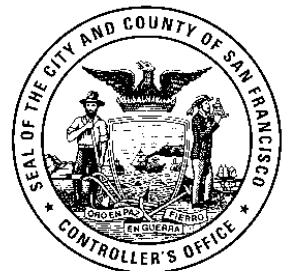


# Recology San Francisco Generally Managed the Landfill Disposal Fees Appropriately but Did Not Always Comply With Its City Contract

San Francisco Environment Department



July 13, 2023

City & County of San Francisco  
Office of the Controller  
City Services Auditor

## About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

### Team:

Amanda Sobrepeña, *Lead Audit Manager*  
Winnie Woo, *Audit Manager*

Mark de la Rosa  
Director of Audits  
Office of the Controller  
City and County of San Francisco  
(415) 554-7574

### Consultant:

Sjoberg Evashenk Consulting, Inc.

For media inquiries, please contact  
[con.media@sfgov.org](mailto:con.media@sfgov.org).



[sf.gov/controller](https://sf.gov/controller)



[@sfcontroller](https://twitter.com/sfcontroller)



LinkedIn Office of the Controller

## Audit Authority

CSA conducted this audit under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.



# OFFICE OF THE CONTROLLER CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield  
Controller

Todd Rydstrom  
Deputy Controller

July 13, 2023

Commission on the Environment  
San Francisco Environment Department  
1155 Market Street, 3<sup>rd</sup> Floor  
San Francisco, CA 94103

Mr. Tyrone Jue  
Director  
San Francisco Environment Department  
1155 Market Street, 3<sup>rd</sup> Floor  
San Francisco, CA 94103

Dear Commission President, Commissioners, and Mr. Jue:

The Office of the Controller (Controller), City Services Auditor (CSA), Audits Division, presents its report on the audit of the landfill disposal agreement (Agreement) between Recology San Francisco (Recology SF) and the City and County of San Francisco (City). The San Francisco Environment Department (SF Environment) administers this Agreement, which requires Recology SF to dispose of the City's refuse at the Recology Hay Road Landfill. The audit, conducted for CSA by Sjoberg Evashenk Consulting, Inc., (SEC), had as its objectives to determine: (1) whether Recology SF reported, charged, and collected disposal fees in compliance with the contract, (2) set fees and adjustments in accordance with the contract's fee structure, and (3) complied with the contract's reporting and other provisions. The audit also assessed SF Environment's management and oversight of the Agreement.

The audit found that Recology SF and its affiliate, Recology Hay Road Landfill, in general, have controls and processes to appropriately measure waste disposal and calculate corresponding disposal fees. Recology SF also adhered to the solid waste disposal fee schedule and obtained the City's approval to use reserve funds.<sup>1</sup>

However, the audit found that Recology SF has not complied with several of the Agreement's provisions. For example, Recology Hay Road Landfill accurately assessed solid waste disposal fees and distributed fee revenue, but it assessed lower fees to Recology SF than the Agreement permits for beneficial use material disposal. Also, Recology SF reported about \$64 million in landfill disposal costs for solid waste and beneficial use material, a figure that was inadvertently inflated by \$622,134 (1 percent) because it was based on a waste tonnage figure that included a small amount of non-city waste. Further, Recology SF did not consult with SF Environment when Recology Hay Road Landfill renewed its recovered gas agreement. The City may have benefitted from being included in ongoing gas recovery discussions, plans, and in developing the agreement. Finally, Recology SF did not submit key required reports to the City, which resulted in a lack of timely transparency that could have been useful for SF Environment staff, City policymakers and the public.

---

<sup>1</sup> The Agreement includes a special reserve fund with \$10 million available for adjustments related to the Agreement activity and overall rate-setting process. See Introduction and Background for more information on the overall rate-setting process.

SF Environment did not adequately monitor and manage the agreement by *not*:

- Designating monitoring duties within the department.
- Establishing adequate procedures for check-ins with Recology SF on its deliverables.
- Comprehensively tracking the applicable waste and related fees under the Agreement.
- Communicating noncompliance or any issues to other city bodies that may need relevant information for the overall refuse rate-setting process.

The lack of timely and comprehensive monitoring may result in potential revenue offsets being missed and higher costs incurred, which can negatively impact San Francisco ratepayers.

The audit also reviewed other publicly available landfill disposal agreements and found notable and relevant contract provisions that the City should consider as it evaluates the next iteration of the Agreement such as: agreement expiration based only duration, not on the tonnage of waste; a Refuse Rate Index rather than the Consumer Price Index as the basis for annual fee adjustments; penalties for noncompliance; detailed reporting requirements; and performance standards for landfill disposal.

The report makes nine recommendations for your department to improve its oversight of the Agreement. The responses of SF Environment and Recology SF are attached to this report. CSA will work with your department to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of all staff involved in this audit. For questions about the report, please contact me at [mark.p.delarosa@sfgov.org](mailto:mark.p.delarosa@sfgov.org) or 415-554-5393 or CSA at 415-554-7469.

Respectfully,



Mark de la Rosa  
Director of Audits

cc: Board of Supervisors  
Budget Analyst  
Civil Grand Jury  
Citizens Audit Review Board  
City Attorney  
Mayor  
Public Library

# **City and County of San Francisco City Services Auditor**

---

Performance Audit of the Landfill Disposal Agreement  
Between the City and County of San Francisco and  
Recology San Francisco



**May 2023**

# Table of Contents

---

Table of Contents .....	ii
Report Highlights .....	1
Introduction and Background.....	3
Scope and Methodology .....	6
Finding 1. Recology SF and Recology Hay Road Generally Managed Disposal Fees Appropriately, but Recology Hay Road Should Strengthen Its Daily Tonnage Validation Process and Recology SF Should Exclude Its Cost to Dispose of Non-City Waste From the Costs Used in the Rate-Setting Process.....	8
Finding 2. Recology SF Did Not Comply With Certain Contract Provisions, Including Required Reporting and Seeking the City’s Input on Landfill Gas Recovery Plans .....	13
Finding 3. SF Environment Did Not Comprehensively Monitor the Landfill Disposal Agreement.....	16
Finding 4: Comparable Entities’ Agreements Include Provisions the City Should Consider .....	18
Appendix A: Department Response.....	20
Appendix B: Contractor Response.....	24

Sjoberg Evashenk Consulting, Inc., was engaged by the City and County of San Francisco (City), Office of the Controller, to audit the Landfill Disposal Agreement (Agreement) between the City, acting by and through its San Francisco Environment Department (SF Environment), and Recology San Francisco (Recology SF) to determine (1) whether Recology SF managed disposal fees in accordance with the Agreement, (2) whether Recology SF complied with the Agreement's other provisions, and (3) whether SF Environment's contract management practices ensured Recology SF's compliance.

### KEY FINDINGS

#### **Recology SF and Recology Hay Road Generally Managed Disposal Fees Appropriately, but Recology Hay Road Should Strengthen Its Daily Tonnage Validation Process and Recology SF Should Exclude Its Cost to Dispose of Non-City Waste From the Costs Used in the Rate-Setting Process**

Recology SF and its affiliate, Recology Hay Road Landfill, have controls and processes to measure and track the amount of waste delivered to the landfill and to calculate corresponding fees, but the landfill's daily tonnage validation process should be strengthened. Recology SF included a small amount of non-city waste in its calculation of disposal tonnage under the Agreement. Overall, the amount of waste delivered to the landfill on the City's behalf decreased during the audit period, as did the corresponding fees. Recology Hay Road Landfill accurately assessed solid waste disposal fees and distributed fee revenue but assessed lower fees to Recology SF than the Agreement permits for beneficial use material disposal.

#### **Recology SF Did Not Comply With Certain Contract Provisions, Including Required Reporting and Seeking the City's Input on Landfill Gas Recovery Plans**

Recology SF complied with many of the Agreement's provisions. For example, it adhered to the solid waste disposal fee schedule and obtained city approval to use reserve funds. However, Recology SF did not comply with other obligations under the Agreement, such as submitting key required reports to the City.

