



CONSENT CALENDAR



DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
 MEETING OF THE BOARD OF DIRECTORS
 November 19, 2015, 2015 – 2:00 p.m.
 San Carlos Library Conference Room A/B

Call To Order: 2:02PM

1. Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X	
Belmont	X		Redwood City	X	
Burlingame	X		San Carlos	X	
East Palo Alto		X	San Mateo	X	
Foster City	X		County of San Mateo		X
Hillsborough	X		West Bay Sanitary District	X	

Alternate Member John Root Represented Burlingame

Alternate Member Art Kiesel represented Foster City

2. **Adjourn to Closed Session** – Pursuant to Government Code Section 54957.6: Conference with Labor Negotiators Agency designated representative: Robert J. Lanzone Unrepresented employee: Executive Director.

3. **Regular Session CTO: 2:33PM**

Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X	
Belmont	X		Redwood City	X	
Burlingame	X		San Carlos	X	
East Palo Alto		X	San Mateo	X	
Foster City	X		County of San Mateo		X
Hillsborough	X		West Bay Sanitary District	X	

4. Report from Closed Session

Counsel Lanzone reported that the Board of Directors authorized a personnel committee to be established directed by the Chair and the Executive Committee will act as a personnel committee to select an interim Executive Director.

5. Public Comment

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting.

If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

Iliana Rodriguez representing the Human Services Agency of County of San Mateo spoke to the Board about the partnership with VRS, and the challenges the program is facing in providing a reliable labor source to SBR. She noted that due to the low unemployment rate in the County, currently at 2.8%. The County's pool of labor they are able to provide to SBR is shrinking. She added that the County remains committed to the contract, and over the next few weeks they will be meeting with SBR to see what can be done to right size the contract given the current economics.

Chair Widmer asked that a status updated be given to the Board at the January meeting as to how the meetings with SBR went.

6. Executive Director's Report

Executive Director McCarthy spoke about his time and his family's time at SBWMA. He noted that it's both been the most challenging and rewarding job of his career, and that it is hard to leave.

The Board Members all individually thanked Executive Director McCarthy for his hard work, dedication and leadership and congratulated him on his new endeavor.

Mario Puccinelli of Recology added his thanks and appreciation.

Dan Domonoske of SBR also thanked and congratulated Kevin. He also noted that SBR continues to be in dialogue with the County to look for solutions to the challenges that face the staffing levels in the MRF.

Member Carlton absent at 2:48 PM

7. Approval of Consent Calendar

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Board, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion.*

- A. Adopt the October 22, 2015 BOD Meeting Minutes
- B. Consideration of Approval of Extended Producer Responsibility Framework
- C. Approval of 2016 Board Meeting Calendar
- D. Consideration of Approval for a Contract with JR Miller & Associate for Preliminary Architectural Design of a Transfer Station Building Expansion

Member Root noted he would abstain from 7A.

Member Aguirre made a motion to approve the consent calendar.

Member Stone seconded the motion.
 Voice Vote: All in Favor

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park				X
Belmont	X				Redwood City	X			
Burlingame	X		7A		San Carlos	X			
East Palo Alto				X	San Mateo	X			
Foster City	X				County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			

8. Administration and Finance

A. Discussion on Board Agenda-Setting Process and Procedures (Discussion item)

Chair Widmer introduced the item, noting that Member Olbert requested a discussion be brought forward on how items get brought to the Board, and he wanted to have a discussion on whether the board wanted to keep the process currently used or adopt a more formal approach.

Executive Director McCarthy summarized the staff report noting that the process in place goes beyond the requirements of the JPA agreement. He also noted that the Executive Director in collaboration with the Executive Committee sets the agenda, and if a Board Member requests an item be brought forth for discussion it is put on a future agenda, so it has been a very open and collaborative process.

Member Olbert stated that he thought the open and informal process was a good way of engaging collaboration, but noted that it could have a downside if one person's agenda is driving the Board's discussion. He suggested that if an issue is brought up to the Executive Director and there is push back, that the board agree as a body to honor that push back, and bring it up in Board comments to get broader feedback before the item is placed on the agenda.

Chair Widmer suggested bringing up any potential agenda items under potential future Board agenda items.

Member Olbert noted that that process would be consistent with what he was talking about and asked for the Executive Director's feedback.

Executive Director McCarthy commented that he thought this was a good process, and thought it was a good idea to get feedback on potential future agenda items.

9. Collection and Recycling Program Support and Compliance

A. Discussion on Draft Plan and Recommended Process for Supporting Member Agencies with Future Franchise Agreement Decisions (Discussion item)

Executive Director McCarthy introduced the item and gave a brief history. He noted that each Member Agency has a big decision about whether to extend their current Franchise Agreement coming up in 2017. He added that the JPA has historically been the agency responsible for helping the Member Agencies collectively come to common terms about services and programs. He stated that the document attached to the staff report lays out a set of assumptions about how to progress as a JPA to develop the important

documents each Member Agency would need to move forward with a decision. He also added that the document is very sensitive to the fact that all of the Member Agencies have separate Franchise Agreements. He commented that the document lays out a critical timeline so that each Member Agency could start their own internal process and not get caught with a short time frame to make a decision.

Member Benton asked if the process will lead to a Board vote to extend or not.

Executive Director McCarthy gave a brief history of the 2005 decision to go to an RFP process, where all of the Board Members checked in with their councils and reported back to the JPA. He thought that a similar process could occur with this decision as well where the JPA Board makes a non-binding vote recommendation to the Member Agencies.

Chair Widmer questioned if the first item, building the financial base line, would include bids from Recology for the 2020-2030 time frame.

Executive Director McCarthy answered that the timeline between now and the Spring is to get information from Recology on their current actual cost of operations, and get a base line to see if there are any significant variances between what their costs are and what they are being paid. He added that the future model that would show the expected future collection costs would be further down in the road in 2016. He noted that each Member Agency would have numbers for their own community about what future costs would look like.

Chair Widmer reiterated that the Member Agencies need to know if Recology is taking strong exception to anything before a decision is made.

Executive Director McCarthy agreed.

Member Benton asked when Recology would be ready to come to the Board to request the extension, and give the Board a range of costs for future agreements, and have a macro look at the future agreements.

Executive Director McCarthy noted that between now and the spring of 2016 Recology will have to come forward with what they want in the next contract, and the macro look would happen then. He added that based on the comments today, staff would be coming back to the Board in January with an approval of this schedule, and it will turn into staff work for the balance of the fiscal year, and budget assumptions in the Spring.

10. Shoreway Operations and Contract Management

A. Consideration of Shoreway Facility Tipping Fee Adjustments Effective 1/1/16 (Approval item)

Executive Director McCarthy introduced the item, and noted that the franchised tipping fees assumed in the FY1516 budget have remained unchanged. He added that staff is comfortable with these tip fee increases, and the minimum bond covenant requirements will be met. He also noted that there have been operational issues that have cost more money than expected, and commodity prices have not been great so this adjustment is just at the bare minimum threshold to meet the bond covenant requirement. He then added that some small adjustments to the public tip fees are also proposed as well.

Member Benton asked if it was prudent to make a decision to be this tight on the bond covenant requirement.

