



BETTY T. YEE
California State Controller

August 10, 2018

Lee Lindsey, Vice President of Administrative Services
Redwoods Community College District
7351 Tompkins Hill Road
Eureka, CA 95501

Dear Mr. Lindsey:

The State Controller's Office (SCO) reviewed the costs claimed by the Redwoods Community College District for the legislatively mandated Integrated Waste Management (IWM) Program for the period of July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2006. We did not include the costs claimed for the period of July 1, 2001, through June 30, 2003, in the review period because the statute of limitations to initiate a review has expired. We conducted our review under the authority of Government Code (GC) sections 12410, 17558.5, and 17561. Our review was limited to ensuring that offsetting savings were properly reported in accordance with program requirements.

This reissued letter report updates our previous letter report, dated April 11, 2014. The previous letter report identified \$38,247 in unreported offsetting savings for fiscal year (FY) 1999-2000 through FY 2000-01 and FY 2003-04 through FY 2005-06. On May 25, 2018, the Commission on State Mandates (Commission) issued a decision in response to an Incorrect Reduction Claim filed by the district for the IWM Program. In its decision, the Commission concluded that our reduction of costs claimed for the first half of FY 2003-04 (which was based on a diversion rate of 50% rather than 25%) was incorrect and that the difference of \$2,431 had been incorrectly reduced. In compliance with the Commission's decision, we reinstated \$2,431 for FY 2003-04. As a result, allowable costs increased by \$2,431, from \$192,741 to \$195,172. We advised you of the revision to this letter report via email on June 21, 2018.

The district claimed \$230,988 for the mandated program. Our review found that \$195,172 is allowable and \$35,816 is unallowable. The costs are unallowable because the district understated the offsetting savings realized as a result of implementing its IWM plans, as described in the Revised Attachment 1—Summary of Program Costs, Revised Attachment 2—Summary of Offsetting Savings Calculations, and Revised Attachment 3—Finding and Recommendation. The State paid the district \$192,741. The State will pay allowable claimed costs that exceed the amount paid, totaling \$2,431, contingent upon available appropriations.

Following issuance of this letter report, the SCO's Local Government Programs and Services Division will notify the district of the reinstatement adjustment via a system-generated letter for FY 2003-04.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

Attachments

RE: S14-MCC-916R

cc: Christian Osmeña, Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Frances Parmelee, Assistant Vice Chancellor
College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Wrenna Finche, Director of Fiscal Standards and Accountability
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California Department of Finance
Anita Dagan, Manager
Local Government Programs and Services Division
State Controller's Office

**Revised Attachment 1—
Summary of Program Costs
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 1999, through June 30, 2000</u>			
Direct costs:			
Salaries and benefits	\$ 16,624	\$ 16,624	\$ -
Indirect costs	6,557	6,557	-
Total direct and indirect costs	23,181	23,181	-
Less offsetting savings ²	(76)	(3,708)	(3,632)
Total program costs	<u>\$ 23,105</u>	19,473	<u>\$ (3,632)</u>
Less amount paid by the State ³		(19,473)	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Direct costs:			
Salaries and benefits	\$ 33,989	\$ 33,989	\$ -
Indirect costs	14,078	14,078	-
Total direct and indirect costs	48,067	48,067	-
Less offsetting savings ²	(916)	(10,056)	(9,140)
Total program costs	<u>\$ 47,151</u>	38,011	<u>\$ (9,140)</u>
Less amount paid by the State ³		(38,011)	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries and benefits	\$ 45,543	\$ 45,543	\$ -
Indirect costs	17,598	17,598	-
Total direct and indirect costs	63,141	63,141	-
Less offsetting savings ²	(1,327)	(7,521)	(6,194)
Total program costs	<u>\$ 61,814</u>	55,620	<u>\$ (6,194)</u>
Less amount paid by the State ³		(53,189)	
Allowable costs claimed in excess of amount paid		<u>\$ 2,431</u>	

Revised Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits	\$ 43,273	\$ 43,273	\$ -
Indirect costs	16,400	16,400	-
Total direct and indirect costs	59,673	59,673	-
Less offsetting savings ²	(2,811)	(9,687)	(6,876)
Total program costs	<u>\$ 56,862</u>	49,986	<u>\$ (6,876)</u>
Less amount paid by the State ³		(49,986)	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits	\$ 31,738	\$ 31,738	\$ -
Materials and supplies	1,244	1,244	-
Total direct costs	32,982	32,982	-
Indirect costs	11,885	11,885	-
Total direct and indirect costs	44,867	44,867	-
Less offsetting revenues and reimbursements	(2,811)	(2,811)	-
Less offsetting savings ²	-	(9,974)	(9,974)
Total program costs	<u>\$ 42,056</u>	32,082	<u>\$ (9,974)</u>
Less amount paid by the State ³		(32,082)	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	

Revised Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment ¹
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits	\$ 171,167	\$ 171,167	\$ -
Materials and supplies	1,244	1,244	-
Total direct costs	172,411	172,411	-
Indirect costs	66,518	66,518	-
Total direct and indirect costs	238,929	238,929	-
Less offsetting revenues and reimbursements	(2,811)	(2,811)	-
Less offsetting savings ²	(5,130)	(40,946)	(35,816)
Total program costs	<u>\$ 230,988</u>	195,172	<u>\$ (35,816)</u>
Less amount paid by the State ³		(192,741)	
Allowable costs claimed in excess of amount paid		<u>\$ 2,431</u>	

¹ See Revised Attachment 3—Finding and Recommendation.

