

City of Palo Alto

Office of the City Auditor

April 10, 2007

Honorable City Council
Attn: Finance Committee
Palo Alto, California

AUDIT OF THE PALO ALTO SANITATION COMPANY CONTRACT

The City of Palo Alto contracts with the Palo Alto Sanitation Company (PASCO) to provide refuse and recycling services for Palo Alto residents and businesses. PASCO has been providing services to Palo Alto since 1947. In November 1998, PASCO was formally acquired by USA Waste of California, a Waste Management Inc. (WMI) company. Palo Altans give high marks to PASCO services – 92% rated garbage collection good or excellent, 91% rated recycling services good or excellent, and 90% rated yard waste collection good or excellent.

The objective of our review was to determine if PASCO is complying with the financial terms of its contract, if contract administration can be improved, and to identify potential recommendations for the upcoming request for proposals (RFP) process and contract award after the present contract expires in June 2009. The current contract is cost-plus with contract provisions defining allowable and non-allowable expenses, and limiting the annual rate of increase to 82% of the Bay- Area consumer price index (CPI).

Public Works staff is properly administering the contract with regard to allowable costs. This has been increasingly important as PASCO charges from related business affiliates and the parent company have increased, with PASCO financial statements showing an operating loss for FY 2005-06. Public Works staff review PASCO audited financial statements, and have disallowed and limited reimbursements to PASCO for corporate and administrative expenses that exceed contract terms; however increased scrutiny may be required as the contract winds down.

Additional services have been added to the contract since 1999 without amending the contract in writing. Section 7.17 of the contract states no oral modifications to the contract are allowed and requires all amendments be in writing and signed by all parties to the contract. Thirty six (36) new services have been added since 1999. While 16 of the services were added at no cost to the City, 20 other services cost the City as much as \$1,280,000. Although the City Council approved the major program additions (e.g. single stream recycling, and construction and demolition debris recycling), the contract was not amended. We recommend that, if the opportunity affords, the City prepare contract amendments to document changes to date. In the future, a provision for additional services should be included at the time of contract approval, and the contract should spell out the process for approving additional services.

Future contracts should specify how California Refund Value (CRV) payments are to be shared. PASCO previously recognized CRV fees as revenue. The contract states that recyclables and associated revenues belong to PASCO and should be used to offset PASCO operating costs. Since taking recyclables to the Waste Management, Inc. (WMI) San Leandro facility, PASCO CRV

revenues have declined because the WMI San Leandro facility is apparently retaining CRV revenues from those recyclables, as well as other California State payments and revenues from the sale of recycled commodities. CRV revenues are a significant component of recycling revenue (an estimated \$404,000 in FY 2005-06).

This significant drop in PASCO recycling revenue is resulting in additional recycling payments owed by the City to PASCO. We recommend Public Works investigate whether the City has recourse to require WMI to credit PASCO the California State CRV and other recycling payments. We also recommend that future refuse contracts explicitly state who is to file for and receive CRV and other recycling payments.

Opportunities exist to increase net recycling revenue. PASCO total annual recycling revenue has declined from an estimated \$1.4 million in FY 2004-05 (for 15,000 tons recycled) to \$882,000 in FY 2005-06 (for 15,800 tons recycled). Expected reductions in PASCO operating costs under the single stream program were offset by adding new services, so the loss in revenue may trigger additional City payments.

The contract states that recycled materials must be sold at verifiable market rates. Single stream recyclables are being processed at the WMI regional processing center in San Leandro. WMI is paying PASCO \$20-\$30 per ton for single-stream recyclables. In addition, PASCO is selling recyclables from the Palo Alto Recycling Center under WMI marketing and sales plans/contracts at lower pricing than may be available elsewhere (e.g. SMaRT). We recommend requiring PASCO to justify that it is receiving market rates for recyclables from the WMI San Leandro facility and the Palo Alto Recycling Center.

PASCO recycling reports should be strengthened. PASCO reports mix estimated and actual data, and contain data only for cash collections from recyclable sales. As a result, we could not verify and reconcile specific recycling transactions, and found discrepancies when we compared PASCO end-of-the-fiscal-year, end-of-the-month, and the audited financial statements. We recommend PASCO sales be documented with invoices showing the price per ton. In order to better track recycling efforts, and depending on the terms of the future contract, the City should increase required documentation of recyclable sales in the future contract.

Opportunities exist to increase grant revenue. Additional grant revenues may be available through California State grant and recycling programs. Applications for possible state grants totaling \$16,000 to \$66,000 were not filed because the applications were a low priority. We recommend the City require the hauler to provide the data required to complete the applications and designate whether Public Works or the hauler will file for the grants in the future.

Palo Alto should continue to avoid additional charges by diverting debris boxes from the Palo Alto landfill to SMaRT. Future success in reducing waste (i.e. the zero waste programs) will continue to put pressure on current contract obligations for refuse disposal with the SMaRT Station and the WMI/Kirby Canyon Landfill. Public Works should require PASCO to divert additional solid wastes to the SMaRT Station so that the City's minimum allocations are satisfied, and the new refuse contract should retain flexibility for Public Works staff to divert tonnages to SMaRT.

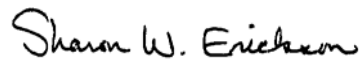
The City should incorporate into the RFP process the lessons learned from neighboring cities. Public Works has initiated a thorough internal review by forming a request for proposal (RFP) committee; including hiring a consultant and using the auditor's office as an advisor. We support these efforts.

Considering the recent controversy in re-bidding the San Jose refuse and recycling contracts, the City may want to take extraordinary steps to ensure a fair and impartial RFP process. In 2005, the City of Campbell adopted an ordinance that required elected officials to disclose potential conflicts of interest regarding potential proposers for solid waste services, prohibited elected officials from accepting contributions from potential proposers, and prohibited elected officials from having non-public meetings or conversations with potential proposers during the review period. We recommend the City Council consider adopting a similar code of conduct.

Details of the findings and the related recommendations for improvements are included in this report. With these recommendations, we encourage Public Works staff and management to continue to explore new ways of improving all aspects of the program. These improvements will allow PASCO to continue to provide its highly rated services to Palo Alto residents through the term of their contract.

We wish to thank Public Works and PASCO for their cooperation in completing this audit. We appreciate their responsiveness to our inquiries and their assistance in working through the issues in this report.

Respectfully submitted,


Sharon W. Erickson
City Auditor

Audit staff: Edwin Young, Senior Auditor

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INTRODUCTION

In accordance with the FY 2006-07 Annual Audit Plan, the City Auditor's Office has completed an audit of the City's contract with the Palo Alto Sanitation Company (PASCO) for collection, hauling, and disposal of solid waste and recyclables. The objective of the audit was to determine if PASCO is complying with the financial terms of its contract; if contract administration can be improved; and to identify potential recommendations for the upcoming request for proposals (RFP) and contract award after the present contract expires in June 2009.

Our audit was conducted between August 2006 and March 2007 in accordance with government auditing standards. The City Auditor's Office would like to thank the staff of the Public Works Department and PASCO for their assistance during our review.

Background

The City of Palo Alto contracts with PASCO to provide refuse and recycling services for Palo Alto residents and businesses. In the FY 2005-06 Citizens Survey, 92% of the residents rated Palo Alto garbage collection as good or excellent. The results placed Palo Alto in the 97th percentile for the nation. 91% rated recycling services good or excellent (Palo Alto placed #1 in this category compared to other jurisdictions). 90% rated yard waste pick-up good or excellent (99 percentile). 90% of residents reported they recycled more than 12 times during the year.

PASCO has been providing services to Palo Alto since 1947. The company consists of over 60 employees. In November 1998, PASCO was formally acquired by USA Waste of California, a Waste Management Inc. company.

Contract Terms

In 1999, the PASCO services were incorporated into a new agreement which used a method of compensation (operating ratio) which was based on historical data. The new agreement placed emphasis on ensuring PASCO maintained high levels of services and included provisions to ensure action could be taken if PASCO performance was not acceptable. The negotiated, sole source, cost plus contract¹ approved by the City Council was effective September 1, 1999 and expires September 1, 2009.

The 10 year contract based the compensation to PASCO on a formulaic relationship between costs and profits. Under the contract, PASCO would submit a forecast of its annual costs and revenues, with an operating ratio of costs to revenues of 88%,

¹ PASCO was formally acquired by USA Waste of California, a Waste Management, Inc. company, in November 1998. At that time, the City Council directed the City staff to enter into discussions with PASCO to negotiate a new refuse and recycling agreement. The new agreement provided for a continuation of the programs and services previously offered by PASCO.

plus or minus 2%. Thus the profit margin for PASCO was expected to range from 10% to 14%.²

Total compensation to PASCO consisted of the forecasted allowable annual costs plus the profit margin plus certain other forecasted pass-through costs that were permitted under the contract.

Other contract provisions stated PASCO would retain all revenues collected from the sale of recycled materials. Each year a formula determines whether PASCO is required to rebate some of the revenue to the City, or whether Palo Alto is required to pay more to PASCO. The calculation is based on a 3-year rolling average that was adjusted each year. If the gross recycling revenues are plus or minus 14% of the 3-year rolling average, the City makes no additional payments to PASCO. If the gross recycling revenues are 15% or more over the 3-year rolling average, PASCO rebates half of the surplus to the City. If the gross recycling revenues are 15% or more below the rolling 3-year average, the City must pay PASCO the difference between the recycling revenues received and the baseline less 15%.

Revenues from debris box and bin rental³ services are included in the total compensation to PASCO. The City bills and collects for most drop boxes and remits the proceeds to PASCO. In instances where PASCO bills and collects for the debris boxes, PASCO remits to the City 67% of the revenues collected. The City was to bill and collect for most bin rentals. If PASCO bills and collects for the bin rentals, PASCO remits 5% of the bin rental revenues to the City.

At any time during the contract year, PASCO could request special compensation to cover increased or decreased expenses if a single cause changed a single allowable expense by at least 15% and no less than \$30,000. The causes allowed under the contract included (1) a force majeure event; (2) changes in federal, state, or local government law, statute, rule, regulation, ordinance, order, or requirement; (3) an increase in volume of solid waste or other materials collected by PASCO; and (4) changes in or additions to services requested by the City.

Appendix 1 provides more specific details on the contract terms.

Contract Administration

Three employees in the Public Works Department are primarily responsible for day-to-day administration of the PASCO contract – the Deputy Director for Operations and Refuse, the Manager of Solid Waste, and the Executive Assistant.⁴ These employees monitor PASCO performance, compensation, reports, and operations.

² The Public Works consultant, Hilton Farnkopf & Hobson, LLC, recommended that the City use an operating ratio of 91% and profits of 8.5% to 11.5%. Public Works staff reported they opted for the more favorable operating ratio of 88% with a profit range of 10% to 14% to ensure PASCO continued to deliver a high standard of service.

³ Bins are used to collect garbage and cardboard from commercial and multi-family complexes. Debris boxes, also referred to as drop boxes or dumpsters, are used primarily for construction projects.

⁴ The Solid Waste program includes a total of 15 full time equivalents (FTE) involved in landfill operations (11 FTE) and refuse operations (4 FTE).

To ensure a high quality of service, the contract includes four performance reviews and financial penalties for service problems. The performance reviews we examined indicated a high level of customer satisfaction and confirmed the citizen survey results reported in other audit reports.

Payments to PASCO

Since 1999, the Refuse Enterprise Fund has paid PASCO an average of \$7.8 million per year for refuse services.

Exhibit 1: Summary of City Payments to PASCO (by fiscal year)

Fiscal year	City Funds
1999-00	\$7,186,886
2000-01	\$7,667,937
2001-02	\$7,753,168
2002-03	\$7,961,899
2003-04	\$8,356,432
2004-05	\$7,943,388
2005-06	\$7,798,241
Average	\$7,809,707

Source: PASCO audited financial statements

Disposal of solid waste and recyclables

Solid waste: PASCO delivers the residential and commercial solid waste that it collects in Palo Alto to the Sunnyvale Materials Recovery and Transfer Station (SMaRT). SMaRT transfers any waste that is not composted or recycled⁵ to the Kirby Canyon landfill in San Jose. Under joint agreements with Sunnyvale and Mountain View, Palo Alto pays a prorated share of the SMaRT operating costs and guarantees to deliver at least 75% of its annual allocation for the Kirby Canyon landfill and 88% of its annual allocation for the SMaRT Station. Palo Alto’s agreements with SMaRT and Kirby Canyon run through 2021.

PASCO delivers debris boxes either to the Palo Alto landfill, to SMaRT, or to another processing facility as directed by City staff.

Recycling: The 1999 PASCO agreement included a curbside recycling service that required customers to segregate recyclable waste into one of four bins for recycling. Recyclable materials collected by PASCO were delivered to the Palo Alto recycling center (located at the Palo Alto landfill) where PASCO staff sorted, processed, bundled, and sold the recycled materials to processors and end users, such as paper mills. Palo Alto residents were also permitted to drop off materials for

⁵ SMaRT shares its revenues from the sale of recycled materials and uses the credits to offset the City’s prorated cost for operating the SMaRT station.

