

Financial Analysis of Recology's Rate Application & Financial Analysis of Recology's Cost Proposal to Provide SB 1383 Services for City of Fortuna



Proposal Submitted by
Bell & Associates, Inc.
Solid Waste & Recycling Consultants



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April 21, 2023

Proposal for Financial Analysis of Recology's Rate Application & Financial Analysis of Recology's Cost Proposal to Provide SB 1383 Services for City of Fortuna

Bell & Associates is pleased to submit a proposal to complete a Financial Analysis of Recology's Solid Waste and Recycling Rate Application and Financial Analysis of Recology's Cost Proposal to Provide SB 1383 Services for City of Fortuna. The focus of the analysis is to ensure that the information submitted by Recology represents the financial and operational cost of providing services and that the information has been prepared per generally accepted accounting principles. Bell & Associates specializes in the financial and operational analysis of integrated solid waste management and our primary purpose is to serve state and local governmental agencies. This proposal outlines our firm's capabilities, staff experience, method of approach, and proposed cost of services.

This project involves the following key tasks for the City of Fortuna:

1. Complete a Financial Analysis of Recology's recently submitted Rate Application to assess the accuracy of data, analysis of operations, review assumptions, and calculation of costs, and provide a report of findings and recommendations for jurisdiction staff.
2. Complete a Financial Analysis of Recology's Cost Proposal for Providing SB 1383 Services to assess the accuracy of data, analysis of operations, review assumptions, and calculation of costs, and provide a report of findings and recommendations for jurisdiction staff.

For the City of Fortuna, the cost to complete this project is \$12,373 and details are provided herein. Per direction from City of Fortuna, we will work in close coordination with Kathleen Gallagher who is working closely with each jurisdiction on SB 1383 compliance, assisting with franchise agreement negotiations with Recology and providing technical expertise to ensure industry standards and best practices are included in the new franchise agreement that is currently under development. Kathleen will participate in meetings, be copied on emails/correspondence, and be an additional point of contact for the jurisdictions as directed by city staff. Chris Bell, CPA, will be the primary point of contact for this financial analysis work and brings over 25 years of progressive accounting experience, from auditing and financial reporting to costing and budgeting. The resources required to perform the services described in this proposal will be available over the life of the contract. Don't hesitate to contact me with questions or comments concerning this proposal.

Sincerely,

Christopher J. Bell

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Section 1: Qualifications and Experience

1.1 Bell & Associates

Bell & Associates, Inc. is a consulting firm specializing in the financial and operational analysis of integrated solid waste management. Founded in 2003 by a licensed Certified Public Accountant, our primary purpose is to serve the waste/recycling needs of state and local governmental agencies, municipalities, and tribal communities. Located in Camas, Washington, our client base of public and private companies extends from Washington to New York and from Alaska to Florida. Bell & Associates has completed over 350 waste and recycling projects since its inception, primarily focusing on the economics of the waste and recycling industry. Areas of expertise include waste industry systems and operational analysis, rate review and rate setting, compliance services, alternative fuels, financial auditing, long-term planning, program analysis, project implementation, franchise procurement, training, and outreach.

During the previous 12 months, Bell & Associates completed the following projects:

- Reviewed the operational and financial results of over 36 private and municipal solid waste collection companies for 19 municipalities,
- Assisted Oregon DEQ with the financial modeling for the extended producer responsibility law,
- Calculated the Cost of Service for a regional transfer system and material recovery facility in SW Washington,
- Audited the financial and operational performance of two collection companies,
- Set waste and recycling collection rates for over 300,000 residential and 17,500 commercial customers in 16 jurisdictions,
- Assisted five jurisdictions and one regional agency with solid waste management planning, and
- Calculated the transportation costs for a county-operated transfer system.

1.2 Project Personnel

Chris Bell, CPA, will be the Project Manager and primary point of contact on this engagement. Mr. Bell is a Certified Public Accountant (Oregon license #10,451) practicing in integrated solid waste management, emphasizing the financial analysis and operational evaluation of waste and recycling collection systems. He has assisted numerous public and private entities with setting collection rates, planning, program implementation, financial and performance audits, procurement, and facility and systems analysis.

