CITY AUDITOR'S OFFICE

Landfill Recycling Cost Review

September 3, 2019

AUDIT REPORT NO. 1917

September 3, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Landfill Recycling Cost Review*, which was added to the City Council-approved fiscal year (FY) 2018/19 Audit Plan with the approval of the Audit Committee. This audit was conducted at the request of the Public Works Director to validate financial information related to the recycling contract's "share price" calculation as the subcontractor is requesting adjustments to the contract terms.

The audit found that the subcontractor's recycling facility financial analysis did not agree to its underlying accounting data. As well, supporting documentation was not provided for labor costs, which represented approximately sixty percent of total costs, and about $418,000 of the documented expenses were questionable.

The subcontractor's proposed tipping fee and calculation changes would have cost the City about $1.7 million for the audited period of May 1, 2018, through April 30, 2019. Further, the subcontractor contributed a higher percentage of the recycling contaminants that increase its processing costs.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Kyla Anderson, CIA, CLEA – Sr. Auditor
Paul Christiansen, CPA, CIA – Sr. Auditor

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AUDIT HIGHLIGHTS

Landfill Recycling Cost Review

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WHY WE DID THIS AUDIT

This audit was conducted at the request of the Public Works Director to validate financial information related to the current recycling contract's "share price" calculation. The contractor's subcontractor is now requesting adjustments to the contract terms.

BACKGROUND

The City's current recycling contract with the Salt River Pima-Maricopa Indian Community (SRPMIC), the owner and operator of Salt River Commercial Landfill Company (Salt River Landfill), is for March 1, 2016, to December 31, 2021. A subcontractor owns and operates the River Recycling facility at the Salt River Landfill.

The City provides single-stream recycling, which means customers place all recyclables in the same container and the recycling center sorts the incoming materials by recyclable type.

The City's contract with SRPMIC provides that recyclable revenues earned in excess of a stipulated processing cost rate are shared with the City. In FY 2017/18 and FY 2018/19, the City received $330,700 and $159,400, respectively, from the sale of recycled materials.

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WHAT WE FOUND

The recycling facility financial analysis and accounting data included unsupported and questioned costs.

Specifically, we found:

- Financial cost analysis for the River Recycling facility did not agree to the subcontractor's underlying general ledger accounting data.
- The subcontractor did not provide the requested documentation to support certain costs, including all its labor costs. Tested expenses included $418,000 in other questioned costs.
- The proposed contract modifications would have cost the City about $1.7 million for the May 1, 2018, through April 30, 2019, period.

The subcontractor contributed a higher percentage of rejected recyclables, which increases processing costs.

Besides being a primary operational cost driver, rejected materials increase the facility's disposal costs. We found:

- The cities of Scottsdale and Mesa have comparable rates of rejected materials, about 9%, contributing a significantly smaller portion of the facility's contaminants than the subcontractor and other users.
- Both cities have public education programs while the subcontractor simply provides a website.

WHAT WE RECOMMEND

We recommend the Public Works Director:

- Require the recycling facility operator to provide complete supporting cost documentation for audit review before agreeing to renegotiate contract terms.
- If renegotiating the City's recycling contract terms in advance of the agreement's termination date, evaluate whether proposed terms have a proportionate impact on risk distribution between the City and other parties.
- When renegotiating the City's recycling contract terms, include the facility's users' proportionate contamination (rejected recycling tons) impact on costs.

MANAGEMENT RESPONSE

The department agreed with the recommendations, noting that it will not agree to changes in the calculation factors without proper supporting documentation of costs and consideration of contamination levels.

BACKGROUND

This audit of *Landfill Recycling Cost Review* was conducted at the request of the Public Works Director to validate financial information related to the current recycling contract's "share price" calculation. The recycling subcontractor wants the City and its contractor to renegotiate the contract early because its expenses have increased, and it is losing money on the City's recycling.

The City's current recycling contract with the Salt River Pima-Maricopa Indian Community (SRPMIC), the owner and operator of Salt River Commercial Landfill Company (Salt River Landfill), is for March 1, 2016, to December 31, 2021. The City and SRPMIC first executed a landfill recycling service contract in 1996 when the City began offering recycling to its citizens.

As illustrated in Figure 1, the City provides single-stream recycling, which means customers place all recyclables in the same container and the recycling center sorts the incoming materials by recyclable type, such as glass or plastic.