Executive Director McCarthy commented that staff is comfortable with this tipping fee adjustment because there is also some undesignated cash in the budget, and the liquidity to make a transfer if necessary. He added that staff was conservative when making the tip fee adjustment recommendations.

Member Benton asked for confirmation that the bond covenant permits a transfer of funds.

Executive Director answered yes.

Chair Widmer commented that when the Board last discussed tip fee adjustment with the budget there was discussion among many Board Members around keeping the adjustments as low as possible. So, the numbers have been brought down by close to a percentage point.

Executive Director McCarthy added that table 3 of the staff report shows the collection rate impact by Member Agency of the tip fee adjustments as requested by the Board at the time of the budget discussion.

Staff Fakira commented that staff feels confident with this adjustment, the ability to transfer if necessary, and noted that staff feels like this is a conservative approach.

Member Benton commented that he prefers more frequent step increases, as opposed to big increases, and questioned if staff had looked ahead to the next year or two given the changing dynamics of the market.

Executive Director McCarthy answered that staff has projected all the way through 2016, but there is an unknown with the commodity market especially with plastics and glass, and that is the major risk. He added that staff has been pretty conservative with the commodity prices estimates used to make this tip fee recommendation.

Chair Widmer suggested revisiting the conversation regarding current reserve levels at a future Board meeting if the board was uncomfortable.

Member Benton noted that he was fine with the rate stabilization fund, and the ability to make a transfer.

Member Benton made a motion to approve the tip fee adjustments for 2016

Member Bonilla seconded the motion

Voice vote: All in Favor

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park				X
Belmont	X				Redwood City	X			
Burlingame	X				San Carlos	X			
East Palo Alto				X	San Mateo	X			
Foster City	X				County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			

B. Consideration of Approval for South Bay Recycling to Lease Two End-Dump Tractor Trailers for Glass Hauling (Approval item)

Staff Gans introduced the item, and noted that it was a follow up item to the discussion from last month on glass issues. He noted it is a two part item; one the resolution to approve leasing two tractor trailers and added, that it was originally proposed that SBR purchase the tractor trailers, but now staff recommends leasing, because it provides more flexibility. And two, the discussion on additional items as a result of the glass issue, which were in the staff report analysis section. He noted that the glass situation is evolving and further items will be coming back to the Board for discussion, as solutions are found to deal with the changing requirements of the glass processor, and the glass markets.

Chair Widmer asked about the cleaning of the glass.

Staff Gans answered that there is only one glass processor in the state of California, so whatever they say goes, and we want our glass to be on the better end of their quality spectrum. So there will be a capitol expense in the future, but staff is looking at making improvements to the entire system, and once those recommendations are ready there will be a Board discussion and further decisions to be made.

Member Olbert asked how the battery stream pulled out of the glass is different from the battery stream currently being recycled.

Staff Gans answered that the difference is in the purity of the material. When the batteries are removed from the glass stream with a magnet it is still loaded with lots of other material type because everything small in the MRF system, ends up in the glass.

Member Benton asked what the error rate is for items that are miss-sorted by the residents.

Staff Gans answered that it is difficult to answer because it's on a material by material basis, and it's about the MRF equipment and how that works, and used the example of shredded paper being small and ending up in the glass, and noted that when the MRF was built there wasn't as much shredded paper in the commercial or residential stream, and noted that there is that kind of story for all the different commodities.

Chair Widmer asked for a breakdown of the \$260,000 costs in the staff report.

Staff Gans answered that it is all transportation costs in driver time, it is a costly run because Fairfield is a little bit further than twice as far as San Leandro was and it is very congested, so it's further and takes more time.

Chair Widmer asked what the return on investment would after adding all of this up and looking at the commodity revenues.

Staff Gans answered that it's not a good story, and noted that glass is something the SBWMA pays to recycle. He noted that it costs \$27 a ton for the recycler to receive the glass, but if the \$27 a ton is not paid then the SBWMA doesn't receive the CRV money from the state. He added that with the state refund it's about a break even scenario.

Member Olbert asked about education along the lines of choices consumers make, and if the situation was the same with regards to plastic bottles.

Executive Director McCarthy answered no, the situation wasn't the same with plastic bottles, but suggested adding a staff update in the future to give the Board a profile of the different types of packaging and the economics of each. He added that glass is 20-25% of the total diverted tons from Shoreway, so even if it is break even, it is still better economics than sending it to the landfill.

Member Stone made a motion to approve SBR's lease of two tractor trailers

Member Aguirre seconded the motion

Voice Vote: All in favor

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park				X
Belmont	X				Redwood City	X			
Burlingame	X				San Carlos	X			
East Palo Alto				X	San Mateo	X			
Foster City	X				County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			

11. Informational Items Only (no action required)

- A. 2015 Finance and Rate Setting Calendar
- B. Check Register for October 2015
- C. Potential Future Board Agenda Items

Executive Director commented that to put into practice what was discussed under agenda item 8A, he went over the future agenda items in the staff report.

12. Board Member Comments

13. Adjourn 3:35 PM

DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
SPECIAL MEETING OF THE BOARD OF DIRECTORS
January 18, 2016 – 4:00 p.m.
Menlo Park Chamber of Commerce Conference Room

Call To Order: 4:00PM

1. Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park		X (closed session only)
Belmont	X		Redwood City	X	
Burlingame	X (via phone)		San Carlos	X	
East Palo Alto	X		San Mateo		X
Foster City	X		County of San Mateo	X	
Hillsborough	X		West Bay Sanitary District	X	

2. Public Comment

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting.

If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

3. Approval of Consent Calendar

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Board, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion.*

- A. Resolution authorizing Interim Executive Director to Notify the City of San Carlos to Accept the One-Year Extension Option for the Lease Agreement at San Carlos Library (*Approval Item*)
- B. Resolution Approving Agreement(s) with Nelson Staffing and Sloan/Vazquez LLC for the Every Other Week Garbage Collection Pilot Project in the City of San Mateo (*Approval Item*)
- C. Resolution authorizing an amendment to the Purchasing Policy section 3.12.160 establishing purchasing authority of \$25,000 for the Interim Executive Director. (*Approval Item*)
- D. Resolution authorizing contract with The Bob Murray Group for recruitment of Executive Director (*Approval Item*)
- E. Resolution Authorizing Contract with S. Groner and Associates to Implement Public Outreach for the State Mandated Commercial Recycling Laws AB 341 and AB 1826 (*Approval Item*)

Discussion on Item 3A

Member Benton noted that the lease agreement attached to the staff report is only through June 30, 2016, and needed to be changed to 2017 if it was a one year lease.

Member Aguirre asked if the lease is renegotiated every year.

Chair Widmer answered that last year's lease extension was a one year lease with the option for a one year extension. He also added that a one year lease was negotiated to give staff time to see if there were options for the staff to move to Shoreway.

Member Benton reiterated that the approval is to extend the least through June 2017.

Discussion on Item 3D

Member Slocum asked if Chair Widmer had contacted the County of San Mateo regarding conducting a search for the Executive Director. He noted that the County performed the search for the HEART (The Housing Endowment and Regional Trust)

Member Bronitsky asked if they could approve the consent calendar, but then check with the County to see if the search could be conducted through the County, that way if the County couldn't do the search the work could continue to move forward.

Member Benton noted that search is a business, and this isn't a government search, but a private sector search, and that the company performing the search should have a background in the private sector.