#### **SF Environment Did Not Comprehensively Monitor the Landfill Disposal Agreement**

SF Environment should have but did not assign monitoring duties within the department, establish adequate procedures for check-ins with Recology SF on its deliverables, comprehensively track applicable waste and related fees, or confirm the waste tonnage data that is included in the total tonnage of solid waste disposed of, which is a measure that can trigger the agreement's termination. Because SF Environment did not comprehensively oversee and manage the contract, it was unaware that Recology Hay Road was charging fees associated with beneficial use material or including a small amount of non-city refuse in the disposal tonnage reported to the City.

#### **Comparable Entities' Agreements Include Provisions the City Should Consider**

As it evaluates what to include in its next Agreement, the City should consider publicly available landfill disposal agreements from local governments comparable to San Francisco, which include provisions such as: agreement expiration based only its duration, not on the tonnage of waste; a Refuse Rate Index rather than the Consumer Price Index as the basis for annual fee adjustments; penalties for noncompliance; detailed reporting requirements; and performance standards for landfill disposal.

### RECOMMENDATIONS

The report offers four recommendations for SF Environment to require Recology SF to implement to improve its compliance with the Agreement:

1. Strengthen the daily tonnage validation process by requiring that Recology Hay Road compare departure and arrival weights and document reasons for discrepancies.
2. Report landfill disposal fees and tonnage for city waste separately from non-city waste, particularly as it relates to the City's refuse rate-setting process.
3. Include accurate data in all required reports and submit them to designated recipients in a timely manner.
4. Seek SF Environment's cooperation and consultation as required by the Agreement, including obtaining SF Environment's input on landfill gas plans before sub-agreements are struck or amended.

The report also offers five recommendations to SF Environment to bolster its oversight of the Agreement and strengthen contractual obligations:

5. Refine agreement language in applicable sections to ensure stated metrics align with the City's intentions and goals such as, but not limited to, the transportation truck trips limit.
6. Establish internal protocols and processes to manage and monitor the contractor's compliance with all Agreement provisions. Such processes should include:
  - Designating a contract manager with specific roles and responsibilities.
  - Developing a procedure that uses underlying data to validate and track the detailed fee schedule, monthly tonnage, and intercompany fees submitted by Recology SF.
  - Establishing better internal schedules for checking in on the status of contract deliverables.
  - Communicating noncompliance or other issues to other city bodies that may need information for the City's refuse rate-setting process.
7. Revise the Agreement to clarify which tons of waste are applicable and count toward the waste disposal tonnage limit that can trigger Agreement termination.
8. Require Recology SF to provide reports that break down the waste tonnage data that is included in the tonnages that may trigger the Agreement's termination to improve the tracking of the waste disposal limit.
9. Determine whether the City should adopt other public entities' landfill agreement provisions by assessing the costs and benefits of doing so. Potentially beneficial changes to the City's agreement include revising the fee adjustment basis, adding penalties for noncompliance, adopting new performance standards, and requiring more detailed reporting and submission of underlying data.

## Introduction and Background

---

Effective since July 2015, the current Landfill Disposal Agreement (Agreement) between the City and County of San Francisco (City), acting by and through the San Francisco Environment Department (SF Environment), and Recology San Francisco (Recology SF) sets the terms and fees for Recology SF to dispose of city waste on behalf of the City at the Recology Hay Road Landfill near Vacaville, California.<sup>2</sup> The Agreement will expire either in July 2024 or when the Agreement's maximum waste tonnage of 3.4 million tons is reached, estimated to occur in 2024, whichever comes first.

Under the Agreement, Recology SF recoups the landfill disposal costs it incurs through the overall refuse rate it charges city residents and businesses. Landfill disposal costs are one of several factors in the overall refuse rate-setting process.<sup>3</sup> The Agreement provides for a special reserve fund to reimburse Recology SF for those landfill disposal costs it incurs that are not fully recoverable through the rate-setting process due to timing issues. The City Administrator must approve all expenditures from the reserve fund. The Agreement states that the City shall maintain a reserve fund with an amount not less than \$10 million in 2014 dollars throughout the disposal term, but the balance requirement may be changed if mutually agreed upon by SF Environment and Recology SF, with approval from the director of the Department of Public Works (Public Works) and, if applicable, the Rate Board.<sup>4</sup> The director of Public Works and Rate Board can also determine the continuing need for the reserve fund when the disposal term ends.

The Agreement requires Recology SF to accept refuse from all residences and businesses throughout San Francisco, and pay certain fees<sup>5</sup> to dispose of the waste at the Recology Hay Road Landfill (a Recology SF affiliate, referred to here as Recology Hay Road) based on the type of waste delivered and the calculated tonnage, including:

- 1) **Solid Waste Fee**—starting at \$31.17 per ton in 2016 and adjusted annually, this fee is paid to dispose of garbage, trash, refuse, paper, and other forms of solid materials disposed of, with exceptions, such as hazardous waste.
- 2) **Beneficial Use Material Fee**—starting at \$21.33 per ton fee in 2016 and adjusted annually, this fee is paid to dispose of soil that is used for landfill construction, erosion, and alternative daily cover.<sup>6, 7</sup>

---

<sup>2</sup> The Agreement defines City Waste as solid waste and/or beneficial use material that is i) collected in San Francisco by or on behalf of permitted haulers or city, ii) generated in San Francisco and delivered to the Transfer Station by self-haulers, or iii) residue from the processing of recyclable material or organic material generated in San Francisco and processed by the contractor at the Transfer Station.

<sup>3</sup> The City's Department of Public Works administered the City's overall refuse rate-setting process until 2022, when the Controller's Office began managing it. While the Agreement is one component factored into the overall refuse rate-setting process, the overall process itself is not covered under the Agreement and was not reviewed as part of this audit scope.

<sup>4</sup> "Rate Board" is the San Francisco Refuse Collection and Disposal Rate Board.

<sup>5</sup> Three additional types of disposal fees have not been implemented because programs were not implemented or the City did not approve the fees: Organics-Free Solid Waste fee, Excess Disposal fee, and Sustainability fees.

<sup>6</sup> Alternative daily cover is material other than earthen material placed on the surface of a solid waste landfill at the end of each operating day to control vectors, fires, odors, blowing litter, and scavenging.

<sup>7</sup> "Disposal" of beneficial use material means beneficial reuse of that material, such as described in the prior footnote.

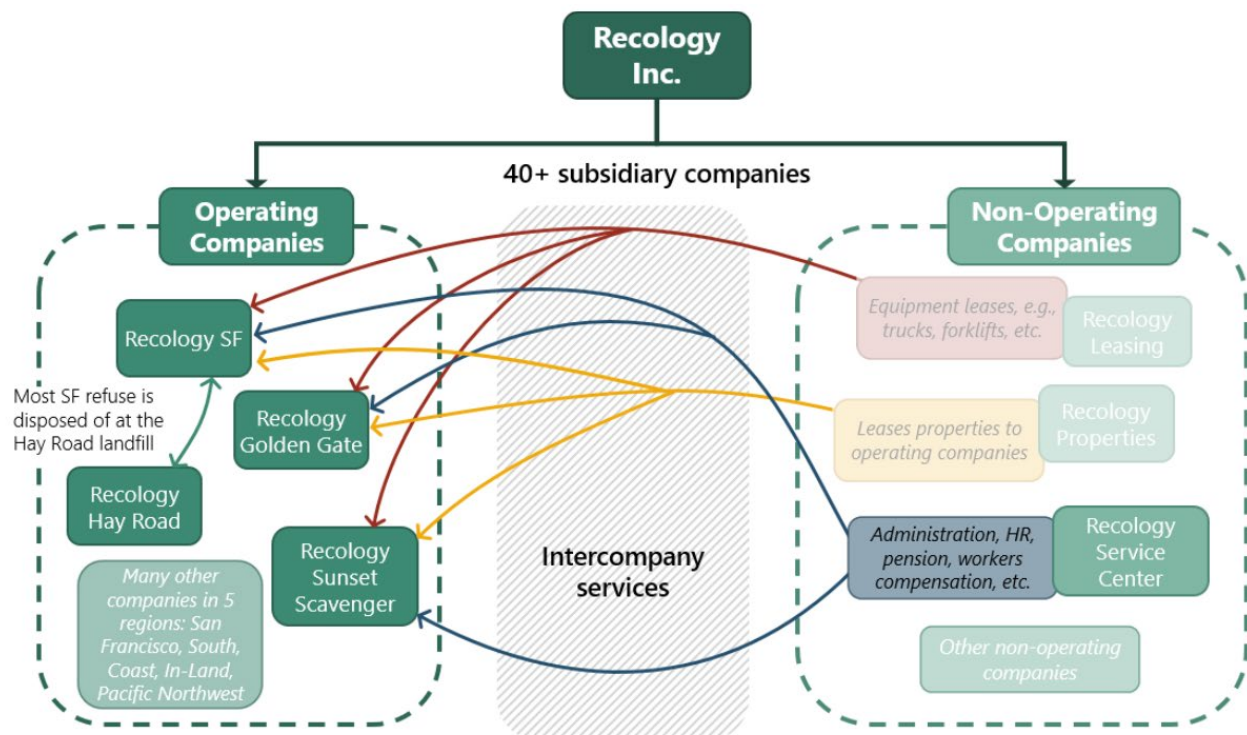
The Agreement was amended in May 2016 to update the approved fee schedule.