Salt River Pima-Maricopa Indian Community – contracting party for the City's solid waste and recycling agreements.

Salt River Landfill –the location of the City's solid waste disposal and recycling.

River Recycling – facility at Salt River Landfill for recycling operations.

Subcontractor – publicly-traded company that owns and operates the River Recycling facility at the Salt River Landfill.

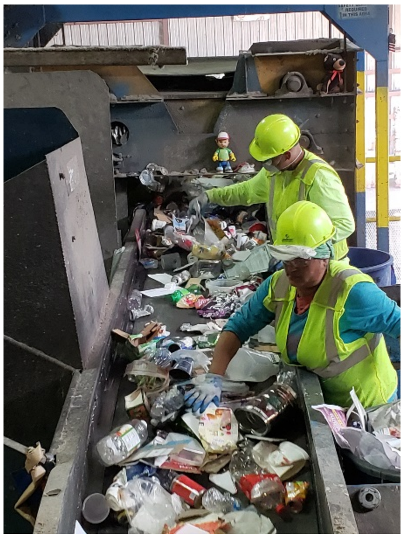
Figure 1. Single Stream Recycling Intake at River Recycling Facility

SOURCE: City Auditor's Office tour of River Recycling facility.

The current subcontractor acquired the prior recycling subcontractor's operation in August 2017. Since that time, it has operated River Recycling, the materials recovery facility (MRF) at the Salt River Landfill. After purchasing the operation, the subcontractor invested in the River Recycling facility, including adding new sorting machines and equipment. The subcontractor indicated River Recycling can process up to 85,000 tons of commingled recyclable materials per year.

The company also reported that recycled material purchasers now require an extremely low rate of contamination. Therefore, it added line staff, as illustrated in Figure 2, in an effort to reduce the amount of nonrecyclable contamination in the final baled product.

Figure 2. River Recycling Facility Staff Hand Sorting Recyclables



SOURCE: City Auditor's Office tour of River Recycling facility.

In addition to operating River Recycling, the subcontractor operates its own solid waste and recycling collection services in the area and also delivers its collected recycling materials to the River facility for processing.[1] However, as shown in Table 1, the cities of Scottsdale and Mesa provide the majority of recycling tonnage, with the subcontractor providing around 21%.

Table 1. Percentage of Inbound Tonnage for River Recycling Facility, May 1, 2018, - April 30, 2019

User	Percent of Total
City of Scottsdale	39.4%
City of Mesa	38.8%
Subcontractor	21.0%
Other	0.8%
Total	**100%**

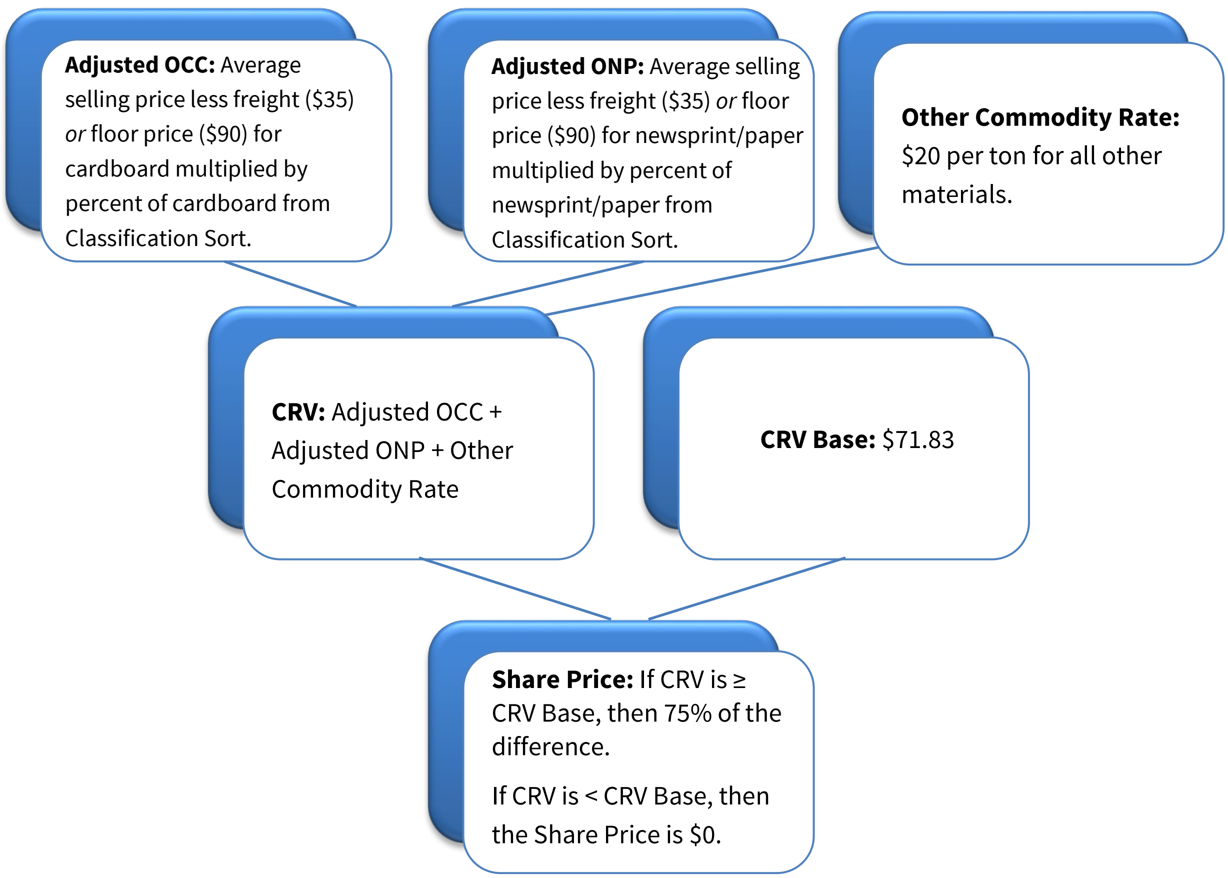
SOURCE: Auditor analysis of material management data from the subcontractor's materials tracking system.

