



Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Report to the Mayor
and the
City Council of Honolulu**

**Follow-Up on
Recommendations from
Report No. 17-06, *Audit
of the City's Recycling
Program***

**Report No. 22-02
May 2022**

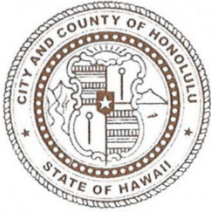
Follow-Up on Recommendations from Report No. 17-06, *Audit of the City's Recycling Program*

A Report to the
Mayor
and the
City Council
of Honolulu

Submitted by

THE CITY AUDITOR
CITY AND COUNTY
OF HONOLULU
STATE OF HAWAII

Report No. 22-02
May 2022



OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

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ARUSHI KUMAR
CITY AUDITOR

May 10, 2022

The Honorable Tommy Waters, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai'i 96813

Dear Chair Waters and Councilmembers:

Attached is a copy of our audit report, *Follow-up on Recommendations from Report No. 17-06, Audit of the City's Recycling Program*. This audit was conducted pursuant to Section 3-502.1(d), Revised Charter of Honolulu, which authorizes the Office of the City Auditor to perform follow-up audits and monitor compliance with auditor recommendations. This audit was also included in our office's Annual Work Plan for FY 2022.

The original audit Report No. 17-06, *Audit of the City's Recycling Program*, issued in October 2017, was conducted pursuant to Council Resolution 15-315. The resolution asked the Office of the City Auditor to review the general effectiveness of the city's recycling efforts and the effectiveness of specific recycling programs. Report No. 17-06 made 10 recommendations to the Department of Environmental Services.

In this follow-up audit, we found that six recommendations were completed and four were in process. In response to a draft of this audit, the director of environmental services and the managing director expressed general agreement with our findings. The department also committed to addressing the four recommendations that we deemed in-process. A copy of management's full response can be found in Appendix B.

We would like to express our sincere appreciation for the cooperation and assistance provided us by the managers and staff of the Department of Environmental Services. The audit team is available to meet with you and your staff to discuss this report and to provide more information. If you have any questions, please call me at 768-3134.

Sincerely,

A handwritten signature in cursive script that reads "Arushi Kumar".

Arushi Kumar
City Auditor

c: Rick Blangiardi, Mayor
Michael D. Formby, Managing Director
Krishna Jayaram, Deputy Managing Director
Roger Babcock, Director, Department of Environmental Services
Andrew Kawano, Director, Department of Budget and Fiscal Services

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Follow-Up on Recommendations from Report No. 17-06, *Audit of the City's Recycling Program*

May 2022

Background

This is a follow-up audit to the *Audit of the City's Recycling Program*, Report No. 17-06. In December 2015, the Honolulu City Council adopted Resolution 15-315, requesting a performance audit to determine the effectiveness of the city's recycling efforts and the effectiveness of specific recycling programs, such as the white bin program. The completed audit was issued in October 2017.

The Department of Environmental Services (ENV) is responsible for the city's recycling programs. The ENV Division of Refuse Collection and Disposal is responsible for planning and administering the City and County of Honolulu's municipal solid waste management program. This program includes solid waste reduction and recycling programs; collecting and transporting solid waste from single family homes; maintaining and collecting waste facilities (such as drop-off convenience centers, transfer stations, landfills, and collection yards); and managing the city's Honolulu Program of Waste Energy Recovery (H-POWER) waste-to-energy facility.

The auditor's conclusion to the original audit found that ENV needs to better implement parts of its recycling program. Specifically, the city has been effective in its efforts to divert municipal solid waste, as more than 75 percent of municipal solid waste has been diverted annually since 2012, and recycling has contributed significantly to landfill diversion. However, the market for selling and buying recycled waste has declined, and revenue from the sale of solid waste is insufficient to offset the costs of processing the recycled waste collected. Solid waste disposal costs can be reduced by diverting recyclable waste to the H-POWER waste to energy facility.

The community recycling program, known more commonly as the white bin program, was no longer viable. While community recycling was initially a cost-efficient way to collect mixed recyclables, its cost-efficiency declined after the 2008 service contract due to increased collection costs and the start of island-wide curbside recycling collections which impacted the original cost and collection estimates and reduced the actual collections.