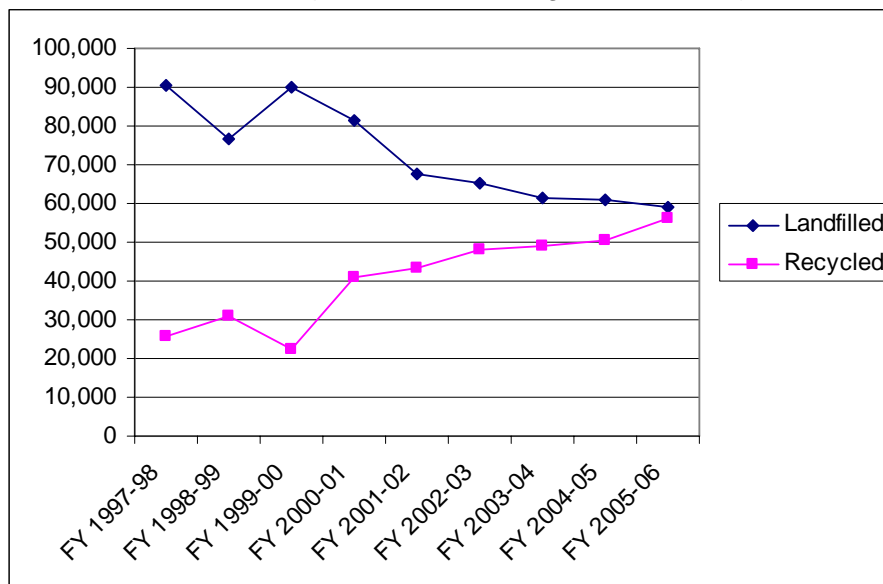
recycling at the recycling center.

In March 2004, PASCO proposed a single stream initiative for recyclable materials and, after a trial period, the City Council approved and PASCO implemented the single stream program in July 2005. Under this program, the City replaced the four bins for recycled materials with one container. The container of mixed recyclable materials is currently trucked by PASCO to a WMI regional processing center in San Leandro for sorting, processing, and bundling. PASCO receives \$20 to \$30 per ton for these recycled materials, and the WMI regional processing center retains all revenues from the sale of the recycled materials, including California State payments for recycled beverage containers.

Yard waste: Yard trimmings, such as grass, shrubs, and plants, are placed in separate containers from other refuse. PASCO collects and hauls yard trimmings to the Palo Alto landfill where City staff make the yard trimmings into compost.

Total tons: As shown below, the total tons of waste landfilled has been declining, while the tonnage recycled has been increasing.

Exhibit 2: Total tons of waste landfilled or recycled
(FY 1997-98 through FY 2005-06)



Source: City of Palo Alto Service Efforts and Accomplishments Report FY 2005-06

Audit Scope and Methodology

The scope of the audit included reviewing the PASCO contract and related agreements; reading reports, studies and City Manager Reports (CMR's) related to the PASCO programs; reviewing the PASCO parent company (Waste Management, Inc.) annual report; and analyzing the PASCO audited financial statements from 1998 to 2006. We examined written procedures for administering the contract; reviewed and analyzed Public Works and PASCO reports and spreadsheets; examined PASCO records, files, invoices, and logs; tested transactions in the

PASCO accounting systems; toured PASCO and Palo Alto facilities; observed PASCO recycling operations; and interviewed PASCO and Public Works staff.

We toured the Waste Management, Inc. recycling and processing facilities located on Davis Street in San Leandro; toured the Kirby Canyon landfill; and visited the SMaRT Station in Sunnyvale. We also toured the South Bayside Waste Management Authority (SBWMA) operation in Redwood Shores; the Green Team recycling plant in San Jose; and the California Waste Solutions facilities in San Jose. At each facility, we conducted discussions related to their accounting systems, revenues, commodity sales, contract/agreement terms, recommendations for Palo Alto operations, and other related issues.

For the audit, we reviewed the City Municipal Code and California State laws and regulations related to the solid waste program, the Integrated Waste Management Board, and the California State Department of Conservation. We reviewed the Department of Conservation, Division of Recycling programs and discussed with the Division of Recycling staff the different recycling revenues available to the City and its contractors.

During the audit, we focused on PASCO compliance with the financial terms of the contract. We did not review program performance, the effectiveness of its services, the efficiency of its operations, or the need for new services.

Although the data provided by PASCO in their periodic reports and financial statements had limited reliability, we found the data sufficiently useable to analyze and evaluate PASCO operations.

FINDING 1: Public Works staff is properly administering the contract with regard to allowable costs

As part of their responsibility for administering the PASCO contract, Public Works staff review PASCO audited financial statements and budget forecasts, and have disallowed and limited reimbursements to PASCO for corporate and administrative expenses when appropriate. Public Works staff continues to closely monitor and disallow overhead costs that exceed contract terms as PASCO charges from related business affiliates and the parent company have increased, however increased scrutiny may be required as the contract winds down.

Contract provisions limit increases in PASCO expenses

The 1999 contract allows PASCO to earn from 10% to 14% in profits, but limits PASCO compensation increases to 82% of the annual increase in the Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose Area (Section 4.6.1 of the PASCO contract), and allows 100% of the CPI increase for general and administrative expenses. The overhead and corporate expenses charged by PASCO affiliates or the parent company are restricted to \$325,000 plus 100% of the annual CPI increase.

Annual review of forecasted expenses

Section 4.7.1 of the contract requires the company to submit a financial statement prepared by an independent auditor of its actual allowable costs and to submit a forecast of its projected allowable costs for the next fiscal year by December 30th of each year.⁶

Per the terms of the contract, PASCO has submitted to Public Works staff the audited financial statements of actual expenses and revenues, and a forecast of allowed expenses for the upcoming fiscal year. The Public Works staff has scrutinized the PASCO budget forecast for allowed, disallowed, and pass-through expenses, and reviewed the audited financial statements of actual income and expenses to determine which are permitted under the terms of the contract.

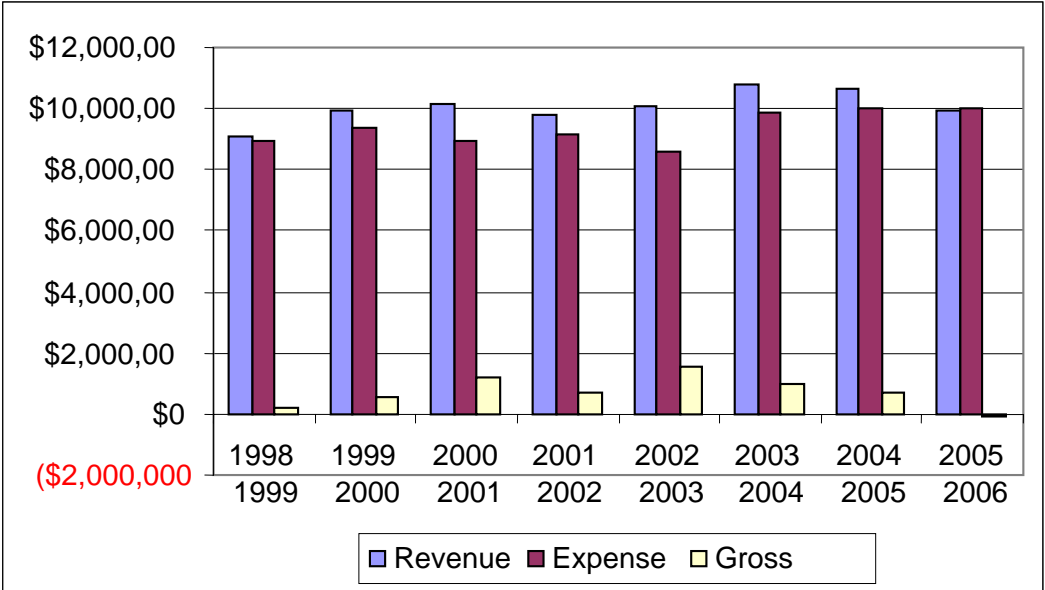
PASCO charges from the parent company have increased

As shown below, PASCO income ranged from \$9.1 million to \$10.8 million between

⁶ **Allowed costs** include costs of complying with laws and regulations; labor costs associated with providing the agreement services; vehicle and equipment costs; container and capital expenditures; performance bonds and insurance expenses; administrative and other overhead expenses for salaries, benefits, and payroll; and many other specified costs. **Non-allowed costs** include payments to directors and owners; fines and penalties; charitable donations; taxes; legal fees and costs related to disputes between PASCO and the City; costs and expenses for affiliated companies that exceed the restrictions imposed by the agreement; and debt and interest costs. **Pass-through expenses** include landfill closure assessments; taxes and charges related to solid waste handling and disposal; regulatory fees; and debt and interest related to the purchase of equipment and facilities.

FY 1998-99 to FY 2005-06. Concurrently, operating expenses ranged from \$8.5 million to \$10 million. After the single stream program was implemented, PASCO income dropped from \$10.6 million to \$9.9 million while operating expenses continued to rise.⁷

Exhibit 3: PASCO Income, Expenses and Profits (by fiscal year)



Source: PASCO audited financial statements.

Division, area and corporate overhead

One significant component was the rise in PASCO corporate charges for Waste Management division, area, and corporate expenses which increased from \$325,000 in FY 1999-00 to over \$687,000 in FY 2004-05.

Public Works staff reviewed these expenses and effectively enforced the terms of the contract by disallowing PASCO charges for division, area and corporate overhead that exceeded what is permitted under the contract. Per the terms of the contract, Public Works staff therefore disallowed over \$300,000 in PASCO corporate overhead charges for fiscal year 2004-05.

⁷ See Appendix 2 for additional detail.

Exhibit 4: PASCO Division, Area, and Corporate Expenses
(Allowed and Disallowed for FY1998-99 through FY 2005-06)

Fiscal year	Total Expenses	Division, Area, and Corporate Expenses	Amount Allowed per Agreement	Amount Disallowed per Agreement
1998-99	\$8,922,106	\$235,951	\$235,951	\$0
1999-00	\$9,378,681	\$325,000	\$325,000	\$0
2000-01	\$8,960,646	\$339,916	\$339,916	\$0
2001-02	\$9,128,634	\$469,304	\$357,276	\$112,028
2002-03	\$8,588,178	\$369,780	\$369,780	\$0
2003-04	\$9,843,896	\$513,875	\$374,957	\$138,918
2004-05	\$9,976,624	\$687,883	\$379,082	\$308,801
2005-06	\$10,018,275	\$622,556	\$387,422	\$235,134
Total	\$74,817,040	\$3,564,265	\$2,769,384	\$794,881
Average	\$9,352,130	\$445,533	\$346,173	\$99,360

Source: PASCO Audited Financial Statements

Public Works' reviews of proposed expenditures are increasingly important as PASCO expenses and declining revenues have resulted in declining profit margins and a first time operating loss. Between FY 1998-99 to FY 2002-03, PASCO profit margins rose from 2.14% to 15.02%, but dropped to 6.37% in FY 2004-05 and turned into a first time loss of -0.63% (\$62,600) in FY 2005-06. Additional losses are projected for FY 2006-07.

RECOMMENDATION #1: Public Works should continue to closely monitor and limit expenses for PASCO related-party transactions such as parent company expenses, and should include and strengthen limits on related party transactions in the upcoming refuse contract.

Compensation is based on forecasts

PASCO compensation is based on a forecast of its projected allowable and pass through costs (Forecasted Annual Costs). The annual compensation amount is fixed, based on forecast, at the start of the fiscal year. To encourage cost efficiency, if PASCO is able to provide services at lower-than-forecasted cost, PASCO is entitled to keep the difference, and is not required to rebate excess compensation to the City. On the other hand, if PASCO costs exceed the allowable forecasted compensation amount, neither is the City required to pay to PASCO for its additional costs.

Until recently PASCO has benefited from this contract structure

As shown below, until recently, PASCO benefited from receiving payments based on forecasted expenditures because of operating efficiencies and recycling revenues. According to PASCO reports, as of Year #6 of the contract PASCO had received \$359,807 more than the amounts forecasted. However, Year #7 swung the results the other way, with PASCO compensation falling short of what it would have been had it been based on actuals (rather than forecast).

Exhibit 5: Cumulative difference between PASCO's total compensation and a recalculation based on actual expense

	PASCO's total compensation	Recalculation based on actual expense	Difference	Cumulative difference
Contract Year #1 (FY99-00)	\$8,685,191	\$9,072,449	(\$387,258)	(\$387,258)
Contract Year #2 (FY00-01)	\$9,241,689	\$8,924,130	\$317,559	(\$69,699)
Contract Year #3 (FY01-02)	\$9,107,104	\$9,299,963	(\$192,859)	(\$262,558)
Contract Year #4 (FY02-03)	\$9,481,642	\$8,877,291	\$604,351	\$341,793
Contract Year #5 (FY03-04)	\$10,030,756	\$10,012,742	\$18,014	\$359,807
Contract Year #6 (FY04-05)	\$9,756,292	\$9,756,292	\$0	\$359,807
Contract Year #7 (FY05-06)	\$9,172,185	\$10,156,879	(\$984,694)	(\$624,887)

Source: PASCO spreadsheets

RECOMMENDATION #2: Public Works should continue to closely monitor PASCO payment requests, and should strengthen the payment review process by requesting a second detailed review of all contract payments by the Administrative Services Department's Budget and Purchasing Divisions.