[1] The subcontractor also operates collection services and recycling centers in other areas of the Valley.

Shared Revenues

The City's contract with SRPMIC provides that recyclable revenues earned in excess of a stipulated processing cost rate are shared with the City. As shown in Figure 3, the City's "Share Price" per ton is based on 75% of the Composite Revenue Value (CRV) less the processing cost (CRV Base).

Figure 3. Recycling Contract's Share Price Per Ton Calculation



SOURCE: Auditor analysis of contract 2016-022-COS Exhibit A.

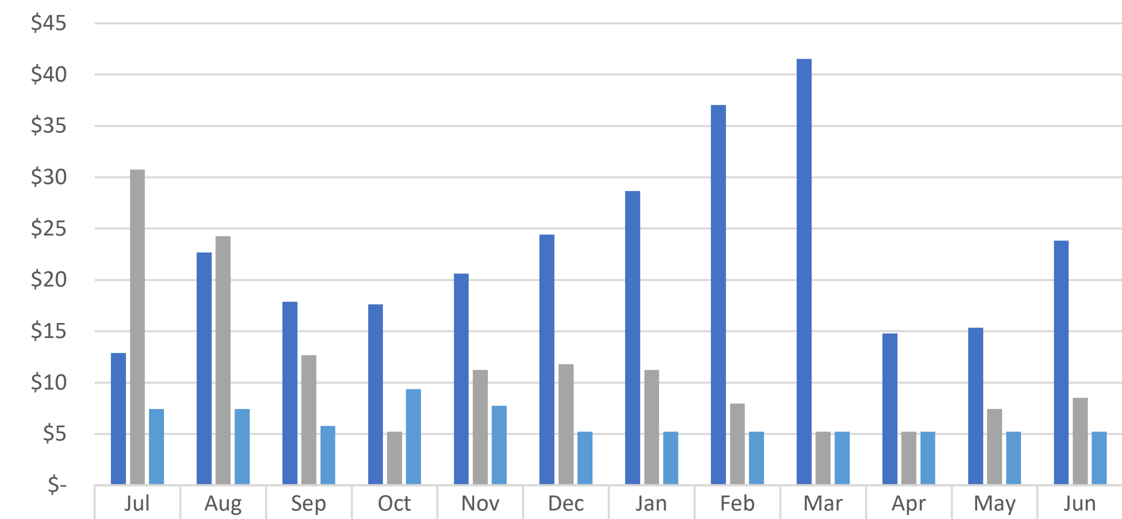
This calculation, which is included in the contract as an exhibit, includes several "floor prices" or limits that reduce the City's exposure to price fluctuations. Specifically, the values of certain cardboard and paper recycled materials are determined by industry index values and are subject to floor pricing. Additionally, CRV Base, an allowance for the facility's processing costs, is a specific dollar amount in the contract that increases annually based on an inflation index.