The audit offered 10 recommendations:

1. *Initiate changes to city and state laws and/or permits to allow the city to divert recyclable materials to H-POWER.*
2. *Evaluate the long-term financial cost of city recycling programs and the ability of those costs to be offset by revenue or cost recapture provisions in recycling processing contracts.*
3. *Establish contract specifications that would allow for periodic adjustments to contract rates and guaranteed volumes based on changes in market conditions, price indexes, and material recovery volume.*
4. *Amend or re-bid recycling processing contracts that are cost unfavorable in either rates or volume guarantees if such action prior to the expiration of a contract would result in an overall cost savings.*






5. *Modify or cancel contracts that guarantee specific amounts of waste and guarantee electrical revenues to contractors.*
6. *Reduce city payments to contractors for waste that was never processed by modifying or cancelling contracts for recycled materials.*
7. *Encourage efforts toward source reduction through community education and support of legislative change to affect the amount of solid waste generated, reduce the volume to be recycled or otherwise disposed of, and which decrease overall collection and disposal costs.*
8. *Pursue changes to state law, solid waste permits, and city ordinance that would encourage the most cost and environmentally effective reuse of recyclable materials including, but not limited to, conversion to energy through processing at the H-POWER waste-to-energy facility.*
9. *Continue working with community groups on educational programs to promote source reduction and recycling.*
10. *Not renew the School/Community Recycling (white bin) Program.*

In response to the 2017 audit, ENV and the managing director concurred with the audit recommendations. ENV stated it would pursue changes in city and state laws to give flexibility in sending recycled materials to H-POWER and to maximize the recycling of materials based on environmental and economic benefits. The department also stated it would continue to amend or terminate unfavorable contract terms; avoid waste guarantees in future contracts; address paying for waste that was never processed; and use public information programs to reduce waste at the source.

The objective of this current follow-up audit is to report on the status of ENV's implementation of the original 10 recommendations made in Report No. 17-06.

INTRODUCTORY SUMMARY OF FOLLOW-UP RESULTS

Based on our review, we found that of the 10 recommendations made in Report No. 17-06, 6 were completed and 4 are in process. The summary table highlights these results.

 Completed 6	 Resolved --	 In Process 4	 Not Started --	 Dropped --
Agency has sufficiently implemented the audit recommendation.	Although agency did not implement the audit recommendation, it implemented an alternative solution that sufficiently addressed the applicable audit finding or risk.	Agency started or has partially implemented the audit recommendation.	Agency has not begun implementation of the recommendation.	Agency has no plan to implement the recommendation; the risk associated with the recommendation no longer exists, or is no longer applicable.

Recommendation 1



Initiate changes to city and state laws and/or permits to allow the city to divert recyclable materials to H-POWER.

Report No. 17-06 noted that ENV concurred with this recommendation and planned to pursue changes in city and state laws that will give it the flexibility to send materials to recycling or H-POWER based on environmental and economic considerations.

STATUS UPDATE

The department indicated that it has drafted revisions to Chapter 9 of the Revised Ordinances of Honolulu (ROH) that, if approved, will give authority to the ENV director to direct certain solid waste materials to recycling or to H-POWER, based on analysis using economic and non-economic criteria. These drafted revisions were informed by a study done by HDR Engineering, Inc., an international engineering firm with expertise in the area of solid waste management that looked at various alternatives to the current recycling system. The revisions have not been introduced to the mayor and managing director as the study was completed in May 2020, and ENV plans to discuss the draft revisions with city administration in 2022 to determine next steps, including possibly submitting the proposed revisions as a bill for an ordinance for consideration by city council.

Upon review of the updated status and additional data provided by the department, we conclude that this recommendation is in process.

NEXT STEPS

We encourage the department to introduce its drafted revisions to the mayor and managing director for review and comment as soon as possible.

Recommendation 2



Completed

Evaluate the long-term financial cost of city recycling programs and the ability of those costs to be offset by revenue or cost recapture provisions in recycling processing contracts.