Member Stone noted that he would not be voting for D, and would like to see written proposals before a decision is made.

Chair Widmer summarized the staff report and gave a brief outline of the discussion he had with the 3 firms that responded to him regarding conducting an Executive Director search. He also noted that the price was the same from the top two proposals, and they were all verbal proposals.

Member Abrica commented that he would like to see what the county can do before a decision is made.

Member Benton suggested waiting until the regular January Board meeting and deciding then which firm to use.

Member Stone and Member Grassilli both asked to see written proposals before a decision is made.

Item 3D was tabled until the next meeting

Member Bronitsky made a motion to approve consent items A-C, and E, noting the date change to A.

Member Aguirre seconded the motion

Roll Call Vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park				X
Belmont	X				Redwood City	X			
Burlingame	X				San Carlos	X			
East Palo Alto	X				San Mateo				X
Foster City	X				County of San Mateo	X			
Hillsborough	X				West Bay Sanitary Dist.	x			

4. **Adjourn to Closed Session** – Pursuant to Government Code Section 54954.5: Public Employee Appointment Interim Executive Director.

The Board adjourned to closed session at 4:13 PM

5. **Adjourn: 4:45PM**



STAFF REPORT

To: SBWMA Board Members
From: Farouk Fakira, Finance Manager
Date: January 28, 2016 Board of Directors Meeting
Subject: Resolution Accepting the FY1415 Annual Financial Statements

Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2016-xx attached hereto authorizing the following action:

Accept the South Bayside Waste Management Authority's audited Annual Financial Statements (see **Exhibit A to the Resolution**) for the fiscal year ending June 30, 2015 as prepared by the SBWMA's audit firm, Lance Soll & Lunghard, LLP.

Summary

The purpose of the financial statements is to present a summary of the financial position of the Authority for the fiscal year. These reports have been reviewed by the Board Adhoc Audit Subcommittee which recommends approval. The final step in the formal process of preparing these financial statements is to transmit them to the Board for its acceptance.

Analysis

The financial statements of the SBWMA for fiscal year ending June 30, 2015, have been prepared by the City of San Carlos Administrative Services Department and examined by the independent auditing firm of Lance Soll & Lunghard, LLP and SBWMA staff. It is the **unqualified opinion** of the audit firm that the financial statements present fairly the financial position of the SBWMA as of June 30, 2015, and that the financial statements were prepared in conformity with generally accepted accounting principles. No exceptions or qualifications were found.

Financial Condition Highlights

As shown in Table 2 of the Audit report, ending net position decreased \$0.9 million to \$21.5 million. Higher than actual FY1314 revenues of \$580.9K due to higher volumes were more than offset by higher Shoreway operating expense of \$2,045K. The higher operating expenses were largely from: \$1,085.5 due to an increase in SBR's compensation for higher volumes and one-time expenses associated with the Port of Oakland disruption; higher disposal expenses of \$702K due (to \$283.4K in higher rates and \$418.6K in higher volume); and higher buyback payments of \$117.6K. , It should be noted there were no tipping fee increases implemented at Shoreway in 2015.

The unrestricted net assets (Unrestricted Reserves) increased by \$1.2 million to \$15.3 million as of June 30, 2015 (see Table 1 and 3 in Audit report). Operating Income decreased by \$1,446,523 (see Table 2 in Audit report). Unrestricted net assets are used to fund the Board designated reserves as shown in Table 3 of the Audit report.

General Operating Results

The operating results for FY1415 and FY1314 are as follows:

	<u>FY2015</u>	<u>FY2014</u>	<u>Variance</u>
			<u>Better / (Worse)</u>
Operating Revenues	\$42,718,433	\$42,137,558	\$580,875
Operating Expense	\$37,414,982	\$35,369,933	(\$2,045,049)
Depreciation Expense	\$3,337,059	\$3,276,585	(\$60,474)
Operating Income <Loss>	\$1,966,392	\$3,491,040	(\$1,524,648)
Interest Expense	(\$2,857,904)	(\$2,936,029)	\$78,125
Net Asset Change	<u>(\$891,512)</u>	<u>\$555,011</u>	<u>(\$1,446,523)</u>
<i>per Table 2 in Audit Report</i>			

Long-Term Debt

At the end of the current fiscal year, the SBWMA had bond debt outstanding of \$50,207,247.

**Outstanding Debt
Activities**

	<u>FY2015</u>	<u>FY2014</u>
Revenue Bonds 2009A	\$50,207,247	\$51,419,747

Payment of principal on the 2009A bonds began on September 1, 2013. Additional information on the SBWMA's long-term debt can be found in the notes (5) to the accompanying financial statements.

Note: Early redemption of bonds cannot start until after September 1, 2019 per the bond indenture.

Fiscal Impact

There is no financial impact associated with the adoption of this Resolution.

Attachments:

Resolution 2016-06. Accepting the Authority's FY1415 Financial Statements

Exhibit A – FY1415 Annual Financial Statements



RESOLUTION NO. 2016-06

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS ACCEPTING THE FISCAL YEAR 2014-2015 ANNUAL FINANCIAL STATEMENTS

WHEREAS, the South Bayside Waste Management Authority contracted with the audit firm of Lance Soll & Lunghard, LLP to conduct an audit of the Agency's financial records in accordance with Governmental Accounting Standards Board (GASB) Statement 34; and

WHEREAS, the financial statements for the fiscal year ending June 30, 2015 as prepared by said firm have been completed and are attached as **Exhibit A**; and

WHEREAS, it is recommended that the Board accept the financial statements.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the Annual Financial Report as prepared by Lance Soll & Lunghard, LLP for the fiscal year ending June 30, 2014.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 28th day of January, 2016, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist.				

I HEREBY CERTIFY that the foregoing Resolution No. 2016-06 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 28, 2016.

ATTEST:

Bill Widmer, Chairperson of SBWMA

Cyndi Urman, Board Secretary

December 1, 2015

To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

We have audited the financial statements of the business-type activities of the South Bayside Waste Management Authority (the "Authority") for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in the notes to the financial statements.

We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No misstatements were found.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial



To Members of Board of Directors of the
South Bayside Waste Management Authority

statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of Members of the Board of Directors of the South Bayside Waste Management Authority San Carlos, California and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Brea, California

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of San Carlos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of San Carlos, California, (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To the Honorable Mayor and Members of the City Council
City of San Carlos, California

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Solt & Luyhard, LLP

Brea, California
October 29, 2015

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Bayside Waste Management Authority (the "Authority"), San Carlos, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 1, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



To Members of the Board of Directors of the
South Bayside Waste Management Authority

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lughard, LLP

Brea, California
December 1, 2015

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2015

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the South Bayside Waste Management Authority (the "Authority") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To Members of the Board of Directors of the
South Bayside Waste Management Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Brea California
December 1, 2015

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Management's Discussion and Analysis
June 30, 2015

The Management's Discussion and Analysis (MD&A) section presents an overview and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) for the fiscal year (FY) ended June 30, 2015. It should be read in conjunction with the audited financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The SBWMA's financial statements include:

Statement of Net Position presents information on the SBWMA's assets and liabilities as of year-end, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position presents the results of the SBWMA's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which the Authority has successfully recovered its costs through user fees and other charges.

Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. The statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

Notes to Financial Statements provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

FINANCIAL ANALYSIS

The following table summarizes the Authority's change in net position from last year to this year.

Table 1
Comparative Net Position
June 30, 2015 and 2014

	FY 2015	FY 2014	\$ Change	% Change
Current and other assets	\$ 25,083,366	\$ 25,112,407	\$ (29,041)	-0.1%
Capital assets, net of depreciation	52,127,824	55,393,521	(3,265,697)	-5.9%
Total assets	<u>77,211,190</u>	<u>80,505,928</u>	<u>(3,294,738)</u>	<u>-4.1%</u>
Long-term debt outstanding	50,207,247	51,419,747	(1,212,500)	-2.4%
Other liabilities	5,541,914	6,732,640	(1,190,726)	-17.7%
Total liabilities	<u>55,749,161</u>	<u>58,152,387</u>	<u>(2,403,226)</u>	<u>-4.1%</u>
Net position:				
Net investment in capital assets	6,175,238	8,222,650	(2,047,412)	-24.9%
Unrestricted	15,286,791	14,130,891	1,155,900	8.2%
Total net position	<u>\$ 21,462,029</u>	<u>\$ 22,353,541</u>	<u>\$ (891,512)</u>	<u>-4.0%</u>

Net Position

The total net position decreased by \$0.9 million or 4.0% from the prior fiscal year. The net decrease of \$0.9 million is comprised of a \$2.0 million decrease in net investment in capital assets, which is offset by a \$1.1 million increase in unrestricted net position.

The total liabilities decreased by \$2.4 million or 4.1%. The decrease of \$1.2 million or 2.4% in long-term debt is associated to the \$1.2 million principal payment made on the 2009A bonds. This change is explained further in the “*Long-term Debt*” section below. The decrease of \$1.2 million or 17.7% in other liabilities is related to the timing of payments for the Shoreway operations.

The largest portion of the Authority’s assets is its investment in net capital assets totaling \$52.1 million. These assets that comprise of land, construction-in-progress, buildings, equipment and infrastructure, less accumulated depreciation, are primarily located at the Shoreway Environmental Center. The actual year-over-year comparison of the capital assets, net of accumulated depreciation, shows a decrease of \$3.3 million or 5.9% due of an increase in accumulated depreciation. These changes are explained further in the “*Capital Assets*” section below.

The net investment in capital assets is \$6.2 million as of June 30, 2015. It represents the Authority’s investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. It should be noted that these funds are not available for spending because capital assets cannot be used to liquidate these liabilities. Therefore, the resources needed to repay this debt must be provided from other sources. Unrestricted net position totaling \$15.3 million represents the part of net position that can be used to finance operations.

Results of Operations

The following table summarizes the Authority's revenues, expenses, and changes in net position.

Table 2
Comparative Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	32,669,809	31,701,909	967,900	3.1%
Commodity revenue	8,875,856	9,503,894	(628,038)	-6.6%
Other operating revenues	1,102,363	768,003	334,360	43.5%
Investment Income	70,405	163,752	(93,347)	-57.0%
Total Revenues	<u>42,718,433</u>	<u>42,137,558</u>	<u>580,875</u>	<u>1.4%</u>
Expenses				
Operating expenses	40,752,041	38,646,518	2,105,523	5.4%
Interest expense	2,857,904	2,936,029	(78,125)	-2.7%
Total Expenses	<u>43,609,945</u>	<u>41,582,547</u>	<u>2,027,398</u>	<u>4.9%</u>
Increase (decrease) in net position	(891,512)	555,011	(1,446,523)	260.6%
Beginning net position	<u>22,353,541</u>	<u>21,798,530</u>	<u>555,011</u>	<u>2.5%</u>
Ending net position	<u>21,462,029</u>	<u>22,353,541</u>	<u>(891,512)</u>	<u>-4.0%</u>

While the Statement of Net Position (Table 1) shows the change in financial position, the Statement of Activities (Table 2 above) provides answers as to the nature and sources of the changes.

The operating results of the Authority for the current fiscal year were \$5.2 million compared to \$6.6 million for the prior year. Included in the operating results are the revenues from charges for services, commodity revenues, and other operating revenues less the expenses from the Shoreway operations, SBWMA administration expenses and franchise fees. Depreciation expense is excluded from the operating results.

Charges for services, also known as tipping fee revenue, increased by \$1.0 million or 3.1%, from \$31.7 million in FY14 to \$32.7 million in FY15. Public solid waste volumes accounted for \$0.6 million of the revenue growth, while the second half of the calendar year (CY)14 tip fee increase accounted for \$0.4 million of the growth. Public revenue is the revenue generated from non-franchised waste that is delivered to the Shoreway facility, while franchise revenue is from solid waste and organics materials collected by Recology San Mateo County from customers of SBWMA's member agencies and delivered to the Shoreway facility. The Other operating revenues increased by \$0.3 million or 43.5%, mainly due to an increase in the processing of third-party recyclables, which the Authority actively solicited to help offset the fixed costs at the Shoreway facility. Investment income dropped by \$0.1 million, or 57.0%, due to a \$0.1 million Lehman settlement recovery that occurred in FY14. Lehman recoveries for FY15 were \$0.01 million.

The primary component of Operating expenses is related to the Shoreway operations that constitute about 80% of non-discretionary, contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expense. The Shoreway operations expense increased by \$2.0 million in FY15 primarily due to increases in waste volume and charges for solid waste processing.

Reserves

Table 3 below reflects the amount of reserves that have been designated by the Board in the fiscal years 2015 and 2014.

Table 3
Unrestricted Reserves Balances

	<u>FY 2015</u>	<u>FY 2014</u>
Rate Stabilization Reserve	\$ 3,887,542	\$ 3,706,140
Emergency Reserve	3,887,542	3,706,140
Equipment Replacement	1,429,675	1,130,726
2009 A Bond Repayment	1,058,333	1,004,167
Undesignated	5,023,699	4,583,718
Total Unrestricted Reserves	<u>\$ 15,286,791</u>	<u>\$ 14,130,891</u>

In 2002, the SBWMA Board established a reserve policy to set aside certain portions of unrestricted net position for specific uses in order to protect the short and long-term financial operation of the Authority. In May 2013 the Board revised the Cash Reserve Policy to accomplish the goal of more clearly defining the Reserve accounts. It replaced the existing Operating Reserve with an Emergency Reserve Account. The Emergency Reserve is to address unexpected and sudden capital needs or significant one-time increases in Shoreway operating expenses associated with “damage by natural disasters, acts of war or terrorism, or other community emergency scenarios that are not covered by existing insurance policies”. The new Policy also changed the priority order of the accounts so the Rate Stabilization Reserve is first in priority followed by the Emergency Reserve. The Rate Stabilization Reserve & Emergency Reserve is calculated as 10% of Operating expenses. Operating expenses include Shoreway Operations expenses, SBWMA program expenses, 2009A bond interest expense, and franchise fees. Operating expenses exclude depreciation, buyback, and household hazardous waste payments. In July 2015, the Board of Directors clarified the reserve policy for SBWMA, as a result, the reserve balances for FY 2014 have been revised to be comparable to the current year.

Capital Assets

The following table summarizes changes in the Authority’s capital assets.

