

COUNTY OF SANTA BARBARA
Solid Waste Franchise Compliance Audit of
BFI Waste Systems of North America, Inc. - Part 2

* * *

FINAL REPORT
February 24, 2009

Prepared by:

HF&H Consultants, LLC
3990 Westerly Place, Suite 195
Newport Beach, California 92660-2311
Phone: 949/251-8628
Facsimile: 949/251-9741



3990 Westerly Place, Suite 195
Newport Beach, California 92660
Telephone: 949/251-8628
Fax: 949/251-9741
www.hfh-consultants.com

Robert D. Hilton, CMC
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson

February 24, 2009

Ms. Leslie A. Wells
Program Manager
County of Santa Barbara
Resource Recovery & Waste Management Division
130 East Victoria Street, Suite 100
Santa Barbara, California 93101

FINAL REPORT
**Solid Waste Franchise Compliance Audit of
BFI Waste Systems of North America - Part 2**

Dear Ms. Wells:

We have completed the second part of our compliance audit of BFI Waste Systems of North America, Inc. ("BFI"), the refuse hauler for the County of Santa Barbara ("County") in Zone 2. The Solid Waste Billing Audit, Part 1 of the compliance audit of BFI is documented in our report dated December 11, 2007. Our findings and recommendations for Part 2 are documented in the enclosed report.

We are pleased to have had the opportunity to assist the County of Santa Barbara with this compliance audit. We would like to thank Tom Chiarodit from the County and Thor Schmidt and the other BFI personnel for their assistance with this project. If you have any questions, please call Laith at 949/251-8902 or Darrell at 949/251-0231.

Very truly yours,



Laith B. Ezzet, CMC
Senior Vice President



Darrell L. Bice
Director of Solid Waste & Recycling Audits

County of Santa Barbara

**Solid Waste Franchise Compliance Audit of
BFI Waste Systems of North America - Part 2**

TABLE OF CONTENTS

<u>SECTION</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
I	Executive Summary	1
II	Background, Study Objectives and Scope of Work	2
III	Findings	4

EXHIBITS AND APPENDICES

Exhibit 1	Reported Tonnage - Calendar Year 2007
Exhibit 2	Residential Tonnage and Average Weight per Home and per Equivalent 32-Gallon Can - Calendar Year 2007
Exhibit 3	Analysis of Weight per Cubic Yard of Bin Capacity - Calendar Year 2007

SECTION I
EXECUTIVE SUMMARY

Objective	Finding
<p>A. Verify the compliance with the following sections of the Agreement:</p> <ol style="list-style-type: none"> 1. Article 7.03.b. - Adequacy of financial statements; 2. Article 8.01 - Adequacy of insurance coverage; 3. Article 8.03 - Adequacy of performance bonds; and, 4. Article 8.05 - Adequacy of financial guaranty agreement - Parent Co. Guaranty. 	<p>A1: BFI submitted reviewed financial statements to meet the requirement under Exhibit 4a, Section H.</p> <p>A2: BFI's insurance levels, based on the Certificate of Insurance dated January 3, 2008, meet the County insurance requirements.</p> <p>A3: BFI's performance bonds exceed the County's performance bond requirement Zone 2 by \$1,125,000.</p> <p>A4: BFI is a subsidiary of Allied Waste Industries of North America, Inc. and provided the required parent company guaranty.</p>
<p>B. Verify the accuracy of franchise fees remitted for Calendar Year 2007.</p>	<p>B. Total Franchise and Solid Waste Program Fees were calculated correctly.</p>
<p>C. Evaluate the methodology of allocating waste collected by origin.</p>	<p>C. BFI's methodology for allocating waste collected by origin is reasonable.</p>
<p>D. Verify the accuracy of reported refuse and recycling tonnage for Calendar Year 2007.</p>	<p>D. Disposal and recycling tonnage for Calendar Year 2007 was reported accurately.</p>
<p>E. Verify the disposal component weights used in the existing collection rates.</p>	<p>E. The disposal component weights assumed in the current rates are not aligned with the actual disposal component weights.</p>