In its response to Report No. 17-06, ENV concurred with this recommendation. ENV plans to pursue changes to city and state laws that will allow it to maximize the recycling of materials where recycling has the greatest environmental and economic benefit.

STATUS UPDATE

In continuation of Recommendation 1, in the same study done by HDR Engineering, they conducted an economic and non-economic analysis of different waste management strategies on O'ahu. In the report, HDR compares four waste stream materials (green waste, paper, plastics, and glass) against four alternative waste management scenarios (waste-to-energy, composting, overseas recycling, and landfilling), and examines financial costs, environmental impacts, and benefits associated with each scenario to recommend management strategies that have the highest overall value. HDR concluded that green waste and plastics should be sent to H-POWER for waste-to-energy conversion, glass should be sent to the PVT Land Company¹ to be landfilled instead of to California, and other disposal alternatives for paper should be explored, as diverting paper to H-POWER for waste-to-energy increases the need for raw paper products since recycled paper is removed from the economy.

Upon review of the updated status and additional data provided by ENV, we concluded that ENV has completed this recommendation. HDR Engineering's report supports ENV's draft changes to the Revised Ordinances of Honolulu that will be presented to the city council for consideration.

Recommendation 3



Completed

Establish contract specifications that would allow for periodic adjustments to contract rates and guaranteed volumes based on changes in market conditions, price indexes, and material recovery volume.

In its original response to Report No. 17-06, the department concurred with this recommendation. ENV's most recent contract with its curbside mixed recyclables processor, beginning November 1, 2016, does this by allowing the service fee to be adjusted biannually based on a national recyclable commodity pricing index. This has resulted in ENV successfully reducing the contract service fee by about 25 percent.

¹ PVT is Oahu's only construction and demolition landfill. The landfill has been in operation since 1985 with PVT Land Company Ltd. assuming ownership and management responsibility in 1992.

STATUS UPDATE

ENV has two recyclable materials processing master agreements that include revenue or cost capture terms, one for curbside collected mixed recyclables processing (MA-ENV-1700007, began November 1, 2016), and another for white goods recycling (MA-ENV-2000117, began November 4, 2020).

For the mixed recyclables processing contract, ENV is able to adjust the fee it pays to the contractor every six months based on a national recyclable material commodity price index. Essentially, if there is a net increase in the commodity value of the recyclable material included in this contract, there is a downward adjustment to the contractor's fee. If there is a decrease in commodity value, the contract fee increases. The adjustment calculation using the materials pricing index is described in Addendum 2 of the contract.

Similarly, for the white goods recycling contract, the contractor's service fee can be adjusted up or down annually, based on a national commodity price index. The adjustment calculation is described in Appendix D: Special Provisions of the master agreement.

Upon review of the updated status and additional data provided by ENV, the auditor's conclusion is that ENV has completed this recommendation. ENV has established contracts specifications that would allow for periodic adjustments to contract rates and guaranteed volumes based on changes in market conditions, price indexes, and material recovery volume. These specifications can be found in each of the contracts, MA-ENV-1700007 and MA-ENV-2000117.

Additionally, ENV has four more recyclable master agreements. Each one of these contracts can be periodically adjusted.