Cost-plus versus fixed-price contracts

Government contract training manuals state that cost-plus contracts are the most expensive and most labor intensive type of contract to administer. For the cost-plus PASCO contract, Public Works staff must categorize expenses as allowed, not-allowed, or pass through; calculate the limits for expenses permitted under the consumer price index and other escalation clauses; evaluate monthly and other periodic reports; monitor the contractor performance; analyze the cost and revenue data submitted by the contractor; and repeatedly negotiate with the contractor on questionable or non-allowable expenses.

In contrast, a fixed-price contract is easier to administer. The contract administrator sets the price for the service, ensures the contractor delivers the services, and monitors the contractor performance. The contractor is responsible for controlling expenses, maximizing its revenues, and generating any profits or losses from its operations. Nonetheless, we recommend the City retain or strengthen disclosure of, and limits on, related-party transactions in the new refuse contract.

RECOMMENDATION #3: In the upcoming contract solicitations, Public Works should consider simplifying contract administration by switching from a cost-plus to a fixed-price type of contract, and/or consider the City's administrative costs when analyzing and comparing contract proposals.

FINDING 2: Additional services have been added to the contract since 1999 without amending the contract in writing

Section 7.17 of the PASCO contract states no oral modifications to the contract are allowed and requires all amendments be in writing and signed by all parties to the contract. Additional services have been added to the contract since 1999 without amending the contract in writing. Although some of the changes were approved by the City Council (e.g. single-stream recycling and the C&D program), none of the changes were formally written as amendments to the original contract. Future contracts should include provisions for additional services and contract change orders.

Additional services added since 1999

At least 36 new services have been added to the refuse and recycling program since 1999. These included the single-stream recycling pilot and the citywide single-stream recycling program, additional recycling collection locations in parks, fluorescent bulb drop off program, collection of pallets from businesses, a recycling day for businesses and schools, changing to curbside green waste carts, curbside garbage carts upon request, and the construction and demolition debris program (C&D).

While 16 of the services were added at no cost to the City, 20 other services cost the City \$1,280,000. These services are shown below.

Exhibit 6: New services added and their cost

New Services Added	Cost
C & D program (FY 04/05) ⁸	\$435,153
Start-Up for Mixed Paper Recycling (FY 99/01)	\$240,634
C&D Pilot-Transportation to Guadalupe Landfill based on 4 loads per day (FY 03/04 - FY 04/05)	\$205,000
Single-Stream Pilot Program (FY 02/03)	\$170,999
C&D Pilot-Processing Cost to Guadalupe Landfill (FY 03/04 - FY 04/05)	\$117,000
Converting four recycling trucks to CNG (Shop retrofit) (FY 04/05)	\$100,000
PASCO Employees for Goodwill Trailer (FY05/06)	\$45,240
Single stream - curbside recycling (Temporary help for 3 months) (FY 04/05)	\$23,550
Services West of I-280 (FY 02/03) ⁹	\$20,979
Special Events (FY 99/01)	\$16,020
HHW events (refuse & cardboard recycling) (FY 02/03)	\$7,947
Program Change: Mattress Program	\$6,240
Service Change: Cart Relocation	\$5,544
Additional Recycling Parks Collection Locations (FY05/06)	\$4,938
Phone books (FY 99/01)	\$3,200
Poly Shed (FY05/06)	\$2,500

8 PASCO provided these services at no cost to the City in lieu of making payments required by the contract.

One time cost for drop box at RC (FY 02/03)	\$2,300
Parks and Downtown Recycling expansion (FY 02/03)	\$1,300
Clean-up Day expansion (bulky items) (FY 02/03)	\$1,200
Drop-off expansion (FY 02/03)	\$252
One time cost for single stream temporary help (FY 05/06)	\$0
Service Change: Single-Stream Bin Service (three additional locations) (FY 06/07)	\$0
Fluorescent bulbs drop off program (FY 04/05)	\$0
Expansion of 10 more slotted cardboard bins for businesses (FY 04/05)	\$0
Collection of pallets from businesses (FY 04/05)	\$0
Recycling Day for businesses and schools (FY 04/05)	\$0
Special events carts with locks/drop in slots & flaps (FY 04/05)	\$0
Polystyrene pickup program at City Hall (FY 04/05)	\$0
Expanded City Parks Recycling (FY 04/05)	\$0
Two waste audits for Green Business program (FY 04/05)	\$0
Painting of cardboard bins (FY 04/05)	\$0
Service for the collection change to curbside green waste carts (FY 04/05)	\$0
Service for the collection change to curbside garbage carts upon request (FY 04/05)	\$0
Recycling Line (FY 00/01) (one-time)	(\$3,200)
Trucks - CNG Fuel Savings (FY05/06, 06/07)	(\$32,760)
Labor – Recycling Center Personnel Savings (FY05/06)	(\$93,000)
TOTAL	\$1,281,036

Source: Public Works Department

Unwritten amendments handicap contract administration

The absence of written amendments to the PASCO contract handicapped the administration of the PASCO contract and may affect payments to PASCO. For example, although the PASCO contract limits the expenses paid to an affiliated entity to what is normal for the market place, the Public Works staff would have difficulty enforcing this contract clause with regard to payments from the WMI regional processing center. This happened because the City did not have a written agreement with PASCO regarding single-stream recycling, and because PASCO did not have a written agreement with the WMI regional processing center in San Leandro that required its affiliated division to provide data on its expenses, costs, or charges that could be used to ensure compliance with the contract clause.

Each year the California Department of Conservation allocates grants based on the number of tons each governmental entity recycles. The Palo Alto single stream solid waste sent to the Waste Management reprocessing facilities are sorted, sold and recycled, but Waste Management is not contractually obligated to analyze and quantify the recycled waste stream to determine how much should be allocated to Palo Alto. As a result, PASCO does not receive reports that quantify the number of tons of recycled materials allocated to Palo Alto and PASCO does not receive any of the funding from California grants that should be attributed to the Palo Alto single-stream recyclables.

RECOMMENDATION #4: If opportunity affords, Public Works should prepare written contract amendments to document additional services that have been added to the existing agreement with PASCO.

Additional services provisions are desirable

Over the years, the City has worked collaboratively with PASCO to implement new refuse and recycling programs that respond to regulatory requirements and benefit customers and the environment. In our opinion, it is desirable for City staff and the contractor to have the ability to add and adjust refuse and recycling programs – particularly as the City moves towards a zero-waste policy.⁹ Thus, it is appropriate for future contracts to include provisions for additional services and to spell out a process for handling contract change orders.

RECOMMENDATION #5: The new long-term refuse and recycling contract should include an allowance for additional services approved by the City Council at the time of contract award, and a process for approving change orders.

⁹ In October 2005, the City Council adopted a zero waste resolution, approved a zero waste strategic plan, and directed the staff to prepare a zero waste operational plan. The operational plan was completed and issued in March 2007. It recommends an approach to achieve 73 percent waste diversion by 2011 and close to zero waste by 2021.

FINDING 3: Future contracts should specify how California Refund Value (CRV) payments are to be shared

The PASCO contract states that recyclables and associated revenues belong to PASCO and should be used to offset PASCO operating expenses. The contract allows the contractor to retain all revenues collected from the sale of recycled materials.¹⁰ PASCO used to report California Refund Value (CRV) fees as revenue.¹¹ Under the single stream program, the CRV revenue PASCO previously received through the Palo Alto Recycling Center is apparently being retained by its affiliated division, the WMI regional reprocessing center in San Leandro. This significant drop in PASCO recycling revenue is resulting in additional recycling payments owed by the City to PASCO.

CRV revenues are a significant component of recycling revenue

The California State Department of Conservation, Division of Recycling, states the CRV and other related payments belong to the collector. Thus, the expectation is that State CRV payments to the processor (WMI) should be rebated to the collector (PASCO). However, the processor is only *required* to do so if there is a written agreement that requires the rebate. There is no written agreement in this case.

California State CRV revenues have historically constituted nearly 40% of all PASCO recycling revenues. As shown in Exhibit 7, California State CRV revenues totaled \$534,940 in FY 2004-05 before dropping to about \$130,795 in FY 2005-06. The decline of over \$404,145 in CRV revenues indicates WMI is retaining the CRV revenue, as well as other recycling payments and revenues from commodity sales.

Exhibit 7: PASCO California State Recycling Revenues
(FY 2002-03 to FY 2005-06)

Fiscal year data (as of June 30th)	Calif. State CRV Payments to PASCO	Total PASCO Recycling Revenues	Percent of revenue derived from CRV
FY 2002-03	\$485,123	\$1,162,932	42%
FY 2003-04	\$539,485	\$1,351,705	40%
FY 2004-05	\$534,940	\$1,412,439	38%
FY 2005-06	\$130,795	\$960,875	14%
<i>Change FY 2004- 05 to FY 2005-06</i>	<i>(\$404,145)</i>	<i>(\$451,564)</i>	
	<i>-76%</i>	<i>-32%</i>	

Source: PASCO monthly reports and audited financial statements

The loss of the CRV revenues contributed to a drop in PASCO revenues which

¹⁰ In addition to recycling revenues, per the contract, PASCO retains most bin rental revenues and some of the drop box income.

¹¹ See Appendix 3 for more information about the CRV program.

reduced its profit margins and resulted in increased City recycling subsidies to PASCO (further discussed in Finding 4). Overall recycling revenues have also dropped because of the lower gross revenues from unsorted single-stream recyclables. As a result of both factors, the City paid PASCO \$91,918 in additional compensation for FY 2005-06. If PASCO had received CRV payments directly, we estimate PASCO recycling revenue would have been high enough that this payment would not have been due. For FY 2006-07, we estimate additional recycling compensation of \$240,000 or more may be owed unless the City can require WMI to credit PASCO the California State CRV.

It should be noted that PASCO continues to operate the Palo Alto Recycling Center, which serves as a drop-off and collection center, still sorts, recycles and sells those materials. In FY 2005-06, the Recycling Center generated over \$130,000 in CRV revenues from the beverage containers it recycled from that facility.

RECOMMENDATION #6: Public Works should investigate whether the City has recourse to require WMI to credit PASCO the California State CRV and recycling revenues retained by WMI at San Leandro.

RECOMMENDATION #7: Public Works should ensure future refuse contracts explicitly state who is to file for and receive California CRV and other recycling payments.

Finding 4: Opportunities may exist to increase net recycling revenue

PASCO total annual recycling revenue has declined from an estimated \$1.4 million in FY 2004-05 (for 15,000 tons recycled) to \$882,000 in FY 2005-06 (for 15,800 tons recycled). Expected reductions in PASCO operating costs under the single stream program were offset by adding new services. The loss in revenue may trigger additional City payments.

The contract states that recycled materials must be sold at verifiable market rates. WMI is paying PASCO \$20-\$30 per ton for single-stream recyclables which may not be unreasonable, but WMI declined to provide data to support the pricing. In addition, WMI is apparently retaining CRV revenues (as described in Finding 3). PASCO does not have a written agreement with its affiliate, the Waste Management regional processing center in San Leandro

PASCO is also selling recyclables from the Palo Alto Recycling Center. These materials are being sold under WMI marketing and sales plans/contracts which may have lower prices than available elsewhere (e.g. SMaRT).

Declines in PASCO revenues will trigger additional City payments

According to PASCO monthly revenue reports, annual recycling revenue declined from about \$1.4 million in FY 2004-05 to \$882,000 in FY 2005-06. Declining revenues included:

- PASCO income from recycled materials declined \$192,256 (from \$877,499 to \$685,243)
- California State CRV payments declined \$404,145 (from \$534,940 to \$130,795)
- California State grants, which are based on the tons recycled by each city, also declined from \$66,439 to \$0 in FY 2006-07 and further reduced the revenues available to offset PASCO operating costs.

As shown in Exhibit 8, the loss of CRV revenues and decline in Recycling Center drop-off and collection center revenues from the sale of recycled commodities were significant.

Exhibit 8: Recycling sales, grants, and payments shown in PASCO monthly revenue reports
(FY 2001-02 through FY 2005-06)¹²

Revenue	FY 2001-02 (As of 6/30/02)	FY 2002-03 (as of 6/30/03)	FY 2003-04 (as of 6/30/04)	FY 2004-05 (as of 6/30/05)	FY 2005-06 (as of 6/30/06)
MRF/Recycling Center Sale of Recycled Materials	\$923,211	\$677,809	\$812,220	\$877,499	\$385,582
Davis St Commission Rebate @ \$30/ton	-	-	-	-	\$227,166
CMC ¹³ Commission Rebate @ \$20/ton	-	-	-	-	\$72,495
Subtotal (Recycled Materials)	\$923,211	\$677,809	\$812,220	\$877,499	\$685,243
Calif. State CRV Payments to MRF/ Recycling Center	-	\$485,123	\$539,485	\$534,940	\$130,795
Calif. State CRV Grant	-	-	-	-	\$66,439
Subtotal (CRV + other payments)	\$923,211	\$485,123	\$539,485	\$534,940	\$197,234
TOTAL RECYCLING REVENUE	\$923,211	\$1,162,932	\$1,351,705	\$1,412,439	\$882,477

Source: PASCO monthly reports and audited financial statements

If PASCO does not reduce its cost of operations or increase revenues, City payments to PASCO may increase. The contract states that PASCO compensation for recycling services is adjusted annually and is based on a rolling 3-year average. If the gross revenues are more than 15% under the baseline, the City must pay PASCO the amount of the deficit.