Table 4
Capital Assets, Net of Depreciation
Years Ended June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and system	34,537,955	34,507,581	30,374	0.1%
Machinery and equipment	22,549,837	22,549,837	-	0.0%
Construction in progress	31,391	6,029	25,362	420.7%
Total Accumulated depreciation	(18,991,359)	(15,669,926)	(3,321,433)	21.2%
Total Net Capital Assets	<u>\$ 52,127,824</u>	<u>\$ 55,393,521</u>	<u>\$ (3,265,697)</u>	<u>-5.9%</u>

The net capital assets decreased by \$3.3 million or 5.9% from \$55.4 million in FY14 to \$52.1 million in FY15. This decrease is primarily due to the annual \$3.3 million increase in accumulated depreciation. The increase in Construction in Progress relates to the addition of the

Materials Recovery Facility tip canopy project. The additions to the Buildings & system relate to welding shop wiring upgrades, replacement of the truck shop fuel dispenser, and the addition of exhibits at the education center.

Additional information on the capital assets can be found in Note (4) of the financial statements.

Long-term Debt

At the end of the current fiscal year, the Authority has \$50.2 million total debt outstanding.

Table 5
Outstanding Debt, Net of Amortized Costs
June 30, 2015 and 2014

	<u>FY 2015</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	\$ 50,050,000	\$ 51,255,000	\$ (1,205,000)	-2.4%
Net Premium 2009A	157,247	164,747	(7,500)	-4.6%
Total	<u>\$ 50,207,247</u>	<u>\$ 51,419,747</u>	<u>\$ (1,212,500)</u>	<u>-2.4%</u>

Long-term debt consists of the Revenue Bond Series 2009A that was issued to finance the construction and renovation of a solid waste materials recovery facility and transfer station as well as related equipment.

Additional information on the Authority’s long-term debt can be found in Note (5) to the accompanying financial statements.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our member agencies, investors and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the revenues and expenses in the course of doing business. If you have questions about this report or need additional financial information, contact the Executive Director, South Bayside Waste Management Authority, 610 Elm Street, San Carlos, California 94070.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

Current Assets:

Cash and investments for operations	\$ 14,514,777
Accounts receivable	4,241,489
Interest receivable	16,582
Prepaid items	14,500

Total Current Assets 18,787,348

Noncurrent Assets:

Cash and cash equivalents with fiscal agent	6,296,018
Capital assets	
Land	14,000,000
Construction in progress	31,391
Building	34,537,955
Equipment	22,549,837
Less: Accumulated depreciation	(18,991,359)
Net capital assets	<u>52,127,824</u>

Total Noncurrent Assets 58,423,842

Total Assets 77,211,190

LIABILITIES

Current Liabilities:

Accounts payable	3,121,158
Accrued liabilities	209,044
Interest payable	951,788
Current portion of compensated absences	20,692
Long-term debt, due in one year	1,270,000

Total Current Liabilities 5,572,682

Noncurrent Liabilities:

Accrued liabilities	1,233,640
Compensated absences due in more than one year	5,592
Long-term debt, due in more than one year	<u>48,937,247</u>

Total Noncurrent Liabilities 50,176,479

Total Liabilities 55,749,161

NET POSITION

Net Position:

Net investment in capital assets	6,175,238
Unrestricted	<u>15,286,791</u>

Total Net Position \$ 21,462,029

See Independent Auditors' Report and Notes to Basic Financial Statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUES:

Charges for services	\$ 32,669,809
Commodity revenue	8,875,856
Other	<u>1,102,363</u>

Total Operating Revenues 42,648,028

OPERATING EXPENSES:

Shoreway operations	33,434,107
SBWMA program administration	2,425,553
Franchise fee - transfer station	1,555,322
Depreciation	<u>3,337,059</u>

Total Operating Expenses 40,752,041

Operating Income (Loss) 1,895,987

NONOPERATING REVENUES (EXPENSES):

Investment income	70,405
Interest expense	<u>(2,857,904)</u>

Net Nonoperating Revenue (Expense) (2,787,499)

Change in Net Position (891,512)

NET POSITION AT BEGINNING OF YEAR 22,353,541

NET POSITION AT END OF YEAR \$ 21,462,029

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 42,292,770
Payments to suppliers	(37,530,675)
Cash payments to employees for services	<u>(1,053,727)</u>
Net Cash Flows from Operating Activities	<u>3,708,368</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>63,819</u>
Net Cash Flows from Investing Activities	<u>63,819</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	(71,362)
Principal paid on long-term debt	(1,205,000)
Interest paid	<u>(2,885,487)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(4,161,849)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(389,662)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>21,200,457</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,810,795</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 1,895,987</u>
Adjustments to reconcile operating income net cash provided (used) by operating activities:	
Depreciation and amortization	3,337,059
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(355,258)
(Increase) decrease in prepaid expenses	1,223
Increase (decrease) in accounts payable	(1,205,658)
Increase (decrease) in accrued liabilities	28,237
Increase (decrease) in accrued compensated absences	<u>6,778</u>
Total Adjustments	<u>1,812,381</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,708,368</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 7,500</u>

See Independent Auditors' Report and Notes to Basic Financial Statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies

a. Organization

The South Bayside Waste Management Authority (the Authority) is a joint powers authority formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the Facilities, currently the Shoreway Environmental Center in San Carlos; and the planning, administration management, review, monitoring, enforcement and reporting of solid waste, recyclable material and plant material collection activities within Authority's service area.

Members of the Authority currently include the towns of Atherton and Hillsborough, and the cities of Belmont, Burlingame, East Palo Alto, Foster City, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary District and the County of San Mateo.

The Authority is controlled by a twelve member board consisting of one elected representative from each member. None of the member entities exercise specific control over the budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by the City of San Carlos.

Based on the franchise agreements with each member agency and Recology effective January 1, 2011, the Authority collects service fees from Recology for the processing and disposal of collected materials. The facility operator, South Bay Recycling, also collects fees from public customers which are remitted to the Authority. South Bay Recycling is paid by the Authority to operate the facility and transport materials to disposal and processing facilities on a per ton basis pursuant to the Operations Agreement. The compensation to both contractors is adjusted annually based primarily on various CPI indices. The Authority also directly pays for disposal and processing of solid waste and organics materials to vendors such as BFI/Republic, Recology Grover, Zanker Road, and Bio-Fuel Systems.

b. Enterprise Fund Accounting

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and the sale of commodities.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred. Enterprise fund equity includes retained earnings and contributed capital.

c. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is used.

d. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Expenditures which materially increase the value or life of capital assets are capitalized and depreciated over the remaining useful life of the asset. The Authority's policy is to capitalize all assets with costs exceeding the \$10,000 threshold and a useful life of more than one year.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method; meaning the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives of capital assets by type as listed below:

Building	10 - 40 years
Improvements	5 - 20 years
Equipment	5 - 15 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

e. Compensated Absences

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 15 working days' vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 5 years. Maximum accumulation of vacation is two years' vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation and sick leave. The liability for compensated absences is determined annually.

f. Retirement and Deferred Compensation Plans

The Authority offers its employees a retirement plan created in accordance with Internal Revenue Code Section 401a. The employer contribution to the 401a is 10% plus a match up to 2% of the employee contribution.