A periodic "Classification Sort" determines the percentages used in the calculation for cardboard, paper, all other recyclables and rejects. City representatives observe as the facility operator segregates a sampling of Scottsdale's delivered recyclables and hand sorts them to determine the percentages of cardboard, newspaper and other recyclables. These percentages are then used in the calculation until the facility operator conducts another Classification Sort.

Due to changes in the recycled commodities market in the last few years, the recycling subcontractor has asked the contractor to ask the City to pay a recycling tipping fee to cover its costs. One major change occurred when the Chinese government in early 2018 imposed strict limits on the import of recyclable materials, such as dramatically lowering the allowable reject rate in each bale from 5% or more down to 0.5%. This limitation resulted in a much smaller market to sell recyclables that contain more contamination and caused lower commodity prices and higher operating costs to screen the materials.

In conjunction with lower commodity prices, the City's share price revenues have decreased significantly over the past two years. As shown in Figure 4, during the last 3 fiscal years, the City's share price per ton peaked at almost $42 per ton in March 2017 and has since dropped as low as $5 per ton in 2019. In FY2017/18 and FY2018/19, the City received $330,700 and $159,400, respectively, from the sale of recycled materials.

Figure 4. Scottsdale Recycling Share Price per Ton from July 2016 to June 2019



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2016/17	$12.88	$22.68	$17.88	$17.61	$20.61	$24.42	$28.67	$37.04	$41.53	$14.80	$15.35	$23.82
FY 2017/18	$30.75	$24.27	$12.66	$5.23	$11.24	$11.79	$11.24	$7.96	$5.23	$5.23	$7.42	$8.51
FY 2018/19	$7.42	$7.42	$5.78	$9.36	$7.73	$5.23	$5.23	$5.23	$5.23	$5.23	$5.23	$5.23

SOURCE: Provided by City of Scottsdale Solid Waste department.

OBJECTIVES, SCOPE, AND METHODOLOGY

This *Landfill Recycling Cost Review* was added to the City Council-approved fiscal year (FY) 2018/19 Audit Plan with the approval of the Audit Committee. The Public Works Director requested this audit because the City's contractor, on behalf of its recycling subcontractor, wants to renegotiate the contract due to its reported increased costs for processing recyclables. The City's recycling agreement (2016-022-COS) is with the Salt River Commercial Landfill Company (Salt River Landfill), which subcontracts with another company to operate the recycling facility. Recycling services are paid through a revenue sharing calculation that is detailed in the agreement. The audit objective was to evaluate the recycling agreement's revenue sharing calculation and input data. We limited our review to the most recently completed 12-month period before the audit, May 1, 2018, to April 30, 2019.

To gain an understanding of the subcontractor's recycling operation for the City of Scottsdale, we met with representatives from the Salt River Landfill, the subcontractor, and the City's Solid Waste department and received the subcontractor's summary financial data for the River Recycling facility. Additionally, we interviewed the City's Solid Waste Director, Systems Manager, Customer Service & Outreach Manager and a Sr. Program Representative. We also interviewed the subcontractor's General Manager, Finance Manager and Division Accountant. Additionally, we toured the River Recycling facility with some of the subcontractor's management and operational staff to observe the facility in operation.

Further, we reviewed related audits conducted by the City Auditor's Office, including *Residential Solid Waste Program Cost*, Audit Report No. 1117 and *Commercial Solid Waste Operations*, Audit Report No. 1706. In addition, we reviewed the subcontractor's 2018 Annual Report.

To analyze the past year's transactions, we obtained the subcontractor's general ledger and material tracking data. Using this data, we tested the subcontractor's reported processing costs per ton of materials received and the revenues shared with the City. Specifically, we selected a sample of general ledger entries and requested the underlying documentation to evaluate whether the expenses were related to the River Recycling facility and the stated period. We also analyzed the reported River Recycling tonnage data for all users, which primarily include the City of Scottsdale, the City of Mesa and the subcontractor. To evaluate data reliability, we verified a sample of the amounts reported as collected from Scottsdale and Mesa to the cities' tonnage tickets or summaries. To evaluate efforts at reducing recyclable contaminants, we also reviewed Scottsdale's, Mesa's and the subcontractor's documented customer education programs.

