

**EIGHTH AMENDMENT  
TO PROFESSIONAL SERVICES AGREEMENT NUMBER F001238  
WITH R3 CONSULTING GROUP, INC.**

This Eighth Amendment to Agreement number F001238, dated August 15, 2016 ("Agreement") is made as of this \_\_\_\_\_ day of \_\_\_\_\_, 2023, by and between the City of Santa Rosa, a municipal corporation ("City") and R3 Consulting Group, Inc., a California corporation ("Consultant").

**RECITALS**

- A. City and Consultant entered into the Agreement for Consultant to provide assistance in procuring a new solid waste agreement, the First Amendment to the Agreement to provide additional negotiation assistance and contract management services, the Second Amendment to provide on-call assistance during the transition to Recology as the City's solid waste services provider and contract management training and support, the Third Amendment to extend on-call assistance, contract management training/support, and preparation of a refuse rate index (RRI) adjustment workbook, the Fourth Amendment to extend on-call contract management assistance, preparation of a refuse rate index adjustment workbook and review and analysis of Recology's annual rate increase application, the Fifth Amendment to extend on-call contract management assistance, preparation of a refuse rate index adjustment workbook and review of Recology's annual rate increase application, the Sixth Amendment to extend the Agreements time of performance to allow Consultant to complete all the required services and tasks, and the Seventh Amendment to provide an evaluation of the City's zero waste program and funding options, review and analyze the construction and demolition franchise program, examine and provide recommendations on recyclable materials revenue and processing elements distribution within franchised solid waste collection service rates, extend on-call assistance contract management support and perform an analysis of Recology's annual rate increase application
- B. City and Consultant now desire to further amend the Agreement to conduct a Detailed Rate Review of Recology's January 1, 2024 rate application.

**AMENDMENT**

**NOW, THEREFORE**, the parties agree to amend the Agreement as follows:

1. Section 1. Scope of Services

Exhibit A through A-6 attached to the Agreement are supplemented by Exhibit A-7 to this Amendment.

2. Section 2. Compensation

Section 2(c) is amended to increase the compensation payable to Consultant under the

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Agreement by \$70,000 to read as follows:

"Notwithstanding any other provision in this Agreement to the contrary, the total maximum compensation to be paid for the satisfactory accomplishment and completion of all tasks set forth above shall in no event exceed the sum of four hundred and forty eight thousand nine hundred and ten dollars and no cents (\$448,910). The City's Chief Financial Officer is authorized to pay all proper claims from Charge Number 100701-5320."

All other terms of the Agreement shall remain in full force and effect.

Executed as of the day and year first above stated.

**CONSULTANT:**

Name of Firm: R3 Consulting Group, Inc.

TYPE OF BUSINESS ENTITY (*check one*):

☐ Individual/Sole Proprietor

☐ Partnership

☒ Corporation

☐ Limited Liability Company

☐ Other (please specify: \_\_\_\_\_)

**CITY OF SANTA ROSA**

a Municipal Corporation

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

APPROVED AS TO FORM:

\_\_\_\_\_  
Office of the City Attorney

*Signatures of Authorized Persons:*

By: \_\_\_\_\_

Print Name: Garth Schultz

Title: Principal

City of Santa Rosa Business Tax Cert. No.

\_\_\_\_\_  
73GR62RNIY

By: \_\_\_\_\_

Print Name: Janet Barile

Title: Vice President, Operations



March 30, 2023

Mr. Joey Hejnowicz, Zero Waste Coordinator  
 City of Santa Rosa  
 69 Stony Circle, Santa Rosa, CA, 95401  
*submitted via email: jhejnowicz@srcity.org*

**SUBJECT: Detailed Rate Review of Recology's Rate Application – R3 Proposal**

Dear Mr. Hejnowicz,

R3 Consulting Group, Inc. (R3) is pleased to submit the attached proposal to the City of Santa Rosa (City) to conduct a Detailed Rate Review of Recology Sonoma Marin's (Recology) rate application. Due to our experience conducting complex detailed rate reviews, our understanding of relevant issues, and the Contractor's operations in Sonoma and Marin counties, R3 is uniquely qualified to conduct this review.

### R3 Advantage

Several factors set us apart from our competitors – First, we primarily work for public agencies and never for solid waste operators. This claim cannot be shared by some of our known, potential competitors. Second, while we are very well qualified to perform rate studies and have a track record of proven results, we are also a full-service solid waste consulting company on the leading edge of compliance with State mandates (such as SB 1383) and are always striving to advance our clients' landfill diversion objectives. This means that we are not merely "bean-counters", but rather long-term partners, working hand-in-hand with our clients to ensure successful passage of rates followed by implementation of quality programs, meaningful reporting, and clear communications with residents and rate payers.