SECTION II

BACKGROUND, STUDY OBJECTIVES AND SCOPE OF WORK

BACKGROUND

The County of Santa Barbara ("County") contracts with three solid waste haulers for solid waste collection and recycling services in the unincorporated areas ("Franchisees"), including BFI Waste Systems of North America, Inc. ("BFI"). The County engaged HF&H Consultants ("HF&H") to confirm that BFI is complying with key provisions of the franchise agreement, billing residential and commercial customers accurately and reporting tonnage information accurately to the County. The BFI compliance audit was performed in two parts. The solid waste billing audit (Part 1), was completed and is documented in our report dated December 11, 2007.

The County entered into an agreement with Browning-Ferris Industries of California, Inc. on December 10, 1996 for exclusive solid waste, recyclables, and organics collection and transportation services. On September 23, 1997, the County Board of Supervisors approved the assignment to BFI. In October 2000, the County Board of Supervisors approved the assignment of the franchise agreement to Allied Waste Industries.

STUDY OBJECTIVES

The objectives of this study were to:

- A. Confirm that BFI is complying with key provisions of the franchise agreement;
- B. Verify the accuracy of franchise fees remitted to the County;
- C. Evaluate BFI's methodology of attributing waste collected by origin;
- D. Verify the accuracy of reported refuse and recycling tonnage for Calendar Year 2007; and,
- E. Verify the accuracy of disposal component weights used in the existing collection rates.

SCOPE OF WORK

In order to achieve the study objectives, we performed the following tasks:

- 1. Reviewed relevant background documents, such as the existing franchise agreement and any amendments, and the current rate schedule.
- 2. Conducted a kick-off meeting with County staff via telephone conference call to confirm the project objectives, approach, data requirements and schedule.

3. Reviewed compliance with specific sections of Agreement:
 - Adequacy of financial statements;
 - Adequacy of insurance coverage;
 - Adequacy of performance bonds; and,
 - Adequacy of financial guaranty agreement (parent company guaranty).
4. Reviewed the accuracy of franchise fees remitted for Calendar Year 2007.
5. Evaluated the methodology of attributing waste collected by origin.
6. Verified the accuracy of reported refuse and recycling tonnage for Calendar Year 2007,
7. Reviewed the accuracy of disposal component weights used in the existing collection rates.
8. Requested and reviewed data from BFI and the County.
9. Visited the local BFI offices to review source documentation supporting reported information and obtained explanations for any unusual data.
10. Prepared this report.

SECTION III

FINDINGS

Objective A: Verify the compliance with the following sections of the Agreement:

1. **Article 7.03.b. - Adequacy of financial statements;**
2. **Article 8.01 - Adequacy of insurance coverage;**
3. **Article 8.03 - Adequacy of performance bonds; and,**
4. **Article 8.05 - Adequacy of financial guaranty agreement - Parent Co. Guaranty.**

Finding A1: BFI submitted reviewed financial statements to meet the requirement under Exhibit 4a, Section H.

Article 7.03.b. of the Agreement requires that BFI submit financial statements that cover services provided under the Agreement for the preceding year, audited by an independent certified public accountant, and accompanied by the accountant's representation that the financial statements were audited in accordance with Generally Accepted Auditing Standards (GAAS) and that the financial statements were prepared in accordance with Generally Accepted Accounting Principles (GAAP).

BFI provided copies of the Audited Statements of Operation for Santa Barbara County Division of Allied Waste Services of North America, LLC for the year ended December 31, 2007 prepared by a licensed C.P.A. firm in the City of Santa Barbara, California.

Based on information available from the California State Board of Accountancy, the firm engaged by BFI to perform the reviews of its financial statements is licensed by the State of California to practice public accounting. The firm's license is active and clear of any disciplinary actions or license limitations.

Finding A2: BFI's insurance levels, based on the Certificate of Insurance dated January 3, 2008, meet the County insurance requirements.

Table 1 summarizes the insurance requirements of the Agreement and reflects the insurance levels carried by BFI.