Parties involved in collecting, processing, transporting, and disposing of waste on the City's behalf include:

- **Recology Subsidiaries**<sup>8</sup>—collect solid waste and beneficial use material from city residences and businesses as well as residual city solid waste from recyclables from Recology SF's Pier 96 Recycling Center and transport it to the Recology SF Transfer Station in San Francisco.
- **City Residents and Businesses**—bring personal waste directly to the Recology SF Transfer Station.
- **Recology SF**—owns and operates the Transfer Station that processes waste and owns and/or leases trucks that transport processed waste to the landfill for disposal.
- **Recology Hay Road**—disposes of the waste (solid waste and beneficial use material) and charges Recology SF landfill disposal fees.

Exhibit 1 shows the relationships between the Recology subsidiaries.

#### EXHIBIT 1. RECOLOGY SUBSIDIARIES

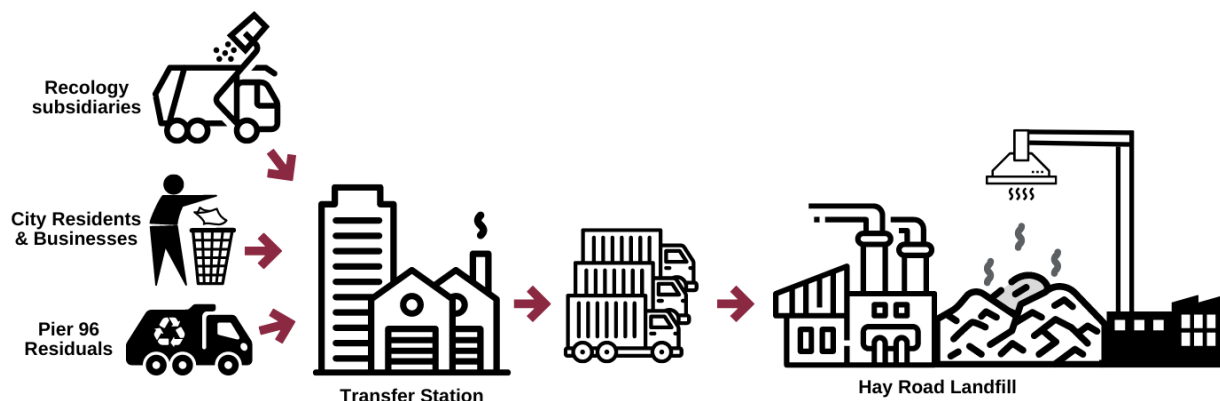


Source: City Controller's 2022 Public Integrity Review, Preliminary Assessment: Refuse Rate-Setting Process - Update Based on Additional Reviews and Meetings With Recology

<sup>8</sup> Recology Golden Gate (RGG) and Recology Sunset Scavenger (RSS).

Exhibit 2 shows the landfill disposal process from start to finish.

#### EXHIBIT 2. LANDFILL DISPOSAL PROCESS



Source: Auditor generated based on interviews with Recology Hay Road and Recology SF and review of internal policies, procedures, and manuals.

Following the disposal process, a portion of gas can be captured from landfill and be used for energy. The Agreement requires SF Environment and Recology SF to cooperate to design and implement plans that reduce greenhouse gas emissions at the landfill and potentially generate carbon credits. According to Recology Service Center, although it has implemented activities aimed at reducing emissions and SF Environment has indicated its satisfaction with those efforts, Recology Hay Road has not generated carbon credits during the audit period and has not performed any mining.<sup>9</sup>

In pursuit of its environmental goals, the City has implemented initiatives intended to reduce the amount of waste disposed of at the landfill. Specifically, during the process to set the overall refuse rates, the City allows Recology<sup>10</sup> to add an additional 2 percent in operating profits when certain zero waste targets are met. This is aimed at reducing the overall amount of waste disposed of at the landfill. However, according to SF Environment, Recology SF has not met this goal or received the associated benefit since this initiative began in 2013.

<sup>9</sup> Recology Service Center is the corporate entity that manages the operating company, Recology SF. Although Recology Service Center is not a direct party to the Agreement, a Recology Service Center employee was the primary liaison for this audit.

<sup>10</sup> Recology SF, Recology Golden Gate, and Recology Sunset Scavenger, collectively known as "Recology."

## Scope and Methodology

---

Sjoberg Evashenk Consulting, Inc., hired by the City's Office of the Controller, City Services Auditor (CSA), conducted an independent audit of the Agreement. The audit period was 2018 through 2022. The audit objectives were to determine whether Recology SF has:

- Reported, charged, and collected disposal fees in accordance with the contract.
- Set fees and adjustments in accordance with the contract's fee structure.
- Complied with the contract's reporting and other provisions.

The audit also assessed SF Environment's management and oversight of the Agreement and conducted a benchmarking study to assist the City in gathering information from peer agencies and identifying best practices.

To meet these objectives, we performed the following audit steps:

- Interviewed SF Environment staff including the zero waste manager and acting director. Interviewed Recology SF and Recology Hay Road staff, including the two firms' controllers, Recology Service Center's<sup>11</sup> director of business process improvement, and Recology SF's vice president and group manager.
- Reviewed the 2015 Landfill Disposal Agreement and 2016 amendment to identify the required provisions and obligations that Recology SF must comply with under the Agreement, including reporting requirements, use of the reserve fund, and disposal transportation limitations.
- Validated the fee schedules used by Recology Hay Road to charge Recology SF for disposing of solid waste and beneficial use material. Tested whether fee schedules were correctly applied, adjusted, and assessed, including a review of the calculations based on the Consumer Price Index, San Francisco-Oakland-San Jose, for All Urban Consumers (CPI-U), and distributions to state and local governments as applicable and required.
- Reviewed the underlying tonnage data from Recology Hay Road's AS400 system (the electronic system of record for scale weight used for reporting) and compared it to the tonnage used to calculate the fees charged by Recology Hay Road to Recology SF.
- Reviewed and evaluated risks in Recology Hay Road and Recology SF's protocols and procedures for disposing of waste at the landfill, including a review of policies, manuals, controls, and system data.
- Assessed SF Environment's contract management practices and procedures for managing and monitoring the Agreement and the contractor.

---

<sup>11</sup> Recology Service Center is the corporate entity that manages the operating company, Recology SF. In this report, Recology Service Center employees are referred to as staff of Recology SF.

- Reviewed publicly available landfill disposal agreements from other local governments and compared their disposal fee structures and contract provisions with those in the City's Agreement. Interviewed relevant staff of available jurisdictions to discuss the agreements.