Our audit found the recycling facility financial analysis did not agree to the underlying general ledger accounting data, requested documentation was not provided to support certain costs, including all its labor costs, and testing identified several questioned costs. Additionally, the subcontractor contributes a higher percentage of rejected recyclables, which increases processing costs.

All reportable findings are included in this public report. More detailed information from the subcontractor's proprietary data has been provided to the department separately in a confidential draft.

We 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. Audit work took place from May to August 2019.

FINDINGS AND ANALYSIS

1. The recycling facility financial analysis and accounting data includes unsupported and questioned costs.

Financial cost analysis for the River Recycling facility did not agree to the underlying general ledger accounting data. Further, the subcontractor did not provide the requested documentation to support certain costs, including all its labor costs, which represent approximately 60% of the processing costs. As well, accelerated depreciation and tested expenses that were recorded in the wrong period overstated costs by at least $417,700.

A. The financial analysis that the subcontractor provided to the City for the recycling facility's operations did not tie to the underlying general ledger accounting data.

   In late May 2019, the subcontractor provided the City a financial analysis of the recycling facility's revenues and expenses from 2017 through April 2019 with projected revenues and operating expenses through December 2020. However, compared to the underlying accounting data provided to us, this analysis overstated the facility's processing costs by an average of 26% and overstated its losses by an average of 44%. The subcontractor's accounting staff acknowledged the financial analysis did not match the accounting data, noting that the difference was due to applied corporate margin markup. This substantial markup would be in addition to management fees already recorded in the facility's operating costs.

   As a result of these variances in the provided cost analysis, we instead analyzed the general ledger accounting data for the most recently completed 12 months, May 1, 2018, through April 30, 2019.

B. Based on the supporting records provided, we identified $418,000 in questioned costs in the tested expenses. These include accelerated depreciation expenses, out-of-period expenses, and uncapitalized fixed assets. Further, 60% of recorded costs could not be verified as being for the River Recycling facility operations and in the correct accounting period.

   1. The subcontractor greatly accelerated the depreciation expense for 68 of the 91 River facility assets, or 75% of the items.

      Shortly after acquiring this recycling operation, the subcontractor added a significant investment in machinery and other heavy equipment as well as a few vehicles. To calculate these assets' depreciation expense, the subcontractor applied a useful life of 2 years or less for 66 of 72 machinery and equipment assets, or 92% of the items. In fact, for 63 of these assets the subcontractor assigned just a one-year useful life. In contrast, during our facility tour, the subcontractor management stated that they expect most of the machinery and equipment to last about 15 years.

      In addition, the subcontractor initially recorded a useful life of 15 years and of 30 years for two building improvements placed in service in early 2019. However, it subsequently reduced the useful life for both assets to just over two years.

      By selecting a very short useful life for depreciation purposes, each item's cost is expensed in only one or two years, rather than being expensed over the expected service period.

To estimate the effect of different useful lives on depreciation costs, we recalculated the depreciation expense for these assets based on similar assets on the fixed asset list. Specifically, we identified the useful lives for these comparable assets and grouped them into short, medium, and long terms. Then we recalculated annual depreciation expense using these useful life ranges, as shown in Table 2.

Table 2. Estimated Annual Depreciation Expense of Noted Assets

Asset Description	Acquisition Date	Count	Low Estimate [1]	Medium Estimate [1]	High Estimate [1]
Heavy Machinery and Equipment Conveyors, Sorting Machines, Bunkers, Scales, Platform	Oct 2017	60	$ 62,700	$ 43,800	$ 29,200
Vehicles Tractor, Loaders, Forklifts	Oct 2017	6	$ 78,900	$ 59,200	$ 47,300
Building & Improvements Electrical, Fire Sprinkler System	Early 2019	2	$ 600	$ 400	$ 200
Estimated for Revised Service Lives			$142,200	$103,500	$ 76,800
Expense Reduction			**$199,300**	**$238,000**	**$264,700**

[1] These low, medium and high estimates are based on ranges of short, medium and long lives for other similar equipment within the same asset categories.

SOURCE: Auditor analysis of the subcontractor's fixed assets data for the audit period.

Applying very short useful lives for these assets, the subcontractor recorded higher than expected depreciation expense of between $199,300 and $264,700. The accelerated depreciation represents between 58% to 78% of the total recorded depreciation expense.

