



CITY COUNCIL AGENDA REPORT

MEETING DATE: APRIL 19, 2005

ITEM NUMBER:

SUBJECT: APPROVAL OF PROFESSIONAL SERVICES AGREEMENT TO CONDUCT A FRANCHISE FEE WASTE HAULER AUDIT AND REPORTING MONITORING SERVICES

DATE: MARCH 18, 2005

FROM: FINANCE DEPARTMENT /ADMINISTRATIVE

PRESENTATION BY: MARC R. PUCKETT, DIRECTOR OF FINANCE

FOR FURTHER INFORMATION CONTACT: COLLEEN O'DONOGHUE, (714) 754-5219

RECOMMENDED ACTION

1. Award a professional services agreement to Michael Balliet Consulting for the purpose of conducting an audit of the City's waste haulers to verify the accuracy of franchise fees remitted to the City and to establish a franchise fee reporting and monitoring system that will enable the City to readily identify any unreported revenue by the waste haulers.
2. Approve Budget Adjustment Number 05-082 appropriating \$48,000 from General Fund undesignated fund balance.

BACKGROUND

On November 15, 2004, City Council adopted a Solid Waste Hauling Franchise Ordinance to become effective on January 1, 2005. Also, on November 15, 2004, City Council adopted a resolution setting the Solid Waste Hauling Franchise Fee and outlining related computation and collection procedures.

Staff had discussed with the waste haulers and agreed that all of the waste haulers would be audited, at the City's expense, after the first year of the franchise agreement and then once every three years thereafter as necessary. Further, staff determined that development of an on-going monitoring system to review the waste hauler's franchise fee reporting practices would be the most efficient mechanism to ensure that the City can readily identify any unreported or under-reported revenue by the waste haulers. To date, the City has entered into a total of twelve franchise agreements with Waste Haulers. The proposed auditing contract would cost the City \$2,000 per audit on average for each of the twelve waste haulers.

ANALYSIS

Michael Balliet Consulting (MBC) has been in the business of providing franchise fee audit services to municipal governments since 1992. MBC analyzes the waste haulers' quarterly tonnage reporting practices to determine whether the franchise fees have been properly reported and remitted to the municipal government. In addition, MBC provides auditing services to a number of municipal governments for waste diversion reporting purposes to determine the waste haulers' compliance with the required 50% waste diversion from the waste stream mandated under AB939.

It is important to understand that while trash haulers charge by volume, their costs are primarily tied to weight. By comparing tonnage and gross receipt information to disposal and recycling facility reports, inaccuracies are readily identified. The most efficient means to ensure that franchise fees are properly being remitted to the City is through constant monitoring of the waste haulers and their reporting practices.

The cost to the City to establish a franchise fee reporting and monitoring system, develop a revenue tracking system that compares the haulers' tonnage to the county records, and program administration is \$24,000. In addition, MBC's cost to conduct a financial audit of all franchised waste haulers at the conclusion of the first year of the franchise agreement as required under the Solid Waste Hauling Franchise Fee Ordinance is \$24,000. The total cost to the City for the services described herein is \$48,000.

MBC was selected to perform the audits due to their specialized expertise in this area and cost-efficient audit pricing. MBC has proposed to perform the audit engagements at an average cost of \$2,000 for each of the twelve waste haulers currently holding franchise agreements. MBC has current auditing contracts with other municipal agencies that also receive service by waste haulers (franchisees) operating under a Solid Waste Hauling Franchise agreement with the City. The City of Newport Beach is also a client of MBC. MBC has been successful in recovering over \$100,000 in franchise fees due to Newport Beach as a result of MBC's auditing and monitoring of their franchised waste haulers.

However, if it is discovered through the course of the audit that the waste hauler underpaid the City in excess of five percent (5%) of the total required franchise fee, the hauler is required to reimburse the City for the cost of the audit per City Resolution of the franchise fee agreement.

The by-product of the audit services and the establishment of the franchise fee reporting and monitoring system will enable the City to readily identify and recover any unreported revenue by the waste haulers on a timely basis.

ALTERNATIVES CONSIDERED

Since performance of an audit is a required element of the Solid Waste Hauling Franchise Ordinance and related fee resolution outlining the required reporting procedures, no alternative to the audit was considered.

FISCAL REVIEW

Approval of the attached Budget Adjustment No. 05-082 appropriating \$48,000 from undesignated General Fund fund balance is recommended to provide the necessary funding pursuant to the agreement.

LEGAL REVIEW

The attached professional service agreement has been reviewed and approved as to form by the City Attorney's Office.

CONCLUSION

In conclusion, the Council is respectfully requested to award a professional services agreement to Michael Balliet Consulting for the purpose of conducting an audit of the City's waste haulers to verify the accuracy of franchise fees remitted to the City and to establish a franchise fee reporting and monitoring system that will enable the City to readily identify any unreported revenue by the waste haulers.

MARC R. PUCKETT
Director of Finance

COLLEEN O'DONOGHUE
Assistant Finance Director

Attachment 1 – [Professional Services Agreement](#)

Attachment 2 – [Budget Adjustment 05-082](#)