Sjoberg Evashenk Consulting, Inc., conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Finding 1. Recology SF and Recology Hay Road Generally Managed Disposal Fees Appropriately, but Recology Hay Road Should Strengthen Its Daily Tonnage Validation Process and Recology SF Should Exclude Its Cost to Dispose of Non-City Waste From the Costs Used in the Rate-Setting Process

---

Recology SF has controls and processes to measure and track the volume of waste delivered to the landfill and the corresponding disposal fees. But the daily tonnage validation process needs to be strengthened. We found that Recology Hay Road accurately assessed and distributed fees for solid waste disposal but assessed lower fees than the Agreement permits for beneficial use material disposal. We also found that the volume of waste delivered to the landfill pursuant to the Agreement and the corresponding fees decreased during the audit period, even though Recology SF included a small amount of non-city waste in its costs.

### **Recology SF and Recology Hay Road Have Processes to Control Waste Type and Weight Information, but Improvements Should Be Made**

The landfill disposal fee assessment process is based entirely on the type of waste and corresponding tonnage that is being disposed of at the landfill pursuant to the Agreement. We found that Recology SF and Recology Hay Road captured and controlled waste type and weight information through various processes, including weighing waste at multiple points in the transfer process, performing a waste acceptance sorting protocol, and using certified scales. But Recology Hay Road's daily tonnage data validation process should be improved to provide additional assurance that the tonnage accepted and weighed at the landfill and used as the basis for the landfill disposal fee to Recology SF is appropriate.

The fee assessment data collection process begins when Recology SF captures waste type and tonnage information at the Transfer Station in San Francisco. Specifically:

- Recology subsidiaries transport solid waste and beneficial use material to the San Francisco Transfer Station, where Recology SF sorts and loads waste on waste-type specific trucks and weighs loads before transfer to the landfill. The weight of each truck is automatically captured by scales before departure and electronically uploaded to Recology SF's PC Scales system, a weight-capture database. Weight information captured by PC Scales at departure is electronically transmitted to the AS400 system. Recology SF staff enters corresponding information into AS400 for each truck, such as the truck number and waste type.
- When city waste is brought to the Transfer Station, Recology SF implements a Waste Acceptance Control Program (WACP), which provides some assurance against non-allowable waste being inappropriately included in the tonnage that Recology SF pays Recology Hay Road to dispose of, pursuant to the Agreement. The WACP requires Recology SF employees to remove unallowable waste, such as toxic chemicals. This ensures only allowable waste, such as solid waste and

beneficial use material, is transferred to the landfill and disposed of.<sup>12</sup> However, the WACP processes occur between Recology SF and Recology Hay Road, which are subsidiaries of the same parent company, so these are not independent controls.

- Upon arrival at the landfill, drivers must input the type of waste transported by entering the truck and waste information into the landfill's Driver-Assisted Terminal (DAT). Information entered into the DAT and PC Scales at arrival is also electronically transmitted to the AS400 system, but Recology Hay Road separately maintains this data from the departure data that Recology SF manages.
- The scales Recology SF and Recology Hay Road use to weigh the waste that is transferred and disposed of on the City's behalf are externally certified by state officials and calibrated by third-party scale companies to ensure accuracy. The State of California and Solano County regulate this, adding a layer of independent accountability to the scales used to weigh San Francisco's waste under the Agreement.

Because the data captured at arrival at the landfill is considered the official measurement and is used as the basis to calculate disposal fee charges, Recology Hay Road staff must ensure the arrival weight data recorded in the landfill's AS400 system is accurate and reliable. Recology Hay Road staff performs a daily tonnage validation process that compares the original arrival tonnage data input to PC Scales against the same data after it is automatically electronically transmitted into the AS400 system. This validation process is conducted to check for data consistency and ensure recorded tonnages are within normal and expected ranges for the recorded waste type. If inconsistencies are noted or incomplete data is found, staff investigates. This can include an ad hoc review of DAT transactions and camera footage and comparison to data in the AS400 system to confirm that waste types and weights were recorded.

Once Recology Hay Road staff has completed the daily tonnage validation effort, the tonnage information is posted into the accounts receivable module of the AS400 system, disposal fees are calculated, and charges are sent to Recology SF as intercompany charges. These charges are inputs that are ultimately incorporated into the overall refuse rate-setting process that affects what rates are charged to ratepayers.

Although Recology Hay Road's daily tonnage validation effort to confirm that arrival tonnage data is consistent with the landfill's systems is helpful, it does not include a key component: comparing the landfill's arrival tonnage data to the tonnage data recorded at the Transfer Station when trucks depart for the landfill. Instead, Recology SF performs this comparison at a high level monthly when it receives the landfill disposal charges from Recology Hay Road. Recology SF does this to ensure the measurements are consistent and the charges are accurate and reasonable.

According to Recology SF, it is expected that tonnage measurements captured when trucks depart the Transfer Station may be slightly different than tonnage measurements recorded when trucks arrive at the landfill. Consistent with this, our sample comparison of solid waste tonnage data at departure and arrival for selected months revealed small differences, as shown in Exhibit 3.

---

<sup>12</sup> According to SF Environment, to ensure the WACP is performing as intended, SF Environment's Toxics Reduction team periodically inspects and reviews the program. However, no formal documentation of these inspections or reviews exists.

**EXHIBIT 3. SOLID WASTE TONNAGE VARIANCE BETWEEN THE TRANSFER STATION AND LANDFILL**

Sample Month	Tonnage at Departure From Transfer Station	Tonnage at Arrival at Landfill	Tonnage Variance at Arrival	
			Amount	Percent
Feb-18	31,829	31,934	105	0.3%
Aug-18	37,290	37,532	242	0.6%
Feb-19	32,549	33,238	690	2.1%
Aug-19	33,864	34,283	419	1.2%
Feb-20	32,002	31,720	-283	-0.9%
Aug-20	31,984	31,289	-695	-2.2%
Feb-21	28,851	28,841	-10	-0.03%
Aug-21	32,753	32,265	-488	-1.5%
Dec-21	32,271	32,523	252	0.8%
Feb-22	28,460	28,098	-362	-1.3%
Aug-22	32,348	31,747	-601	-1.9%
<b>Total</b>	<b>354,200</b>	<b>353,469</b>	<b>-731</b>	<b>-0.25% (Average)</b>

Source: AS400 system data provided by Recology SF and Recology Hay Road

Note: Amounts may not sum to total due to rounding.

Recology SF stated that departure and arrival tonnages may be different for several reasons. For example, waste can evaporate or gain moisture depending on the weather during transport and how much of the gasoline fueling the trucks is burned. Also, when it arrives at the landfill, waste may be reclassified from one type to another, such as beneficial use material being reclassified to solid waste.

Although our comparison reveals small differences between the Transfer Station and landfill tonnages and the reasons provided by Recology SF to explain why tonnages may differ seem reasonable, Recology Hay Road could bolster its daily tonnage validation process by conducting a daily comparison of the landfill’s arrival tonnage data to departure tonnage data and document specified attributions for any tonnage discrepancies. This additional effort will help demonstrate that charges are accurate and reasonable and provide real-time documentation explaining the reasons for variances with more transparency. According to Recology SF and Recology Hay Road, the companies are planning to develop a new operation system to incorporate new functionalities such as this type of tonnage reconciliation.

**Recology Hay Road Accurately Assessed Fees for Solid Waste Disposal but Assessed Lower Fees Than the Agreement Authorizes for Beneficial Use Material Disposal**

To recoup the cost of operating the landfill, Recology Hay Road charges Recology SF fees for disposing of waste on the City’s behalf. Recology Hay Road calculates this charge based on waste type and tonnage data recorded in the AS400 system and the fee schedule in the Agreement. Recology Hay Road calculates the fee assessment monthly in Excel, and the resulting amounts due from Recology SF are recorded as intercompany journal entries in the JD Edwards financial system. Again, these costs are inputs considered during the City’s refuse rate-setting process, so it is important that they be accurate.

Although Recology Hay Road accurately assessed \$60.2 million in solid waste disposal fees during the audit period, a lower “public gate” fee was charged for disposal associated with beneficial use materials

instead of the higher beneficial use material disposal fee—\$3.4 million was assessed, but \$4.6 million should have been charged, an underassessment of \$1.2 million. Recology SF stated the error was due to an internal oversight.