2. The subcontractor did not provide supporting documentation for 14 of the 33 selected expenses. In particular, detailed documentation was not provided for labor costs, which represented 60% of total processing costs. Of those tested, the recorded expenses included at least $179,700 in prior-period expenses and fixed asset purchases that would normally be capitalized.

   For a sample of expenses recorded for the period of May 1, 2018, through April 30, 2019, we requested the supporting documentation to determine whether the expense was for the River Recycling facility and recorded in the correct period. However, as described in Table 3 on page 11, the subcontractor did not provide supporting documentation for 14 audit requests and we found eight questionable expenditures that had a material impact on the financial results.

Table 3. Unsupported and Invalid Expenses Noted in Testing

Sample Area	Items Requested	Items Not Provided	Unsupported Expenses	Invalid Items	Invalid Expenses
Labor For the 10 selected weekly payroll periods, detailed payroll registers were not provided. As a result, payroll expenses could not be compared to timesheets and pay rates. While invoices for contracted labor for the test weeks were provided, detailed support was not provided for the hours worked and pay rates. We noted one $49,600 contract labor payment related to a prior period, not the reported period.	10	10	*	1	$49,600
Accounts Payable For two of 11 selected accounts payable items, supporting documentation was not provided. Two tested items related to acquisitions or major repairs of fixed assets. Such expenses are normally capitalized as assets and depreciated over their useful lives rather than being expensed in the current period. These exceptions increased reported expenses by $66,700.	11	2	$1,100	2	$66,700
Journal Entries For two of 12 selected journal entries, supporting documentation was not provided. Two of the 10 tested items, totaling $25,500, related to a prior period and were not valid expenses of the reported period.	12	2	$30,200	2	$25,500
Other Items Reviewed Three of 19 payments for landfill disposal were related to a prior period, not the reported period.				3	$37,900
Totals		**14**	*	**8**	**$179,700**

*** -** Subcontractor's proprietary information (labor expense total) not disclosed.

SOURCE: Auditor analysis of testing results.

C. The subcontractor's proposed contract modifications would have cost the City approximately $1.7 million for the May 1, 2018, through April 30, 2019, period.

In early 2019, the contractor and subcontractor approached the City and requested to renegotiate the City's recycling contract. The City's contract does not expire until December 2021, but the subcontractor cited decreased revenues and increased costs as a reason to modify the contract terms.

In late May, the subcontractor proposed contract modifications that include an added tipping fee of $100 per ton of recyclable materials along with an increased share of the earned revenues. Because the tipping fee would cover its processing costs, the subcontractor proposed sharing with the City 80% of the recycled materials value, or revenues, less disposal and freight costs rather than the 75% of the value less processing and disposal costs under the current contract terms.

To determine the impact these proposed contract terms would have on the City, we calculated the tipping fees based on the City's recycling tonnage. We calculated the shared revenues by multiplying the City's tonnage by 80% of the materials sale revenue per ton processed less the adjusted disposal and transportation costs per ton processed.

As shown in Table 4, if these contract changes were in effect during the audit period, the City's recycling would have cost approximately $1.5 million rather than generating $171,000 in revenue. Therefore, the changes would have cost the City approximately $1.7 million.

Table 4. Estimated Revenue (Expense) for Proposed Contract Changes Based on May 1, 2018, – April 30, 2019, Data

	Current Terms	Proposed Terms	Difference
Tipping Fees	$0	($2,359,093)	($2,359,093)
Revenue Share	$171,489	$854,180	$682,691
Net Revenue (Expense)	$171,489	($1,504,913)	($1,676,402)

SOURCE: Auditor analysis of the proposed contract terms using current period data.

Alternatively, if the City sent all recyclables to the landfill instead of the recycling facility, the City would have paid only $25.78 per ton, for a total of $608,000 in landfill tipping fees.

In its 2018 Annual Report, the subcontractor reported that it grows its business by seeking price increases "to offset increased costs, improve our operating margins and earn an appropriate return on our substantial investments in vehicles, equipment, landfills, transfer stations and recycling processing centers."

The proposed $100 tipping fee would cover all of the subcontractor's processing, depreciation, and administrative costs, allowing the subcontractor to not depend on the related recyclable revenues and yet the proposal would give the company 15% of those revenues as well. Given the current recyclable commodity market condition, the proposal would essentially transfer all market volatility risks to the City.