Table 1: Summary of Insurance Requirements

Type of Insurance	Insurance Requirements	BFI Insurance Levels	Meets Requirement Yes/No
General Liability - Each Occurrence	\$3,000,000	\$2,500,000 each occurrence ⁽¹⁾	Yes (With Umbrella Policy)
General Liability - General Aggregate	N/A	\$10,000,000 ⁽²⁾	Yes
Automobile Liability - Each Occurrence	\$3,000,000	\$5,000,000	Yes
Excess Liability/Umbrella - Each Occurrence and Aggregate	N/A	\$5,000,000 ⁽³⁾	N/A
Workers' Compensation and Employers Liability - Each Occurrence	\$1,000,000	\$1,000,000	Yes

(1) General liability insurance will increase to \$3,000,000 per occurrence effective January 1, 2009.

(2) General Liability - General Aggregate decreases to \$5,000,000 effective January 1, 2009.

(3) Excess Liability/Umbrella coverage increases to \$10,000,000 effective January 1, 2009. Excess Liability/Umbrella coverage is not required under the terms of the franchise agreement, but is used to meet the General Liability requirements.

A.M. Best Company, Inc. rates the insurance companies used by BFI at "A-XV." All of the insurers meet or exceed the insurer requirements of Article 8.01.b. of the Agreement.

BFI also provides property insurance to cover real and personal property, rented/leased equipment and business interruption as required.

Finding A3: BFI's performance bonds exceed the County's performance bond requirement Zone 2 by \$1,125,000.

BFI is required to provide performance bonds in an amount equal to 20% of all gross receipts, excluding disposal costs and County fees (i.e., Franchise Fees, Solid Waste Program Fees, Business Tax and Permit Fees). As shown in Table 2, at the time of our review there was an overage in the Performance Bond amount for Zone 2 of \$1,100,000.

Table 2: Analysis of Performance Bond Requirements for Calendar Year 2007

Zone	Annual Gross Receipts	Total Disposal and Processing Cost	Franchise and Solid Waste Program Fees	Net Annual Gross Receipts	Required Performance Bond Amount (20%)	Current Performance Bond Amount	Overage
2	\$ 1,937,000	\$ 478,000	\$ 194,000	\$ 1,265,000	\$ 253,000	\$ 1,377,667	\$ 1,124,667

There are two performance bonds; one bond is for \$100,000 and the other bond amount is \$1,277,667. The issuer of the \$100,000 performance bond is rated “A” and a size category of XV and the issuer of the \$1,277,667 bond is rated “A+” with a size category of XI by the A.M. Best Company, both meeting or exceeding the insurer requirements of Article 8.03 of the Agreement. According to Company staff, the performance bond was not adjusted after the separation of the City of Gloleta from the franchise agreement.

Finding A4: BFI is a subsidiary of Allied Waste Industries of North America, Inc. and provided the required parent company guaranty.

BFI, a subsidiary of Allied Waste Industries of North America, Inc., provided a parent company guaranty in the form required by the Agreement (Exhibit 8.05).

Objective B: Verify the accuracy of franchise fees remitted for Calendar Year 2007.

Finding B: Total Franchise and Solid Waste Program fees were calculated correctly.

The Agreement requires that the hauler pay a 2% Franchise and an 8% Solid Waste Program fee based on gross receipts (including all income, revenues and receipts received by the haulers from customers for providing services, and any disposal or processing fees paid by the hauler). According to County staff, the County accepts fees based on net receipts (gross receipts less the Franchise Fee and Solid Waste Program Fee).

BFI reported the franchise fee and solid waste program fee based on gross billings. As reflected in Table 3, BFI underpaid the franchise fee and solid waste program fee by a total of \$6, an insignificant difference. Through CY 2007, BFI’s accounting system was not capable of segregating gross receipts by jurisdiction and therefore used gross billings rather than gross receipts. In CY 2008, The Company changed to an accounting system that was capable of segregating receipts. Accordingly, effective CY 2008, BFI is calculating and remitting franchise fees to the County based on gross receipts.

