



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: WMM Date: 3/12/10
General Manager

DATE: March 12, 2010
TO: General Manager
FROM: Public Education and Recycling Manager
SUBJECT: Request for Proposals: Consultant Services for Greater Regional Waste Management System Cooperation: Alternative Funding and Franchise Agreements

RECOMMENDATION: That the Board award a Contract to HF&H Consultants, LLC, of Walnut Creek, CA, at a cost of \$58,255 for near- and long-term alternative financing strategy. Funds for this scope of work are available in the Fiscal Year 09/10 budget from projected budget savings in contractual services, professional services, and office expenses, and will be included in the FY 10/11 professional services budget.

BACKGROUND

The District's Strategic Planning Workplan for 2009/10 includes "Objective 1 - Evaluate District Finances in an Era of Declining Tonnages". The tasks associated with this objective include: Research Alternative Funding Mechanisms and Consider Consolidated/Competitive Bid for Franchise Agreements.

The District is faced with two complex and interrelated challenges over the next few years. The first is to alter or change the current business model, in place since the District was founded in 1951, which is primarily based on receiving funding from disposal tonnage. This is not sustainable given the economic downturn, increasing public interest and legislative mandates to recycle more and waste less, and the District's mission to reduce, reuse, recycle and safely dispose of our wastestream. The second challenge is to plan for the future of the materials management system for the greater Monterey Peninsula. Both challenges are intertwined with economic, social, environmental, and political implications.

The Board of Directors approved issuance of a Request for Proposals (RFP) at their January 15, 2010 meeting. At the Board's direction, the scope of work for the RFP was divided into two phases: the first phase detailing the development of Near- and Long-Term Alternative Funding Strategies, and the second phase examining Franchise Agreement Procurement Strategy Considerations. The second phase was contingent upon Board approval following completion of the first phase.

A total of five proposals were received. A review committee, comprised of myself and Chuck Rees representing the District, along with two Strategic Planning Task Force participants Hans Uslar from the City of Monterey, and Mike Niccum from the Pebble Beach Community Services District, evaluated and scored each proposal. The review committee considered the lowest priced proposal submitted by HDR Consultants to be too general and non-responsive to the requirements of the RFP and not in the overall best interest of the District.

Based upon the scoring, expertise in managing similar work, conversations with references, and the cost competitiveness of their proposals, the review committee then conducted personal interviews with the top two rated firms as judged by the evaluation committee, HF&H Consultants and R3 Consulting Group. Cost proposals were received as follows:

Consultant	Phase 1 Cost	Phase 2 Cost	Total Budget
HDR Consultants	\$54,600	\$12,200	\$66,800
HF&H Consultants	Conducting Phase 1 & 2 concurrently		\$78,375
R3 Consulting Group	\$67,520	\$15,210	\$82,730
HF&H Consultants	\$58,255	\$24,290	\$83,175
GBB Consultants	\$120,848	\$24,691	\$145,539
Roland Consulting	\$75,930 – \$125,000	\$30,480	\$106,410 – \$155,480

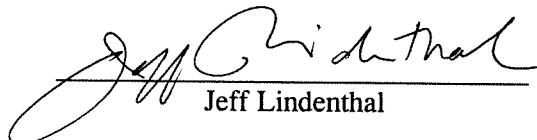
During the interview process, both firms stated it would be more efficient to combine both phases of work. HF&H Consultants stated they could reduce their original cost proposal by \$4,800 due largely to efficiencies regarding staffing availability if the work was done concurrently. R3 Consultants stated their preference would also be to manage the work concurrently, but with no additional cost savings. From an economic and efficiency standpoint, as both phases will engage a number of stakeholders including the District Board, staff and Strategic Planning Advisory Task Force, and the franchise haulers, the review committee believes that both phases should be performed concurrently. The goal during this process, whether combined or separate, will be to ensure that the funding strategy and the procurement process consideration are developed in the most inclusive and mutually beneficial way possible for the District and its member agencies.

FISCAL IMPACT

Funds for this scope of work are available in the Fiscal Year 09/10 budget from projected budget savings in contractual services, professional services, and office expenses, and will be included in the FY 10/11 professional services budget.

CONCLUSION

This is a critical time in the history of the District. Given current conditions, the foundation that the District's business model is based upon is not sustainable long-term. Any consideration of alternative funding scenarios will necessarily involve a holistic perspective including analysis of the present and future structure of local franchise agreements. As previously stated, the challenges facing the District are complex and interrelated among financing, programs and services. HF&H Consultants has the proven experience and an excellent work history while working exclusively for public sector clients. A copy of their Project Approach is attached. Staff believes that their demonstrated ability to systematically evaluate current and future District programs, relevant cost reduction and avoidance strategies, and an expansive menu of funding mechanisms will be invaluable in defining and implementing a sustainable system-level funding strategy that can carry District programs and services into the future.


Jeff Lindenthal

SECTION 1: PROJECT APPROACH

The District is faced with two very complex interrelated challenges over the next few years. The first challenge is to rethink the District's current business model. This model is primarily based on receiving funding from disposal activities which is at odds with the current state of the economy and the District's interest in high levels of landfill diversion. The second challenge is to begin planning for the future of the materials management system on the Monterey Peninsula. Both of these challenges are complicated by the dynamic balance of political, economic, social, and environmental implications.