Exhibit 1
ENV Contracts with Periodic Adjustment Terms

Contract #	Contract Name	Periodic Adjustments
MA-ENV-2100061	Battery Recycling	<p>Fee is based on a bid price per unit.</p> <p>For an adjustment, the contractor shall submit detailed cost breakdowns for material, equipment and labor, including additional or reduction in time, for the Officer-in-Charge's approval, within three working days or within such further time as the Officer-in-Charge may allow, from the time the contractor is informed of the work to be performed or of any changes. The substantiation shall include the contractor's and subcontractor's cost breakdown to a level of detail acceptable to the Officer-in-Charge.</p>
MA-ENV-1400002	Compressed Gas Cylinder Recycling	<p>Fee is based on a bid price per unit.</p> <p>Bidders may choose to offer a credit or a charge bid price per unit as listed in the proposal. This credit is derived from the value offered by the bidder for the scrap metal contained in the compressed gas cylinder and is intended to offset the contractor's process charge to the city. A credit Bid Price Per Unit indicates that the bidder agrees to pay the city a price for each unit that it receives from the city. In the event a credit is offered, the Bid Price Per Unit should be listed as a negative amount. In the event the Bid Price Per Unit is a charge, the bidder agrees to charge the city a fee per unit.</p>
MA-ENV-2100002	Tire Recycling	<p>The fee is based on a bid price per unit.</p> <p>If any change order increases or decreases the contractor's cost of, or the time required for, performance of any part of the work under this contract, an adjustment shall be made and the contract modified in writing accordingly.</p>
MA-ENV-2100040	City Agency Office Paper Recycling	<p>The fee is included in the contract price.</p> <p>On any price adjustment, the contractor shall submit detailed cost breakdowns for material, equipment and labor, including additional or reduction in time, for the Officer-in-Charge's approval, within three working days or within such further time as the Officer-in-Charge may allow, from the time the Contractor is informed of the work to be performed or of any changes. The substantiation shall include the contractor's and subcontractor's cost breakdown to a level of detail acceptable to the Officer-in-Charge.</p>

Source: Department of Environmental Services

Upon review of the updated status and additional data provided by ENV, the auditor's conclusion is that ENV has completed this recommendation. ENV has established contracts specifications that would allow for periodic adjustments to contract rates and guaranteed volumes based on changes in market conditions, price indexes, and material recovery volume. These specifications can be found in each of the master agreements.

Recommendation 4**Completed**

Amend or re-bid recycling processing contracts that are cost unfavorable in either rates or volume guarantees if such action prior to the expiration of a contract would result in an overall cost savings.

In its response to Report No. 17-06, ENV concurred with this recommendation. Recently, ENV terminated its curbside mixed recyclables processing master agreement early due to unfavorable terms, modified those terms, and re-solicited bids for the service. ENV will continue to pursue this approach with all of its recycling and solid waste management contracts.

STATUS UPDATE

The department re-bid the white goods recycling contract in 2019, including terms allowing ENV to adjust the contractor's fee based on fluctuations in a national metal commodity price index. As noted above, ENV continues to evaluate its recycling service contracts to incorporate revenue or cost recapture terms. ENV has multiple recyclable materials processing contracts, including mixed recyclables and white goods. We conclude this recommendation has been completed.

Recommendation 5**In Process**

Modify or cancel contracts that guarantee specific amounts of waste and guarantee electrical revenues to contractors.

In its response to Report No. 17-06, the department generally concurred with this recommendation. ENV has one contract that includes a guarantee for waste and electrical revenues. Future contracts to generate electricity will consider the best methods to identify the appropriate recipients of electricity and provide the best benefit to the city. However, minimum tonnage guarantee contracts are a common industry practice for recycling contracts. Recycling companies rely on consistent material throughout to sustain marketing agreements and ultimately business operations. This model reflects the need for contract service providers to cover the costs of their investment in facilities and the operation costs that do not vary based on volume.

STATUS UPDATE

The department's Refuse Division has one contract that includes a commitment to deliver a certain amount of waste to the facility for the contractor to process with the contractor providing a certain electrical revenue. In the event that amount of waste is not delivered, ENV is required to financially compensate the contractor. In addition, if the contractor doesn't meet the annual processing guarantee, it owes the city lost electric energy revenues. Since the 2017 audit, this contract has not expired or has been re-bid. However, ENV will eliminate waste guarantees in future contracts where it is practical and economical to do so.

The Covanta-operated H-POWER plant contract guarantees both specific amounts of waste and electrical revenues to contractor. The Waste Processing and Disposal Services Contract for the H-POWER project between the City and County of Honolulu and Covanta Honolulu Resource Recovery Venture, last amended on December 17, 2009, guarantees at least 800,000 tons of waste

per year as well as minimum annual levels of electrical revenues to contractors for 20 years. We conclude that this recommendation is in process.

NEXT STEPS

We encourage the department to modify this existing contract when the contract is to be renewed.

Recommendation 6



Reduce city payments to contractors for waste that was never processed by modifying or cancelling contracts for recycled materials.