Recommendations:

The Public Works Director should:

A. Not rely on the River Recycling facility financial analysis provided by the subcontractor in May 2019.

B. Require the recycling facility operator to provide complete supporting cost documentation for audit review before agreeing to renegotiate contract terms.

C. If renegotiating the City's recycling contract terms in advance of the agreement's termination date, evaluate whether proposed terms have a proportionate impact on risk distribution between the City and other parties.

2. The subcontractor contributes a higher percentage of rejected recyclables, which increases processing costs.

The subcontractor explained that contaminants in recycling loads require significant manual labor in addition to the automated sorting machinery. Besides being a primary cost driver, the rejected materials go to the landfill without the facility users paying added tipping fees. Between May 1, 2018, and April 30, 2019, the subcontractor transferred close to 16,000 tons of rejected materials, or 28% of total tonnage, from the River Recycling facility to the landfill.

To evaluate the amount of rejects attributable to the City of Scottsdale, the City's recycling contract provides for a periodic "classification sort" to evaluate the level of contaminants and the mix of recyclable materials by type. According to the contract, if this classification sort finds a reject rate of more than 15%, the City would pay a landfill tipping fee for this percentage of its incoming recycling tonnage. However, for Scottsdale, the classification sort reject rate of 8.2% has been used since February 2016.

> **Classification Sort –** for selected load, operator sorts recycled materials into contaminants and type of recyclables material, including corrugated cardboard, paper and other.

Similarly, the City of Mesa's contract provides for a classification sort, and its Solid Waste Department reported its reject rate was 9.6%. During this audit, the subcontractor stated that a classification sort has not been performed on its own recycling tonnage.

As shown in Table 5 on page 14, using the available classification sort percentages, only about 3,900 of the rejected tons would be attributable to the cities of Scottsdale and Mesa. The remaining 12,000 tons would be attributable to the subcontractor and other minor facility users, approximately equivalent to their total tonnage brought to River Recycling. Given that it may be unlikely that all recycling tonnage is contaminated, we also estimated using a much higher 20% reject rate for both Scottsdale and Mesa and 100% reject rate for the other minor users; the subcontractor would still be contributing substantially to the rejected tons, with approximately 57% of its incoming tonnage contaminated.

Table 5. Estimated Contaminants by Major Recycling Source

	Estimate 1		Estimate 2	
	Classification Sort Reject %	Est. Rejected Tons Per User	Classification Sort Reject %	Est. Rejected Tons Per User
Rejected recycling tons		**15,888**		**15,888**
City of Scottsdale [1]	8.2%	1,803	If 20%	4,397
City of Mesa	9.6%	2,082	If 20%	4,338
Cities' contaminants		**3,885**		**8,735**
Remaining rejected tons	**Calculated % [2]**	**12,003**	**Calculated % [2]**	**7,153**
Subcontractor	98.6%		57%	
Other Users	100%		100%	

[1] Does not include tonnage delivered directly to another facility during a River Recycling shutdown period. This analysis is solely for River Recycling tonnage transferred to the landfill.

[2] This calculated percentage represents the proportion of the subcontractor's and the other users' incoming recycling tons that would have to be rejected to total to the remaining rejected tons.

SOURCE: Auditor analysis of Salt River Landfill invoices to the subcontractor for landfill tipping fees charged for tons received from the recycling facility and material management data from the subcontractor's materials tracking system.

The difference in contamination rates can likely be attributed to the facility users' public education programs. Both cities have public education programs while the subcontractor simply provides a website.

For the City of Scottsdale, 6 Solid Waste Program Representatives provide citizen education, including 'can inspections' by sorting through curbside recycle cans for nonrecyclable materials and refuse cans for recyclable items. If an inspection finds incorrect sorting, the Program Representative leaves an informational tag for the customer, as shown in Figure 5 on page 15, on either the recycling or trash containers. The program has a goal to reach every customer at least once per year, and in the first quarter of 2019, its representatives inspected about 23,000 customer cans and tagged 7,386 of them. Program Representatives also conduct follow-up inspections for tagged cans and may remove a customer's recycle can after continued non-compliance.