Before solid waste consulting, Mr. Bell served as Assistant Divisional Controller for Waste Management of Oregon. His responsibilities as controller include the monthly financial close, annual budgeting, balance sheet reconciliation, corporate reporting, operational performance analysis, audit preparation, and municipal / franchise reporting for three separate collection companies and two transfer stations. In addition, Mr. Bell oversaw fixed assets and accounts payable for all six Oregon / Southwest Washington collection companies.



1.3 Financial and Operational Project Experience

Jurisdiction and State	Project(s) / Date
Oregon Dept. of Environmental Quality	EPR System Implementation Studies 2020-2023
City of Hoboken, New Jersey	Zero Waste Management Plan 2022-23
City of Indianapolis	Cost of Service Study / Solid Waste Planning / 2021
Clackamas County, Oregon	Annual Rate Review / Cost of Service Rate Setting /2002-23
City of Albuquerque, New Mexico	Annual Rate Analysis and Rate Reporting / 2009 to 2023
Clark County, Washington	SW System Planning / MRF and Transfer Station Costing /2023
Port of Longview, Longview, Washington	Alternative Fuels Study / 2020
Deschutes County	Transfer System Cost and Operational Analysis / 2022
Washington Utilities & Trans. Commission	Review of Solid Waste Rate Methodology / 2013
City of Flagstaff, Arizona	MRF Feasibility Study / SW Planning / 2019-23
City of Sandy, Utah	Transfer System Business Plan / 2010 and 2018
City of Los Angeles, California	Commercial Franchise Rate Method / Procurement / 2014
City of Sammamish	S.W. Collection Contract Compliance Review / 2020
City of Yakima, Washington	Collection Rate Setting / Recycling Processing Study / 2013-23
Lincoln County, Oregon	Material Management Solid Waste Plan / 2018
City of Bellevue, Washington	S.W. Collection Contract Compliance Audit / 2008 to 2016
City of Boise, Idaho	S.W. Management Plan / S.W. Procurement Analysis / 2007
Yamhill County, Oregon	Landfill Disposal Alternatives Study / 2012
City of Mercer Island, Washington	Rate Review / S.W. Consulting / 2008 to 2014
Silver City, New Mexico	S.W. System Analysis / Program Implementation / 2005
City of Laramie, Wyoming	S.W. Rate Setting / Recycling Service Procurement / 2010-16
Kodiak Island Borough, Alaska	S.W. Management Plan / Service Procurement / 2008-09
Colville Confederated Tribes, Washington	S.W. Collection and Cost Assessment / 2008-10
City of Richland, Washington	S.W. System Analysis and Rate Setting / 2010-12
Santa Fe SWMA, Santa Fe, New Mexico	S.W. Management Plan / 2011
Wyoming Planning Areas, Wyoming	S.W. Management Plans (21 plans) / 2008 to 2010
City of Salem, Oregon	S.W. Collection Analysis and Rate Setting / 2003 to 2020
Lane County, Oregon	Program Technical Review / 2012
Yakima County, Washington	Landfill Rate Study / S.W. Management Plan / 2006
City of Moses Lake, Washington	S.W. Cost of Service Study 2016
Tillamook County	Solid Waste Management Plan / HHW Plan 2012

1.4 Rate Setting and Solid Waste Project References

Clackamas County Annual Collection System Financial / Operational Review and Rate Setting

Client: Clackamas County, Oregon ~ **Reference:** Rick Winterhalter, Ph. 503-742-4466

Mr. Bell has performed this county's annual solid waste review since 2001. The financial and operational review consists of 11 separate hauling companies serving the county's 46,300 residential and 2,100 commercial customers in the county's unincorporated urban and rural areas. The county covers 1,879 square miles and is segregated into four distinct regions.



