare a topographic map using GPS surveying methods no later than January 1, 2012 that will be used, for among other things, determining soil volumes and refuse fill volumes to calculate refuse fill density and refuse to soil cover ratio. PWS also reported that it will provide a revised soil excavation plan by April 30, 2013 that will reflect site development over the next 20 years. Additionally, Module 3C base grading plan design will be completed by April 30, 2012.

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Executive Summary

The major objectives of the review of Paso Robles Waste Disposal (PRWD) and Paso Robles Roll-Off (PRRO) (collectively referred to as the Companies) were to:

- Determine if all required franchise fee payments have been made;
- Determine if the Companies are in compliance with the major terms and conditions of their franchise agreements;
- Provide an assessment of the current franchise agreements;
- Provide an assessment of the effectiveness of the Companies' operations; and
- Provide an assessment of the reasonableness of the Companies' expenses.

As part of our review, R3:

- Reviewed and analyzed documents provided to us by both the City and the Companies;
- Reviewed collection operations and management and administrative functions;
- Conducted field audits and observed operations;
- Interviewed management and staff; and
- Reviewed and analyzed various financial and operating data.

Franchise Fee Payments

PRRO pays a franchise fee of 10 percent of gross receipts. PRWD's franchise fee was originally set at 3 percent and subsequently increased to 10 percent by resolution, although there was not an accompanying amendment to the franchise agreement. The rate adjustment that was made at the time the franchise fee was increased to 10 percent, however, was incorrectly calculated. As a result, there was an understanding between the Director of Administrative Services and PRWD that the fee would be set at 9.34 percent to account for the error in the rate adjustment calculation. That "understanding," which was in the form of a letter from the Director of Administrative Services, was never formalized as an amendment to the franchise agreement. The rates were nonetheless set to provide for a 9.34 percent franchise fee and PRWD calculated its franchise fee payments on that basis.

In response to our review of the Companies' franchise fee payments, the Companies directed their accountant to review their franchise fee payments. That review found that the Companies underpaid the City approximately \$30,000 for the six year period

Solid Waste Franchise Contract Financial and Operational Audit

Paso Robles Waste Disposal and Paso Robles Roll-Off

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Solid Waste Franchise Contract Financial and Operational Audit

Paso Robles Waste Disposal and Paso Robles Roll-Off

from 2005 through 2010. The Companies issued a check to the City in that amount after receiving the results of the review.

It should also be noted that Amendment 3 to the PRWD franchise agreement (2007), which focused on the changes to the agreement to address the County's newly adopted Integrated Waste Management Fee, "reset" the franchise fee at 3 percent. It appears, however, that this was not intended as the rates were not reduced and PRWD has continued to pay franchise fees at 9.34 percent of gross revenues.

Contract Compliance

PRWD and PRRO are in compliance with the majority of the terms and conditions of their Agreements. There are several items, however, that require review and/or clarification by the City, including confirming that the insurance certificate endorsements and indemnifications satisfy the contractual requirements.

On a related matter, the issue of what information related to the Companies franchises is or is not to be considered confidential was a point of ongoing discussion during this project. The franchise agreements state that the Companies, "Keep accounting and statistical records of their revenue and expense items, to be provided to City upon request."

The Companies were not willing to provide requested information to R3 without a confidentiality agreement. After ongoing discussions, R3 signed a confidentiality agreement and the Companies then provided all requested information in a complete and timely manner. After reviewing a draft of this report the Companies did not object to the publication of any of the information set forth in that draft, with two limited exceptions, which R3 supported.

While the issue of what information is or is not to be considered confidential did not ultimately limited R3's ability to present all information that it felt was relevant, we strongly recommend that this issue be clarified as part of any new or extended franchise agreement. Specifically, we recommend that any future agreements clearly specify that any and all information related to the franchise be considered public information (i.e., not confidential) and is to be provided to the City upon request without limitation.

Assessment of the Current Franchise Agreements

The City's existing franchise agreements with both PRWD and PRRO have been in place since 1993 and have been amended several times. Neither of those agreements contains many of the contract terms and conditions that have become standard in franchise agreements or reflect best management practices. In addition, the agreements do not effectively support the City's long-term solid waste management goals.

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The City is considering additional amendments to both franchise agreements. Rather than continue to amend the existing agreements, we strongly recommend that those agreements be replaced with a single new agreement. The terms and conditions of that agreement should reflect current industry standards and best management practices and support the City's long-term solid waste management goals. In support of that recommendation we have provided the City with a single complete preliminary draft franchise agreement. That agreement is intended to provide a starting point for negotiating any contract extensions with PRWD and PRRO and / or serve as the basis for a draft franchise agreement to be used as part of a competitive procurement process, should the City decide to pursue that option.

Assessment of Operational Performance

In general, we found that the Companies are providing effective operations and have embraced a number of newer industry innovations to improve performance. Those innovations include route management software to improve customer service and billing accuracy, as well as split commercial carts to provide recycling opportunities for businesses where there are space limitations for container storage.