### Recology Hay Road Correctly Distributed Disposal Fee Revenue to Government Entities

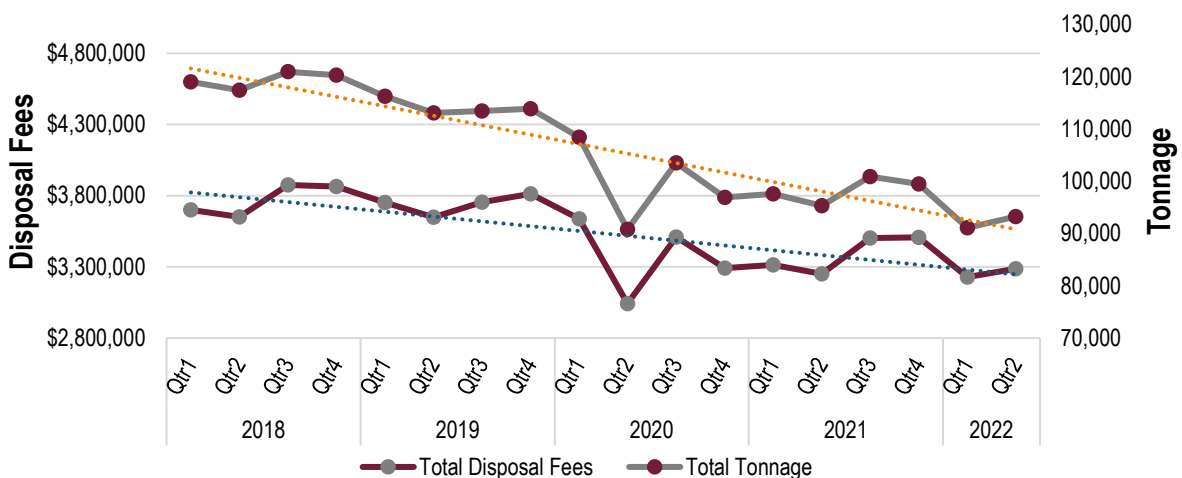
The Agreement allows Recology Hay Road to keep a portion of the solid waste and beneficial use material fees it collects from Recology SF to cover its operational costs. The Agreement requires Recology Hay Road to distribute the remaining portion to the state and various local governments. The distributions must comply with each entity’s payment deadline and rules that cover state and county fees.

We found that Recology Hay Road correctly distributed the required landfill disposal fee revenue to the state and designated local governments. Although Recology Hay Road paid late payment penalties to the jurisdictions, those costs were not passed on to Recology SF.

### The Amount of City Waste Disposed of at the Landfill and the Corresponding Disposal Fees Decreased During the Audit Period

Although the Agreement limits increases to landfill disposal fees to annual CPI-U adjustments,<sup>13</sup> an inherent risk exists because a vendor could attempt to generate more revenue by improperly boosting the amount of city waste disposed of at its landfill. However, as shown in Exhibit 4, Recology Hay Road assessed Recology SF progressively less in disposal fees in each year of the audit period because the amount of city waste disposed of at the landfill decreased. In fact, the amount of solid waste disposed of decreased 21%, and beneficial use disposal decreased 65%. Recology staff partially attributed the downward trend to the Covid-19 pandemic, which greatly decreased the amount of commercial waste while businesses were closed, operating at reduced capacity, and/or using fewer on-site employees.

EXHIBIT 4. CITY WASTE DISPOSAL TONNAGE AND FEE TRENDS, JANUARY 2018 THROUGH JUNE 2022



Source: AS400 system data and JD Edwards financial system journal entries for both solid waste and beneficial use material  
 Note: Exhibit excludes non-city “out of county” solid waste.

<sup>13</sup> Fees are adjusted annually every July 1<sup>st</sup> based on 100% of the percentage change in the Consumer Price Index, San Francisco-Oakland-San Jose for the 12-months ending on the April 30<sup>th</sup> preceding each July 1<sup>st</sup>.

## Recology SF Included a Small Amount of Non-City Waste in Its Landfill Disposal Costs

In addition to the disposal of city waste at the landfill, Recology SF also disposed of non-city (or “Out of County”) waste that originated in surrounding counties and reported the disposal costs of this waste as part of the City’s landfill disposal costs. During the audit period, Recology SF reported that it incurred about \$64 million in landfill disposal costs for solid waste and beneficial use material, of which \$622,134, or 1 percent, was associated with non-city waste disposal. Although the landfill disposal costs associated with non-city waste makes up only a small fraction of Recology SF’s total landfill disposal costs, these costs should not have been included or considered in the overall refuse collection rate-setting process. Landfill disposal costs should only include city waste, which the Agreement defines as solid waste and/or beneficial use material *collected* and *generated* in San Francisco.<sup>14</sup>

Potentially, Recology SF could benefit by unduly increasing its operating costs to dispose of city waste at the landfill—or purporting that these costs increased—because the overall refuse collection rates it is permitted to charge are set by the City based on several factors, one of which is the cost of landfill disposal fees incurred by Recology subsidiaries for providing disposal services. Although we found no evidence that Recology SF intentionally inflated its operating costs, we did find that Recology SF’s landfill disposal costs used in the overall refuse collection rate-setting process were slightly inflated due to the inclusion of the small amount of non-city waste disposal activity.

According to Recology SF, historically the costs associated with disposing of non-city waste at the landfill have been part of the landfill disposal cost component included in the overall refuse collection rate-setting process and are offset by other non-city revenue collected. However, Recology SF agreed that, going forward, it will exclude these non-city waste disposal costs from the rate-setting process.

## Recommendations

To improve the management of landfill disposal fee processes, SF Environment should require that Recology SF:

1. Strengthens the daily tonnage validation process by requiring that Recology Hay Road compare departure and arrival weights and document reasons for discrepancies.
2. Reports landfill disposal fees and tonnage for city waste separately from non-city waste, particularly as it relates to the City’s rate-setting process.

---

<sup>14</sup> The Agreement, Section 1.5, defines City Waste as solid waste and/or beneficial use material that is i) collected in San Francisco by or on behalf of permitted haulers or City, ii) generated in San Francisco and delivered to the Transfer Station by self-haulers, or iii) residue from the processing of recyclable material or organic material generated in San Francisco and processed by the contractor at the Transfer Station.

# Finding 2. Recology SF Did Not Comply With Certain Contract Provisions, Including Required Reporting and Seeking the City’s Input on Landfill Gas Recovery Plans

Recology SF complied with several provisions of the Agreement, including adhering to the solid waste disposal fee schedule and obtaining the City’s approval to use reserve funds. But Recology SF failed to comply with other obligations, including the requirement to submit key required reports to the City. SF Environment, acting on the City’s behalf, is obligated to ensure Recology SF complies with all its obligations under the Agreement, particularly because Recology SF passes on its costs to city residents and businesses. But SF Environment did not comprehensively oversee and manage the Agreement, allowing Recology SF’s noncompliance to go uncorrected.

## Recology SF Complied With the Contract’s Reserve Fund Withdrawal Provisions

The purpose of the reserve fund is to reimburse Recology SF for landfill disposal costs it incurs but cannot fully recover through the rate-setting process due to timing issues. Although the reserve fund bank account belongs to Recology SF, the Agreement states that the City is responsible for funding the reserve fund and maintaining minimum balances in it. The money in the reserve fund comes from transfers from a separate reserve fund established under a previous landfill disposal agreement and interest earnings. Expenditures from the reserve fund must be pre-approved by SF Environment, Public Works, and the City Administrator.

We reviewed Recology SF’s quarterly reporting to Public Works and the June bank account statements from 2018 through 2022. These statements show that a total of \$7,292,975 was transferred into the reserve fund during the audit period, but only one withdrawal occurred, which was for \$4,482,335 in February 2018, as shown in Exhibit 5.