### Project Team

**Carrie Baxter**, Sr. Managing Consultant, will be the main point of contact and Project Lead. She brings over 10 years of experience in a wide range of financial, operational, and planning projects, including direct experience working with the City and Recology. With a specialty in financial and operational analysis, **Jim Howison**, Sr. Managing Consultant, will serve as Lead Project Analyst. Carrie and Jim will be supported by **William Schoen**, Sr. Director, who has served in leading roles for many of R3's financial planning and rate study projects, and other qualified staff will be engaged as necessary.

\* \* \* \* \*

We appreciate the opportunity to submit our proposal to the City. Should you have any questions regarding our proposal or need any additional information, please don't hesitate to reach out directly.

Sincerely,

Carrie Baxter | Sr. Managing Consultant, Project Lead  
**R3 Consulting Group, Inc.**  
 916.878.7413 | cbaxter@r3cgi.com

# 1. SCOPE OF WORK

## Project Background

The City entered into a Collection Service Agreement (CSA) with Recology that began January 1, 2018 for a 15-year term with an option to extend up to 10 additional years. The CSA allows either the City or Recology to request a detailed rate review. A detailed rate review is an in-depth analysis of Recology's revenue and expenses in relation to the City's CSA. Section 4.05 of the CSA states that a detailed rate review may be conducted in connection with rate adjustments once every three years starting with 2021 throughout the term of the contract. In the event that a detailed rate review is requested by either party, the City or Recology shall notify the other party of the request on or before May 1.

The City is interested in conducting a detailed rate review for the rate adjustment that will take place on January 1, 2024. This review would take the place of an annual rate adjustment application. In addition, this section states that Recology shall pay the cost for the detailed rate review, and the cost of such a detailed rate review is an allowable pass-through cost.

## Project Approach

R3 will review the completeness of Recology's Rate Application, per the terms and conditions of Section 4.05 and Exhibit 3 of the CSA. R3 will request financial information from Recology, pursuant to Exhibit 3.

### ***The rate review process will include, but not be limited to:***

- › Review and assessment of the reasonableness of the Contractor's identified non-allowable expenses.
- › Review and assessment of the reasonableness of the Contractor's revenue and expense allocations to the City's franchise.
- › Review of the reasonableness of the forecasted costs for the upcoming year.
- › Review of the accuracy of the Contractor's calculated rate adjustment, including the proper application of Contractor's operating ratio.

## Scope of Work

### **Task 1 Initial Rate Review**

R3 will review the Application submitted by Recology for accuracy and completeness and request additional information necessary to conduct the detailed rate review.

### ***It is anticipated that the following documents (collectively referred to as "Application") will be submitted by Recology at the start of the detailed rate review:***

- › Recology's support for its reported expenses which serve as the basis for its calculated rate adjustment.
- › Support for Regional Allocations and Corporate Allocations assigned to the City's franchise.
- › Historical revenues by quarter, by line of business (residential, commercial, roll-off) for November 1, 2020 - October 31, 2022.
- › The basis for Recology's revenue projections.
- › An accounting of expenses that are directly assigned versus allocated to the City's franchise.
- › A description of the basis for the allocation of expenses to the City's franchise along with supporting documentation for such allocations.
- › An accounting of non-allowable expenses, per Exhibit 3 of the CSA (ideally this would be provided in the form of an Excel file of Recology's line-item general ledger for November 1, 2021 - October 31, 2022, with non-allowable expenses identified).

- › A listing of related party expenses charged to Recology and support for the reasonableness of related party expenses (i.e., documentation supporting that such charges are no more than that which would have been charged by an independent third party), incorporating a detailed description of any inter-company or transfer accounting practices between Recology's separate business units, including balances and operating ratios.
- › Recology's forecasted revenues and expenses for the City's franchise and calculated rate adjustment and supporting documentation and assumptions, including forecasted changes in disposal or processing fees, governmental fees, etc.
- › Information on historical tonnages collected, diverted and disposed by waste stream and material type (e.g., residential and commercial recyclables, commercial organics, commercial dry mixed waste, solid waste etc.), and forecasted per ton material sales revenues.
- › An accounting of the basis for Recology's reported recyclables processing costs, incorporating a detailed description of any inter-company or transfer accounting practices between Recology's separate business units, including balances and operating ratios.
- › Other information relevant to the review of Recology's application. Examples would include any fees that act as an add-on cost for internal administration for specific cost categories or cost types.