Table 3: Summary of Franchise Fees Due - CY 2007

Description	Total CY 2007
<u>Commercial & Residential - Zone 2</u>	
Total Billings (Receipts) ⁽¹⁾	\$ 1,989,622
Less: Temporary Rolloff Billings	52,491
Gross Billing	1,937,131
Net Billing (Gross/110%)	1,761,028
2% Franchise Fee	35,221
8% Solid Waste Program Fee	140,882
Subtotal - Fees Due to County	\$ 176,103
<u>Rolloff Fee</u>	
Number of Rolloff Loads	123
Rolloff Fee per Load Due to County	\$ 13
Total Rolloff Fee Due to County	\$ 1,599
<u>Total Fees Due to County</u>	
Total Fees Due to County	\$ 177,702
Total Fees Remitted to County	177,696
Amount Due to County	\$ 6

(1) BFI reported using gross billings rather than gross receipts.

Objective C: Evaluate the methodology of allocating waste collected by origin.

Finding C: BFI's methodology for allocating waste collected by origin is reasonable.

According to BFI management there is some crossover of both residential and commercial routes between the unincorporated area and the City of Goleta.

In addition to the City Code, BFI identifies customers in its billing system by container type serviced (trash, green waste and recycling), container size and service location and route. Each day when the route sheets are generated, a record is prepared that contains all of the containers by size, customer type and jurisdiction. At the end of each day, company staff enters the weight tickets into the system for each route. At the end of each month the tonnage is manually allocated by route and by jurisdiction based on the percentage of homes collected (Goleta and County Unincorporated) for residential service and by volume of container capacity scheduled to be collected on the route for commercial service.

The allocation percentages for certain residential and commercial routes had not been revised in over a year. BFI staff explained that there were no significant changes in the routes since the last calculation of route allocations. We recalculated the route allocations for the residential and commercial routes using current route statistics and found that the route allocation percentages changes were minor. Based on the results of

our testing, the route allocation percentages used during the audit period are considered reasonable.

Permanent rolloff tonnage is reported based on the actual number of tons per load.

The methodology used to allocate tonnage collected by jurisdiction appears reasonable, which is also supported by our findings for Objective D below.

Objective D: Verify the accuracy of reported refuse and recycling tonnage for Calendar Year 2007.

Finding D: Disposal and recycling tonnage for Calendar Year 2007 was reported accurately.

Table 4 summarizes the total disposed, diverted and collected tonnage for CY 2007. We compared the tonnage for Calendar year 2007 to BFI’s internal reports and calculated volumetric weight average to evaluate the reasonableness of the reported tonnage compared to reported service levels.

Table 4: Summary of Tonnage Disposed, Diverted and Collected for the year Ended December 31, 2007⁽¹⁾

Line of Business	Disposed	Diverted	Total Collected	% Diverted
Residential	3,725.65	4,882.25	8,607.90	57%
Commercial	2,147.50	938.99	3,086.49	30%
Total Tons - Zone 2	5,873.15	5,821.24	11,694.39	50%
(1) Exhibit 1				

The volumetric weight averages for residential and commercial services are reflected in Table 5. As shown in Exhibit 2, the residential weight average is 78 pounds per dwelling unit per week (refuse, recyclables and green waste). The commercial volumetric weight average is represented by pounds per cubic yard of container capacity. The average pounds per cubic yard of bin capacity is 117 pounds, as shown in Exhibit 3.

Objective E: Verify the disposal component weights used in the existing collection rates.

Finding E: The disposal component weights assumed in the current rates are not aligned with the actual disposal component weights.

The disposal component weights, as identified in the Summary of Disposal Component Assumptions provided by the County for Zone 2, are reflected in Table 5. The monthly residential disposal component billed for one 32-gallon can is \$0.45 higher than the

actual cost, but the monthly residential green waste component billed for one 32-gallon can is \$0.55 lower than the actual cost.

The commercial disposal components billed are higher than the actual disposal components, as shown in Table 5.