In its response to Report No. 17-06, ENV concurred with this recommendation to the extent it is permitted under the contract and procurement code. The department stated it is best to address this issue of paying for waste that was never processed in the phases of developing contract specifications and procurement.

STATUS UPDATE

We reviewed updated and additional data provided by the department and concluded that ENV is in the process of completing this recommendation. There are two unexpired contracts that deal with city payments and waste guarantees.

- The Waimanalo Gulch Sanitary Landfill contract with Waste Management of Hawaii states that the city will provide 250,000 tons of waste per year for \$51.19 per ton. For each additional ton, the service fee is \$3.41. The contract terms run through December 31, 2024. The fee can be adjusted by 100 percent of the percentage change (year-over-year) during the immediately preceding calendar year in the Consumer Price First Half Index for All Urban Consumers (All items) for Honolulu, HI.
- The Green Waste Conversion Facility contract originally guaranteed a minimum 100,000 tons of green and food waste, and sewage sludge per year. However, the contract was amended to guarantee a minimum only green waste remaining and having a guarantee of 75,000 tons. The price adjustment is done by a CPI-based adjustment, and this is done annually with the current rate per ton of \$83.13 effective April 1, 2021. The contract was signed in December 2013 and goes for ten years starting upon the Commercial Operations Date.

NEXT STEPS

We encourage the department to modify these existing contracts when the contracts are to be renewed.

Recommendation 7**Completed****Encourage efforts toward source reduction through community education and support of legislative change to affect the amount of solid waste generated, reduce the volume to be recycled or otherwise disposed of, and which decrease overall collection and disposal costs.**

In its response to Report No. 17-06, ENV concurred that source reduction, which is the elimination of waste before it is created, is a major component of waste management. Source reduction occurs upstream and involves the design, manufacturing, and use of material in a way that eliminates waste. The city's ability to mandate source reduction is limited. However, through its public information programs and platforms, ENV can and will promote residential and commercial waste reduction, and encourage residents and businesses to pursue environmentally and economically cost effective strategies to reduce waste sources.

STATUS UPDATE

Since 2018, ENV has engaged in numerous efforts to educate and encourage community source reduction, including updating its Integrated Solid Waste Management Plan (ISWMP), enforcing the city's plastic bag ban, collaborating with a local theater for youth, and developing a pilot project for material reuse.

ENV published its current 10-year ISWMP in 2019. Hawai'i counties are required by Chapter 342G of the Hawai'i Revised Statutes to develop an ISWMP every 10 years. The current plan was developed with the assistance of an advisory committee and informed by input from a wide range of community stakeholders. The document charts ENV's Refuse Division course for the next 10 years by, among other things, providing goals and objectives for the Refuse Division. The focus areas include recycling and bioconversion, special waste handling, public education, facility capacity and siting, among other topics. Source reduction and reuse is a primary focus of the 2019 ISWMP. Specifically, the ISWMP identified several objectives for ENV that would affect source reduction, including the creation of a Source Reduction Working Group *to openly collaborate with other government entities, businesses, community groups, and other stakeholders to determine the best approaches and provide recommendations to further reduce waste generation*. ENV planned to convene the working group in 2020, but deferred action due to the COVID-19 pandemic. At the end of 2021, ENV initiated a process to procure a consultant to convene and facilitate ENV's working group in 2022. Additionally, the city has adopted source reduction goals including reducing per-capita waste generation 25 percent by 2030, from 6.5 pounds per day to 4.9 pounds per day.

ENV continues to enforce the city's Plastic Bag Ban ("bag ban"). The original bag ban ordinance became effective on July 1, 2015. Since that time, and with ENV's support, the bag ban has undergone a few revisions. Effective July 1, 2018, businesses charge customers a minimum of 15 cents per reusable, compostable plastic or recyclable paper bag they provide to customers at the point of sale for the purpose of transporting groceries or other merchandise. Also included in that amendment is a requirement that, effective January 1, 2020, plastic film bags with a thickness of 10 mils or less shall no longer be considered *reusable bags*, and compostable plastic bags shall no longer be provided. Subsequently, effective January 1, 2021, the bag ban was amended again to revise the definitions of *plastic checkout bag* and *plastic film bag*, and to clarify the uses of plastic bags that are exempt from the bag ban.