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457b. Pursuant to the IRC subsection (g), all amounts of compensation deferred under the deferred compensation plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the Plan. Deferred compensation funds are not subject to the claims of the Authority's

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 1: Summary of Significant Accounting Policies (Continued)

general creditors; consequently, the assets and related liabilities of the plan are not included within the Authority's financial statements.

g. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Note 2: Cash and Investments

The Authority pools cash from all sources except cash and investments held by fiscal agents so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution. The Authority Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Authority employs the Trust Department of a bank as the custodian of certain Authority managed investments, regardless of their form.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

b. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Cash and Investments (Continued)

Statement of Net Position	
Cash and investments for operations	\$ 14,514,777
Cash and investments with fiscal agent	6,296,018
	\$ 20,810,795

Cash and investments for operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

c. Investment Authorized by the California Government Code and the Authority's Investment Policy

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy when the Authority's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$40,000,000 per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	40,000,000 per account	N/A
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

- (A) 5% of outstanding paper of issuing corporation
- (B) 5% of the portfolio in one corporation

d. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority resolutions, bond indentures or State statutes. The

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Cash and Investments (Continued)

table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Direct obligations of the Department of the Treasury of the United States	None
Obligations issued or guaranteed by FMHA, FHA, General Services Administration, GNMA, U.S. Maritime Administration, HUD, and backed by the full faith and credit of the United States of America	None
Direct obligations of FHLB, FHLMC, FNMA, REFCORP, Farm Credit Enterprise, Federal Agriculture Mortgage Association, Tennessee Valley Authority	None
Money Market Fund	AA
U.S. dollar denominated Certificates of Deposit, savings accounts, deposit accounts	None
Investment agreements, including GIC's forward purchase agreements and reserve fund put agreements	None
Commercial Paper	A-1
General obligations of States or municipalities	AAA
Bankers acceptances	A-1+
Medium Term Notes	AAA
State of California Local Agency Investment Fund	None
San Mateo County Investment Pool	None

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

Investment Type	12 Months or less	Total
San Mateo County Investment Pool	\$ 5,718,430	\$ 5,718,430
California Local Agency Investment Fund	7,974,338	7,974,338
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,296,018	6,296,018
Total Investments	<u>\$ 19,988,786</u>	19,988,786
Total Cash in Bank and Cash on Hand		822,009
Total Cash and Investments		<u>\$ 20,810,795</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 2: Cash and Investments (Continued)

Local Agency Investment Fund

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

San Mateo County Investment Fund

The Authority is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The Authority reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The Authority reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments in California Local Agency Investment Fund and San Mateo County Investment Pool are not rated and therefore no rating is shown.

Presented below is the actual rating as of June 30, 2015, for each investment type as provided by S&P ratings:

Investment Type	AAAm	Not rated	Total
Cash and Cash Equivalents with Fiscal Agent:			
Money Market Fund	\$ 6,296,018	\$ -	\$ 6,296,018
San Mateo County Investment Pool	-	5,718,430	5,718,430
California Local Agency Investment Fund	-	7,974,338	7,974,338
Total Investments	\$ 6,296,018	\$ 13,692,768	19,988,786
Total Cash in Bank and Cash on Hand			822,009
Total Cash and Investments			\$ 20,810,795

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 2: Cash and Investments (Continued)

g. Concentration of Credit Risk

The Authority's investment policy contains certain limitations on the amount that can be invested in any one issuer. In certain categories, these limitations surpass those required by California Government Code Sections 53600 et seq. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Entity-wide investments. There were no such investments at June 30, 2015.

Note 3: Capital Assets and Facilities Operations

Pursuant to a sales agreement with Republic Services, Inc., the Authority purchased land, and buildings and personal property amounting to \$14 million and \$5.228 million, respectively. These facilities comprise the Shoreway Environmental Center in San Carlos. The Authority signed an agreement to lease back the facilities to Republic Services, Inc. to operate them. This agreement expired on December 31, 2006 and the Authority had extended the agreement until December 31, 2010. The Authority signed a new agreement effective January 1, 2011 with South Bay Recycling to operate the facility. For the year ended June 30, 2015, the Authority paid \$17,445,438 to South Bay Recycling to operate the Facility.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal ended June 30, 2015:

	Balance July 1, 2014	Transfers	Additions	Retirements	Balance June 30, 2015
Capital assets not depreciated:					
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	6,029	-	25,362	-	31,391
Total non-depreciable assets	<u>14,006,029</u>	<u>-</u>	<u>25,362</u>	<u>-</u>	<u>14,031,391</u>
Capital assets being depreciated:					
Buildings	34,507,581	-	46,000	(15,626)	34,537,955
Equipment	<u>22,549,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,549,837</u>
Total depreciable assets	<u>57,057,418</u>	<u>-</u>	<u>46,000</u>	<u>(15,626)</u>	<u>57,087,792</u>
Less accumulated depreciation:					
Buildings	(7,865,516)	-	(1,444,079)	15,626	(9,293,969)
Equipment	<u>(7,804,410)</u>	<u>-</u>	<u>(1,892,980)</u>	<u>-</u>	<u>(9,697,390)</u>
Total accumulated depreciation	<u>(15,669,926)</u>	<u>-</u>	<u>(3,337,059)</u>	<u>15,626</u>	<u>(18,991,359)</u>
Net depreciable assets	<u>41,387,492</u>	<u>-</u>	<u>(3,291,059)</u>	<u>-</u>	<u>38,096,433</u>
Capital assets, net	<u>\$ 55,393,521</u>	<u>\$ -</u>	<u>\$ (3,265,697)</u>	<u>\$ -</u>	<u>\$ 52,127,824</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

Note 5: Revenue Bonds

The Authority's debt issues and transactions are summarized below and discussed in detail thereafter.

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due within</u> <u>one year</u>
2009A Solid Waste System Revenue Bonds	\$ 51,255,000	\$ -	\$ (1,205,000)	\$ 50,050,000	\$ 1,270,000
				<u>157,247</u>	
				<u>\$ 50,207,247</u>	

a. Solid Waste Enterprise Revenue Bonds Series 2009A

On September 2, 2009, the Authority issued \$53,500,000 of *Solid Waste Enterprise Revenue Bonds Series 2009A*. The 2009A Bonds were issued to pay for the construction and renovation of a solid waste materials recovery facility and transfer station and related equipment, to fund a Reserve Fund, to fund capitalized interest, and to fund certain working capital and pay other costs, including issuance costs.

The series 2009A bonds are solely payable from and secured by the net revenues and debt service reserve fund held by the Authority's trustee, as defined under the bond indenture. Net Revenues means, for any period, all of the revenues during such period less all of the maintenance and operation costs during such period. Revenues mean all gross income and revenue received or receivable by the Authority.

Principal payments are payable annually on September 1, commencing September 1, 2012. The bond bears interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing on March 1, 2010.

b. Revenue Pledge

The bonds are secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. For the 2009A bonds, the pledge of future net revenue ends upon repayment of the 2009A bonds in the amount of \$51.3 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2037.