Additional findings from our performance review include the following:

- Residential and commercial routes are operating in a safe and effective manner and are achieving reasonable productivity;
- Diversion rates for franchised tonnage increased steadily from 2005 (27%) through 2010 (33%); however, ongoing attention to increased commercial and multi-family diversion is warranted. The diversion rate for single family accounts was 53% in 2010 as compared to 17% for commercial and multi-family accounts;
- Vehicle maintenance operations appear reasonable, with the Companies receiving "satisfactory" ratings from the California Highway Patrol's biennial vehicle maintenance inspection program;
- The Company has in place an effective process for tracking and controlling overweight vehicles, helping to minimize the impacts refuse vehicles have on the City's street maintenance costs; and
- The Company's safety record exceeds industry standards. The Company's insurance carrier reported that "...Paso Robles Waste Disposal operates one of the safest refuse companies in California."

Solid Waste Franchise Contract Financial and Operational Audit

Paso Robles Waste Disposal and Paso Robles Roll-Off

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Solid Waste Franchise Contract Financial and Operational Audit

Paso Robles Waste Disposal and Paso Robles Roll-Off

Assessment of the Reasonableness of Operating Expenses

Our assessment of the reasonableness and necessity of the Companies' expenses identified a number of issues, including the following¹:

- The line item expense categories and equipment depreciation expense categories used by PRWD, PRRO, and its related party Country Disposal (which serves unincorporated areas of the County) (collectively referred to as the Company) are inconsistent. This makes it very difficult to effectively test the methods used to allocate shared expenses among the various parties. Going forward, we recommend that the Company use consistent revenue and expense line time categories and allocate shared expenses in a documented and consistent manner;
- The Companies made profit sharing contributions in 2009 of 10 percent of wages to all employees, including officers, and received profit on those contributions. While it is not unreasonable to provide some level of profit sharing contributions, the City should establish guidelines for what level of profit sharing is to be included in the base rate;
- The Company rents office / facility space from a related party (a shareholder and his brother) and has paid for a number of significant leasehold improvements through the rate base (e.g., repairs to the parking lot, HVAC unit, and solar energy system). While the Company provided some information supporting the reasonableness of this related party expense we recommend that it provide formal support as part of any future rate adjustment process. That support should include the impact of any leasehold improvements paid for by the ratepayers;
- Officer compensation for PRWD and PRRO falls within what we consider to be a reasonable range for officers that actively participate in operations on a day-to-day basis. One officer, however, who received a salary and profit sharing contributions in 2009 (~\$121,000 total), is not actively involved in the day-to-day operations of the Companies; and
- PRWD reported Meals and Entertainment expenses of approximately \$20,000 in 2009 and PRWD and PRRO reported donations (Promotional expenses) of approximately \$22,000, including \$300 in political contributions. The City should formally establish guidelines

¹ The Companies reported that it would be inaccurate to assume it considers all expenses for rate making purposes.

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for what expenses are and are not to be considered allowable for purposes of setting rates.

Market Service Providers and Rate Comparison

R3 conducted a review of the private solid waste management collection companies providing service to jurisdictions in San Luis Obispo County and the rates that they charge for service. Findings of that review include:

- Residential and commercial collection services are provided by four hauling companies in addition to PRWD and Country Disposal;
- Waste Connections provides services to jurisdictions south of the Cuesta Grade and along the coast, while Waste Management provides services in Atascadero, and San Miguel Garbage and Mid-State Solid Waste and Recycling provide services in various areas of the north County;
- All jurisdictions, with the exception of PRWD and the Cayucos Community Services District, offer 32-gallon service. PRWD does not offer 32-gallon service and is the only jurisdiction that offers 40-gallon carts. Waste Connections offers 20-gallon cart service in four of the jurisdictions it services;²
- The lowest rates are in jurisdictions serviced by Waste Connections³;
- Atascadero's rates are generally higher than those in the City; and
- Templeton's residential rates are generally higher than those in the City. Its commercial rates for one-time per week service are less than the City's, while rates for two and three time per week services are more.

It should be noted that, while comparing rates can provide some useful information, differences in services, fees (e.g., franchise fees and surcharges), service area characteristics, rate structures, subscription levels and other factors can impact rates and the ability to provide an apples-to-apples comparison.

² PRWD reported that one of its operational goals is to provide 20-gallon service in Paso Robles. It has been conducting a pilot program testing the compatibility of 20-gallon containers with its automated trucks and has begun discussions with Quail Run to deliver more than 300 of these 20-gallon containers to their community.

³ Waste Connections also has the second highest residential 32-gallon rate in the County in the Los Osos / Baywood Park Sanitary District, and also owns the landfill where it disposes of the waste that it collects.

Solid Waste
Franchise
Contract
Financial and
Operational Audit

Paso Robles
Waste Disposal
and Paso Robles
Roll-Off

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