**EXHIBIT 5. RESERVE FUND ACTIVITY AND BALANCE**

<b>Activity During Audit Period</b>	<b>January 2018 Balance:</b> <i>(Per Reports to Public Works)</i>		\$6,695,701 <sup>1</sup>
	1 Withdrawal	\$(4,482,335)	
	4 Transfers In – Deposits <sup>2</sup>	\$7,292,975	
	Interest Received Less Bank Fees (Net)	\$236,283	
	Remaining Balance from Prior Reserve Fund Bank Account	\$170,166	
	<b>June 2022 Balance:</b> <i>(Per Reports to Public Works)</i>		<b>\$9,912,790</b>
	<b>June 30, 2022, Balance:</b> <i>(Per Bank Statement)</i>		<b>\$9,912,788<sup>3</sup></b>

Source: Bank of America statements provided by Recology SF and Quarterly Rate Reports to Public Works

Notes: <sup>1</sup> Includes first interest payment of \$6,848 in new bank account for the audit period.

<sup>2</sup> Transfers from the prior Landfill Disposal Agreement reserve fund.

<sup>3</sup> Balance includes \$8,195 in accrued interest payable.

The \$4,482,335 withdrawal in February 2018 was to reimburse Recology SF for the costs it had incurred in January through June 2017 related to increases in solid waste disposal fee distributions to Solano County, which were associated with the implementation of the Orderly Growth Solid Waste Mitigation fee. Recology SF obtained the required city approvals before making the February 2018 withdrawal. The reimbursement

package approved by the deputy city administrator includes reports individually developed and approved by Recology SF, Public Works, and SF Environment. These reports include a detailed analysis of the reimbursement request and the supporting fee calculations and tonnage claimed.

### **Recology SF Did Not Submit Any Required Reports Until 2022**

The Agreement requires Recology SF to submit four key reports to the City: three of them annually and one monthly. Despite the Agreement being in effect since July 2015, Recology SF did not submit any of the required reports listed in Exhibit 6 until 2022.

**EXHIBIT 6. THE AGREEMENT’S KEY REPORTING REQUIREMENTS**

<b>Agreement Section</b>	<b>Report Type</b>	<b>Report Recipient</b>	<b>Report Requirement</b>
3.2	Fees	SF Environment	Submit a fee statement by the 20 <sup>th</sup> of each month reflecting all fees paid associated with solid waste, organics-free waste, and beneficial use material disposal.
3.5	Financial	Controller	Submit a financial statement within 90 days of the end the fiscal year.
6.2	Hazardous Waste	SF Environment	Submit an annual report on the quantities of unpermitted hazardous and designated waste removed from the City’s waste stream by August 31 <sup>st</sup> .
6.3	Landfill Gas Capture	SF Environment	Submit an annual report on the percentage and amount of landfill gas captured.

Source: 2015 Landfill Disposal Agreement

Because Recology SF did not submit the required reports, SF Environment did not have access to the information it should have used to properly and comprehensively oversee Recology SF’s compliance with the Agreement. The lack of timely transparency of these reports also prevented SF Environment staff, city policymakers, and the public from obtaining accurate and updated information. For example, without the monthly fee statement reports, SF Environment could not regularly assess the reasonableness of the reported tonnage of waste disposed of at the landfill or the accuracy of the disposal fees charged under the Agreement.

In fact, we discovered that SF Environment was unaware that Recology Hay Road was charging disposal fees associated with beneficial use material disposal, which would have been clear if fee assessment reports had been submitted by Recology SF and reviewed by SF Environment. Similarly, had SF Environment been receiving and reviewing the correct data, SF Environment could have identified that non-city waste was being included in the Agreement tonnage.

### **Recology SF Did Not Consult With SF Environment When Recology Hay Road Renewed Its Recovered Gas Agreement**

The Agreement requires SF Environment and Recology SF to work together to design and implement a plan to recover landfill gas unless a separate agreement to do so existed before the execution of the Agreement. In 2009, Recology Hay Road executed a contract for this purpose with an independent vendor,

G2, with a 2033 termination date.<sup>15</sup> However, in 2017, Recology Hay Road amended its agreement with G2, extending the contract termination date without seeking SF Environment’s required cooperation or input on any landfill gas recovery plan or effort.

The City may have benefitted from being included in ongoing gas recovery discussions, plans, and in developing the agreement, though the potential benefit cannot be quantified through this audit. For example, the City could have helped coordinate efforts to implement processes to separate organics and compostables from other refuse. Had the City been involved in this process, it is possible that a lower fee could have been assessed to the City’s ratepayers for the disposal of organics-free waste rather than as solid waste. Instead, Recology Hay Road—which, as a Recology SF affiliate, should comply with any agreement that Recology SF is a party to—did not seek the City’s required input and modified the agreement unilaterally.

### **Recology SF Exceeded the Number of Permitted Truck Trips to the Landfill in Some Years, but the Limit Is Unenforceable and May Be Unrealistically Low**

The Agreement limits the number of truck trips Recology SF can use to transport the City’s waste to the landfill. This limit, an average of 50 trips per day,<sup>16</sup> is intended to encourage reduced (and more efficient) disposal of San Francisco’s waste. Although Recology SF complied with the truck trip limit in 2020 and 2021, years in which there was a downward trend in solid waste disposal likely due to the pandemic, it exceeded the limit in 2018 and 2019, with 54 and 53 average trips per day, respectively. However, Recology’s subsidiaries are obligated to transport and dispose of all city waste even if it requires the truck trip limit to be exceeded. As such, Recology SF has little control over its compliance with this contract provision and the City cannot enforce it.

### **Recommendations**

To improve compliance with the Agreement, SF Environment should ensure that Recology SF:

3. Includes accurate data in all required reports and submits them to designated recipients in a timely manner.
4. Seek SF Environment’s cooperation and consultation as required by the Agreement, including obtaining SF Environment’s input on landfill gas plans before sub-agreements are executed or amended.

The SF Environment should:

5. Refine agreement language in applicable sections to ensure stated metrics align with the City’s intentions and goals such as, but not limited to, the transportation truck trips limit.

---

<sup>15</sup> Although the contract was executed in 2009, the 20-year term went into effect in 2013, after the commercial operation date.

<sup>16</sup> The limit is based on a California Environmental Quality Act (CEQA) analysis forecasting waste disposal.

## Finding 3. SF Environment Did Not Comprehensively Monitor the Landfill Disposal Agreement

---

SF Environment did not adequately monitor the Agreement, including the provisions with which Recology SF did not comply, as discussed in Findings 1 and 2. The contract has historically been overseen by SF Environment's Zero Waste Division. However, according to SF Environment's acting director, the department has not formally assigned a contract manager to the Agreement. According to the employee who has overseen the Agreement since spring 2022, the department has relied on other divisions in SF Environment and the City's Department of Public Works to monitor the Agreement provisions relevant to each, but no formal delegation of responsibilities was agreed on.

As the department responsible for overseeing the contract on behalf of the City, SF Environment should have comprehensive protocols and processes to monitor the Agreement and contractor, including but not limited to assignment of managing and monitoring duties in the department, better schedules for regularly checking in with the contractor on timely and accurate reporting, detailed tracking and evidence of staff's review of the data submitted by the contractor, and communication of noncompliance or any issues to other city bodies that may need relevant information for the overall refuse rate-setting process. The lack of timely and comprehensive monitoring may result in potential revenue offsets being missed and higher costs incurred, which can negatively impact San Francisco ratepayers.

Although SF Environment did not monitor Recology SF's compliance with most Agreement provisions, the employee who has overseen the Agreement stated that one provision was regularly monitored: the quantity of solid waste delivered to the landfill on the City's behalf compared to limits that can trigger the termination of the Agreement. However, the Agreement's language describing which solid waste counts toward this limit is not clear and could be interpreted in different ways.

Section 2.2 of the Agreement, which discusses the term of the contract, states that the contractor agrees to provide the City the right to deposit for disposal at the landfill all solid waste collected in San Francisco for nine years from the start of the contract or until 3.4 million tons of solid waste have been deposited, whichever comes first. Section 1.24 defines solid waste to include, without limitation, residue from processing source-separated recyclable or organic material.

Section 1.5 of the Agreement defines "city waste" and narrows the description of applicable waste as solid waste and/or beneficial use material that is i) collected in San Francisco by or on behalf of permitted haulers or City, ii) generated in San Francisco and delivered to the Transfer Station by self-haulers, or iii) residue from the processing of recyclable material or organic material generated in San Francisco and processed by the contractor at the Transfer Station.