Problems this complex require a diversity and breadth of experience and perspective that most consulting firms (particularly smaller, principal-oriented firms) are ill-equipped to provide. HF&H's approach to this project, which business schools call a "cross-functional collaborative and systemic approach", reflects that need. We suggest that this project must be conducted as a cooperative and interactive effort between the District and HF&H (project team).

HF&H proposes that the project team utilize HF&H's experience and leadership to guide and focus the efforts of the District's highly competent team to deliver solutions that respond to the dynamic balance of the District's priorities. By managing this project through a cooperative approach, we can also provide value by avoiding the costs of a consultant "coming up to speed" on the District's financial and budgetary systems.

This approach leverages HF&H's proven management consulting approach, strategic insights, and decades of experience in dealing with these types of issues for other communities throughout California against District staff's intimate knowledge of the budgetary process and assumptions, information systems, financial projections, and local politics.

In the sections below, HF&H will describe our general approach to managing the consultative process and then will describe our specific approach to the District's requested services.

Systematic Approach to Engagement Management

HF&H utilizes a client-interactive management consulting methodology that leads to the successful performance of our engagements and that tailors to each client's specific engagement objective(s). This methodology is intended to ensure alignment of the project objectives to the organization's goals, agreement on existing conditions and consensus around the chosen solution, and clear communication of the recommendations. It is based on interaction of client and HF&H team staff, assignment of qualified staff, direction of staff by managers using clear work plans, and systems and procedures to support the team and the project.

This methodology is comprised of the following seven steps:

1. Definition and Quantification of the Client's Goals and Objectives

We meet with client management and, as appropriate, other parties (e.g., elected officials, the public, executive management, etc.) to define the client's broad overall organizational goals (a commitment to cost-effective public services, commitment to environmental goals, etc.) and specific objectives for the engagement (outcomes like lower customer rates or higher diversion as well as process objectives like schedule and budget).

2. Specification of Approach, Assignment of Responsibilities, and Schedule

We meet with client staff to develop the best strategy for optimizing the objectives of the engagement and assign responsibilities between the client and HF&H staff and discuss reasonable deadlines for the completion of those responsibilities.

3. Detailed Work Plans, Work Products, Budgets, and Work Paper Organization

Having defined responsibilities, HF&H prepares detailed work plans by task and subtask assigning specific staff, budgeting specific time, and laying out the organization of the work papers that document the performance of the work and the basis for the findings. The work plan includes, by subtask, the data and document requirements, interview and other field work plans, and analytical techniques to be used. The staff assignments, scheduled performance dates, and estimated hours are entered into our project management system and progress is reported by our staff on a daily basis.

4. Information Gathering and Fact Finding

Based on our detailed work plans, we will prepare requests for information and documents, submit them to the appropriate client staff (identified during step 2), review them with the client staff, and agree upon timing for the submission of the information and documents and the scheduling of interviews and other field work. At the completion of each subtask, we will review our findings with knowledgeable client staff to ensure we do not misinterpret the information obtained.

5. Analysis, Findings, Evaluation and Recommendations

Based on the results of our information gathering and fact finding, the HF&H consulting team will first benchmark the results against appropriate standards (e.g., financial ratios, performance productivity, etc.) and then we will develop working outlines of the background, findings, and preliminary recommendations for each task. At this point, the HF&H consulting team will meet with knowledgeable client staff in an interactive and iterative dialogue of fact verification and validations and discussion of alternative approaches to the solution of problems or to capitalize upon opportunities. If relevant information has been overlooked or misinterpreted in earlier steps, it will emerge through this process. Once a consensus has been developed with client staff, HF&H will present them to client management for review, verification, validation and discussion of other approaches. Once consensus has been reached with client management, the HF&H team will move to the reporting phase.

6. Reporting

This step in the consulting process is comprised of preliminary report preparation, presentation of preliminary findings and recommendations for discussion and modification, preparation of the final report (including presentation materials), and presentation of the final report to the appropriate internal (e.g., departmental staff, District executive management, briefings of individual elected officials) as well as external (public workshops and public hearing before the Board of supervisors) audiences.

7. Monitoring, Quality Assurance, Management, and Progress Reporting

HF&H utilizes a project and resource planning system that integrates with our accounting, timekeeping, and invoicing systems to ensure accurate real-time information. This tool helps HF&H make sure the right people are on the right projects at the right time. Automated project scheduling, real-time resource allocation, budgeting, and forecasting help HF&H project managers ensure that appropriate staff is available and allocated effectively and projects come in on time and on budget. Timesheet entries and expense reports feed actual costs back into the project plan for an accurate rolling forecast that HF&H project managers use to make faster, more informed decisions and ensure projects stay on track. Additionally, this system's planning tools allow exporting into Microsoft Project(TM) to allow project plans to be shared with our clients throughout the project at the client's request.