² See Revised Attachment 2—Summary of Offsetting Savings Calculations.

³ Payment information current as of June 4, 2018.

**Revised Attachment 2—
Summary of Offsetting Savings Calculations
July 1, 1999, through June 30, 2001;
and July 1, 2003, through June 30, 2006**

Cost Elements	Offsetting Savings Reported	Offsetting Savings Realized			Review Adjustment ¹
		July through December	January through June	Total	
<u>July 1, 1999, through June 30, 2000</u>					
Maximum allowable diversion percentage		—	25.00%		
Actual diversion percentage		÷	— ÷	73.14%	
Allocated diversion percentage		—	34.18%		
Tonnage diverted		×	— ×	(298.15)	
Statewide average landfill fee per ton		×	— ×	\$36.39	
Offsetting savings, FY 1999-2000	\$ (76)	\$ —	\$ (3,708)	\$ (3,708)	\$ (3,632)
<u>July 1, 2000, through June 30, 2001</u>					
Maximum allowable diversion percentage		25.00%	25.00%		
Actual diversion percentage		÷	73.14% ÷	83.99%	
Allocated diversion percentage		34.18%	29.77%		
Tonnage diverted		×	(298.15) ×	(585.95)	
Statewide average landfill fee per ton		×	\$36.39 ×	\$36.39	
Offsetting savings, FY 2000-01	\$ (916)	\$ (3,708)	\$ (6,348)	\$ (10,056)	\$ (9,140)
<u>July 1, 2003, through June 30, 2004</u>					
Maximum allowable diversion percentage		25.00%	50.00%		
Actual diversion percentage		÷	57.68% ÷	57.85%	
Allocated diversion percentage		43.34%	86.43%		
Tonnage diverted		×	(152.25) ×	(153.30)	
Statewide average landfill fee per ton		×	\$36.83 ×	\$38.42	
Offsetting savings, FY 2003-04	\$ (1,327)	\$ (2,430)	\$ (5,091)	\$ (7,521)	\$ (6,194)
<u>July 1, 2004, through June 30, 2005</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷	57.85% ÷	52.61%	
Allocated diversion percentage		86.43%	95.04%		
Tonnage diverted		×	(153.30) ×	(124.00)	
Statewide average landfill fee per ton		×	\$38.42 ×	\$39.00	
Offsetting savings, FY 2004-05	\$ (2,811)	\$ (5,091)	\$ (4,596)	\$ (9,687)	\$ (6,876)
<u>July 1, 2005, through June 30, 2006</u>					
Maximum allowable diversion percentage		50.00%	50.00%		
Actual diversion percentage		÷	52.61% ÷	52.22%	
Allocated diversion percentage		95.04%	95.75%		
Tonnage diverted		×	(124.00) ×	(122.10)	
Statewide average landfill fee per ton		×	\$39.00 ×	\$46.00	
Offsetting savings, FY 2005-06	\$ —	\$ (4,596)	\$ (5,378)	\$ (9,974)	\$ (9,974)
<u>Summary: July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2006</u>	<u>\$ (5,130)</u>	<u>\$ (15,825)</u>	<u>\$ (25,121)</u>	<u>\$ (40,946)</u>	<u>\$ (35,816)</u>

¹ See Revised Attachment 3—Finding and Recommendation.

Revised Attachment 3— Finding and Recommendation July 1, 1999, through June 30, 2001; and July 1, 2003, through June 30, 2006

BACKGROUND—

On March 25, 2004, the Commission adopted its statement of decision, finding that Public Resources Code (PRC) sections 40148, 40196.3, 42920 through 42928; Public Contract Code (PCC) sections 12167 and 12167.1; and the State Agency Model Integrated Waste Management Plan (February 2000) require new activities which constitute new programs or higher levels of service for community college districts within the meaning of Article XIII B, section 6, of the California Constitution, and impose costs mandated by the State pursuant to GC section 17514.

Specifically, the Commission approved the test claim for the increased costs of performing the following specific activities:

- Complying with the model plan (PRC section 42920(b)(3) and the State Agency Model Integrated Waste Management Plan, February 2000);
- Designating a solid waste reduction and recycling coordinator (PRC section 42920(c));
- Diverting solid waste (PRC sections 42921 and 42922(i));
- Reporting to the Integrated Waste Management Board (Board) (PRC sections 42926(a) and 42922(i)); and
- Submitting recycled material reports (PCC section 12167.1).

