



EXECUTIVE DIRECTOR'S REPORT



STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Date: January 26, 2017 Board of Directors Meeting
Subject: Executive Director's Report

The following projects and initiatives highlight staff efforts during the past month:

1. Administration & Finance:

A. Mid-Year Review of FY16-17 Annual Operating Budget—Report Out:

The Mid-Year review of the SBWMA FY 16-17 Annual Operating Budget resulted in a net positive variance of \$1,018,459 in net income, or +63.5%. These Mid-Year projections include: revenues of \$45.2M against expenses of \$42.6M for a net income projection of \$2.6M, or a +63.5% positive variance.

Staff goes to great effort to project and manage the agency's financial plan in a fiscally conservative and responsible fashion. There are several key factors to these highly unusual results, including:

- **Key Revenue Variances:** A 19% jump in commodity pricing vs. plan (+\$1.6M); A \$470K increase in franchise sales due to higher material volumes; Higher than planned buyback payments of \$95K.
- **Key Expenses Variances:** Lower administrative costs (salary costs) due to four extended staff vacancies (\$298K); Favorable credit card charges due to bank change (+\$53K); Favorable HHW program expenses thru YE due to non-renewal of Waste Management contract (+\$341K).

The agency's total reserve balance continues to maintain a strong position with a Mid-Year fund total of \$13,337,984, which is a \$232,241 positive variance vs. budget (or +1.8%). Please note that the "Undesignated Reserves" fund has been re-named "Capital Reserve" to more accurately depict the agency's historic and intended future use of these funds.

NOTE: Fire-related expenses are not called out above for simplicity. Mid-Year variance details are provided in item 8B in today's packet, including a summary of fire-related expenses and reimbursements.

B. Annual Financial Services Audit—Now Complete:

Per standard GAAP procedures, the City of San Carlos commissioned Maze & Associates to conduct an annual review of the SBWMA's comprehensive financial reporting practices. Maze's findings report was first reviewed by the City of San Carlos Administrative and Accounting Management team before being presented to SBWMA management. These findings were reviewed by the Finance Committee on January 10, and these findings are presented for final Board consideration today in agenda item 7C.

C. 2017 Investment Policy—Minor Changes:

The City of San Carlos' Investment Committee has recommended seven non-substantive adjustments to the SBWMA Investment Policy due to mandated code-changes that were effective January 1, 2017. On January 10, the Finance Committee reviewed these changes and recommended they progress to final Board consideration today in agenda item 7D. The Finance Committee also recommended the future evaluation and consideration of alternative, higher-yielding financial options for a portion of the Agency's investment portfolio. Any such recommendations would, of course, require board approval of its standing investment policy.

D. Staffing Update--Two Vacancies:

The agency currently has one staff vacancy, the *Recycling Outreach & Sustainability Manager* and one additional contracted position vacancy, the *Recycling Programs Manager* (the former LGS contractor). Both vacancies are professional grade and are budgeted. As previously reported, technical contractors are being used to support the agency's priority program work during this interim period, and their costs are being kept below the budgeted wages that would have been paid out if the agency were operating at normal staffing.

These vacant positions will be addressed in the agency assessment provided to the SBWMA board prior to the January 26th meeting.

2. Collection and Recycling Program Support and Compliance:

A. 2017 Contractor Compensation Adjustment Application update:

Member agencies have now concluded their local rate setting actions to establish their garbage, recycling and organics rates for 2017. Staff provided technical support during this important process as requested.

B. Household Hazardous Waste (HHW) handling:

The HHW collection contract with Waste Management (WM) expired on December 31, 2016 per Board action. The County's HHW program reports a substantial increase in drop-off appointments at their Tower Road HHW Facility since the WM program's expiration was announced in mid-November.