The 3-year rolling baseline is currently about \$1,309,025. The \$882,477 in FY 2005-06 recycling revenues was more than 15% below the baseline. As a result, the City paid PASCO \$91,918 in additional compensation, and may have to pay PASCO over \$240,000 more to comply with its contractual obligations for gross recycling revenues for FY 2006-07, and possibly more in subsequent years. This amount would be in addition to the amounts authorized in the annual CPI increases.

Expected reductions in operating costs under the single stream program were offset by adding new services

The March 2004 PASCO proposal for the single stream program stated PASCO would eliminate four positions at the MRF/Recycling Center. After a one year test period, the City Council approved implementation of the single stream program in May 2005. The City provided \$2 million for the purchase of new containers that were used for the single stream initiative. PASCO started the single stream program in July 2005, retained one person for cart exchanges, diverted one person to staff a Goodwill trailer, and was supposed to eliminate the two remaining persons

¹² Totals will not equal amounts used in other exhibits or in financial statements because PASCO's monthly revenue reports contain only cash collections, and exclude accrued revenue. Monthly sales reports contain only estimates of sales. FY 2005-06 financial statements report recycling revenues of \$960,875 which is higher than the amounts contained in the PASCO monthly reports because the financial statements included \$91,580 in additional City payments and an adjustment totaling \$13,181.

¹³ Davis St.: WMI transfer station located on Davis Street in San Leandro. CMC: WMI Carmel Marina Recycling Center.

from the MRF/Recycling Center¹⁴.

Our analysis of the PASCO organization charts (see Appendix 6) and staffing patterns before and after the single stream program started indicated staffing resources have not been reduced. The table below shows PASCO staffing increased from 61 to 62 staff positions after the single stream program started.

Exhibit 9: PASCO Staffing (2002 through 2006)

Date	Supervisors/ Administrative	Workers	Total Staff
January 2002	10	53	63
December 2004	8	53	61
January 2006	8	54	62

Source: PASCO organizational charts

As a result, PASCO operating costs have not declined. Public Works staff reports they did not enforce the staff reductions because PASCO transferred staff from the MRF/Recycling Center to support other services added to the original contract without a written amendment, such as the green waste recycling program.

Recycled materials must be sold at verifiable market rates

The PASCO contract states that recycled materials must be sold at verifiable market rates. Since PASCO was unable to provide, and Waste Management declined to provide, details on their pricing, we used PASCO monthly reports to compare recycled tons, pricing, and estimated recycling revenue shown in Exhibit 10.

¹⁴ In lieu of eliminating the two remaining persons, PASCO credited the City \$93,000 in FY 2005-06.

Exhibit 10: Recycled tons, pricing, and estimated revenue comparisons as shown in PASCO monthly reports (FY 2004-05 through FY 2005-06)¹⁵

FISCAL YEAR	Actual/Estimated Tons			Average price/ton		Estimated Revenue		
	Palo Alto Recycling Center	Single Stream ¹⁶	Total	Palo Alto Recycling Center	Single Stream	Palo Alto Recycling Center ¹⁷	Single Stream	Total
FY04-05								
Jul-04	1,051	151	1,202	\$99	\$20	\$103,822	\$3,027	\$106,849
Aug-04	1,075	137	1,212	\$97	\$20	\$104,215	\$2,738	\$106,953
Sep-04	1,134	137	1,270	\$92	\$20	\$104,620	\$2,734	\$107,354
Oct-04	1,070	134	1,204	\$96	\$20	\$102,785	\$2,673	\$105,457
Nov-04	1,185	148	1,334	\$89	\$20	\$105,107	\$2,969	\$108,076
Dec-04	1,263	161	1,424	\$91	\$20	\$114,670	\$3,215	\$117,885
Jan-05	1,103	155	1,258	\$103	\$20	\$113,273	\$3,103	\$116,376
Feb-05	997	142	1,139	\$99	\$20	\$98,552	\$2,840	\$101,392
Mar-05	1,135	158	1,293	\$94	\$20	\$107,260	\$3,156	\$110,415
Apr-05	1,054	152	1,206	\$102	\$20	\$107,011	\$3,043	\$110,053
May-05	1,056	143	1,198	\$109	\$20	\$114,632	\$2,852	\$117,484
Jun-05	1,187	137	1,324	\$100	\$20	\$118,600	\$2,735	\$121,335
Total	13,309	1,754	15,064	\$97	\$20	\$1,294,546	\$35,084	\$1,329,631
FY05-06								
Jul-05	814	217	1,031	\$118	\$30	\$95,953	\$6,520	\$102,473
Aug-05	397	950	1,347	\$98	\$30	\$38,763	\$28,495	\$67,258
Sep-05	384	994	1,378	\$97	\$30	\$37,121	\$29,835	\$66,956
Oct-05	313	975	1,288	\$88	\$30	\$27,623	\$29,257	\$56,880
Nov-05	346	1,111	1,458	\$86	\$30	\$29,619	\$33,345	\$62,964
Dec-05	362	1,068	1,430	\$79	\$30	\$28,539	\$32,047	\$60,586
Jan-06	346	1,039	1,385	\$74	\$30	\$25,483	\$31,180	\$56,663
Feb-06	340	880	1,220	\$73	\$30	\$24,856	\$26,405	\$51,261
Mar-06	351	1,038	1,389	\$80	\$30	\$28,021	\$31,129	\$59,150
Apr-06	304	886	1,190	\$90	\$20	\$27,409	\$17,715	\$45,124
May-06	339	1,064	1,403	\$87	\$20	\$29,428	\$21,278	\$50,707
Jun-06	351	1,011	1,362	\$85	\$20	\$29,874	\$20,224	\$50,098
Total	4,647	11,235	15,881	\$91	\$27	\$422,690	\$307,429	\$730,119

Source: Monthly PASCO reports

¹⁵ Totals may not equal amounts used in other exhibits or in financial statements because PASCO's monthly revenue reports contain only cash collections, exclude accrued revenue, and monthly sales reports contain only estimates of sales.

¹⁶ In FY 2004-05, single stream was a pilot program. The formal single stream program started in July 2005.

¹⁷ Revenues were calculated by using price/ton listed times tons per commodity listed in the monthly PASCO reports. PASCO could not provide verifiable data on actual revenues. Data does not include CRV or other California State payments.

Pricing for single stream recyclables

PASCO sells the single stream collections to processing centers owned by its parent company, WMI, for \$20 to \$30 per ton net. PASCO sent single stream solid waste to both the WMI Carmel Marina Recycling Center (CMC) which paid \$20 per ton and the WMI San Leandro regional processing center which paid \$20 to \$30 a ton, depending on the quality of the recycled materials and the residue rate in the single stream. According to PASCO, the rates paid were determined by sampling the waste stream and by negotiating the price per ton.

In comparison, SMaRT credited the cities of Sunnyvale and Mountain View \$31.56 per ton for their dual stream recyclables in FY 2005-06.

PASCO does not have a written agreement with its affiliate, the WMI regional processing center in San Leandro

PASCO initiated the single stream program without first obtaining a written agreement with its affiliated division, the WMI regional processing center located on Davis Street in San Leandro. Without the written agreement, PASCO could not require its affiliated division to rebate California State recycling revenues. Without the written agreement, the Public Works staff could not obtain data needed to enforce contract terms that limited affiliated entity costs to those charged in the competitive market. Without the written agreement, PASCO and Public Works staff could not obtain data needed to apply for additional state funds and grants.

RECOMMENDATION #8: Public works should require PASCO to justify that market rates are being received from the WMI San Leandro facility.

Recyclables processed and sold from the Palo Alto recycling center could potentially have generated higher prices

PASCO also sells source separated recyclables from the Palo Alto Recycling Center. PASCO receives periodic marketing sales plans from its affiliated divisions which specify prices per ton and the vendor to which the recycled commodities will be sold. PASCO follows the sales plans and augments it by obtaining supplemental prices for other commodities.

A comparison of monthly and annual average prices for recycled materials sold by PASCO and sold by the nearby SMaRT Station indicated PASCO could have sold its recycled materials for higher prices. According to PASCO staff, it was easier to follow the sales marketing plan generated by its parent corporation (which specified vendors and prices per ton which were lower than those available to the SMaRT Station) than to solicit competitive bids.

SMaRT Station prices per ton were higher than PASCO average prices for several commodities. For example, SMaRT sold its recycled newspapers at average prices that were 20 to 30% higher than PASCO prices. Old cardboard sold by SMaRT averaged 13% higher than PASCO prices. Aluminum cans sold by SMaRT were at least \$295 higher than the prices obtained by PASCO.

Exhibit 11: Comparison of PASCO versus SMaRT average commodity price/ton

Recycled Material/Commodity	FY 2004-05 average price per ton		FY 2005-06 average price per ton	
	PASCO	SMaRT ¹⁸	PASCO	SMaRT
Newspaper	\$78.75	\$94.81	\$72.70	\$94.94
Cardboard-route	\$86.25	\$97.60	\$81.36	\$91.77
Cardboard-yard	\$86.25	\$97.60	\$81.36	\$91.77
Mixed Paper	\$43.82	\$68.96	\$43.31	\$70.42
Glass	\$82.55	\$132.80	\$95.25	\$117.74
Aluminum-Cans	\$3,425.44	\$3,721.00	\$3,526.22	\$3,889.00
Scrap Metal	\$78.33	\$103.10	\$84.17	\$100.01
Tin Cans	\$80.00	\$106.49	\$42.50	\$71.46
P.E.T.(#1)	\$1,761.77	\$1,594.37	\$1,724.87	\$1,622.75
Colored H.D.P.E.(#2)	\$622.08	\$637.12	\$626.88	\$612.39

Source: PASCO and SMaRT monthly reports

As shown in Appendix 5, we estimate PASCO could have generated \$236,837 more revenue in FY 2004-05, and \$71,332 more revenue in FY 2005-06, if PASCO had sold the commodities it gathered at the Palo Alto Recycling Center at the prices SMaRT obtained.

RECOMMENDATION #9: If feasible, Public Works should require PASCO to maximize revenues from the sale of recyclables from the Palo Alto Recycling Center by soliciting bids from more than one vendor and obtaining multiple bids that are equal to or higher than SMaRT prices.

¹⁸ This table compares PASCO and SMaRT Station market prices for recycled materials. The Sunnyvale SMaRT Station sold recycled materials at market prices that were higher than PASCO market prices. However, the net price per ton would be lower than the market prices because the SMaRT Station deducts expenses, operating costs, and gives 75% of the revenues to its contractor. Palo Alto would receive 25% of the net revenues which Public Works calculates to be about \$31.56 per ton for FY 2005-06.

Finding 5: PASCO recycling reports should be strengthened

PASCO recycling reports are neither consistent nor comprehensive. Revenue reports contain only cash collections and exclude accrued revenues. Monthly recycling reports mix actual and estimated tonnage, cubic yards and revenue which cannot be reconciled to other documents.

Contract requires periodic reports

The PASCO contract requires PASCO to issue monthly, quarterly and annual reports to the City. The Public Works staff uses the PASCO reports to monitor PASCO operations and performance, administer the PASCO contract, analyze PASCO services, and issue reports on City recycling efforts.

Recycling tonnages and revenues

During our audit, we attempted to trace 10 transactions from the weight ticket, to billing, to “sale” of the commodity, to receipt of revenues. We also tried to trace the transactions backwards from the revenue reports to the individual invoices. Only 2 of the 10 transactions could be reconciled through PASCO’s accounting system. The PASCO recycling supervisor maintains a spreadsheet that would allow reconciliation and tracking of recycling transactions, but his records are not part of the official PASCO accounting system.

The PASCO staff reported and Public Works staff confirmed that reconciliations are performed only once a year, at the end of the fiscal year, because the reports could not be reconciled without guesswork and personal knowledge of the transactions.

RECOMMENDATION #10: If feasible, Public Works should require PASCO to document recycling sales transactions and require that invoices show the price per ton and tracking numbers that allow PASCO and Public Works to track and reconcile recycling transactions.

PASCO Reports

We found the monthly, quarterly, and annual PASCO reports required by the contract contained incomplete data on the results of PASCO operations. Some PASCO reports contained only the results of their cash collections and excluded all accrued transactions, such as accounts receivable and accounts payable. As a result, PASCO reports to Public Works did not reflect the actual results of its monthly operations. The monthly, quarterly, and annual PASCO reports submitted to Public Works also mixed actual and estimated data.