## **Task 2      Verify Completeness, Mathematical Accuracy, and Reasonableness of the Rate Application Base and Projected Revenues and Expenses**

As part of this task, we will review the documentation submitted by Recology to confirm that it is mathematically accurate and logically consistent. In addition, this task will include the following:

- › **Review Basis for Reported Expenses:** R3 will review Recology's basis for its reported expenses to determine the reasonableness of the supporting documentation (e.g., general ledger), and if the expenses reported in the Rate Application tie to the supporting documentation.
- › **Review Allocation of Revenues and Expenses:** R3 will review and assess the reasonableness of Recology's methods used to allocate revenues and/or expenses that cannot be directly assigned to a specific operation. As appropriate, R3 will recommend adjustments to those allocations.
- › **Review Forecasted Costs:** R3 will review the reasonableness and basis for Recology's forecasted labor-related costs, vehicle-related costs, other costs, and depreciation expenses. In addition to a review of the reasonableness of each individual line-item expense, R3 will also confirm the proper handling of pass-through and non-allowable expenses.
- › **Review Forecasted Revenues:** R3 will review the reasonableness and basis for Recology's forecasted revenues for services at current rates.
- › **Review Operating Ratio:** R3 will review Recology's Operating Ratio to determine if it is set at the correct amounts.

As an added element of this review, R3 will also prepare a cost-of-service analysis, which is a key aspect of compliance with Proposition 218 requirements. The analysis can be conducted on two levels:

1. **Line-of-Business Cost-of-Service Analysis:** The analysis of revenues and expenses among lines of business (e.g., residential, multi-family, commercial, industrial) with the intent of balancing revenues and expenses to eliminate any subsidies that may exist across lines of business (e.g., commercial rates subsidizing residential rates).
2. **Individual Rate Cost-of-Service Analysis:** The analysis of rates and the relationships between rates within a given rate structure to determine the extent to which an individual rate reflects the cost of the associated service level (e.g., the cost to service a 4-yard container one time per week compared to the cost to service a 2-yard container two times per week).

The purpose of this review is to evaluate the reasonableness of any cost-of-service allocations that have developed among the various lines of business. One specific focus of this task will be to quantify the cost of commercial recycling and organics services and the impact of potential expansion of those services in response to the State's mandatory commercial organics recycling requirements under SB 1383. This will support the determination of a change in the rate adjustment methodology.

Following our review of Recology's Application, R3 will present our preliminary findings to Recology. This is done to ensure that we have not misunderstood, or misrepresented, information provided by Recology, and to provide Recology with an opportunity to comment on our preliminary findings. Based on consolidated written comments received from Recology, we will make appropriate revisions to our preliminary findings.

### **Task 3      Draft and Final Reports**

Following our review of preliminary findings with Recology, R3 will prepare and issue an electronic draft report to the City. If the report includes recommended amendments to the CSA, R3 will prepare amendment language for City and Recology to review. We will then revise the draft as necessary, based on consolidated written comments received from the City and issue an electronic final report along with an amendment to the CSA as necessary.

### **Task 4      Meetings and Presentations**

As requested by City staff, R3 will participate up to two (2) additional on-site meetings (above and beyond those included in Tasks 1 through 3 above) to present findings to the City Council. R3 does note that our presence at Committee and/or Council meetings is generally requested by clients and has proven to be beneficial when considering larger than normal rate increases. R3 staff will also be available for teleconferencing and virtual meetings with the City throughout the project, as necessary.

## **Project Deliverables**

- Review rate application and available supporting documentation.
- One (1) preliminary finding meeting with Recology.
- One (1) draft and one (1) final electronic report.
- Participation at up to two (2) public meetings.

## 2. PROJECT SCHEDULE

We anticipate a project start date of July 1, 2023 and submitting our draft report by August 18, 2023, with the understanding that we will be provided the necessary information in a complete and timely manner.

The review and a final report will be presented to City Council noting any adjustments or changes by September 30, 2023. Adjusted service recipient rates will go into effect January 1, 2024, upon City Council approval.

TASK	START DATE	COMPLETION DATE
1. Initial Rate Review	July 1, 2023	July 31, 2023
2. Verify Completeness, Mathematical Accuracy, and Reasonableness of the Rate Application Base and Projected Revenues and Expenses	July 14, 2023	August 18, 2023
3. Draft and Final Reports	July 14, 2023	September 1, 2023
4. Meetings and Presentations	August 18, 2023	September 26, 2023

### 3. PROJECT BUDGET

R3 proposes to complete the project for a total cost of **\$70,000**. Additional consulting services beyond those proposed will be charged at the hourly billing rates shown in **Table 1**, below. Fees for work completed will be billed monthly at the first of each month, for the preceding month, and are due within 30 days of the invoice date.

**Table 1: Hourly Billing Rate**

CLASSIFICATION	HOURLY RATE
Principal	\$ 285 per hour
Sr. Director	\$ 285 per hour
Director	\$ 240 per hour
Sr. Managing Consultant	\$ 220 per hour
Managing Consultant	\$ 200 per hour
Sr. Consultant	\$ 190 per hour
Consultant	\$ 170 per hour
Associate Consultant	\$ 155 per hour
REIMBURSABLE COSTS	
Consultants/Subcontractors	Cost plus 10%
Lodging and meals	Direct cost
Travel - <i>Private or company car</i>	At Current Federal Rate
Travel - <i>Other</i>	Direct cost
Delivery and other expenses	Direct cost