With strong Board direction, Staff recommends maximizing the County's fully AB 939 fee-funded, existing HHW materials handling infrastructure and local drop-off events in the future. SBWMA Staff has worked enthusiastically with our County HHW Program colleagues to deliver many viable HHW options for our ratepayers and no, or minimal additional cost. SBWMA Staff notes (and appreciates!) County staff has demonstrated a highly-responsible and flexible approach during our planning discussions. With final Board approval of Item 9B today, Staff will develop an expanded HHW education and outreach plan to supplement the County's confirmed 2017 collection event schedule. A Shoreway Environmental Center HHW drop-off facility option will also be addressed in this report.

C. Franchise Agreement Negotiations Committee (FAX):

Vigorous progress has been made in this top-tier initiative. Our lead negotiator, HF&H Consultants, and both parties are now fully engaged in active negotiation mode. The tone of our discussions has been cordial and constructive and all participants are working hard to advance the discussion to meet the established timeline. The Recology team has met a critical deliverable by submitting their completed sole-source RFP worksheets on January 10th, as requested. Staff would like to acknowledge Recology's efforts in providing this critical deliverable during a very compressed time period that occurred over the holidays. This critical path document provides fundamental insights on the financial aspects of the Recology operations that are necessary for our discussions to proceed.

Staff has placed a strong priority on incorporating Member Agency feedback into these discussions. Here are four ways that Staff has purposefully solicited this input:

- **A senior-level survey:** This was directed to every SBWMA Board Member/Alternate and all City Managers. 23 total responses and 100% participation from our member agencies.
- **Senior and frontline staff** participated in a comprehensive, study-session-style input session on January 5th in a combined TAC/FAX meeting. There were 35 attendees, including three city managers. 11 of 12 member agencies represented.
- **Senior and frontline staff:** Agreement-specific written and verbal input has been provided to staff from a number of member agencies.
- **Planning staff survey:** Through our TAC members, each member agency's expert planners has been engaged through a survey to gain a better understanding of our region's projected growth through 2030, and its relative impacts on Recology's operations, productivity and costs. The results of this survey are still outstanding at the time of this writing.

Please see attached summary table of all FAX milestones that have been realized since the last Board meeting on November 17th. Recent updates (since the January 5th Executive Director Report) are indicated in **red** for your ease of readability). In addition, a project timeline with milestone dates has been included in this Board packet under Agenda Item 11A. Remember, these dates work us through the SBWMA review and approval process of 1. a Model Franchise Agreement (which addresses core services that are provided to all 12 member agencies) and 2. Recology's Cost Proposal that is anticipated to be presented at the April Board meeting. **(Presumed) SBWMA Board approval will then conclude Part One** of the Franchise Agreement negotiation process. NOTE: Should the SBWMA Board review process extend beyond April, contract modifications will likely be required to compensate HF& Consultants, RJR Proto, and SCS Engineers for their services since this was the timeline originally envisioned as Staff scoped this work.

Upon SBWMA Board approval, the new Model Franchise Agreement and Recology's Cost Proposal will then be provided to each Member Agency to proceed with their agency-specific negotiations and, ultimately, executing their individual Franchise Agreements-**this is Part Two of the negotiations process**. Please note: The Model Franchise Agreement is currently envisioned to be an amendment to our current agreement, not a brand new contract.

It is imperative that Parts One and Two of the negotiations process be completed before December 31, 2017, or a new Request for Proposal (RFP) will need to be prepared and implemented in 2018 to represent the best interests of the Agencies.

3. **Shoreway Operations and Contract Management:**

A. **Fire Recovery Update:**

On January 10, 2017, the MRF resumed full operations about three months ahead of projections.

This noteworthy achievement is directly due to the highly-skilled project management and extreme collaborative planning efforts led by SBWMA staff member Hilary Gans, and included SBR General Manager Dwight Herring; Tanner Pacific principal, Bill Tanner; Bulk Handling Systems (BHS) technical staff (the facility's specialized processing equipment manufacturer) and the Hanover Insurance claims representatives. As a result of these efforts, 35 highly-valued Shoreway and VRS employees are now back to work. SBR is currently in final negotiations with the Vocational Rehabilitation Services (VRS) program management to

implement the new County Living Wage Ordinance. These parties are operating under an MOU until this agreement is finalized.