The 2021 bag ban changes were part of the Disposable Food Ware Ordinance that, with ENV's support, was approved in December 2019. The ordinance significantly restricts the sale, distribution, and use of disposable foam food ware, disposable plastic service ware, and disposable plastic food ware. The ordinance requirements were phased in over the period between January 1, 2021, and January 1, 2022.²

ENV has also continued its collaboration with the Honolulu Theater for Youth (HTY) to develop and conduct in-school and in-theatre performance workshops to educate students, teachers, and the general public on sustainable waste management practices. Most recently, ENV collaborated with HTY to develop educational digital videos on plastic and food waste source reduction and reuse.³ This video will be shown on cable television and be featured on social media accounts and websites for HTY, ENV, and other partners, and will be available to be shared throughout the community. Lastly, ENV is pursuing a materials reuse pilot project at its Kapaa Refuse Transfer Station in Kailua. The Kapaa Refuse Transfer Station is one of the three free transfer stations around the island for residents to dispose of their household rubbish. The reuse pilot project will allow a non-profit organization to accept donations of lightly used quality goods from the public on transfer station property. The organization will then attempt to reuse, repurpose, or resell them back to the public, with the goal of keeping these goods out of the waste stream.

Given these efforts, we conclude this recommendation is completed.

Recommendation 8



In Process

Pursue changes to state law, solid waste permits, and city ordinance that would encourage the most cost and environmentally effective reuse of recyclable materials including, but not limited to, conversion to energy through processing at the H-POWER waste-to-energy facility.

In its response to Report No. 17-06, ENV concurred with this recommendation.

STATUS UPDATE

We determined that this recommendation is in process. Please see the status updates to Recommendations 1 and 2 above.

NEXT STEPS

We encourage the department to introduce their drafted revisions to the mayor and managing director for review and comment.

² The City suspended these requirements for a period to correspond with the Mayor's emergency proclamation related to the COVID-19 pandemic.

³ "Food Waste: Full Episode," The HI Way, Season 4, 24:00. Honolulu Theatre for Youth, [2020], <https://membership.htyweb.org/hiway-4-food-waste/>.

Recommendation 9



Completed

Continue working with community groups on educational programs to promote source reduction and recycling.

In its response to Report No. 17-06, the department concurred with this recommendation. ENV will continue to educate the public on effective solid waste management strategies, including source reduction and recycling, consistent with available funding.

STATUS UPDATE

In addition to the community work mentioned in Recommendation 7, ENV stated that it recently collaborated with the city's Office of Climate Change Sustainability and Resiliency to support a commercial food waste recycling pilot project in Honolulu's Chinatown. The project is a two-year effort to plan and implement a food waste composting program and establish partnerships with a non-profit organization to rescue quality excess food to feed the hungry. The project has recently started and initial results are pending.

Upon review of the status update and confirmation of the collaboration described above, we conclude that this recommendation is completed.

Recommendation 10



Completed

Not renew the School/Community Recycling (white bin) Program.

ENV concurred with this recommendation and stated it had no plans to revive this program.

STATUS UPDATE

We confirmed with ENV staff and the former contractor that ENV has not renewed this program.

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Appendix A

Audit Objectives, Scope, and Methodology

The objective of this follow-up audit is to determine whether the Department of Environmental Services (ENV) has adequately addressed the 10 recommendations in Report No. 17-06, *Audit of the City's Recycling Program*, with appropriate corrective actions. This follow-up audit is limited to reviewing and reporting on the implementation of the outstanding audit recommendations.

All 10 recommendations were reviewed in order to assess the extent to which the ENV's corrective actions are substantiated. We reviewed the original audit and requested updated responses for each recommendation. We reviewed supporting documentation pertinent to the follow-up audit.

While initial interviews were conducted, adjustments were made due to the coronavirus pandemic. As a result, additional documentation requests were primarily accomplished through the use of email correspondence, and telephone calls as appropriate.

We assessed ENV's internal controls to the extent that they relate to the audit objectives. During the audit we were not aware of any other investigations, audits or other work by other agencies that may impact our work.