According to the Rate Covenant in the 2009A Bond Indenture, the Authority will maintain a Net Revenue to Debt Service coverage ratio of 1.40. As of the Calendar Year 2014, the Net Revenues to Debt Service Coverage ratio was 1.91.

c. Debt Service Requirements

Annual debt service requirements on the bonds are shown below with specified repayment terms:

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 5: Revenue Bonds (Continued)

For the Year Ending June 30	Principal	Interest	Total
2016	\$ 1,270,000	\$ 2,833,138	\$ 4,103,138
2017	1,310,000	2,784,713	4,094,713
2018	1,365,000	2,729,506	4,094,506
2019	1,420,000	2,665,000	4,085,000
2020	1,495,000	2,592,125	4,087,125
2021-2025	8,710,000	12,545,113	21,255,113
2026-2030	11,470,000	10,128,938	21,598,938
2031-2035	15,450,000	6,903,000	22,353,000
2036-2037	7,560,000	2,070,900	9,630,900
Total	<u>\$ 50,050,000</u>	<u>\$ 45,252,433</u>	<u>\$ 95,302,433</u>

Note 6: Insurance

The Authority purchases commercial insurance policies to protect itself from claims arising from the following types of losses:

Type of Coverage	Coverage Limits
General Aggregate Limit	\$ 2,000,000
Products-Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury Limit	1,000,000
Each Occurrence	1,000,000
Damage to Rented Premises Limit	300,000
Medical Expense Limit (Any one person)	25,000
Hired & Non-Owned Auto Limit	1,000,000
Pollution Legal Liability	1,000,000
Self-Insured Retention (SIR)	\$25,000 SIR
Environmental Impact Liability	per Incident

Note 7: Pollution Remediation

In 2000 the South Bay Waste Management Authority (SBWMA) purchased the property located at 225/333 Shoreway Road in San Carlos. The property had pre-existing ground water contamination issues and the former property owner Allied Waste (now Republic Services) was identified as the responsible party. The ground water contamination is the result of hydrocarbon and petroleum products. Both Allied Waste and the SBWMA have managed a remediation effort under supervision from the County of San Mateo Department of Environmental Health.

The San Mateo County Health System (SMCHS) and the California Regional Water Quality Control Board (RWQCB) have reviewed and approved the SBWMA's "Closure Report" submitted on January 29, 2013 to close the Shoreway Environmental Center ("Shoreway") groundwater remediation project and issued a NOTICE OF CASE CLOSURE on April 29, 2014. This case closure letter is the final step in the Shoreway remediation closure and "no further remediation action" is required at the Shoreway facility. While no further remediation effort was deemed necessary, due to concerns about potential residual contamination, the property has a deed restriction requiring it to remain industrially zoned.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

Note 7: Pollution Remediation (Continued)

In March of 2010, the SBWMA received a lump sum settlement payment of \$1,500,000 from Republic Services (formerly Allied Waste and BFI). This money was deposited into a SBWMA account dedicated to the ongoing clean-up efforts at Shoreway (the remediation cost estimate was negotiated with Allied per methods approved by County regulators and based on input from environmental engineers). At the close of remediation efforts on April 29, 2014 the Shoreway Remediation Fund had an unspent balance of \$1,239,826. The unspent balance as of June 30, 2015 is \$1,233,640.

Note 8: Net Position

Designations

The Authority has designated \$10,263,092 of the unrestricted net position for several reserves which include: \$3,887,542 for rate stabilization, \$3,887,542 for emergency reserve, \$1,429,675 for equipment replacement, \$1,058,333 for the payment of 2009A bonds. These designations may be modified, amended or removed by Authority Board action.

Note 9: Commitments and Contingent Liabilities

Litigation

SBWMA is subject to litigation arising in the normal course of business. In the opinion of legal counsel there is no pending litigation, which is likely to have a material adverse effect on the financial position of SBWMA.

Construction Commitments

There are no significant construction commitments as of June 30, 2015.



STAFF REPORT

To: SBWMA Board Members
From: Farouk Fakira, Finance Manager
Date: January 28, 2015 Board of Director's Meeting
Subject: Resolution Approving Revised SBWMA Investment Policy for 2016

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2016-07 attached hereto authorizing the adoption of the Investment Policy for 2016. See **Exhibit A** to the Resolution for the actual 2016 Investment Policy.

Summary

As stated in the Investment Policy, the Investment Policy shall be adopted by resolution of the Board on an annual basis. It was last approved by the Board in January 22 2015. It has been reviewed by the Board adhoc Audit Sub-Committee (comprised of Board Members Bill Widmer, Michael Brownrigg and Jay Benton) which recommends approval. The minor changes to the policy that have been recommended are shown in the attached redline version (see **Exhibit B**).

Analysis

On August 24, 2000, the Board approved utilization of the City of San Carlos' Investment Policy for the SBWMA Investment Policy. This decision was based on the Authority's need to have policies in place. The Board has approved annual revisions. The attached SBWMA Investment Policy (see **Exhibit A**) is fully compliant with California Code and is the similar to the policy that is used by the City of San Carlos who serves as the Financial Agent for the Authority. City staff has also reviewed this proposed policy. The primary objective of the Investment Policy is safety of principal, while meeting the cash flow needs of the JPA, through prudent investment of unexpended cash.

Background

In January 2015 the Audit Committee reviewed the mix of investments between the County Pool and the state LAIF fund. The Audit Sub-Committee agreed to increase the County Fund to 30% to 50% while keeping the state LAIF Fund at 50% to 70%. This change was approved by the Board at the January 22, 2015 Board meeting.

The Audit Sub-Committee also recommended that staff evaluate an option for more active management of the investment funds, including an option for hiring an investment advisor. Staff released an RFP, which was sent to all companies that had responded to other similar RFPs released by other Member Agency, and only received one response. Staff decided to not pursue this recommendation further given the limited response and also inability to discern any financial value from this approach.

Fiscal Impact

There is no fiscal impact associated with approving the attached revised Investment Policy.

Attachments:

Resolution 2016-07

Exhibit A – Investment Policy

Exhibit B – [Redline version of Investment Policy showing changes \(available online only at www.rethinkwaste.org\)](http://www.rethinkwaste.org)



RESOLUTION NO. 2016-07

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING A REVISED INVESTMENT POLICY FOR 2016

WHEREAS, the South Bayside Waste Management Authority (SBWMA) and the City of San Carlos has reviewed and revised the current Investment Policy;

WHEREAS, the Board's Adhoc. Audit Sub-Committee has also reviewed the Policy and supports the recommended changes;

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the 2016 SBWMA Investment Policy document as shown in Exhibits A and B.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 28th day of January, 2016, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist.				

I HEREBY CERTIFY that the foregoing Resolution No. 2016-07 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 28, 2016.

ATTEST:

Bill Widmer, Chairperson of SBWMA

Cynthia Urman, Board Secretary

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY INVESTMENT POLICY

January 2016

POLICY

The investment of the funds of the South Bayside Waste Management Authority (SBWMA) is directed to the goals of safety, liquidity and yield. This Investment Policy incorporates the policies defined by the certified investment policy standards recommended by the Association of Public Treasurers. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the South Bayside Waste Management Authority is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The SBWMA's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the SBWMA the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

SCOPE

The investment policy applies to all financial assets of the South Bayside Waste Management Authority as accounted for in the Annual Financial Statements. Policy statements outlined in this document focus on the SBWMA's pooled funds and debt-related funds held by the trustee/ fiscal agent.