Table 5: Comparison of Current Disposal Component and the Actual Disposal Component Based on 2007 Tonnage for Zone 2⁽¹⁾

Service Level	Type	Zone 2		Disposal Component per Month ⁽²⁾		Current Component Over (Under) Actual Component
				Current	Actual	
		Pounds per Month				
		Current	Actual			
Residential:						
One 32-Gallon Can	Refuse	95	80	\$ 2.83	\$ 2.38	\$ 0.45
One 32-Gallon Can	Green Waste	57	80	\$ 1.37	\$ 1.92	\$ (0.55)
Commercial:						
Two 32-Gallon Cans	Refuse	40	37	\$ 1.19	\$ 1.10	\$ 0.09
Four 32-Gallon Cans	Refuse	112	74	\$ 3.33	\$ 2.20	\$ 1.13
Bin Service (Pounds per Cubic Yard)	Refuse	128	117	\$ 3.81	\$ 3.48	\$ 0.33

(1) See Exhibits 2 and 3.

(2) The tipping fee for disposal is \$59.50 per ton; the tipping fee for green waste is \$48.00 per ton.

**BFI Waste Systems
Reported Tonnage
Calendar Year 2007**

EXHIBIT 1

Residential

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
MSW	326.99	273.57	298.52	303.45	323.07	315.93	334.48	331.40	284.14	310.55	309.24	279.31	3,690.65
REC	261.78	187.07	212.90	187.37	183.80	186.01	229.63	211.83	183.96	167.29	155.37	221.34	2,388.35
GW	213.41	180.71	220.22	212.12	240.53	220.89	226.93	232.21	195.73	205.60	192.71	152.84	2,493.90
Bulky Item	2.00	2.00	1.00	4.00	4.00	1.50	3.00	6.00	1.00	2.00	3.50	5.00	35.00
TOTAL	804.18	643.35	732.64	706.94	751.40	724.33	794.04	781.44	664.83	685.44	660.82	658.49	8,607.90
REC %	59.3%	57.5%	59.3%	57.1%	57.0%	56.4%	57.9%	57.6%	57.3%	54.7%	53.2%	57.6%	57.1%

Commercial - Bin Service

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
MSW	131.75	120.04	127.90	127.49	128.54	128.47	136.29	134.39	125.00	131.28	118.21	128.55	1,537.91
REC	19.58	16.41	17.95	15.08	19.06	16.76	16.78	17.34	16.46	18.08	17.16	17.02	207.68
GW	4.00	3.00	2.50	6.00	6.00	6.00	4.00	6.00	3.00	4.00	6.00	8.00	58.50
TOTAL	155.33	139.45	148.35	148.57	153.60	151.23	157.07	157.73	144.46	153.36	141.37	153.57	1,804.09
REC %	15.2%	13.9%	13.8%	14.2%	16.3%	15.0%	13.2%	14.8%	13.5%	14.4%	16.4%	16.3%	14.8%

Commercial - Permanent Rolloff

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
MSW	60.34	39.78	61.43	56.91	62.26	53.95	48.04	47.74	41.22	43.87	51.78	42.27	609.59
REC	54.15	65.02	42.27	82.19	53.06	46.36	46.79	36.70	54.40	30.65	100.80	32.01	644.40
GW			7.08			9.09		5.83	-		6.41		28.41
TOTAL	114.49	104.80	110.78	139.10	115.32	109.40	94.83	90.27	95.62	74.52	158.99	74.28	1,282.40
REC %	47.3%	62.0%	44.5%	59.1%	46.0%	50.7%	49.3%	47.1%	56.9%	41.1%	67.4%	43.1%	52.5%

Total Commercial

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
MSW	192.09	159.82	189.33	184.40	190.80	182.42	184.33	182.13	166.22	175.15	169.99	170.82	2,147.50
REC	73.73	81.43	60.22	97.27	72.12	63.12	63.57	54.04	70.86	48.73	117.96	49.03	852.08
GW	4.00	3.00	9.58	6.00	6.00	15.09	4.00	11.83	3.00	4.00	12.41	8.00	86.91
TOTAL	269.82	244.25	259.13	287.67	268.92	260.63	251.90	248.00	240.08	227.88	300.36	227.85	3,086.49
REC %	28.8%	34.6%	26.9%	35.9%	29.0%	30.0%	26.8%	26.6%	30.8%	23.1%	43.4%	25.0%	30.4%