City of Yakima Cost of Service Study for Waste and Recycling Collection

Client: City of Yakima, Washington ~ **Reference:** Loretta Zammarchi, Ph. 509-307-0456

Bell & Associates assisted the City's solid waste division with a full cost of service study in 2013. Before the study, the solid waste fund balance was close to zero, and the rates were not generating enough revenue to sustain operations and fund truck replacement. The study calculated the full cost of services and recommended a rate structure to fully fund operations and replace the aging fleet. Mr. Bell has assisted the City of Yakima with the annual review of costs for collection operation, calculation of the rate impacts, and other program changes since the initial study.



City of Albuquerque Annual Cost of Service Study and Rate Setting

Client: Albuquerque Solid Waste Department, Albuquerque, New Mexico

Reference: Jill Holbert, Deputy Director, Ph. 505-761-8342

The City of Albuquerque's Solid Waste Department is a vertically integrated system that provides collection and disposal services to 180,000 residential and 11,000 commercial customers. The Department's annual budget is over \$75 million. Bell & Associates has assisted the City of Albuquerque by calculating the City's cost of service rates since 2009. The rate reporting process coincides with the annual budget review. The report provides the Solid Waste Department with the ability to communicate program costs and proposed rate changes to the City Council for the upcoming fiscal year. Over the last 13 years, Mr. Bell has completed the current system's annual financial review and cost modeling.



Oregon DEQ / Improving Oregon Recycling Systems Infrastructure

Client: Oregon DEQ ~ **Reference:** David Allaway, Ph. 503-229-5479

Mr. Bell was a sub-consultant to Cascadia Consulting and assisted Oregon DEQ with cost modeling for the state's recycling infrastructure and program costs. Data points from collection and processing operations throughout Oregon were analyzed and aggregated to estimate alternative system scenarios' cost and operational impacts. DEQ utilized the project's findings to assist with drafting Senate Bill 582, which became Oregon's extended producer responsibility law.





Section 2: Technical Proposal

Project Understanding

The project consultant's primary objective is to assist the City of Fortuna (and City of Eureka, Arcata and County of Humboldt) in completing a financial assessment of Recology's recent rate application and to complete an assessment of the SB 1383 services cost proposal submitted by Recology. This project is accomplished by reviewing the rate application /rate request submitted by Recology and other supporting information to determine the cost of providing solid waste, organics, and recycling collection services within the jurisdiction. Additionally, Bell & Associates will complete the financial assessment of Recology's SB 1383 cost proposal to assess fairness, accuracy, and transparency. Bell & Associates utilizes an in-depth and proven work plan to complete these tasks.

This project involves the following for the City of Fortuna:

- Complete a Financial Analysis of Recology's recently submitted Rate Application to assess the accuracy of data, analysis of operations, calculation of costs, review assumptions, calculation of costs, and provide a report of findings and recommendations. Evaluate Recology's current waste management operations to calculate the service cost. Since Recology serves several jurisdictions within the county, many of the expenses incurred by Recology are shared between these jurisdictions. Therefore, calculating the service cost will require allocating the costs between Recology's cities and county operations, which provides the cities and Humboldt County an opportunity to combine resources to complete this project.
- Complete a Financial Analysis of Recology's Cost Proposal for Providing SB 1383 Services to assess the accuracy of data, analysis of operations, calculation of costs, review assumptions, and calculation of costs, and provide a report of findings and recommendations.

Understanding the total company costs provided by Recology and the methods used to allocate expenses across collection territories is critical because one company provides waste, organics, and recycling collection. Therefore, the reported service cost to cities and the county's unincorporated areas is calculated by allocating costs based on specific operational components such as collection hours, collected material volumes, and customer counts.

The first objective of this project is to review the current rate application submitted by Recology and complete a financial assessment to establish the current baseline cost for collection services by the line of business; residential, commercial, and roll-off for each jurisdiction. The second objective is to review the cost proposal submitted by Recology for SB 1383 services and their method to calculate the additional costs to provide services to comply with SB 1383 service requirements.