In addition, all single stream waste data were estimates except for the overall total tonnage and cubic yards. The amounts for each category were estimates based on test samples of the waste stream and did not reflect the actual amounts recycled. PASCO reported the estimates were based on WMI samples of the Palo Alto single

stream waste and that the samples were taken every 6 months. The sample results were applied to the total tonnage of single stream waste and used to categorize the materials recycled by commodity.

PASCO did not perform the sample, but allowed its WMI regional processing center to perform the sampling. Although the price per ton of single stream is based on the quality of the waste stream and the remaining residue rates, the samples were not independently performed by disinterested third parties. Therefore, the sample results may not be reliable.

PASCO staff reported the data for the Recycling Center were actual data. We could not verify the accuracy of the data because the PASCO accounting system precluded tracing any of the data from the totals to the supporting invoices.

PASCO staff confirmed the estimated and actual data were combined to report year-to-date revenues, tonnage, and cubic yards recycled by PASCO and that the data could not be reconciled.

As a result, PASCO reports to Public Works underreported recycling tonnages and revenues. When we compared the PASCO end-of-the-fiscal year, end-of-the-month, and audited financial statements, we found discrepancies of \$78,350 for FY 2004-05 and \$224,300 for FY 2005-06.

In order to better track recycling efforts, and depending on the terms of the future contract, the City may want to increase required documentation of recyclable sales in the future contract.

RECOMMENDATION #11: Depending on the form of the future contract, Public Works should require the contractor to report accurate, reliable, and verifiable recycling data by requiring (1) weight tags and invoices with tracking numbers (and prices per ton, if applicable) and a system that allows recycling transactions to be traced completely through its systems, and (2) reconciliation of recycling reports on a monthly basis.

Finding 6: Opportunities exist to increase grant revenue

Additional grant and other revenues are available through California State recycling programs. Although the City received over \$16,000 in annual grants and PASCO received over \$66,000 in state payments for FY 2005-06, no applications were submitted for grants for FY 2006-07 or for other state recycling payments. The applications were not filed because the applications were a low Public Works priority. We recommend that the City require PASCO to compile grant related data, and designate whether Public Works or PASCO will file for the grants and other recycling payments in the future.

California State grant and other recycling payment programs

The California State Department of Conservation, Division of Recycling, implemented state recycling laws and administers State recycling programs (see Appendix 3 for more details). Although the California Refund Value (CRV) program is one of the largest, the Department also offers other types of incentive payments, handling fees, grants, and special payments. Some of these require additional data or applications by specific deadlines.

For example, the Division of Recycling announced:

- It had State revenues available to local governments or their contractors for recycling programs that included \$15 million in quality incentive payments¹⁹, handling fees which paid recycling centers as much as \$2,300 per month²⁰, curbside supplemental payments, grants, supplemental processing payments, and other payments that the California Department of Conservation, Division of Recycling, issues to local governments or their contractors.
- It was distributing \$10.5 million in fiscal year 2006-07 to eligible cities and counties specifically for beverage container recycling and litter cleanup activities. Each city was eligible to receive \$5,000 or more in state funds. Eligible cities and counties could apply on-line by completing two forms for one of the grants, a city/county profile form and a funding request form, by June 30, 2006.

In October 2006, the California State Department of Conservation, Division of Recycling, issued a notice that, effective January 1, 2007, it has up to \$35 million per year to expend for developing new products for the plastic market (\$5 million), for market development and expansion grants (\$20 million), and for recycling

¹⁹ As of January 1, 2007, up to \$15 million may be expended annually for containers collected by drop-off or collection programs that meet specific quality requirements.

²⁰ Handling fees are monthly payments made by the Department of Conservation to recycling centers that meet certain eligibility requirements. A recycler can receive payment of 1.8 cents (\$0.018) per eligible container redeemed, up to a maximum of \$2,300 per month.

incentive payments to recycling centers and drop-off or collection programs (\$10 million). PASCO and the City of Palo Alto could apply for these funds on-line.

Applications not submitted

The City revenues from these state programs totaled \$16,780 in FY 2004-05 and \$66,400 in FY 2005-06. However, PASCO and Public Works staffs did not apply for the state grants for FY 2006-07 and did not apply for any of the other funds because the applications were a low priority and staff were not aware of how the complex California State recycling program worked; what the revenue components were, and what all the different types of state revenues were available to PASCO and the City.

By not applying for these state funds, the City and PASCO may have lost the opportunity to obtain additional state recycling funds for FY 2006-07.

Other state grants and other payments may have been lost because WMI affiliated divisions did not provide PASCO the data it needed to qualify for the additional state recycling payments. Each year the California Division of Recycling allocates grants based on the number of tons each governmental entity recycles. The Palo Alto single stream solid waste sent to the WMI regional reprocessing center in San Leandro is sorted, sold and recycled, but WMI does not analyze and quantify the recycled waste stream to determine how much should be allocated to Palo Alto. As a result, PASCO does not receive any reports that quantify the number of tons of recycled materials allocated to Palo Alto and PASCO does not receive any of the funding from California grants that should be attributed to the Palo Alto single stream. In FY 2006-07, the California Division of Recycling reports no grant was issued to Palo Alto. We were unable to determine what grant monies WMI may have received on the City's behalf.

RECOMMENDATION #12: Public Works and PASCO and future contractor staff should obtain training and education from the California State Department of Conservation, Division of Recycling, on the various recycling programs and payments available to the City and its contractor.

RECOMMENDATION #13: Public Works should monitor the State recycling websites and state recycling notices to ensure PASCO, the future contractor, or the City applies for state grants and other state recycling payments.

RECOMMENDATION #14: Public Works should require PASCO or the future contractor to compile appropriate data and documents that the City will need to apply for state grants and other funds, including executing a written agreement with WMI that requires WMI to provide PASCO and the City data that can be used to apply for state grants and other recycling payments.

RECOMMENDATION #15: Future refuse contracts should designate whether Public Works or the contractor will be responsible for filing for grants, and to whom the grant monies will be credited.

Finding 7: Palo Alto should continue to avoid additional charges by diverting debris boxes from the Palo Alto landfill to SMaRT

PASCO sends solid waste collections to the Sunnyvale SMaRT Station which sorts, bundles, processes, and sells any recyclable materials. About 18% of the solid waste is recycled. The remainder is sent to the Kirby Canyon landfill. Palo Alto has minimum “put or pay” requirements at SMaRT and Kirby Canyon. Palo Alto has already diverted some materials from the Palo Alto landfill to SMaRT to avoid additional charges. Future zero waste programs will put additional pressure on current contract obligations. We recommend the City consider a provision in the new contract to specifically retain the City’s flexibility to divert additional materials and recyclables to SMaRT and Kirby Canyon.

SMaRT and Kirby Canyon Landfill guarantees

In the 1991 memorandum of agreement, the cities of Mountain View, Palo Alto, and Sunnyvale agreed to deliver solid waste generated within their geographic boundaries to the Sunnyvale Materials Recovery and Transfer Station (SMaRT) constructed on property owned by Sunnyvale and to pay Sunnyvale a fee for the use of SMaRT.

Each city agreed to deliver solid waste in sufficient quantity so that 75% of each city’s annual allocated quantity was delivered to the Kirby Canyon landfill, and 88% of its solid waste annual allotment was delivered to SMaRT²¹. If the solid waste delivered to the Kirby Canyon landfill was less than 75% of the annual allocation, or less than 88% of the SMaRT allocation, the city that failed to meet its minimum allocation was responsible for paying the disposal fees due for not satisfying the minimum allocation²².

Palo Alto charged for missing guarantees

As shown below, Palo Alto did not satisfy its minimum tonnages at SMaRT in FY 2004-05 and FY 2005-06.²³ In FY 2005-06, Palo Alto sent only 38,970 tons to the

²¹ In addition to paying tipping and disposal fees, revenues from publicly hauled waste were attributed to each city as appropriate.

²² If the solid waste delivered to Kirby Canyon landfill exceeded 110% of the total allocation quantity, each city was charged disposal fees for the excess quantity delivered unless it assigned some or all of its allocation to one of the three parties to the agreement. Each city agreed to pay (1) a host fee to Sunnyvale based on tonnage, and (2) a prorated share of the operating and maintenance costs of the SMaRT Station, including personnel costs, vehicle and equipment acquisition, regulatory cost, administrative and management expenses, and other operational costs. Revenues from the sale of recycled materials delivered to the SMaRT Station were to be allocated among the cities in proportion to each city’s contribution to the recycled materials.

²³ Palo Alto satisfied the guaranteed tonnage for the Kirby Canyon landfill in FY 2004-05 by sending 41,410 tons to the landfill.

landfill, and was charged \$36,300 for not satisfying its guaranteed amounts.

Exhibit 12: Palo Alto required minimum allocations at SMaRT and Kirby Canyon compared to amounts delivered (in tons)

Fiscal Year	Minimum allocation at Kirby Canyon	Minimum allocation at SMaRT	Amount Delivered
2004-05	39,734	46,622	41,410
2005-06	40,132	47,088	38,970

Source: SMaRT memorandum of understanding and SMaRT reports

The charges occurred in spite of the fact that Public Works staff had diverted some materials from the Palo Alto landfill to SMaRT.²⁴ Additional debris boxes could help satisfy Palo Alto's minimum allocations.²⁵

In October 2005, the City Council adopted a zero waste resolution, approved a zero waste strategic plan, and directed the city to prepare a zero waste operational plan. The operational plan was completed and issued in March 2007. To the extent that the plan reduces waste, it may result in additional costs at SMaRT and Kirby Canyon.

RECOMMENDATION #16: Public Works should require PASCO to divert additional debris boxes to the SMaRT Station so that the City's minimum allocations are satisfied.

RECOMMENDATION #17: Future refuse contracts should retain flexibility to divert tonnages to meet minimum allocations at SMaRT and Kirby Canyon.

²⁴ The Palo Alto landfill is scheduled to close in 2011. 21,566 tons were landfilled there in 2004.

²⁵ If the City of Palo Alto approved SMaRT as a C&D processor, additional tonnages could satisfy minimum put or pay requirements. Similarly, if SMaRT were to handle Palo Alto's single stream recyclables, residues from those loads would also satisfy Palo Alto's minimum put or pay requirements.

Finding 8: The City should incorporate into the RFP process the lessons learned from neighboring cities

Public Works staff is anticipating the end of the 10 year contract with PASCO by initiating several actions. The department is hiring a consultant to help develop a request for proposals, solicit bids, select a contractor, develop specific contract terms, and award the contract.

Internal review process

Public Works has initiated a thorough internal review by forming a cross-departmental committee, hiring a consultant to assist with the request for proposal (RFP) process, and using the auditor's office as an advisor. We support these efforts.

RECOMMENDATION #18: Public Works should continue its initiative for a thorough internal review for selecting a new solid waste contractor by forming a request for proposal (RFP) committee; hiring a consultant; and using the auditor's office as an advisor.

Arms length transaction

The recent controversy in San Jose over alleged secret promises made in the award of contracts for hauling solid waste resulted in the indictment of the mayor and others involved with the contract.

In 2005, to ensure a professional RFP process, free from any undue influence or appearance of impropriety, the City of Campbell adopted a code of conduct for the procurement process. It provided that:

- Each elected official shall disclose any potential conflicts of interest regarding potential proposers for solid waste services. Any new conflicts shall be reported within 10 days of learning of the potential conflict.
- No elected official shall accept any contributions from potential proposers during and after the current campaign cycle. All past contributions from potential proposers shall be disclosed.
- No elected official shall have non-public meetings or conversations with potential proposers during the review period.

We recommend the Palo Alto City Council adopt a similar code of conduct.

- RECOMMENDATION #19: The City Council should adopt a code of conduct
- a) requiring elected officials to disclose potential conflicts of interest regarding potential proposers for solid waste services;
 - b) discouraging and requiring disclosure by elected officials of contributions by potential proposers during and after the upcoming campaign cycle; and
 - c) discouraging and requiring disclosure of non-public meetings between elected officials and potential proposers during the review period.

CONCLUSION

The 1999 agreement between the City of Palo Alto and the Palo Alto Sanitation Company (PASCO) is a complex, modified cost-plus agreement designed to ensure continued high levels of refuse and recycling services to Palo Alto residents and businesses. The agreement incorporated a new compensation methodology – the “operating ratio”. We found that the Public Works staff is properly administering the PASCO contract with regards to allowable costs. However, additional services have not been formalized as written amendments to the contract. Furthermore, opportunities may exist to increase net recycling revenue. In addition, future contracts should specify how CRV payments are to be shared, recycling reports should be strengthened, and opportunities exist to increase grant revenue. Finally, Palo Alto should continue to avoid additional charges by diverting debris boxes to SMaRT, and incorporate into the RFP process and future contracts the lessons learned from the current contract and from neighboring cities.

RECOMMENDATIONS

RECOMMENDATION #1: Public Works should continue to closely monitor and limit expenses for PASCO related-party transactions such as parent company expenses, and should include and strengthen limits on related party transactions in the upcoming refuse contract.

RECOMMENDATION #2: Public Works should continue to closely monitor PASCO payment requests, and should strengthen the payment review process by requesting a second detailed review of all contract payments by the Administrative Services Department’s Budget and Purchasing Divisions.