We met with responsible representatives of ENV to discuss our preliminary findings in order to identify any concerns or clarifications that may be appropriate to the report. We then provided a written draft of the report that both departments could use as a basis for its formal written responses to the follow-up audit.

The audit was conducted from December 2021 to April 2022 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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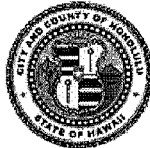
Appendix B

Management Response

DEPARTMENT OF ENVIRONMENTAL SERVICES
CITY AND COUNTY OF HONOLULU

1000 ULUOHIA STREET, SUITE 308, KAPOLEI, HAWAII 96707
TELEPHONE: (808) 768-3486 • FAX: (808) 768-3487 • WEBSITE: <http://envhonolulu.org>

RICK BLANGIARDI
MAYOR



May 4, 2022

ROGER BABCOCK, JR., Ph.D., P.E.
DIRECTOR

MICHAEL O'KEEFE
DEPUTY DIRECTOR

ROSS S. TANIMOTO, P.E.
DEPUTY DIRECTOR

IN REPLY REFER TO:
WAS 22-052

MEMORANDUM

TO: Arushi Kumar, City Auditor

A handwritten signature in black ink, appearing to read "Roger Babcock Jr.", is written over a digital signature line.

Digitally signed by Babcock, Roger
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Date: 2022.05.04 15:13:59 -10'00'

FROM: Roger Babcock, Jr., Ph.D., P.E., Director

SUBJECT: Management Response to Follow-up on Recommendations from Report
No. 17-06, Audit of the City's Recycling Program

Thank you for the opportunity to work with your staff and to provide comments on this follow-up audit on the status of the Department of Environmental Services' ("ENV") implementation of the 10 recommendations contained in the 2017 Audit of the City's Recycling Program (Report No. 17-06).

The follow-up audit found that of the 10 recommendations, 6 were completed and 4 are in process. ENV agrees with this finding and offers the following comments on the 4 recommendations that are in process.

Recommendation 1 – Initiate changes to city and state laws and/or permits to allow the city to divert recyclable material to H-POWER.

ENV agrees with the follow-up audit's "NEXT STEPS" for this recommendation and will discuss the draft revisions to Chapter 9 of the Revised Ordinances of Honolulu and an approach to pursuing these revisions with the Mayor and Managing Director.

Recommendation 5 – Modify or cancel contracts that guarantee specific amounts of waste and guarantee electrical revenues to contractors.

ENV would like to reiterate its support for eliminating contractual guarantees for specific amounts of waste and guarantees for electrical revenues to contractors *where it is practical and economical to do so*. As noted in the follow-up audit under this recommendation, contracts that include minimum waste volume guarantees are commonplace in the recycling and solid waste industry. Recycling companies, and most solid waste processors in general, plan for and rely on receiving a certain amount of waste in order to fulfill marketing agreements and other end user commitments. To the extent that ENV can create flexibility within these contracts to avoid financial or other penalties due to insufficient waste generation, ENV will pursue those changes.

Arushi Kumar, City Auditor
May 4, 2022
Page 2

Recommendation 6 – Reduce city payments to contractors for waste that was never processed by modifying or cancelling contracts for recycled materials.

ENV will pursue this recommendation to the extent it is permitted under the terms of the contract and procurement code. ENV agrees with the follow-up audit's "NEXT STEPS" for this recommendation and will reevaluate and, where practical and economical, revise contract requirements prior to solicitation.

Recommendation 8 – Pursue changes to state law, solid waste permits, and city ordinance that would encourage the most cost and environmentally effective reuse of recyclable materials including, but not limited to, conversion to energy through processing at the H-POWER waste-to-energy facility.

This recommendation is similar to Recommendation 1. In consultation with the Mayor and Managing Director, ENV plans to pursue revisions to Chapter 9 of the Revised Ordinances of Honolulu that will enable it to direct recyclable materials to the most cost and environmentally effective end use.

Thank you again for the opportunity to review and comment on this follow-up audit. ENV is committed to adopting the recommendations in the follow-up audit as it strives to improve the efficacy of its entire solid waste management program.

APPROVED:



Michael D. Formby
Managing Director