A quality work product is a team effort involving three parties throughout our data gathering, analysis and reporting phases: HF&H consultants; HF&H engagement directors and managers; and client staff and management. Consultants must be qualified to perform the work, have a clear work plan that meets professional standards, and execute their assignments effectively. The engagement manager is responsible for the day-to-day monitoring of work; review of work products; and, anticipating problems or concerns. In addition to reviewing the processes and progress of consultants, client staff reviews the work products prepared by the project team, helping the HF&H team ensure the accuracy and relevance of findings and the appropriateness of recommendations and the clarity of work products.

The engagement director and manager are responsible for adjusting our work plan as the engagement progresses and ensuring that the consultants are adequately supported, assuring consistency among approaches and methods and scheduling work to ensure the efficiency of efforts. Additionally, the engagement manager reviews work in progress, attends key interviews and meetings, reviews the results of the analysis, evaluates the conclusions and checks the clarity of written materials.

Detailed Project Approach

Task 1. Review of Current Conditions

"The Consultant will review documentation provided by District staff including, but not necessarily limited to: District budgets and financial management reports, District operational

performance reports, member agency franchise agreements, and strategic planning reports and updates presented to the District's Board of Directors."

HF&H's recent experience working with the District developing material for the strategic planning process provided us with background and insight into the District's current conditions. In fact, during that project HF&H invested nearly \$5,000 of time outside of the project budget to make sure that we understood the current conditions in the region so that we could discuss them intelligently with the Task Force and Board. This included a more detailed review of franchise agreements than was planned and additional review of the District's budget, cost reduction strategies, and available funding mechanisms within the District's organizational structure. Having already made this investment, HF&H is proposing to perform this task at no additional cost to the District, allowing the District's resources to be allocated to more productive efforts. If the District has additional documents or updated reports that would be relevant to review prior to the kick-off meeting (Task 2), HF&H will gladly do so at no additional cost.

Work Product(s): Not Applicable

Task 2. Kick-off Meeting

"The Consultant will participate in a kick-off meeting with District staff to review their proposed work plan, discuss the progress that District staff has made to date on the issues covered by this project, and to become familiar with the District's operations at the Monterey Regional Environmental Park."

HF&H's project management team will prepare for and facilitate a meeting with senior District staff to begin work on the project. Due to the immediate near-term needs of this project, HF&H would like to schedule this meeting within two weeks of receiving authorization to proceed. HF&H's existing knowledge of the District's financial situation, operations, and the nuances of the organizational arrangements will allow us to make this kick-off meeting a productive working meeting.

We recommend that the meeting be focused on the following issues, which will facilitate an expedited process for getting early recommendations to the Board.

1. Finalizing and documenting the proposed project approach and work plan and discussing how best to integrate any requested changes or improvements identified by the District;
2. Agreeing upon targeted jurisdictions, content, and format of the survey of organizational approaches for Task 3;
3. Agreeing on the content, format, and schedule of the Task 4 presentations to the Task Force, Finance Committee, and Board of Directors;
4. Reviewing the most recent financial and management reports and projections from the District's Finance Manager and drawing conclusions on their impact on the District's anticipated financial position;

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5. Discussing available funding strategies (as presented in the funding options memo that HF&H prepared as part of the previous project with the District) with District legal counsel and identifying any legal considerations or barriers to adopting each funding mechanisms; and,
6. Cooperatively developing a map of the current and (time permitting) near-term funding strategy (see Attachment A Sample 1 for example).

From this meeting, both HF&H and the District will have a consistent understanding of the project objectives and approach. HF&H believes that by discussing legal considerations and cooperatively developing an outline of the current and near-term funding strategy in this kick-off meeting, we can save the District valuable time in developing useful results for the Finance Committee and Board to act on for the upcoming fiscal year.

- Work Product(s):**
1. Kick-off Meeting Agenda
 2. Revised Work Plan (if appropriate)
 3. Meeting Summary (documenting decisions from items 3, 4, and 5)
 4. Current Funding Strategy Map
 5. Preliminary Near-Term Funding Strategy Map (time allowing)

Task 3. Identify Opportunities for Improved Organizational and Financial Structure

“The Consultant will survey other California regional agencies and joint powers authorities involved in the management of solid waste to identify alternative funding mechanisms and alternative organizational approaches. The Consultant will present to the District’s Board of Directors (Task 7) their findings and recommendations for the organizational and funding approaches to be incorporated into: (1) the near-term funding strategy; and, (2) the long-term funding strategy.”

Identify & Recruit Targets

HF&H will work with District staff to identify and prioritize a list of approximately ten agencies to target for this task. The target list should include agencies with varied organizational structures that range from informal cooperation (e.g., franchisors of Marin Sanitary Service) to formal cooperation (e.g., South Bayside Waste Management Authority) to formal delegated (e.g., West Valley Solid Waste Management Authority) approaches. The target list should also include agencies with varied levels of private versus public sector ownership, but should focus on agencies with publicly-owned infrastructure. The District may want to consider including a water/wastewater agency to gather information about their funding strategies to see if they may have applicability for the District. In addition to our recycling and solid waste work, HF&H has also provided financial planning and rate setting support to more than 100 water and wastewater agencies. Our familiarity with these agencies allows us to help identify survey targets that might have interesting funding strategies that would be informative to the Districts planning process.