RECOMMENDATION #3: In the upcoming contract solicitations, Public Works should consider simplifying contract administration by switching from a cost-plus to a fixed-price type of contract, and/or consider the City’s administrative costs when analyzing and comparing contract proposals.

RECOMMENDATION #4: If opportunity affords, Public Works should prepare written contract amendments to document additional services that have been added to the existing agreement with PASCO.

RECOMMENDATION #5: The new long-term refuse and recycling contract should include an allowance for additional services approved by the City Council at the time of contract award, and a process for approving change orders.

RECOMMENDATION #6: Public Works should investigate whether the City has recourse to require WMI to credit PASCO the California State CRV and recycling revenues retained by WMI at San Leandro.

RECOMMENDATION #7: Public Works should ensure future refuse contracts explicitly state who is to file for and receive California CRV and other recycling payments.

RECOMMENDATION #8: Public Works should require PASCO to justify that market rates are being received from the WMI San Leandro facility.

RECOMMENDATION #9: If feasible, Public Works should require PASCO to maximize revenues from the sale of recyclables from the Palo Alto Recycling Center by soliciting bids from more than one vendor and obtaining multiple bids that are equal to or higher than SMaRT prices.

RECOMMENDATION #10: If feasible, Public Works should require PASCO to document recycling sales transactions and require that invoices show the price per ton and tracking numbers that allow PASCO and Public Works to track and reconcile recycling transactions.

RECOMMENDATION #11: Depending on the form of the future contract, Public Works should require the contractor to report accurate, reliable, and verifiable recycling data by requiring (1) weight tags and invoices with tracking numbers (and prices per ton, if applicable) and a system that allows recycling transactions to be traced completely through its systems, and (2) reconciliation of recycling reports on a monthly basis.

RECOMMENDATION #12: Public Works and PASCO and future contractor staff should obtain training and education from the California State Department of Conservation, Division of Recycling, on the various recycling programs and payments available to the City and its contractor.

RECOMMENDATION #13: Public Works should monitor the State recycling websites and state recycling notices to ensure PASCO, the future contractor, or the City applies for state grants and other state recycling payments.

RECOMMENDATION #14: Public Works should require PASCO or the future contractor to compile appropriate data and documents that the City will need to apply for state grants and other funds, including executing a written agreement with WMI that requires WMI to provide PASCO and the City data that can be used to apply for state grants and other recycling payments.

RECOMMENDATION #15: Future refuse contracts should designate whether Public Works or the contractor will be responsible for filing for grants, and to whom the grant monies will be credited.

RECOMMENDATION #16: Public Works should require PASCO to divert additional debris boxes to the SMaRT Station so that the City's minimum allocations are satisfied.

RECOMMENDATION #17: Future refuse contracts should retain flexibility to divert tonnages to meet minimum allocations at SMaRT and Kirby Canyon.

RECOMMENDATION #18: Public Works should continue its initiative for a thorough internal review for selecting a new solid waste contractor by forming a request for proposal (RFP) committee; hiring a consultant; and using the auditor's office as an advisor.

RECOMMENDATION #19: The City Council should adopt a code of conduct

- a) requiring elected officials to disclose potential conflicts of interest regarding potential proposers for solid waste services;
- b) discouraging and requiring disclosure by elected officials of contributions by potential proposers during and after the upcoming campaign cycle; and
- c) discouraging and requiring disclosure of non-public meetings between elected officials and potential proposers during the review period.



MEMORANDUM

From: Frank Benest, City Manager

By: Glenn Roberts, Director, Public Works Department

Date: April 10, 2007

Subject: Response to Auditor's Audit of the Palo Alto Sanitation Company Contract

The Public Works Department is pleased to respond to the City Auditor's "Audit of the Palo Alto Sanitation Company Contract". Staff wants to thank the Auditor for the recognition of a good job staff has done administering the PASCO contract and scrutinizing the PASCO budget and audited financial statements, and for the mutually collaborative manner in which this audit process was conducted. Please refer to the "Recommendations and Response Summary" (Attachment A).

Staff agrees that there are opportunities to improve the contract administration process as noted in both the audit and our response. It should be recognized that the current contract is a transitional document created on a very short lead time when Waste Management Incorporated (WMI) brought out the Palo Alto Sanitation Company (PASCO) in 1999 and the City chose to assign the then existing PASCO contract to WMI. That contract ends in 2009 and efforts are already underway to develop a new contract. That process will provide adequate lead time to address many of the issues raised in the audit report. A cross departmental team from Public Works, Administrative Services, the City Attorney's Office, and the City Auditor has been working on that process since early 2006.

Staff will work to incorporate the recommendations regarding the current contract with the PASCO where feasible. Staff is concerned that PASCO and WMI may not want to implement some of the recommendations since the existing contract will end in two years and from their perspective there is little incentive to change. Staff agrees to consider evaluating the recommendations regarding the future refuse contract during the development of the scope of services for the new contract. Below are staff's responses to the Audit's nineteen recommendations.

RECOMMENDATION #1: Public Works should continue to closely monitor and limit expenses for PASCO related-party transactions such as parent company expenses, and should include and strengthen limits on related party transactions in the upcoming refuse contract.

Staff agrees with the recommendation, but needs to clarify the analysis and supporting materials in the report. Staff believes the current practice of the “parent company expense” should continue and if possible expand to other line item expenses for future contracts. The parent company expense noted in the Auditor’s report is specified in the budget process as “Division, Area, and Corporate Expenses.” These expenses are set per the term of the agreement and are only adjusted annually by the CPI index. PASCO is allowed to exceed these line item expenses but when such an instance occurs, they are considered as “disallowed expenses.” When expenses become “disallowed expenses” they no longer affect or raise the compensation paid to PASCO. When PASCO exceeds the line item expense for “Division, Area, and Corporate” expenses it only ensures that the City is receiving services equal to or greater than what the City is paying for.

RECOMMENDATION #2: Public Works should continue to closely monitor PASCO payment requests, and should strengthen the payment review process by requesting a second detailed review of all contract payments by the Administrative Services Department’s Budget and Purchasing Divisions.

The PASCO compensation is created during the annual compensation review period in which Public Works, Budget and Accounting staff works with PASCO to create a proposed budget for the upcoming fiscal year. The result of this process is presented in the Refuse Fund budget process each year that is reviewed and approved by Council. After the compensation package is approved by Council, it is divided into twelve equal monthly payments. Therefore, there is really no discretionary approval involved in the progress payments. Staff believes that the Auditor’s recommendation creates an unnecessary additional review process, duplicates efforts, creates unnecessary processing delays and adds additional cost to the City, which ultimately will not improve the quality of the review process or lower the compensation paid to PASCO. The existing agreement is very specific on how the compensation package is to be reviewed, approved and paid. The payments continue to be accurate, on time and within budget.

RECOMMENDATION #3: In the upcoming contract solicitations, Public Works should consider simplifying contract administration by switching from a cost-plus to a fixed-price type of contract, and/or consider the City’s administrative costs when analyzing and comparing contract proposals.

Staff agrees to consider and evaluate the recommendation in the development of the new collection services RFP and contract. Staff executed a contract with HF&H Consultants, LLC on March 12, 2007 to assist the City in the solicitation process for a solid waste and recyclable material agreement. In the consultant’s scope of services, staff incorporated a task for the consultant to evaluate alternative compensation methodologies and terms used in the California region. Staff will evaluate the various compensation methodology options available and will ensure that the option of the fixed-price contact is explored. Staff will also evaluate and consider the City’s administrative costs when comparing compensation methodologies and proposals.

RECOMMENDATION #4: If opportunity affords, Public Works should prepare written contract amendments to document additional services that have been added to the existing agreement with PASCO.

Staff agrees to consider the recommendation and will refer to the City Attorney's Office for consideration of potential contract re-opener issues. Staff is concerned with the recommendation's potential effects. Opening the existing contract with PASCO may lead to the City having to negotiate issues other than the Auditor's recommendations. The benefits of amending the existing agreement will need to be carefully weighed against the potential costs to the City.

RECOMMENDATION #5: The new long-term refuse and recycling contract should include an allowance for additional services approved by the City Council at the time of contract award, and a process for approving change orders.

Staff agrees and will consider evaluating the recommendation during the development of the future refuse contract.

RECOMMENDATION #6: Public Works should investigate whether the City has recourse to require WMI to credit PASCO the California State CRV and recycling revenues retained by WMI at San Leandro.

Staff agrees with the recommendation but needs to clarify the analysis and supporting materials in the report. Staff will work with the City Attorney's office to investigate whether the City has recourse to obtain the California State CRV from Waste Management at San Leandro. Staff believes the City has been receiving the California State CRV revenues indirectly and these monies are part of the formula in how the City is paid. The City today is being paid \$30 per ton for the curbside materials being sent to the WMI Davis Street processing facility in San Leandro. Currently the \$30 per ton rate is the highest rate being offered at this facility. The \$30 per ton revenue is established by the facility after consideration for all revenues (revenues from recyclables + CRV revenues) minus all the expenses (profit, the cost to landfill residue, processing cost and transportation cost) were determined. The Davis Street processing facility handles recycling materials from eleven other cities. Every city is being compensated for the recycling material similar to the City of Palo Alto in regards to the recycling revenues and the California State CRV credits off setting the processing costs. PASCO has informed staff that if WMI agrees to separate the CRV value from the current compensation (\$30 per ton), the City rate would at a minimum be adjusted to recover their loss in revenue.

RECOMMENDATION #7: Public Works should ensure future refuse contracts explicitly state who is to file for and receive California CRV and other recycling payments.

Staff agrees to consider and evaluate the recommendation in the development of the new collection services RFP and contract.

RECOMMENDATION #8: Public Works should require PASCO to justify that market rates are being received from the WMI San Leandro facility.

Staff agrees with the recommendation but needs to clarify the analysis and supporting materials in the report. Staff believes the City is receiving verifiable market rates from the WMI San Leandro facility. Public Works defines "verifiable market rates" as what the processor pays to PASCO/City. The auditor is defining "verifiable market rates" as what the processor is marketing the materials

for. There is a difference in opinions in how this is being defined.

In FY 05/06, PASCO/City received \$60.50 per ton (\$960,875 divided by 15,881 tons) for recyclables collected. The SMaRT station partners received \$31.56 per ton (\$652,061 divided by 20,660 tons) for FY 05/06. If PASCO had delivered these materials to the SMaRT station in FY 05/06 it would have caused a loss in revenues for collected recyclables of \$459,671 (\$960,875-\$501,204) to PASCO/City.

The comparison used by the Auditor may not be equal in comparison (SMaRT station versus PASCO). The City collects a larger variety of materials curbside (36 different types) versus the curbside materials being collected from the cities of Mountain View and Sunnyvale (approximately 25-30 material types). This means that certain market rates will have a different mixture of materials causing different rates to be applied. The SMaRT Station is not designed to handle the single stream materials and cannot accept Palo Alto's recyclables materials. Staff finds the Auditor's recommendations problematic in having staff trying to ensure a regional processing facility markets their materials at a higher rate. There are no advantages to the processor in marketing their materials at a lower rate. In addition, staff has maintained the right that if better rates can be received at another facility, these materials can be redirected at the request of the City.

RECOMMENDATION #9: If feasible, Public Works should require PASCO to maximize revenues from the sale of recyclables from the Palo Alto Recycling Center by soliciting bids from more than one vendor and obtaining multiple bids that are equal to or higher than SMaRT prices.

Staff agrees with the recommendation, but needs to clarify the analysis and supporting materials in the report. Staff believes that obtaining multiple bids for the 50 different material types accepted at the Recycling Center is not productive or feasible and believes that the Auditor's recommendation is very labor intense, costly, duplicates current efforts, affects a small portion of the recyclable stream and will not necessarily ensure improved rates for recyclables.

During the time period of the Auditor's review, PASCO was marketing their materials through Waste Management's regional marketing division, a specialist dedicated in obtaining the highest rate of return for the entire Waste Management Bay Area region. There was no incentive in not receiving a high rate of return for these materials for Waste Management. The regional approach brought strength in accepting a wider variety of materials, ensuring highest market rates over a long period of time and maintaining market versatility. Staff believes the cost per ton comparison with the SMaRT Station was not entirely equivalent since the materials at the Palo Alto Recycling Center were being marketed as loose materials, which generated a \$10 to \$15 lower cost per ton than the baled materials marketed by the SMaRT Station. The Auditor also used the SMaRT Station market rates that include CRV revenues where the PASCO rates exclude CRV rates.

PASCO is no longer using the WMI regional marketing services due to the reduced volume of materials being processed at the Palo Alto Recycling Center. As result, PASCO is currently obtaining bids from more than one vendor where feasible. PASCO obtains monthly price sheets for marketing purposes from vendors for materials such as for mixed paper, newspaper, cardboard, metals. However, there are some commodities such as aluminum where there is only one market/vendor available.

RECOMMENDATION #10: If feasible, Public Works should require PASCO to document recycling sales transactions and require that invoices show the price per ton and tracking numbers that allow PASCO and Public Works to track and reconcile recycling transactions.

Staff agrees to consider the recommendation and will refer to the City Attorney's Office for consideration of potential contract re-opener issues.