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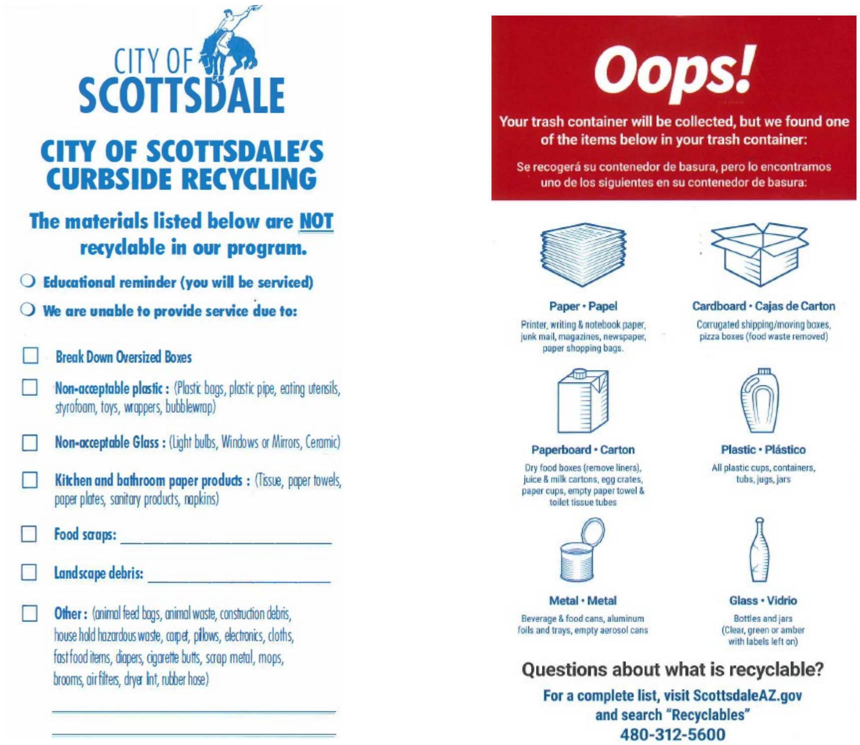
Figure 5. Scottsdale Solid Waste Program's Informational Recycling Tags



SOURCE: City of Scottsdale Solid Waste Department

In addition, the program representatives will also make recycling presentations in Scottsdale schools and to Homeowner Associations.

The City of Mesa's Solid Waste Department reported having 2 outreach personnel who conduct can inspections during approximately half of their workday.

Both cities also maintain detailed recycling webpages.

Though the subcontractor is asking for the City of Scottsdale to pay a tipping fee to cover its recycling costs, the subcontractor appears to have contributed a much larger proportion of the contaminants that drive the manual labor costs higher.

Recommendation:

The Public Works Director should include the users' proportionate contamination (rejected recycling tons) impact on costs if renegotiating the City's recycling contract terms.

MANAGEMENT ACTION PLAN

1. The recycling facility financial analysis and accounting data includes unsupported and questioned costs.

Recommendations:

The Public Works Director should:

A. Not rely on the River Recycling facility financial analysis provided by the subcontractor in May 2019.

B. Require the recycling facility operator to provide complete supporting cost documentation for audit review before agreeing to renegotiate contract terms.

C. If renegotiating the City's recycling contract terms in advance of the agreement's termination date, evaluate whether proposed terms have a proportionate impact on risk distribution between the City and other parties.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

PW Director will propose to Salt River Pima-Maricopa Indian Community (SRPMIC) that the City agree to the request of SRPMIC's vendor to renegotiate the revenue payment calculation prior to the expiration of the current agreement. The City position in this renegotiation will be that instead of paying a tipping fee for recycling processing as proposed by the vendor, the City will agree to retain the current formula and potentially adjust commodity price floors and processing costs used in the formula. The City will not agree to any changes in these factors without proper supporting documentation of all costs claimed by the vendor, in particular labor costs. The City will also insist on a reasonable depreciation schedule for capital investments. If the SRPMIC vendor does not agree to the City's proposed terms the City will be prepared to adhere to the existing contract terms until its termination date in December 2021.

RESPONSIBLE PARTY: PW Director

COMPLETED BY: 6/30/2020

2. The subcontractor contributes a higher percentage of rejected recyclables, which increases processing costs.

Recommendation:

The Public Works Director should include the users' proportionate contamination (rejected recycling tons) impact on costs if renegotiating the City's recycling contract terms.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The negotiations described in response 1 above will include the insistence that processing costs be adjusted to account for the extremely low level of contamination in Scottsdale's recycling stream compared to that of the recycling stream delivered by the vendor's collection vehicles.

RESPONSIBLE PARTY: PW Director

COMPLETED BY: 6/30/2020

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