Total Tonnage

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
MSW	519.08	433.39	487.85	487.85	513.87	498.35	518.81	513.53	450.36	485.70	479.23	450.13	5,838.15
REC	335.51	268.50	273.12	284.64	255.92	249.13	293.20	265.87	254.82	216.02	273.33	270.37	3,240.43
GW	217.41	183.71	229.80	218.12	246.53	235.98	230.93	244.04	198.73	209.60	205.12	160.84	2,580.81
Bulky Item	2.00	2.00	1.00	4.00	4.00	1.50	3.00	6.00	1.00	2.00	3.50	5.00	35.00
TOTAL	1,074.00	887.60	991.77	994.61	1,020.32	984.96	1,045.94	1,029.44	904.91	913.32	961.18	886.34	11,694.39
REC %	51.7%	51.2%	50.8%	51.0%	49.6%	49.4%	50.4%	50.1%	50.2%	46.8%	50.1%	49.2%	50.1%

BFI Waste Systems

EXHIBIT 2

Residential Tonnage and Average Weight per Home and per Equivalent 32-Gallon Can
Calendar Year 2007

Period	# Cust	Refuse	REC	GW	Total
January-07	4,171	326.99	261.78	213.41	802.18
February-07	4,259	273.57	187.07	180.71	641.35
March-07	4,203	298.52	212.90	220.22	731.64
April-07	4,235	303.45	187.37	212.12	702.94
May-07	4,161	323.07	183.80	240.53	747.40
June-07	4,253	315.93	186.01	220.89	722.83
July-07	4,253	334.48	229.63	226.93	791.04
August-07	4,228	331.40	211.83	232.21	775.44
September-07	4,141	284.14	183.96	195.73	663.83
October-07	4,221	310.55	167.29	205.60	683.44
November-07	4,153	309.24	155.37	192.71	657.32
December-07	4,289	279.31	221.34	152.84	653.49
Total Tons		3,690.65	2,388.35	2,493.90	8,572.90
Average Number of Residential Customers per Month	4,214				
Average Pounds Per Home per Month		146	94	99	339
Average Pounds per Home per Week		33	22	23	78
Estimate of Weight per Equivalent 32-Gallon Can					
Total Number of Equivalent 32-Gallon Cans per Week (Based on BFI Billing System)		7,676	8,025	5,228	
Average Pounds per Equivalent 32-Gallon Can/Month		80	50	80	
Average Number of Equivalent 32-Gallon Cans per Account/Week		1.8	1.9	1.2	
Average Pounds per Equivalent 32-Gallon Can/Week		18	11	18	
Average Pounds per Equivalent 32-Gallon Can/Bi-Weekly		n/a	22	n/a	

BFI Waste Systems
Analysis of Weight per Cubic Yard of Bin Capacity
Calendar Year 2007

Description	Route Number	Region			Average Pounds per Cubic Yard of Capacity	MSW Tonnage Reported
		Total Yards	Goleta	Uninc		
Current Allocation Percentages - In Use ⁽¹⁾			53%	47%		
BFI Front End Loader Statistics Worksheet	62	1,072	568.16	503.84	117	1,537.91
Number of Accounts				68		
Average Cubic Yards of Capacity per Account/Week				7.41		
Revised Allocation Percentages			51%	49%		
Yards Based on Calculation of Cubic Yards Billed per Week (Manual Calculation)	62	1,072	548.00	524.00	117	1,594.01
Number of Accounts (December 2008)				69		
Average Cubic Yards of Capacity per Account/Week				7.59		
Estimated Under-allocation of Refuse Tons						(56.10)
Percentage Difference						-4%

(1) Allocation percentage has not been reevaluated since 2006.