RECOMMENDATION #11: Depending on the form of the future contract, Public Works should require the contractor to report accurate, reliable, and verifiable recycling data by requiring (1) weight tags and invoices with tracking numbers (and prices per ton, if applicable) and a system that allows recycling transactions to be traced completely through its systems, and (2) reconciliation of recycling reports on a monthly basis.

Staff agrees to consider and evaluate the recommendation in the development of the new collection services RFP and contract.

RECOMMENDATION #12: Public Works and PASCO and future contractor staff should obtain training and education from the California State Department of Conservation, Division of Recycling, on the various recycling programs and payments available to the City and its contractor.

Staff agrees with the recommendation and will inform PASCO of the Auditor's recommendation. In addition, staff will consider and evaluate the recommendation in the development of the new collection services RFP and contract.

RECOMMENDATION #13: Public Works should monitor the State recycling websites and state recycling notices to ensure PASCO, the future contractor, or the City applies for state grants and other state recycling payments.

Staff agrees with the recommendation and will monitor the State recycling websites and recycling notices for state grants and recycling payments.

RECOMMENDATION #14: Public Works should require PASCO or the future contractor to compile appropriate data and documents that the City will need to apply for state grants and other funds, including executing a written agreement with WMI that requires WMI to provide PASCO and the City data that can be used to apply for state grants and other recycling payments.

Staff agrees to consider the recommendation and will refer to the City Attorney's Office for consideration of potential contract re-opener issues. In addition, staff will evaluate and consider the recommendation in the development of the new collection services RFP and contract.

RECOMMENDATION #15: Future refuse contracts should designate whether Public Works or the contractor will be responsible for filing for grants, and to whom the grant monies will be credited.

Staff will consider and evaluate the recommendation in the development of the new collection services RFP and contract.

RECOMMENDATION #16: Public Works should require PASCO to divert additional debris boxes to the SMaRT Station so that the City's minimum allocations are satisfied.

Staff disagrees with the recommendation. The auditor's recommendation to divert debris boxes to the SMaRT Station to meet the minimum requirement will conflict with the Zero Waste Operational Plan's diversion goals and recommendations. The SMaRT Station recovers 18 percent of the material while sending the material to a construction and demolition recycling processing facility will result in up to 90 percent of diversion.

In addition, staff has been directing PASCO to divert debris boxes to the SMaRT Station since 2000 to meet its allocated minimum commitment with WMI at Kirby Canyon. For the first time the city did not meet its minimum allocation in 2005. In 2005, in the final four months of that year, all PASCO debris boxes that were planned to be delivered to the City landfill were redirected to the SMaRT station. Staff will continue to monitor the minimum allocations and will direct PASCO to divert the debris boxes as necessary.

RECOMMENDATION #17: Future refuse contracts should retain flexibility to divert tonnages to meet minimum allocations at SMaRT and Kirby Canyon.

Staff agrees and will consider incorporating the recommendation into the scope of services for the future refuse contract.

RECOMMENDATION #18: Public Works should continue its initiative for a thorough internal review for selecting a new solid waste contractor by forming a request for proposal (RFP) committee; hiring a consultant; and using the auditor's office as an advisor.

Staff agrees and is currently complying with the recommendation. The Director of Public Works created a committee at the beginning of 2006. The committee meets regularly and includes staff from the Administrative Services and Public Works Departments with the City Attorney's Office and the City Auditor's Office as advisors. Staff also executed a contract with HF&H Consultants on March 12, 2007, to assist the City in the solicitation process for a new solid waste and recycling agreement.

RECOMMENDATION #19: The City Council should adopt a code of conduct:

- d) requiring elected officials to disclose potential conflicts of interest regarding potential proposers for solid waste services;
- e) discouraging and requiring disclosure by elected officials of contributions by potential proposers during and after the upcoming campaign cycle; and
- f) discouraging and requiring disclosure of non-public meetings between elected officials and potential proposers during the review period.

Staff concurs and is familiar with similar codes of conduct adopted by the other cities in the Bay Area during the procurement process for a new refuse contract. Staff hopes that this will help the City avoid the recent controversy in San Jose.

Conclusion

The Public Works Department acknowledges the detailed work by the Auditor's Office and thanks them for the recommendations from the audit. Staff will work towards implementing the recommendations for the existing contract with PASCO where feasible. However, staff does caution that considering that the existing contract will end within a couple of years, PASCO may not be eager to implement all the recommended changes. In addition, staff will work with its consultant to consider evaluating the recommendations applicable to the future refuse contract during the development of the new contract scope of services.

Attachment A

**Audit of the Palo Alto Sanitation Company Contract
Recommendations and Response Summary**

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
RECOMMENDATION #1: Public Works should continue to closely monitor and limit expenses for PASCO related-party transactions such as parent company expenses, and should include and strengthen limits on related party transactions in the upcoming refuse contract.		X			
RECOMMENDATION #2: Public Works should continue to closely monitor PASCO payment requests, and should strengthen the payment review process by requesting a second detailed review of all contract payments by the Administrative Services Department's Budget and Purchasing Divisions.					X

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
RECOMMENDATION #3: In the upcoming contract solicitations, Public Works should consider simplifying contract administration by switching from a cost-plus to a fixed-price type of contract, and/or consider the City's administrative costs when analyzing and comparing contract proposals.				X	
RECOMMENDATION #4: If opportunity affords, Public Works should prepare written contract amendments to document additional services that have been added to the existing agreement with PASCO.			X		
RECOMMENDATION #5: The new long-term refuse and recycling contract should include an allowance for additional services approved by the City Council at the time of contract award, and a process for approving change orders.	X				

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
RECOMMENDATION #6: Public Works should investigate whether the City has recourse to require WMI to credit PASCO the California State CRV and recycling revenues retained by WMI at San Leandro.		X			
RECOMMENDATION #7: Public Works should ensure future refuse contracts explicitly state who is to file for and receive California CRV and other recycling payments.				X	
RECOMMENDATION #8: Public Works should require PASCO to justify that market rates are being received from the WMI San Leandro facility.		X			
RECOMMENDATION #9: If feasible, Public Works should require PASCO to maximize revenues from the sale of recyclables from the Palo Alto Recycling Center by soliciting bids from more than one vendor and obtaining multiple bids		X			

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
that are equal to or higher than SMaRT prices.					
RECOMMENDATION #10: If feasible, Public Works should require PASCO to document recycling sales transactions and require that invoices show the price per ton and tracking numbers that allow PASCO and Public Works to track and reconcile recycling transactions.			X		
RECOMMENDATION #11: Depending on the form of the future contract, Public Works should require the contractor to report accurate, reliable, and verifiable recycling data by requiring (1) weight tags and invoices with tracking numbers (and prices per ton, if applicable) and a system that allows recycling transactions to be traced completely through its systems, and (2) reconciliation of recycling reports on a monthly basis.				X	

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
RECOMMENDATION #12: Public Works and PASCO and future contractor staff should obtain training and education from the California State Department of Conservation, Division of Recycling, on the various recycling programs and payments available to the City and its contractor.	X				
RECOMMENDATION #13: Public Works should monitor the State recycling websites and state recycling notices to ensure PASCO, the future contractor, or the City applies for state grants and other state recycling payments.	X				
RECOMMENDATION #14: Public Works should require PASCO or the future contractor to compile appropriate data and documents that the City will need to apply for state grants and other funds, including executing a written agreement with WMI that requires WMI to provide			X	X	

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
PASCO and the City data that can be used to apply for state grants and other recycling payments.					
RECOMMENDATION #15: Future refuse contracts should designate whether Public Works or the contractor will be responsible for filing for grants, and to whom the grant monies will be credited.				X	
RECOMMENDATION #16: Public Works should require PASCO to divert additional debris boxes to the SMaRT Station so that the City's minimum allocations are satisfied.					X
RECOMMENDATION #17: Future refuse contracts should retain flexibility to divert tonnages to meet minimum allocations at SMaRT and Kirby Canyon.	X				
RECOMMENDATION #18: Public Works should continue its initiative for a thorough internal review for selecting a new solid waste contractor by forming a request for proposal	X				

Recommendation Number	AGREE (17)				DISAGREE (2)
	Agree	Agree With Clarification of Findings	Agree To Consider		
			Refer To The City Attorney's Office For Consideration Of Potential Contract Re-Opener Issues	Consider And Evaluate In The Development Of The New Collection Services RFP & Contract	
(RFP) committee; hiring a consultant; and using the auditor's office as an advisor.					
<p>RECOMMENDATION #19: The City Council should adopt a code of conduct</p> <p>g) requiring elected officials to disclose potential conflicts of interest regarding potential proposers for solid waste services;</p> <p>h) discouraging and requiring disclosure by elected officials of contributions by potential proposers during and after the upcoming campaign cycle; and</p> <p>i) discouraging and requiring disclosure of non-public meetings between elected officials and potential proposers during the review period</p>	X				

Appendix 1: PASCO Contract Terms

Description	Contract Terms
Effective Date	September 1, 1999
Contract length	Up to 10 years
Expiration Date	June 30, 2009
Contract Type	Cost-Plus
Program and Services	<p>Contract grants and issues PASCO exclusive authority and right to collect, pick-up, gather, remove, and dispose of all solid waste generated or accumulated by residential, commercial, and industrial premises within Palo Alto. Contract gives PASCO exclusive authority and right to collect, transport, and recycle recyclable materials from residences.</p> <p>Contract continues previous programs and services, including backyard and curbside recycling service. Adds 2 new routes for cardboard collection and recyclables; curbside mixed paper recycling program; cleaning refuse cans in the downtown area; and other services.</p>
Performance Measures	<p>Includes four performance reviews during the first 7 years and 10 months. If performance reviews are acceptable, contract may be extended for two more years for a total of ten years.</p> <p>Financial penalties (called performance adjustments) exist for service problems. If PASCO incurs more than \$25,000 in performance adjustments in a given year, City can terminate contract.</p>
Compensation	<p>Compensation method establishes a relationship between costs and profits (called an operating ratio) and places a band around the recommended operating ratio to establish a minimum and maximum compensation amount. The operating ratio represents costs. Profits are called the operating margin.</p> <p>Total compensation includes revenues received directly from refuse customers and a portion of the revenues from drop boxes and bin rentals</p> <p>PASCO retains direct revenues from the sale of recycled materials. A band is placed around the target revenue amount to provide an incentive for PASCO to maximize the recycling revenues.</p> <p>Revenues are used to offset PASCO operating costs approved by the City. City pays PASCO the difference between the forecasted allowable costs approved by the Public Works staff which administers the contract and the revenues received by PASCO, subject to a yearly inflation factor.</p>

Total compensation	<p>Total compensation to PASCO consists of:</p> <ol style="list-style-type: none"> 1) Forecasted allowable costs that are allowed by the contract + Forecasted pass-through costs that are <u>permitted under the contract</u> = Forecasted Annual Cost (FAC) 2) Forecasted Annual Cost / Operating Ratio – <u>Forecasted Annual Costs</u> = Profit/Operating Margin (applied at 13.64% by Public Works staff) 3) Forecasted Annual Cost (FAC) + <u>Profit/Operating Margin</u> = Total Compensation Allowed 4) Total Compensation Allowed - Actual revenues from recycled materials - <u>Actual revenues from box and bin rentals</u> = Amount the City will pay PASCO (estimated at @\$7.26 million per year)
Operating Ratio (Costs)	PASCO contract uses a formulaic relationship between costs and profits. Under the contract, PASCO submits a forecast of its annual costs. The goal for costs, called the operating ratio, is 88%, plus or minus 2%.
Operating Margin (Profit)	The profit, called the operating margin, is calculated by deducting the operating ratio from the forecasted annual costs. Depending on the operating ratio attained, the profit margin for PASCO could range from 10% to 14%. ²⁶
Allowable costs	Allowed costs include costs of complying with laws and regulations; labor costs associated with providing the agreement services; vehicle and equipment costs; container and capital expenditures; performance bonds and insurance expenses; administrative and other overhead expenses for salaries, benefits, and payroll; and many other specified costs.
Disallowed Costs	Non-allowed costs include payments to directors and owners; fines and penalties; charitable donations; federal and state income taxes; premiums or mark-ups on PASCO cost of borrowing; legal fees and costs related to disputes between PASCO and the City or PASCO affiliates; costs and expenses

²⁶ The Public Works consultant, Hilton Farnkopf & Hobson, LLC, recommended that the City use an operating ratio of 91% and profits of 8.5% to 11.5%. Public Works staff reported they opted for the more favorable operating ratio of 88% with a profit range of 10% to 14% to ensure PASCO continued to deliver a high standard of service.

	from affiliated entities that exceed the market cost or charge for services; expenses or costs (including debt and interest) for acquiring goodwill; and unreasonable payments to employees.
Pass through costs	Pass-through expenses include landfill closure assessments; taxes and charges related to solid waste handling and disposal; regulatory fees; and debt and interest related to the purchase of equipment and facilities.
Limits on yearly inflation factor	PASCO forecasted annual costs may increase no more than 82% of the change in the previous year's consumer price index for the San Jose, Oakland, San Jose area. However, general and administrative costs may be increased 100% of the annual change in the CPI index.
Limits on corporate, division, and area costs	PASCO forecasted annual costs may increase 100% of the change in the previous year's consumer price index for the San Jose, Oakland, San Jose area starting at a base of \$325,000.
Affiliated Divisions	The contract limits expenses, costs, or charges from affiliated entities to what is normal for the competitive market and cannot exceed the amount a non-affiliated entity would charge.
Recycled Materials	PASCO will retain all revenues collected from the sale of recycled materials. The compensation for the recycling revenues is based on a 3-year rolling average that is adjusted each year. If the gross recycling revenues are plus or minus 14% of the 3-year rolling average, the City makes no additional payments to PASCO. If the gross recycling revenues are 15% or more over the 3-year rolling average, PASCO was to rebate half of the surplus to the City. If the gross recycling revenues are 15% or more below the rolling 3-year average, the City has to pay PASCO the difference between the recycling revenues received and the baseline less 15%. Recycled materials must be sold at verifiable market rates.
Drop box and bin rental revenues	Revenues from drop box and bin rental services are included in the total compensation to PASCO. Debris boxes, also referred to as drop boxes or dumpsters, are used primarily for construction projects. Bins are used to collect garbage and cardboard from commercial and multi-family complexes. Drop boxes: The City is to bill and collect for most drop boxes and remit the proceeds to PASCO. If PASCO bills and collects for the drop boxes, PASCO is to remit to the City 67% of the revenues collected. Bin Rentals: The City is to bill and collect for most bin rentals.