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The list should be prioritized based on the agencies that the District would most like to receive responses from and who have systems that the project team believes are most appropriate for the local conditions on the Monterey Peninsula. HF&H will contact each of the target agencies to determine their willingness to participate. HF&H will ultimately survey the six agencies who were both willing to participate and scored highly in terms of priority by the District. HF&H will schedule meetings as soon as possible with willing participants.

Given the state of current budgets, HF&H has found that staff at many public agencies are less available to assist in these sorts of efforts than they were in previous times. HF&H will make every attempt to increase participation rates by:

- Utilizing our most senior consultants to recruit and interview participants. This frequently allows us to leverage the personal/professional relationships of our more senior staff.
- Developing a focused list of survey questions that gathers relevant and important information without a burdensome time requirement from the participant.
- Gathering source documents from participants rather than asking them to perform time-consuming research or analysis. This allows the participant to spend time on qualitative responses to questions about implementation challenges, best practices, or lessons learned.
- Where possible, targeting jurisdictions that HF&H has an existing working relationship with and/or information in our files.
- Offering to conduct the survey either via phone or in person. If participants choose to conduct in-person meetings, **HF&H will absorb the travel costs for those meetings at no cost to the District.**
- Offering to share survey results with participating agencies.

Develop a Focused Survey Tool

Based on the plan developed in the project kick-off meeting, HF&H will develop a survey document that will be used in the interviews with each participating agency. It is important for the survey outline to be developed as a joint-effort between District and HF&H staff. This ensures that all of the critical issues and considerations identified by the District's staff are incorporated. The survey should generally help the project team to understand:

1. What legal/political organizational structure does the agency exist under? (i.e. Joint Powers Authority, elected vs. appointed Board of Directors, etc.)
2. What operational organizational structure does the agency use? (i.e. agency vs. contracted operations, management structure, etc.)
3. How does the agency's business model function? (i.e. revenue sources used, restricted/dedicated funding sources, flow of funding between agency and member jurisdictions, etc.)
4. What was the legal/regulatory basis for their funding strategy?
5. What lessons have they learned about their organizational/funding structure?

6. What implementation or legal challenges did they face in implementing new funding sources?
7. What local conditions shaped the agency's formation?
8. What challenges exist as a result of the selected organizational system?
9. Is there anything in the District's local conditions that might create obstacles to adopting a similar structure?

Gather and Summarize Data

Either Bob or Rob Hilton will meet with each of the participants by telephone or in person, at the earliest convenience of the participant. Each interview will be carefully facilitated to ensure that we get accurate and comprehensive information, that appropriate follow-up questions are asked, and that supporting documentation is gathered efficiently.

HF&H will prepare a brief summary report (in the form of a PowerPoint presentation) identifying the various organizational and funding strategies identified and the implementation, legal, and financial considerations surrounding each. Portions of this summary report may be available in time for presentation during the Task 4 meetings. However, it is intended that this information will be for the benefit of the project team in developing the Long-Term Funding Strategy (Task 6) and will be presented during the Task 7 meeting with the Board.

From each interview and the supporting documentation provided, HF&H will develop a profile of each participant agency. This will provide a one-page "snapshot" of each participant agency based on the major subject areas addressed by the survey (as determined during the kick-off meeting).

- Work Product(s):**
1. Survey Target List
 2. Survey Tool
 3. Summary Presentation of Survey Results
 4. Participating Agency Profiles (one for each participant)

Task 4. Meetings with Strategic Planning Task Force and Board of Directors

"The Consultant will attend and make presentations at a Task Force meeting, a Board Finance Committee meeting, and a Board meeting during 2010. The meeting and presentation is intended to solicit input from member agencies on the District's Near-Term Funding Strategy in time for some early actions to be adopted in the 2010/11 budget."

Bob and Rob Hilton will both be in attendance at each of the meetings with the District's staff, its Task Force, Finance Committee, and Board to ensure the highest level of responsiveness and quality in each interaction. HF&H will work with District staff to ensure the appropriate balance between detailed discussion and summary presentation that is appropriate for each audience.

In each of these meetings, HF&H will facilitate the discussion with three key purposes:

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1. Identify and seek agreement on the discrete early actions that will be taken as part of the 2010/11 budget to help improve the cash flow of the District. This is the most urgent need of the District and actions taken must have minimal barriers to implementation beyond the approval of the Board. These are items that the project team will begin modeling as part of the current budget process.
2. Identify and seek agreement on the funding mechanisms and cost-controlling efforts that should be used over the next five years to create more sustainable and consistent financial performance for the District. The items identified will be further reviewed as part of the Near-Term Funding Strategy developed in Task 5.
3. Present the concept for and begin a discussion about the system-level perspective that will form the District's Long-Term Funding Strategy, which will be more thoroughly developed as part of Task 6. This Long-Term Funding Strategy is likely to include items that would require significant changes to the current organizational structure and/or franchising system. Early agreement on these issues is not likely; however, presenting the concepts early is a good way to begin educating the Board and to understand what is needed to further inform their decision-making.