Residual waste from recyclable material is processed at the Transfer Station,<sup>17</sup> but residual waste from composting or organic waste is processed outside the Transfer Station and outside San Francisco. Because composting or organic waste processing occurs outside the Transfer Station, this can mean that

---

<sup>17</sup> Per Section 1.26 of the Agreement, the Transfer Station consists of the facilities located at 501 Tunnel Avenue and Pier 96. Residual waste from recyclable material is processed at Pier 96.

this residual waste is not included in the city waste tonnage that can trigger the termination of the Agreement, as explained above.

To monitor the tonnage limit that can trigger the termination of the Agreement, SF Environment relied on solid waste disposal reports provided by Recology SF, which included the tonnage associated with composting residual waste processed outside the Transfer Station. SF Environment stated the waste tonnage processed outside the Transfer Station should be included in the tonnage limit. However, during this audit, Recology SF stated that residuals from composting waste that is processed outside the Transfer Station are not included in the Agreement.

Because these differing interpretations could affect when the end of the Agreement will occur, SF Environment should revise the Agreement to clarify which waste tonnage should be counted toward the limit that can trigger the Agreement's termination. Unless the contract language is refined and the parties to the contract agree on the requirements, SF Environment cannot accurately determine when the solid waste disposal limit will be reached.

## **Recommendations**

To improve its oversight and monitoring of the Agreement, SF Environment should:

6. Establish better protocols and processes to comprehensively manage and monitor the contractor's compliance with all Agreement provisions. Such processes should include:
  - Designating a contract manager with specific roles and responsibilities.
  - Developing a procedure that uses underlying data to validate and track the detailed fee schedule, monthly tonnage, and intercompany fees submitted by Recology SF.
  - Establishing better schedules for checking in on the status of contract deliverables.
  - Communicating noncompliance or other issues to other city bodies that may need information for the overall refuse rate-setting process.
7. Revise the Agreement to clarify which waste counts toward the city waste disposal tonnage limit that can trigger the Agreement's termination.
8. To improve the tracking of the waste disposal limit, require Recology SF to provide reports that break down the waste tonnage data that is included in the tonnages that may trigger the Agreement's termination.

## Finding 4: Comparable Entities' Agreements Include Provisions the City Should Consider

---

We reviewed other publicly available landfill disposal agreements from comparable local governments and found notable and relevant contract provisions that the City should consider as it evaluates the next iteration of the Agreement. We reviewed agreements from four local governments: the City of Oakland, City of Palo Alto, City of San Jose, and Clark County, Nevada.<sup>18</sup>

- ✓ **Date-Based Term Limit Only:** The City's Agreement term is set to expire nine years after the Agreement's effective date or after the disposal of 3.4 million tons of solid waste, whichever comes first. Other jurisdictions we considered only had term expirations based on a date, not tonnage. One peer entity attested that a tonnage maximum creates uncertainty about the agreement term, whereas a time limit guarantees disposal up to a specified date. Establishing a date-based term limit at a landfill that has a significant estimated lifespan beyond the contract term (e.g., a 10-year contract at a landfill with a 100-year projected lifespan) may help reduce the risk of unexpected costs being borne by ratepayers.
- ✓ **Refuse Rate Index Adjustment Instead of CPI:** The Agreement fee schedules allow for an annual adjustment based on the CPI-U for the San Francisco Bay Area. Although three of the four other local governments also use CPI-U for their fee adjustments, one uses a Refuse Rate Index (RRI) for its annual adjustment basis. A 2020 analysis prepared for CalRecycle—a branch of the California Environmental Protection Agency that oversees the state's waste management—stated that while RRI is commonly used for solid waste collection costs, it can also be applied to disposal costs. According to the report, RRI is intended to more closely model the change in costs specific to solid waste management through applied indices—including costs for fuel, vehicle repair, maintenance, and labor. Thus, RRI is an adjustment basis that the City could consider for its disposal agreement fees in the future, but a review of the costs and benefits of using RRI instead of CPI should be conducted before any decision to switch bases is made.
- ✓ **Noncompliance Penalties:** Apart from providing for contract termination in the event of a contractor default, San Francisco's Agreement includes few direct consequences for noncompliance with requirements related to disposal activities. In contrast, three of the four reviewed peer agreements detailed specific penalties for the contractor's noncompliance. These penalties take the form of liquidated damages, including daily monetary or per-incident penalties for failing to provide required reporting or for providing inaccurate data, per-ton damages for disposing of unallowed types of waste, and per-incident fines for failing to deliver city waste to the designated landfill or for not keeping waste separated before it is weighed. Daily fees in these agreements range from a few hundred dollars per incident, day, or ton, to thousands of dollars per incident or day. Financial penalties can greatly discourage and reduce noncompliance.

---

<sup>18</sup> We selected these jurisdictions based on factors including proximity to San Francisco, type of landfill disposal agreement structure, population size, the disposal contractor not being affiliated with Recology, and having a publicly available agreement.

- ✓ **Performance Standards:** As previously described, San Francisco's Agreement includes a transportation trip limit intended to reduce the amount of waste disposed of and, possibly, to ensure that the waste is transported efficiently. Although the number of trips may benefit from revision, including performance standards and metrics in contracts can be a good practice to ensure the City's expectations are met for how the contractor should fulfill its duties. Other jurisdictions' agreements we reviewed include performance standards. For example, one agreement includes a performance standard for average turnaround time for trucks arriving at the landfill for weigh-in. Another ties liquidated damages to performance standards, such as penalizing the contractor if it fails to resolve complaints within the requisite time. The City should evaluate its landfill disposal priorities and consider whether there are performance standards it could require to help ensure that its contractor achieves the levels of service, quality, and efficiency the City expects.
  
- ✓ **Detailed Reporting Requirements:** Other jurisdictions' agreements require more detailed reporting than the City's Agreement. Specifically, some require disaggregated reporting of inbound and outbound tonnage collected, delivered, accepted, processed, and sold for each waste type, with corresponding underlying scale data, and other details such as the number and instances of rejected loads and summaries of data by source and material type. By adding more detailed and meaningful reporting requirements to the Agreement, the City could review such data regularly as part of its monitoring to help ensure that accurate accounting of tonnage and fees is occurring.

Although no one agreement provision can guarantee contractor performance, the City should consider the costs, benefits, and feasibility of these provisions of other local governments' agreements to determine whether changes or additions should be made to the City's Agreement.

## Recommendation

To strengthen the contractual obligations in the Agreement, SF Environment should:

9. Determine whether the City should adopt other public entities' landfill agreement provisions by assessing the costs and benefits of doing so. Potentially beneficial changes to the City's agreement include revising the fee adjustment basis, adding penalties for noncompliance, adopting new performance standards, and requiring more detailed reporting and submission of underlying data.

# Appendix A: Department Response

---



SAN FRANCISCO  
**ENVIRONMENT**  
DEPARTMENT

London Breed  
Mayor

Tyrone Jue  
Acting Director

May 30, 2023

Mark de la Rosa  
Director of Audits  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. De la Rosa,

I am writing to follow up on the audit report *Recology San Francisco Generally Managed the Landfill Disposal Fees Appropriately but Did Not Always Comply With Its City Contract*. We have reviewed the report and completed the attached Recommendation and Response Form.

I would like to take this opportunity to thank the external auditor and the Controller's Office audit team for their hard work in reviewing this important city contract.

If you any have questions, please feel free to reach out to me or my Zero Waste Program Manager Jack Macy.