Project Management

Project management oversight is conducted to keep the project on schedule and within budget, communicate project status and issues to the City's Project Manager, and provide a single point of contact. Project management is crucial in delivering our services on time and within budget. Bell & Associates, Inc. has an outstanding record of accomplishment in meeting our client's budget and schedule expectations. Our list of repeat projects is a testament to our success. We have developed an effective project management approach that is responsive and includes the following activities:

- Comprehensive project task planning with the Senior Program Manager and the hauler's representatives
- Open communication with the Senior Program Manager and the hauler's representative
- All changes in project scope are documented and approved by the City's Senior Program Manager
- Review of adjustments by the Senior Program Manager and hauler representative

Communications between the City's Project Manager and the hauler representatives will occur primarily via email to ensure all parties have a written record of correspondence. All decisions and action items resulting from verbal communications will be documented in a memo or email and provided to the City's Project Manager for review and concurrence.

Reports, spreadsheets, and other data will be prepared using Microsoft products (Excel, Word, and PowerPoint) and transmitted electronically. Mr. Bell utilizes methods that summarize the critical data and make the complex reports understandable to all stakeholders. As a result, all stakeholders will know the issues addressed during the rate application financial assessment/rate review and the SB 1383 cost proposal financial assessment. In addition to electronic transmission, meetings will be scheduled either virtual or in-person as needed to complete the project.

Schedules for projects with government agencies are usually dynamic due to the input from elected officials and the public input process. Our approach to these projects is to get direction and buy-in from the decision-makers early in the process, which maintains the project budget and schedule. Staying within the budget is completed through a comprehensive scope of work based on the client's needs.

Financial Assessment of Recology's Rate Application

Task 1: Data Request and Informational Review

The rate application requests submitted by Recology to each jurisdiction will be reviewed and analyzed. A formal information request will be submitted to Recology, through each jurisdiction, for supporting documents and operational information to substantiate the baseline costs. Additional information will include, but not limited to, the following: operational costs, customer data, equipment depreciation schedules, disposal/recycling tonnages, and administrative costs. Mr. Bell will make a data request to the cities and Humboldt County staff for the collection franchise agreements with Recology and any local solid waste regulations. Kathleen Gallagher will be the point of contact for jurisdictions and will be included in meetings and email/correspondence.

Develop an Excel cost of service cost/rate model based on Recology's submission. The model will allocate costs based on the operations of Recology within Humboldt County.

Task 2: On-Site Report Verification

The objective of the on-site review is to ensure that the submitted information represents the financial and operational cost of providing service and that the information has been prepared per generally accepted accounting principles. A standard list of requested source documents necessary for the review will be sent to the contact person at Recology so they can have this information ready for inspection. The following is a summary of the on-site activities:

1. Trace reported revenue to the billing register and verify reported customer counts.
2. Trace reported expenses to the general ledger.
3. Trace significant expenses to copies of the invoices.
4. Compare labor costs, such as employee wages and health insurance, to the payroll documents.
5. Trace reported truck hours used to allocate costs to the route-level data within Recology's cost model.
6. Compare productivity between routes and between jurisdictions.
7. Make inquiries of the people who prepared the report (typically, these people are present during the review)
8. Recalculate significant figures.
9. Review related party transactions and internal costs for reasonableness.

Recology's cost allocation model is assumed to be complex; therefore, a significant amount of time will be spent mapping the flow of data, reviewing the logic of the allocations, and testing the input and output data that generates the cost for each jurisdiction. Past issues with the collection models included route splits, miscoded tons, and specific jurisdictional costs allocated across the company's area of operations.

Task 3: Analytical Procedures

Analytical procedures are utilized to determine if the reported results are reasonable for the hauler's customer mix and collection areas. The following are examples of the procedures used:

1. Using a predictive test of revenue for each line of business, ensure the reported revenues are reasonable for the number of reported customers.
2. Based on the market conditions for the reviewed year, determine if recycling costs/revenue from the sale of material is reasonable based on the reported customers.
3. Using the reported Direct Cost line items, determine if the expense is reasonable in relation to the customer and operational data submitted for the rate increase.
4. Determine if the reported disposal costs for waste, recycling, and yard debris are reasonable using a predictive test of disposal cost.
5. Using the reported administrative costs, determine if the expense is reasonable in relation to the customer data.
6. Compare the reported results of the total company to the results for each jurisdiction.