- Work Product(s):**
1. Task Force Presentation
 2. Finance Committee Presentation (revised version of task force presentation)
 3. Board Presentation (revised version of Finance Committee presentation)
 4. Memo Summarizing Recommendations and Feedback from Meetings

Task 5. Develop Near-Term Funding Strategy

"Based on input from the Strategic Planning Task Force and Board of Directors, the Consultant will work with District staff to analyze and document a specific near-term (2010 – 2015) funding strategy for the District. The near-term strategy should be focused on system improvements which can be implemented during the following one to five fiscal years with little or no organizational or voter-approved changes."

Frequently, our clients find that they have a lot of good ideas about specific funding or cost-control measures, but have trouble seeing the big picture view of how they fit into the existing system. For example, they may see that mattresses are a hard-to-handle item that results in additional costs to the operation and believe that they should be assessed a surcharge, however, they don't know how to reconcile that perspective with politicians' concerns that a surcharge might lead to increased illegal dumping. Alternatively, they have a good idea of what won't work but they struggle to find workable strategies other than their existing (perhaps troubled) system. These operational level insights are the invaluable contributions of the managers close to the operation that a consultant cannot provide. What HF&H can provide is the systematic and objective approach for identifying, evaluating, and analyzing the good ideas and suggestions from Tasks 2 through 4 into an easy-to-understand funding strategy. These tools include:

1. A detailed work plan that walks the group through each individual analytical task and subtask. That work plan is presented in a summarized format below.

2. A sources and uses of funds map to visually model alternative funding scenarios (Attachment A Sample 1).

Much of the work to be performed in the development of the Near-Term and Long-Term Funding Strategies relies on having access to and an in-depth understanding of the District's detailed financial information systems. In addition, the District has highly-qualified staff that can perform much of the analysis without incurring the costs of a consultant. As such, our approach to Tasks 5 and 6 is to facilitate the analytical process by providing the strategic guidance and modeling assistance to the District's staff as they perform the analysis. (If the District would prefer for HF&H to perform the analysis rather than District staff, we would be happy to do so; however, it is necessary for us to review the format and content of specific existing data from the District before we can provide an estimate of our costs associated with doing so.)

Our strategic guidance will include facilitating the sources and uses mapping process to develop the specific combinations of funding sources (identified in Task 2) and program costs that will combine to form the funding strategy. HF&H will also provide support in guiding the District staff through each of the decision-making steps (e.g., allocating funds from one funding source to multiple programs, estimating costs of future or contractor-provided programs where detailed costs are not available, iterative cycles of adjusting fee loads for affordability, etc.).

Our modeling assistance will include providing the analytical tools and (Excel-based) models, being available for in-person and conference call meetings to discuss issues or challenges being experienced by the staff in the analysis, reviewing and commenting on interim work products, and performing quality assurance (e.g., mathematical accuracy, logical consistency, cell reference, reasonableness, etc.).

The result of this facilitated analytical process are a set (or multiple sets depending on the number of scenarios modeled) of 5-year financial projections (starting with Fiscal Year 2010/11) in an income statement format.

Work Plan Summary

Document Baseline

HF&H will provide District staff with a blank Microsoft Excel-based model to be used in compiling baseline funding, cost, and program service level data.

For each existing source of funds, the model will document the total revenue derived from that funding source and the number of units that form the basis for the revenue (e.g., tons received for gate fee, number of residential units for land-use fee, number of accounts for residential collection, number of cubic yards of service for commercial collection, etc.).

This form will ask for costs to be categorized as "capital expenses" (including capital expenditures, depreciation, interest expenses, and debt service), "operating expenses" (including fixed and variable

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operating costs), “cost savings” (e.g., avoided disposal), and “non-operating revenues” (e.g., recyclable commodity sales).

Program service levels are the quantitative metrics by which program costs are divided to determine the costs to the user of the program (e.g., cost per household/customer, cost per ton, cost per lift, etc.). Service level data availability will differ by provider, sector, and program but may include: tons, customers, participating customers, units collected (e.g., special waste facility), cubic yards, gallons, container lifts (e.g., collection programs), labor hours, and operating hours (e.g., landfill programs).

For each program, the model will document the actual or estimated cost-effectiveness. Cost-effectiveness may be presented in a uniform manner (e.g., cost per ton) that applies to all programs, allowing for relative comparisons between programs. Cost-effectiveness may also be presented in a program-specific manner (e.g., cost per account per month for collection programs, cost per cubic yard or ton for facility based programs, and cost per unit for special waste), which allows for better comparisons across jurisdictions and better reflects affordability (e.g., relative to other public services or utilities).

Map Sources and Uses of Funds

HF&H will begin the performance of this task with the funding strategy map developed during the kick-off meeting (Task 2). To introduce the project team to the sources and uses of funds map, HF&H will begin by facilitating the mapping of the District’s current funding strategy.

Once the current funding strategy is mapped, the project team will work together to recommend development of specific cost avoidance measures, operational tactics, or funding mechanisms that will modify the existing map. It is likely that several different combinations will be formed as alternative scenarios to be considered. For the Near-Term Funding Strategy, HF&H will focus the project team on items which do not require organizational or voter-approved changes.