Sincerely,

Tyrone Jue

Acting Director

San Francisco Environment Department  
1155 Market Street, 3rd Floor, San Francisco, CA 94103  
SFEnvironment.org | (415) 355-3700

Printed on 100% post-consumer recycled content paper

## Recommendations and Responses

For each recommendation, the responsible agency should indicate in the column labeled *Agency Response* whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
SF Environment should ensure that Recology SF:		
1. Strengthens the daily tonnage validation process by requiring that Recology Hay Road compare departure and arrival weights and document reasons for discrepancies.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur  SFE will begin meeting with Recology by July 1, 2023, to develop a more robust daily tonnage reporting and validation process that accounts for discrepancies.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
2. Reports landfill disposal fees and tonnage for city waste separately from non-city waste, particularly as it relates to the City's refuse rate-setting process.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur  Recology has reported monthly disposed tonnage since the beginning of the landfill contract. Since February 2021 Recology has consistently reported separately monthly city and non-city waste tonnage, along with totals for the duration of the contract. SFE will meet with Recology by July 1, 2023, to ensure separate reporting of landfill disposal fees for city and non-city waste.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
3. Includes accurate data in all required reports and submit them to designated recipients in a timely manner.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur  SFE is now receiving all required reports in a timely manner. SFE will have discussions with the SF Controller's Office of the Rate Administrator to regularly provide them with copies of required reports.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

Recommendation	Agency Response	CSA Use Only Status Determination*
<p>4. Seeks SF Environment’s cooperation and consultation as required by the Agreement, including obtaining SF Environment’s input on landfill gas plans before sub-agreements are executed or amended.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will begin meeting with Recology by July 1, 2023, to ensure any sub-agreements or amendments to the landfill gas plan to provide input.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
SF Environment should:		
<p>5. Refine agreement language in applicable sections to ensure stated metrics align with the City’s intentions and goals such as, but not limited to, the transportation truck trips limit.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will evaluate long-term contract management and agreement improvements with the Controller’s Office, Office of the City Attorney, and Office of Contracts Administration. The landfill contract will require action within the next one year as part of a potential contract renewal or new solicitation.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>6. Establish better internal protocols and processes to comprehensively manage and monitor the contractor’s compliance with all Agreement provisions. Such processes should include:</p> <ul style="list-style-type: none"> <li>• Designating a contract manager with specific roles and responsibilities.</li> <li>• Developing a procedure that uses underlying data to validate and track the detailed fee schedule, monthly tonnage, and intercompany fees submitted by Recology SF.</li> <li>• Establishing better internal schedules for checking in on the status of contract deliverables.</li> <li>• Communicating noncompliance or other issues to other city bodies that may need information for the City’s refuse rate-setting process.</li> </ul>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will evaluate long-term contract management and agreement improvements with the Controller’s Office, Office of the City Attorney, and Office of Contracts Administration. The landfill contract will require action within the next one year as part of a potential contract renewal or new solicitation.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

Recommendation	Agency Response	CSA Use Only Status Determination*
<p>7. Revise the Agreement to clarify which waste counts toward the waste disposal tonnage limit that can trigger the Agreement's termination.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will begin meeting with Recology by July 1, 2023, to reach agreement on which tons of waste are applicable and identify needed amendment to the Agreement. SFE will then work with the Environment Commission, City Attorney and Controller's Office and any other needed city agencies to incorporate and approve any Agreement amendments.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>8. To improve the tracking of the waste disposal limit, require Recology SF to provide reports that break down the waste tonnage data that is included in the tonnages that may trigger the Agreement's termination.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will begin meeting with Recology by July 1, 2023, to improve the tracking and reporting of waste disposal tonnages that may trigger the Agreement's termination. This action requires the resolution of recommendation 7.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>
<p>9. Determine whether the City should adopt other public entities' landfill agreement provisions by assessing the costs and benefits of doing so. Potentially beneficial changes to the City's agreement include revising the fee adjustment basis, adding penalties for noncompliance, adopting new performance standards, and requiring more detailed reporting and submission of underlying data.</p>	<p><input checked="" type="checkbox"/> Concur    <input type="checkbox"/> Do Not Concur    <input type="checkbox"/> Partially Concur</p> <p>SFE will evaluate long-term contract management and agreement improvements with the Controller's Office, Office of the City Attorney, and Office of Contracts Administration. The landfill contract will require action within the next one year as part of a potential contract renewal or new solicitation.</p>	<p><input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested</p>

## Appendix B: Contractor Response

---



June 29, 2023

BY EMAIL

Mark de la Rosa  
Director of Audits  
City Hall, Room 476  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102  
[mark.p.delarosa@sfgov.org](mailto:mark.p.delarosa@sfgov.org)

RE: **Recology Response to Audit Report on the Performance Audit of the Landfill Disposal Agreement Between the City and County of San Francisco and Recology San Francisco**

Dear Mr. de la Rosa:

Thank you for the opportunity to review and comment on the draft report on the Performance Audit of the Landfill Disposal Agreement Between the City and County of San Francisco and Recology San Francisco.

We appreciate the thorough job conducted by the auditors. We are pleased with the core findings that Recology SF (RSF) “adhered to the solid waste disposal fee schedule” and had “controls and processes to appropriately measure waste disposal and calculate corresponding disposal fees.” The audit recommendations include many constructive suggestions that will help both parties improve management of the Landfill Disposal Agreement (LDA).

Nevertheless, we do take issue with certain audit findings, as follows:

### **Inclusion of Non-City Waste**

We believe the audit findings relating to non-City waste are misplaced because the treatment of non-City waste in the prior rate process was reasonable and was approved by the City. These findings should be reframed as a suggestion for future change rather than a criticism of past failure.

The report states that RSF incorrectly included a small amount of non-City waste in the landfill disposal tonnages and costs used in the prior rate process, causing the numbers to be “inflated.” But there was nothing incorrect about inclusion of these amounts, and therefore it’s unfair to call the numbers “inflated.”

The approach taken in the prior rate process was to include all costs and revenues of RSF in calculating the new RSF tip fee, including those associated with non-City tons. The rate model included with RSF’s 2017 rate application and approved by the City includes separate line items for “Non-San Francisco Tons” and “Non-San Francisco Revenue from Tipping Charge” (see Schedule F.1).

Importantly, the rate model also assumed that the revenue needed to cover the cost of the non-City tons would be collected from the non-City customers. This means that, contrary to what could be inferred from the report, *San Francisco ratepayers did not bear the cost of the non-City tons.*

We do not object to excluding the non-City tons and related costs and revenues from future rate processes. What we object to is the assertion that including them was wrong or resulted in "inflated" numbers, when that treatment is a longstanding ratemaking practice that was reasonable and approved by the City.

For the above reasons, we believe the provisions of the report relating to non-City tons should be revised along the abovementioned lines.

**Landfill Gas Contract**

We believe the audit findings relating to the landfill gas contract are based on a misreading of the LDA and should be deleted from the report.

The report reads as if Recology had an affirmative duty under the LDA to consult with SF Environment (SFE) before amending the landfill gas contract. In the cover letter, the fact that Recology did not consult with SFE about the amendment is listed as evidence that RSF "has not complied with several of the [LDA's] provisions." On p. 15, the report states that Recology amended the landfill gas contract "without seeking SF Environment's required cooperation or input." Similar references occur elsewhere in the report.

This reading of the LDA is incorrect. §6.3 of the LDA requires Recology and SFE to "cooperate in good faith to design and implement a plan to use... landfill gas" to produce energy or fuel vehicles. The only obligation is to cooperate regarding *use* of the gas. The LDA nowhere limits Recology's ability to amend its contract with its landfill gas system operator. Moreover, the contract amendment that the report cites as evidence of non-compliance did not address *use* of landfill gas at all. Therefore, there are no grounds to assert that Recology failed to comply with the LDA by not consulting with the City about the amendment.

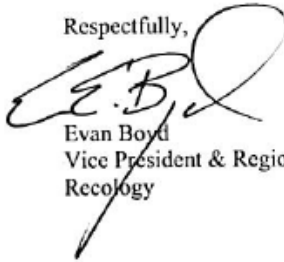
The report also argues on p. 15 that if Recology had consulted with the City regarding the amendment, the City could have implemented processes to sort organics from refuse and therefore obtain the lower organics-free waste tip fee. We did not follow this logic. The City could have worked with Recology to implement a trash processing program at any time, without any change to or impact on the landfill gas contract.

For the above reasons, we believe the provisions of the report relating to landfill gas should be deleted.

\*\*\*

Thank you for your consideration.

Respectfully,



Evan Boyd  
Vice President & Regional Manager - San Francisco  
Recology