The output of the procedure will be utilized to develop the operational assumptions used to calculate the services required to comply with SB 1383 and be included as part of the financial assessment of Recology's SB 1383 Cost Proposal.



Task 4: Adjusting the Reports

After the analysis of the reports has been completed, Mr. Bell will send a list of possible adjustments and questions about the report. Each adjustment will be discussed with all stakeholders before being posted to a baseline cost model. Once the adjustments have been posted, the adjusted financial results by service type will be compiled and reported, and submitted to the project manager(s) and the hauler's representatives. If adjustments are necessary to keep Recology within the franchises' allowable margin, then rates will be adjusted to the service cost for each line of business. **Note:** The product of the first four tasks will generate a service cost for the jurisdiction.

Financial Assessment of SB 1383 Cost Proposal Submitted By Recology

Task 5: / Financial Assessment of Recology's Proposal for SB 1383 Services

Bell & Associates will complete a review of the cost proposal submitted by Recology for providing SB 1383 services, which requires the analysis of operations, calculation of costs, and accuracy of the data submitted. Each jurisdiction will require a different mix of services to comply; however, the baseline costs and operational assumptions developed during the rate review will be utilized for this project phase.

Task 6: Report the Findings / Meeting with City staff and Recology staff

A summary report of the Rate Application and the SB 1383 Cost Proposal findings, costs, and rates for each service, conclusions, and recommendations based on work completed in the first six tasks will be completed. The initial draft report will be prepared for jurisdiction and CSG staff review and input, and the second draft will include jurisdiction and CSG staff comments and edits and jurisdiction staff may choose to include the full report for inclusion in a staff report that can be submitted to jurisdiction management.

Section 3: Cost Proposal

The following tables are based on the assumption that we will receive an adequate and responsive level of assistance from the staff at Recology. Responsiveness includes preparation of the requested information, completeness of requested information, prompt replies to inquiries, and submission for additional information. The fees for the Financial Assessment of the Rate Application submitted by Recology and the Financial Assessment of the SB 1383 Cost Proposal submitted by Recology are based on the estimated time to complete the proposed scope of work detailed in Section 2 of this proposal and are detailed in the following table.

Table 1: Financial Assessment of Recology’s Rate Application Budget

Task	Description	Hours	Cost
	Project Management	12	\$2,460
1	Data Request / Review / Cost Model Development	26	\$5,330
2	On-site Report Verification	30	\$6,150
3	Analytical Procedures	20	\$4,100
4	Adjusting the Report	24	\$4,920
	Contingency	20	\$4,100
	Total Project Hours	112	\$27,060
	Travel Total to Eureka to Complete Site Visit		\$1,555
	Total Financial Assessment Cost		\$28,615

Table 2: Financial Assessment of SB 1383 Cost Proposal Submitted by Recology (Per Jurisdiction)

Task	Description	Hours	Cost
5	Projection of Costs / SB 1383 Rate Calculations	16	\$4,920
6	Report the Findings / Stakeholder Meetings	20	\$4,920
	Contingency	10	\$2,460
	Total SB 1383 Cost Analysis / Rate Calculation Totals	46	\$9,430

It is assumed the four jurisdictions will share the above costs based on the customer account allocation:

Jurisdiction	Financial Analysis of Rate Application	Financial Analysis of Cost Proposal for SB 1383 Services	Total
Fortuna	\$2,943	\$9,430	\$12,373

At the jurisdictions’ discretion, additional on-call technical assistance/consulting work can be completed by Mr. Bell. The on-call technical assistance will be invoiced at the same hourly rate as the financial analysis. If additional consulting work is requested by the cities or County, a detailed scope and budget will be submitted to the jurisdiction’s Project Manager for approval prior to the commencement of the requested tasks.