For each proposed scenario, a copy of the baseline map will be modified to map each funding source to the program or expense category that the funding is currently applied to. Each scenario should start from the “baseline” and use color coding to identify “new”, “expanded”, “continued”, “reduced”, and “eliminated” funding sources.

Document Resulting Funding Scenarios

The resulting table will illustrate the funding needs from each source into each expense category. From there, HF&H will work with District staff to tie the dollars dedicated from each source to each expense. Once the total funding is determined for each expense item, resulting fee loads per unit from each point of collection are calculated (i.e. \$ per household per month, \$ per ton at gatehouse, etc.) to determine the affordability of the funding strategy. For example, collection rates may include: hauler fees, AB 939 fees, billing and administrative fees, franchise fees and vehicle impact fees. To evaluate the affordability (e.g., by comparing to other utilities or public services) of collection rates, it is critical that all components of the collection rate are included. While an AB 939 fee of \$2 per account per month may

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appear reasonable and may be necessary to generate sufficient funding for programs, if it contributes to a total collection rate of \$60 per account per month, it is probably not affordable.

Based on the results of the initial model runs, the project team may need to perform this process in several iterative steps to rebalance the funding strategy to ensure that:

1. All programs are funded sufficiently to cover their costs and generate prudent reserves;
2. Resulting fee loads are affordable to the party paying the fee;
3. Funding sources are not being used for restricted purposes (identified in the kick-off meeting); and,
4. The resulting funding strategy minimizes negative consequences (e.g., illegal dumping, tonnage "leaking" to other landfills, etc.) or at least does not create incentives for them.

Project Proposed Funding Strategy Scenarios

From the funding scenario map, HF&H will convert the program costs and revenue streams into an income statement format. Each revenue source will be clearly identified as a separate line item with proposed funding sources being differentiated from existing funding sources. Each program area will be identified as a unique cost center in the income statement (subject to the ability of the District's information systems to allocate costs at a program level). The resulting income statement will demonstrate the total revenues, total expenses, and retained earnings for the first year of the model.

HF&H will then project program costs and revenues from 2011 through 2015. Revenue and expense projections should be based on assumed growth or reductions resulting from inflationary adjustments to fees and rates as well as growth (or reduction) in utilization of the service (e.g., change in number of accounts, reductions/increases in tons to landfill, projected new construction activity, addition of universal service areas, etc.). Where appropriate, these projections should be tied to assumptions used by the District for other budgeting purposes to ensure consistency.

- Work Product(s):**
1. Detailed Task Plan for Performing Analysis
 2. Sources and Uses of Funds Map(s) for Each Scenario
 3. Near-Term Funding Strategy (5-year projections in income statement format)

Task 6. Develop Long-Term Funding Strategy

"Based on input from the Board, the Consultant will work with District staff to analyze and document a long-term (2015 and beyond) funding strategy for the District. The long-term strategy should include funding mechanisms and organizational changes requiring more significant changes to the District's organizational and authority structure (e.g., District assuming regional franchising/franchise management responsibility) or voter-approved changes (e.g., parcel taxes)."

The development of the District's Long-Term Funding Strategy will build upon the baseline analysis and follow the same process as described above for Task 5 "Near-Term Funding Strategy".

The most basic difference between the near- and long-term strategies are the consideration of organizational or voter-approved changes (e.g., District public education and outreach costs paid through collection rates or parcel taxes for management of hazardous materials). HF&H believes that there are significant opportunities to improve the sustainability of funding both to the District and its member agencies by reorganizing the franchising structure. Additionally, HF&H believes that making more efficient use of the facility infrastructure in the region (e.g., by consolidating processing of residential recyclables at one MRF and, perhaps, processing mixed commercial recyclables separately through an additional line at the District's MRF) could result in more cost-effective programs and more sustainable funding to the District and its member agencies.

More significant changes to the modeling process are the inclusion of "proposed" or "future" programs. HF&H understands that the District's strategic planning process includes considering new (or changes to existing) policies, programs, or facilities. These changes in the system will impact funding mechanisms being considered (e.g., adding new collection services to the commercial sector affects subscriber fees, adding new capital at the MRF affects gate fees).

Each "proposed" program will need cost estimates in a similar format to existing programs. This step is intended to help manage the affordability of the rates and fees being paid by various parties through the system. HF&H does not anticipate developing detailed cost estimates for "proposed" programs as part of this scope of work due to the District's existing efforts in this area in cooperation with JR Miller. If such estimates are needed and not available through the District, its member agencies, or their haulers, HF&H will assist the District in identifying comparable jurisdictions from which to use estimates.

As with Task 5, the result of the Long-Term Funding Strategy analysis will be a set of 5-year financial projections (starting with Fiscal Year 2015/16) in an income statement format.