In March 2007, the California Department of Finance and the Board filed a petition for a Writ of Mandate requesting that the Commission issue new parameters and guidelines that give full consideration to the community colleges' cost savings (e.g. avoided landfill disposal fees) and revenues (from recyclables) generated by complying with the test claim statutes. The Judgment and a Writ of Mandate were issued on June 30, 2008, ordering the Commission to amend the parameters and guidelines to require that community college districts identify, and offset from their claims, cost savings realized as a result of implementing their IWM plans.

On September 26, 2008, the Commission amended the parameters and guidelines for the original period of reimbursement because the court's decision interprets the test claim statutes as a question of law.

In compliance with GC section 17558, the SCO issues claiming instructions to assist community college districts in claiming mandated-program reimbursable costs.

**REVISED FINDING—
Understated offsetting
savings**

The district reported \$5,130 in offsetting savings. We determined that the district realized savings of \$40,946 from implementation of its IWM plans. Therefore, the district understated its offsetting savings by \$35,816.

The following table summarizes the understated offsetting savings amounts by fiscal year:

Fiscal Year	Offsetting Savings Reported	Offsetting Savings Realized	Review Adjustment
1999-00	\$ (76)	\$ (3,708)	\$ (3,632)
2000-01	(916)	(10,056)	(9,140)
2003-04	(1,327)	(7,521)	(6,194)
2004-05	(2,811)	(9,687)	(6,876)
2005-06	-	(9,974)	(9,974)
Total	\$ (5,130)	\$ (40,946)	\$ (35,816)

Section VIII. (Offsetting Cost Savings) of the amended parameters and guidelines states, in part:

Reduced or avoided costs realized from implementation of the community college districts’ Integrated Waste Management plans shall be identified and offset from this claim as cost savings, consistent with the direction for revenue in Public Contract Code sections 12167 and 12167.1.

PCC sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the IWM Account in the IWM Fund, which is continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the review period, the district did not deposit any revenue into the IWM Account in the IWM Fund. Our review found that the district realized reduced costs or avoided costs through implementation of its IWM plans that it did not identify and offset from its claims as cost savings.

Offsetting Savings Calculation

The Commission’s Final Staff Analysis of the Proposed Amendments to the Parameters and Guidelines (Item No. 8 – Commission hearing of September 26, 2008) states, in part:

Cost savings may be calculated from the annual solid waste disposal reduction or diversion rates that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b)(1).

To compute the savings amount, we multiplied the allocated diversion percentage by the tonnage diverted, and then by the avoided landfill disposal fee, as follows:

$$\begin{array}{rcccl}
 & & \text{Allocated Diversion \%} & & \\
 & & \left\{ \begin{array}{l} \text{Maximum} \\ \text{Allowable} \end{array} \right. & & \text{Avoided} \\
 & & \text{Diversion \%} & & \text{Landfill} \\
 \text{Offsetting} & = & \frac{\text{Diversion \%}}{\text{Actual}} & \times & \text{Tonnage} \times \text{Disposal Fee} \\
 \text{Savings} & & \text{Diversion \%} & & \text{Diverted} \quad (\text{per Ton})
 \end{array}$$

This calculation determines the costs that the district did not incur for solid waste disposal as a result of implementing its IWM plans. The offsetting savings calculations are presented in Revised Attachment 2—Summary of Offsetting Savings Calculations.

Allocated Diversion Percentage

PRC section 42921 requires districts to achieve a solid waste diversion percentage of 25% beginning January 1, 2002, and a 50% diversion percentage by January 1, 2004. The parameters and guidelines state that districts will be reimbursed for all mandated costs incurred to achieve these levels, without reduction when they fall short of stated goals, but not for amounts used to exceed these state-mandated levels. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For calendar years 2000 through 2006, we used the actual diversion percentage reported by the district to the Board pursuant to PRC section 42926, subdivision (b)(1).

Tonnage Diverted

The tonnage diverted is solid waste that the district recycled, composted, and kept out of the landfill.

For calendar years 2000 through 2006, we used the actual tonnage diverted, as reported by the district to the Board pursuant to PRC section 42926, subdivision (b)(1).

Avoided Landfill Disposal Fee (per Ton)

The avoided landfill disposal fee is used to calculate realized savings, as the district no longer incurs a cost to dispose of the diverted tonnage at the landfill. For each fiscal year in the review period, we used the statewide average disposal fee provided by the California Department of Resources Recycling and Recovery, which was established in 2010 to replace the Board. The district did not provide documentation supporting a different disposal fee.

Recommendation

The IWM Program was suspended in the FY 2011-12 through FY 2017-18 Budget Acts. Furthermore, commencing in FY 2012-13, the district elected to receive block grant funding pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the IWM Program becomes active again and if the district chooses to opt out of receiving block grant funds, we recommend that the district:

- Follow the mandated program claiming instructions and the parameters and guidelines when filing its reimbursement claims; and
- Offset all savings realized from implementation of the community college district's IWM plans.