	If PASCO bills and collects for the bins, PASCO is to remit 5% of the bin rental revenues to the City.
Contract adjustments	At any time during the contract year, PASCO may request an adjustment in the compensation to cover increased or decreased expenses if a single cause changed a single allowable expense by 15% or more and \$30,000 or more. The causes allowed under the contract included (1) a force majeure event; (2) changes in federal, state, or local government law, statute, rule, regulation, ordinance, order, or requirement; (3) an increase in volume of solid waste or other materials collected by PASCO; and (4) changes in or additions to services requested by the City.
Amendments	Section 7.17 of the contract states no oral modifications to the contract are allowed and requires all amendments be in writing and signed by all parties to the contract.
Reports	<p>PASCO is required to issue monthly, quarterly, semi-annual and annual reports on City recycling efforts and PASCO operations.</p> <p>Operations and recycling reports are required monthly. Quarterly recycling reports are required Semi-annual financial reports are required, including an audited financial report for the fiscal year. Annual recycling reports are due in mid-January.</p> <p>PASCO is required to submit by December 30 a Compensation Report which shows financial statements prepared by an independent auditor of the actual allowable costs incurred and the forecasted allowable costs (FAC) expected for the next fiscal year.</p>

**Appendix 2: Summary of PASCO Income and Expenses
(FY 1998-99 to 2005-06)**

Fiscal year	Total Income	Total Expenses	Gross Profit	Profit Percentage
1998-99	\$9,116,878	\$8,922,106	\$194,772	2.14%
1999-00	\$9,972,283	\$9,378,681	\$593,602	5.95%
2000-01	\$10,185,966	\$8,960,646	\$1,225,320	12.03%
2001-02	\$9,804,229	\$9,128,634	\$675,595	6.89%
2002-03	\$10,105,998	\$8,588,178	\$1,517,820	15.02%
2003-04	\$10,821,774	\$9,843,896	\$977,878	9.04%
2004-05	\$10,655,228	\$9,976,624	\$678,604	6.37%
2005-06	\$9,955,639	\$10,018,275	(\$62,636)	(0.63%)
Average	\$10,077,249	\$9,352,130	\$725,119	7.10%

Source: PASCO audited financial statements.

Appendix 3: California State Recycling Programs and History

In 1989, the California Legislature approved and created the Integrated Waste Management Act which called for California to reduce its waste and divert 50 percent of its recyclable materials by 2000. The 50 percent diversion goal was achieved.

The Act was supplemented by a series of additional laws, such as AB87 (1992) and SB 1178 (1995) which addressed processing and handling fees for recycled containers; SB 332 (2000) which added new containers and expanded recycling related programs; and SB1906 (2001) which clarified the scope of the beverage container recycling program. AB28 (2004) increased the California Refund Value (CRV), revised processing fees and payments, and established the recycling market development and expansion grant program. The California laws establish redemption values for aluminum, glass, plastic, bimetal, and other beverage containers; set processing fees which are paid to recyclers to cover their recycling costs, and establish redemption values for beverage containers.

These laws were incorporated in the California Beverage Container Recycling and Litter Reduction Act (October 2005) and the California Code of Regulations (Title 14 - Natural Resources, Division 2 - Department of Conservation, Chapter 5 - Division of Recycling). The Act addressed reporting requirements, redemption values, and return requirements for various recyclable materials. The California Code of Regulations established recordkeeping, reporting and payment requirements for processors, recycling centers, drop-off and collection centers, and other programs. The Code also addressed quality glass incentive payments and the recycling forms to be used for processing payments.

The California Department of Conservation, Division of Recycling, administers the recycling laws and provides a number of services related to recycling materials, such as administering grant funding, providing technical assistance, and educating local governments.

California Refund Value (CRV) Program

The program goal is to recycle 80% of all aluminum, glass, plastic, and bimetal beverage containers sold in California. The recycling program is funded through redemption payments made to the California Department of Conservation by beverage distributors, manufacturers, and consumers on each container sold in the state. The redemption payments are deposited in the California Beverage Container Recycling Fund and repaid in the form of CRV payments when the empty beverage containers are returned to recycling centers.

The CRV is the amount paid to consumers when they recycle beverage containers. As of January 1, 2007, the minimum refund value was raised from 4 cents to 5 cents for containers under 24 ounces and from 8 cents to 10 cents for containers 24 ounces or greater. The number of containers may also be determined by weight, for example, 29.5 aluminum cans are equal to one pound and 12.8 PET plastic containers are equivalent to one pound. Consumers may donate the containers to local governments or their contractors through drop-off or collection programs.

Local governments or their contractors are reimbursed the CRV values by completing pertinent California State forms and submitting them for reimbursement to the California State Division for Recycling.

Unredeemed redemption fees are used to provide quality glass incentive payments²⁷, handling fees²⁸, curbside supplemental payments, grants²⁹, supplemental processing payments, and other payments to recyclers, processors, local governments, or their contractors.

Local governments and their contractors must apply for these grants and funds by specific deadlines and may apply on-line.

Types of Recycling Programs

There are four types of beverage container recycling programs: recycling centers, processing facilities, drop-off or collection programs, and community service programs.

A recycling center redeems CRV beverage containers from the general public, as well as the operators of the other types of programs. The recycling center pays, at a minimum, the CRV value of the containers. When a recycling center sells beverage containers to another recycling center or a processor, the CRV payment is repaid to the operator of the recycling center which also receives a scrap price for the containers.

Processing facilities buy empty beverage containers from recyclers, drop-off or collection and other programs and are supposed to pay, at a minimum, the CRV payment plus a scrap price. Processors, like the Waste Management regional processing center in San Leandro, will buy, prepare, and sell the recycled materials to end-users who convert the recycled materials into new products. For example, beverage containers are sold to production and steel plants which produce new containers from the recycled materials. Processing facilities will cancel the beverage containers by altering (usually by shredding or crushing/densifying) the shape of the containers so that they cannot be redeemed again.

Drop-off or collection Programs: Operators of drop-off or collection programs, like PASCO, set up drop-off bins in specific or central locations, sell the materials for reprocessing, and make their profit from redeeming the containers for the CRV payment and from selling the containers for the scrap value. These operators are prohibited from paying CRV.

Community Service Program: These programs are operated by local government entities or non-profit, charitable organizations with tax exempt status. Like the drop-off and collection programs, the community service program operators may set up drop-off bins or central collection points and may engage in the same type of activities as the drop-off and collection programs.

²⁷ As of January 1, 2007, up to \$15 million may be expended annually for containers collected by drop-off or collection programs that meet specific quality requirements.

²⁸ Handling fees are monthly payments made by the Department of Conservation to recycling centers that meet certain eligibility requirements. A recycler can receive payment of 1.8 cents (\$0.018) per eligible container redeemed, up to a maximum of \$2,300 per month.

²⁹ On October 30, 2006, the California State Department of Conservation, Division of Recycling, issued a notice that, effective January 1, 2007, it has up to \$35 million per year to expend for developing new products for the plastic market (\$5 million), for market development and expansion grants (\$20 million), and for recycling incentive payments to recycling centers and drop-off or collection programs (\$10 million). PASCO and the City of Palo Alto must apply for these funds.

**Appendix 4: PASCO Report of Materials Recycled
(as of June 30, 2006)³⁰**

	Fiscal Year- To-Date (Cubic Yards)	Fiscal Year- To-Date (Tons)	Total Revenue (\$)
Newspaper	2,170	4,731	132,428
Cardboard-route	71,233	3,428	202,715
Cardboard-yard	24,387	599	50,541
Mixed Paper	3,120	3,065	100,009
Magazines	300	99	4,945
Glass	1,157	1,672	57,654
Aluminum-Cans	1,141	48	21,153
Mixed Alum	420	50	18,738
Scrap Metal	10,160	850	71,139
Tin Cans	5,579	159	4,369
P.E.T. (#1)	4,6727	197	31,680
H.D.P.E. (#2)	1,871	79	7,891
Colored H.D.P.E. (#2)	479	20	4,777
Plastic 1-7	168	143	3,131
Polystyrene	4,640	20	0
Phone Books	32	8	370
Auto Battery (EACH)	2,034	31	1,568
Dry Cell Battery	48	18	0
Oil Filter	13	3	0
Blue Print (BSKT)	70	13	0
Hazardous Waste	905	0	0
Antifreeze (Gal)	720	4	0
Waste Oil (Gal)	8,610	32	0
Aseptic	13	6	0
Plastic Bags	184	20	383
Residual	0	585	16,662
Single Stream Pilot	0	0	0
Total	144,124	15,881	\$730,154

Source: PASCO monthly reports

³⁰ Totals may not equal amounts used in other exhibits or in financial statements due to rounding and because PASCO's monthly revenue reports contain only cash collections, exclude accrued revenue, and monthly sales reports contain only estimates of sales.

Appendix 5: PASCO Recycling Center Commodity Revenue Compared to Potential Revenue if Source Separated Commodities Had Been Sold at SMaRT Prices

Year/Month	PASCO Reported Revenue (Actual)	Potential Revenue (with SMaRT Prices)	Added Revenue (SMaRT vs Actual Revenue)
FY04-05			
JULY	\$106,849	\$127,419	\$20,570
AUG	\$106,953	\$132,657	\$25,704
SEP	\$107,354	\$136,030	\$28,676
OCT	\$105,457	\$126,976	\$21,519
NOV	\$108,076	\$130,019	\$21,942
DEC	\$117,885	\$140,177	\$22,292
JAN	\$116,376	\$133,303	\$16,927
FEB	\$101,392	\$116,718	\$15,326
MAR	\$110,415	\$125,146	\$14,731
APR	\$110,053	\$130,221	\$20,168
MAY	\$117,484	\$130,036	\$12,551
JUNE	\$121,335	\$137,765	\$16,430
SUBTOTAL³¹	\$1,329,631	\$1,566,468	\$236,837
FY05-06			
JULY	\$95,953	\$102,966	\$7,013
AUG	\$38,763	\$44,528	\$5,765
SEP	\$37,121	\$43,149	\$6,027
OCT	\$27,623	\$30,731	\$3,109
NOV	\$29,619	\$34,514	\$4,894
DEC	\$28,539	\$35,209	\$6,670
JAN	\$25,483	\$32,258	\$6,775
FEB	\$24,856	\$34,911	\$10,055
MAR	\$28,021	\$34,991	\$6,970
APR	\$27,520	\$34,639	\$7,118
MAY	\$29,562	\$33,560	\$3,998
JUNE	\$30,002	\$32,938	\$2,937
SUBTOTAL³²	\$423,063	\$494,394	\$71,332
TOTAL	\$1,752,693	\$2,060,862	\$308,169
Source: Monthly PASCO Reports, Public Works staff reports, and SMaRT monthly reports.			

³¹ The PASCO FY 2004-05 Annual Report for MRF Recycling Sales (Account 451900-454900) indicates \$877,499 was earned from recycling commodity sales, plus \$534,940 in CRV payments for total revenue of \$1,412,439. In contrast, the PASCO monthly reports indicate the total FY 2004-05 revenue should be \$1,329,631. PASCO staff indicated the discrepancy probably existed because of the delay in payments from the vendors, but the PASCO staff could not verify the actual amount earned as of the end of FY 2004-05.

³² The PASCO Annual Report for FY 2005-06 shows MRF Revenue totaling \$882,476 (\$385,582 for Recycling Commodity Sale-Cash; \$227,166 for Davis Street Commission Rebate at \$30 per ton; \$72,495 for CMC (Marina) Commission Rebate at \$20 per ton; \$130,795 for CRV payments; and \$66,439 for 2005 Dept of Conservation Curbside CRV).

Appendix 6: PASCO Organizational Chart