Work Product(s):

1. Sources and Uses of Funds Map(s) for Each Scenario
2. Long-Term Funding Strategy (5-year projections in income statement format)

Task 7. Document and Present Plan

"Based on the work performed in Tasks 5 and 6, the Consultant will prepare a detailed plan including: revenue and expense projections, new funding mechanisms, cost avoidance strategies, implementation timeline, and documentation of the costs with which changes are associated. The plan should also include recommendations by the Consultant for implementation considerations and 'best practices'. The Consultant will present the resulting plan to the Board for their consideration and approval."

HF&H will document the work performed in tasks 2 through 6 into a Final "Recycling & Solid Waste System Financial Strategy for Monterey Regional Waste Management District" Report. This report will be an implementation-level plan that the District can implement in a phased manner over the planning period and as organizational opportunities are realized. Kern County used a similar report prepared by HF&H in 1999 as a guide for implementing improvements in their Waste Management Department over the past 10 years.

The report will describe the results of the process and recommendations of the project team. This will provide detailed discussions of the plan including the revenue and expense projections, funding mechanisms, and cost-avoidance strategies used in the final plan. Also included in the plan will be a timeline to illustrate the shifting of funding from the current system through the "Near-Term Funding Strategy" and into the "Long-Term Funding Strategy".

From the information gathered during the survey process (Task 3), the project team's detailed discussions during the project, and HF&H's experience, a section of the report will be dedicated to describing the critical considerations and "best practices" for implementing the plan. The final report will also provide an overview of the process, the various scenarios that were analyzed, and the Task Force/Committee/Board involvement.

The report will be written with two audiences in mind. The first audience is the Board and its constituent public. In order to effectively inform this audience, HF&H will ensure that the executive summary section of the report as well as the charts, tables, and graphs are all concise, clear, and written in common terms, avoiding jargon where possible. The second audience is the District's management team and staff. This audience requires a greater level of detail and description. In order to provide a report that is useful to this audience, HF&H will include detailed sections describing the analytical methodology, results, and implementation considerations.

HF&H anticipates developing a draft report for District staff to review. After completing this initial draft and providing sufficient time for District staff review, HF&H will meet with District staff to review their questions and comments related to the report and to discuss how best to integrate requested changes. During this meeting, the project team will also discuss the report elements that should be included in the presentation to the Board. Based on these comments, HF&H will finalize the report and prepare the presentation to the Board.

Bob Hilton will present the final report and recommendations (based on the format and contents agreed-upon by the District and HF&H) to the Board. Rob Hilton will be available at that meeting to answer detailed questions about the plan or the process.

Work Product(s):

1. Draft "Recycling & Solid Waste System Financial Strategy" Report
2. Final "Recycling & Solid Waste System Financial Strategy" Report
3. Final "Recycling & Solid Waste System Financial Strategy" Presentation to Board

Task 8. Document Franchise Agreement Procurement Strategy Considerations

"This task is contingent upon completion of the above scope of work and subsequent approval by the Board. The Consultant will conduct background research and prepare two presentations to the Task Force during 2010/11 and one presentation to the Board."

HF&H believes that the development of an organizational and procurement strategy is an important element of the District's planning efforts, and one that may shape decisions regarding long-term funding strategy. However, we understand the direction from the Board and the resulting contingent nature of

Proposal to Provide Alternative Funding and Franchise Agreements

this task. HF&H will make every effort during the funding strategy development to include considerations from the procurement strategy, where appropriate.

HF&H has facilitated more procurement and negotiations projects in the California solid waste and recycling industry than any other firm serving the public sector. HF&H also provides extensive experience conducting procurement and negotiations projects for multi-jurisdictional agencies representing several different organizational and operational structures. We believe that this wealth of experience makes HF&H the best partner for the District's procurement strategy development, and hopefully, in the management of the procurement itself when the time comes.

From 2005 through 2007, HF&H assisted the South Bayside Waste Management Authority (SBWMA) in the development of their procurement strategy. During this process, HF&H managed two subcommittees, each including representatives from the 12 SMBWA member agencies. One committee focused on planning future programs and services; and the other committee focused on the method of conducting the contractor selection process and the terms and conditions of the future collection and operations contracts. HF&H managed preparation of meeting materials for 16 committee meetings, coordinated efforts of a consultant team, and authored more than 50 separate issue papers related to the solid waste system and procurement strategy. The issue papers analyzed, in detail, various options available and recommended approaches. HF&H prepared a report that summarized these issue papers. The table of contents and executive summary from this report is included as Attachment A Sample 2. Each of the elements identified in the RFP under "Procurement Process and Strategy", "Policies, Programs, and Facilities", and "Contractual Considerations", and more, were covered by that effort. HF&H has recently reused and updated several of these research documents to inform decisions in both the City of Palo Alto's Zero Waste procurement and the City of Livermore's high diversion procurement.

HF&H is pleased to offer the District the same team (Bob Hilton, Rob Hilton, and Tracy Swanborn) that conducted the research and drafted those issue papers. Our team will draw from the significant volume of information provided in those issue papers as well as more recent developments in the industry to prepare three summary presentations that are tailored to the unique conditions of the District and its member agencies. This will provide the District with the benefit of more than two hundred thousand dollars in consulting value at a fraction of the cost.

