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April 14, 2020

Ms. Ursula Syrova
Environmental Programs Manager
Public Works Department
City of Cupertino
10300 Torre Avenue
Cupertino, CA 95014

Subject: Bridge Agreement Compensation Review (Summary)

Dear Ms. Syrova:

HF&H Consultants, LLC (HF&H) is pleased to present to the City of Cupertino (City) the summary results of our review of the Bridge Agreement Compensation Request (Compensation Request) from Recology South Bay (Recology).

BACKGROUND

The City of Cupertino plans to execute a fourth amendment (Bridge Agreement) to the current franchise agreement with Recology. This amendment will require Recology to continue service throughout the negotiations process until the execution of a new franchise agreement, or a maximum of 18 months from the expiration of the current agreement (Bridge Period). This Bridge Period will begin February 1, 2021 continue through July 31, 2022. In order to perform these services, Recology submitted the Compensation Request to cover costs during the Bridge Period, as Recology stated that it is not profitable at the current compensation rate. Recology's Compensation Request included a 5% increase beyond the annual CPI adjustment (projected at 3%) to create effectively an 8% increase for the rate year beginning November 1, 2020 and an additional 8% in the following rate year beginning November 1, 2021, which extends to the end of the Bridge Period.

SCOPE OF WORK

HF&H performed the following procedures as part of our review of the Compensation Request:

- Reviewed the Compensation Request to determine the mathematical accuracy and consistency of the request;
- Reviewed Recology's supporting documentation for mathematical accuracy and consistency;
- Reallocated expenses to align with the revenue projections based on rate year (November – October);

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- Adjusted the revenue increase timeline from a flat 8% in November 2020 and 2021 to the following: 3% effective 11/1/2020, excluding the special rate review, 5% effective 2/1/2021, 3% effective 11/1/2021, and 5% effective 2/1/2022.
- Benchmarked key operating statistics against geographically comparable company proposals or industry standards;
- Compared the impact of the requested increase on the City of Cupertino's rates against neighboring cities' rates in Santa Clara County; and,
- Discussed variances with Recology for clarification and summarized our findings.

Limitations

Our analysis relied in part on documents prepared by Recology as well as City staff whom we believe to be knowledgeable as well as professionally and technically qualified to perform the work. The review did not entail independent verification of the accuracy or completeness of all the sources of documents provided by the City or Recology.

Forecasted results are based on reasonable assumptions about future events. However, actual results are often different than anticipated and that difference can be significant.

FINDINGS

Based on our limited review, the 8% rate adjustment requests for the rate years beginning November 2020 and November 2021 are not excessive. However, the increase only assists Recology in covering their costs, and the City could expect further increases in the future.

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We would like to express our appreciation to Recology's management and staff for their assistance. In addition, we express our appreciation to you for your assistance and guidance during the course of the review. Should you have any questions, please contact Marva Sheehan directly at (925) 977-6961 or msheehan@hfh-consultants.com.

Very truly yours,
HF&H CONSULTANTS, LLC



Marva M. Sheehan, CPA
Vice President