It should be noted that, while full operations have resumed, there is still important repair work to be completed on the facility's roof and siding. After Board approval, this contract work will begin (see staff report 10A), with an estimated completion in March/April. This work is valued at \$170,302.

As of December 31st, Hanover Insurance has provided the Agency with \$6,340,385 in reimbursements for all facility clean up and equipment repair/replacement expenses. We currently have a slight net positive balance of \$142,555. Offsite recyclable material processing ceased as of January 5th. Staff is particularly grateful for the support these MRF's provided during our emergency circumstances. One never knows when, or if, our facility may be called on to reciprocate in the future under similar circumstances.

B. Construction & Demolition (C&D) Materials Processing:

The SBWMA's contract with Zanker Road Resource Recovery (Zanker) for C&D processing (expires on January 31, 2017 and extended by MOU through February 28th) is discussed in agenda item 10B.

Respectfully submitted,



Joe La Mariana
Executive Director

Attachment 1: Franchise Negotiations/Project Milestone Summary

Process Milestone	Date Completed	Comments
PROCESS SET-UP		
1. SBWMA FAX Committee Formation	SBWMA Board Mtg. April 2016	Authorized by Resolution #2016-21
2. SBWMA Staff Distributes RFQ <i>Soliciting lead negotiator and financial analytical services</i>	11/1/16	*Two highly-qualified responses from R3 Consultants and HF&H Consultants * Board selects HF&H (Resolution #2016-44)
3. SBWMA Negotiation Team Formation * HF&H Consultants, Lead Negotiator * RJP Proto, SW Industry Technical Expert * SCS Engineers, Staff augmentation * ADCL, Legal support	12/14/16	Professional Services Contracts are now completed for all team members.
4. Preliminary Meetings w/Recology	11/2/16 11/3/16	Excellent briefing with Recology team of key operational issues of high importance to them.
6. Recology Submits Franchise Agreement Redlines for proposed new term	11/30/16	* Redline completed at SBWMA request. *This doc provides an important starting point for our negotiation discussions.
10. Recology Cost Proposal /RFP	1/10/17	*Recology delivered comprehensive, 644-page response document. *HF&H Consultants currently reviewing submittal.
MEMBER AGENCY INPUT		
8. <u>Member Agency Input #1:</u> TO: Board Members; Alternates; City Managers	12/16/16	*Survey completed on 1/10/16. *All 12 Member Agencies responded. * 23 total responses. *Survey Goal: Secure input to shape SBWMA's key negotiation points.
9. <u>Member Agency Input #2:</u> TO: TAC + FAX members	1/5/17	* Joint TAC/FAX meeting was held on 1/5. * 35 attendees; 11 of 12 MAs attended. *Special Session goal: To solicit input from TAC/FAX members (senior-level member agency staff) to shape Agency's key negotiation points.
11. <u>Member Agency #3:</u> <u>Future Growth Survey</u>	Survey closes 1/20/17	Survey sent to Member Agency's senior Planners (through TAC members). Survey Goal: To identify growth factors through 2030 that may affect Recology's operations, productivity and costs.
NEGOTIATIONS PROCESS		
7. Negotiation Team Meetings <i>Joint Meetings w/SBWMA + Recology</i>	12/7/16 1/11/17 1/23/17	Frontline discussions on key language, costs and negotiation points.
5. FAX Ad Hoc Committee Meetings <i>Six Board-appointed FAX team members:</i> * Chair, Jim Porter, County of SM * Vice Chair, Melissa Stevenson-Diaz * Larry Patterson, San Mateo * Afshin Oskoui, Belmont (also TAC Chair) * Brenda Olwin, EPA * Heather Abrams, Menlo Park	2016: 11/10; 12/7 2017: 1/12 1/24	SBWMA's Negotiation Team provides in-depth report backs of key discussion items to FAX for feedback and direction.