Procurement Process and Strategy

"This presentation should, at least, present alternative approaches to answering the following questions: What form could member agency cooperation take? What type of solicitation should be used? Who will contract with the service provider (member agencies versus district)? Will recyclables, composting, and conversion technologies be included in the collection procurement or procured separately?"

HF&H's presentation on procurement process and strategy will address each of the key questions identified in the District's RFP. It will be very important for this presentation to deal with the delicate issues surrounding the differences between the City of Monterey and the Waste Management franchisors. These differences primarily exist in the areas of facility utilization (City of Monterey owns

their MRF while WM owns the MRF used by other agencies) and contractor satisfaction (City of Monterey has expressed a high level of satisfaction with their current provider, while others have been more interested in looking at options). We want to make sure that the procurement process and strategy are developed in the most inclusive and mutually beneficial way possible for all of the member agencies. As such, it may be appropriate to recommend a different approach for one than is recommended for the other (e.g., direct negotiations vs. RFP, use of District-owned processing assets vs. separately contracting for processing, etc.).

Other particularly relevant issues for this subject area are the opportunities for further regional cooperation in franchising and solid waste system development. These opportunities exist for both increased cooperation among the member agencies as well as increased cooperation with other regional partners (e.g., Salinas Valley Solid Waste Authority development of conversion technologies).

This subject area will contain the most significant overlap with the funding strategy (Tasks 5 and 6). HF&H will be attentive to the need to identify these considerations during the development of the funding strategy and before we receive authorization to proceed on this task so that we don't preclude opportunities for the District and its member agencies too early.

Policies, Programs, and Facilities

"This presentation should highlight the various policy, program, and facility alternatives (including a brief description of each) that could be included in the service provider's scope of services or requested in an alternative price proposal. It is expected that Consultant would present a very comprehensive list along with recommendations for the items that the District and its member agencies should either: 1) include in their next franchise agreements as a standard service; 2) include in their solicitation as an "optional" program; 3) watch for further developments; or, 4) not consider. These alternatives should include a discussion of utilization of existing district, contractor, and member agency facilities."

HF&H's presentation on Policies, Programs, and Facilities will address each of the requirements described in the RFP. We will start with our comprehensive list of nearly 100 policy, program, and facility options, combine it with those that the District is currently reviewing as part of their strategic planning process, and categorize them based on the four categories identified above. Each alternative will also indicate HF&H's recommendation for the policy, program, or facility to be: included in the collection contract, included in a separate contract (e.g., composting, conversion technologies, etc.), implemented by the District, and/or implemented by a member agency(ies). This list will be presented to District staff (and other member agency staff if desired) to review and agree on the recommendations for presentation to the Task Force and Board. HF&H will then summarize the options into a presentation to clearly articulate the recommendations to the Task Force and Board.

It is important to understand that technology in the recovery industry is moving quickly and that there will be additional policies, programs, and facilities that come into being between the strategy development process and the start of the new collection contracts in 2015. As an example, during the SBWMA procurement process in 2005 – 2008, anaerobic digestion as a management strategy for organic

waste was not considered technologically viable or cost-effective enough to include it in the RFP process. However, that technology is being considered as part of the Commercial Redesign project that we are in process on for the City of San Jose and it is presumed that bids for that technology will be submitted. This type of development in technology over time can be incorporated into the procurement strategy in a way that allows good ideas and new approaches to be considered up to the point where the contract is signed with the new vendor. In fact, HF&H has crafted a number of agreements to allow for such changes mid-contract if the parties find that it is appropriate to do so.

Contractual Considerations

"This presentation should highlight the various contractual considerations for issues like: Billing; Compensation; Contract Term; Dispute Resolution; Default; Termination; Indemnification; Insurance; Performance Standards, Incentives, and Liquidated Damages; Reporting Requirements; and, Performance Surety."

HF&H's presentation on contractual considerations will address each of the subject areas listed in the District's RFP. Contractual considerations do not provide nearly as exciting presentation material as discussions of new programs and processing technologies. That said, the contractual requirements and assurances serve as the District's or member agencies' proverbial insurance policy in the case that the contractor is not performing at the expected levels.

Because there is significant remaining time to develop detailed contract terms, HF&H will use this opportunity to provide some early education to the group about their options and to begin gathering feedback. The presentation will recommend strategies and alternatives for each of the subject areas and will discuss the advantages and disadvantages associated with the different recommended approaches.

In HF&H's review of the existing franchise agreements, we identified that there are significant opportunities for improvements in the contract terms and conditions of most of the member agencies. In fact, the City of Monterey was surprised on the one hand that there was so much room for improvement, but also stated that they had "the best contract" because they didn't find frequent need to use it. While facilitating the discussion of contractual considerations, Bob Hilton and Tracy Swanborn will help to guide the group through the trade-offs between, on the one hand, managing risk through contract terms and, on the other hand, having a contract that is more detailed and onerous than the contract administrators want to deal with.

- Work Product(s):**
1. Draft & Final "Procurement Process & Strategy" Task Force Presentation
 2. Draft & Final "Contractual Considerations" Task Force Presentation
 3. Draft & Final "Policies, Programs, and Facilities" Task Force Presentation
 4. Draft & Final Consolidated Board Presentation