PRUDENCE

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

It is the SBWMA's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Administrative Services Director of the City of San Carlos (City) and other individuals assigned, as approved by the SBWMA Executive Director and SBWMA Finance Manager to manage the SBWMA investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

OBJECTIVES

Safety of Principal

Safety of principal is the foremost objective of the South Bayside Waste Management Authority. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The SBWMA shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the SBWMA's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the SBWMA's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

Liquidity

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the SBWMA's investment portfolio will remain sufficiently liquid to enable the SBWMA to meet all reasonably anticipated operating requirements.

MATURITY MATRIX

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should be invested in the following maturity sectors:

Maturity Range	Suggested Percentage
1 day to 7 days	10 to 50%
7 days to 180	10 to 30%
180 days to 360 days	10 to 30%
1 year to 2 years	10 to 20%
2 years to 3 years	0 to 20%
3 years to 4 years	0 to 20%
4 years to 5 years	0 to 20%
Over 5 years	Board Authorization Required *

* One exception does exist regarding the investment of bond reserve funds. If in the opinion of the City Administrative Services Director, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

PERFORMANCE EVALUATION

Investment performance is monitored and evaluated by the Investment Advisory Committee, whose membership is outlined in the following section. Investment performance statistics and activity reports are generated on a quarterly basis for presentation to the Investment Advisory Committee and to the SBWMA Board of Directors. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Investment Advisory Committee and to the SBWMA Board of Directors for Board consideration at a public meeting.

The SBWMA's investment portfolio is designed to at least attain a market average rate of return through economic cycles. The market average rate of return is defined as average return on the Local Agency Investment Fund (assuming the State does not adversely affect LAIF's returns due to budget constraints).

DELEGATION OF AUTHORITY

The Joint Powers Authority Agreement of the South Bayside Waste Management Authority and the authority granted by SBWMA Board assign the responsibility of investing unexpended cash to the City's Administrative Services Director. Daily management responsibility of the investment program may be delegated to the City's Financial Services Manager, who shall establish procedures for the operation consistent with this investment policy.

INVESTMENT COMMITTEE

An investment committee consisting of the City of San Carlos Treasurer, City Manager, and Administrative Services Director shall be established to provide general oversight and direction concerning the policy related to management of the SBWMA's investment pool. The Financial Services Manager shall not be a member of the committee but shall serve in a staff and advisory capacity. The committee shall review and approve quarterly investment reports prepared by the Finance Department and reviewed by the Financial Services Manager or meet as necessary to discuss changes to the report or the investment strategy. The Investment Committee serving as the legislative body of the Investment Policy will have the quarterly reports for their review within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the City's Administrative Services Director and the Financial Services Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the SBWMA shall be held in safekeeping by a third party bank trust department, acting as agent for the SBWMA under the terms of a custody agreement. All trades executed by a dealer will settle delivery versus payment (DVP) through the SBWMA's safekeeping agent.

Securities held custody for the SBWMA shall be monitored by the City's Administrative Services Director to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City's Administrative Services Director in written form and included in the quarterly reporting to the Investment Committee and the SBWMA Board of Directors.

INTERNAL CONTROL

Separation of functions between the City's Administrative Services Director or Financial Services Manager and/or the Senior Accountant is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the City's Administrative Services Director, executed by the Administrative Services Director or Financial Services Manager and confirmed by the Senior Accountant. All wire transfers initiated by the Administrative Services Director or Financial Services Manager must be reconfirmed by the appropriate financial institution to the Senior Accountant. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Senior Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the Agency's cash and investments that have a material impact on the financial statements. The Administrative Services Director and/or Investment Committee shall review and assure compliance with investment process and procedures.

REPORTING

The City's Administrative Services Director shall review and render quarterly reports to the Investment Advisory Committee and to the Board of Directors which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. The quarterly reports will be submitted to the Investment Committee within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code. Once approved by the Investment Committee, the quarterly reports shall be placed on the Board of Director's meeting agenda for its review and approval no later than 60 days after the quarter ends.

QUALIFIED BROKER/DEALERS

The SBWMA shall transact business only with banks, savings and loans, and with broker/dealers. The broker/dealers should be primary or regional dealers. The City currently does not maintain a list of broker/dealers approved to do business with the City. When necessary, the City shall go through the Request for Proposal processes to select the broker/dealers. The City's Administrative Services Director will make exceptions only upon written authorization. Investment staff shall investigate dealers wishing to do business with the SBWMA to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the SBWMA's needs. The SBWMA's investment policy shall be made available on the Authority's website for broker/dealers' review.

COLLATERAL REQUIREMENTS

Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

AUTHORIZED INVESTMENTS

Investment of SBWMA funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted to a percentage of the cost value of the portfolio in any single issuer name to a maximum of 5%. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five-year maximum maturity limitation is applicable unless further restricted by this policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 30% of the cost value of the portfolio.
4. Commercial paper ranked "A-1" or higher, or the equivalent by a nationally recognized statistical rating organization (NRSRO), such as Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services, , and issued by domestic corporations having assets in excess of \$500,000,000 and having an A or better rating on its' long term

debentures as provided by NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 5% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the cost value of the portfolio.

5. Negotiable Certificates of Deposit issued by nationally or state chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable.
6. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool, and San Mateo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when they are part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.
7. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.
8. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated A or better by an NRSRO. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 5% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.
9. Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are prohibited from use in this portfolio. It is noted that special circumstances arise that necessitate the purchase of securities beyond the five-year limitation. On such occasions, requests must be approved by Board of Directors prior to purchase.
10. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the SBWMA may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the SBWMA's total pooled funds portfolio:

Authorized Investment Type	Government Code	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than \$50 million permitted by LAIF	N/A
San Mateo County Investment Pool	53684	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	N/A
Treasury Obligations (bills, notes & bonds)	53601(b)	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	N/A	100%	N/A
Bankers Acceptances	53601(g)	180 Days	N/A	30%	(A), (B)
Commercial Paper	53601(h)	270 Days	A-1	25%	(A), (B)
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit – Banks or Savings and Loans	53601.8	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	53601(k)	5 Years	A	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

DERIVATIVE INVESTMENTS

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The use of derivatives is prohibited under this policy.

LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the South Bayside Waste Management Authority's Investment Policy and supersede any and all previous applicable language.

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance in each fund at quarter end as a percentage of the entire pooled portfolio.

LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the SBWMA to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the SBWMA's best interest to sell or trade a security prior to maturity.

PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management. Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the SBWMA shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

Security Swaps. The SBWMA may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the SBWMA permanent investment file documents.

Competitive Bidding. It is the policy of the SBWMA to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

POLICY REVIEW

The South Bayside Waste Management Authority's investment policy shall be adopted by resolution of the Board on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Board for approval.

Glossary of Terms

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Annual Financial Report - The official annual financial report for the SBWMA. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Asked Price- The price a broker dealer offers to sell securities.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price- The price a broker dealer offers to purchase securities.

Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Bond Swap – Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

Book Entry Securities – Securities, such stocks held in "street name," that are recorded in a customer's account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. All the large New York City banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the "book-entry" custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency

securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

Bearer and Registered Bonds - In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in "book-entry" form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury's new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker – In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

Certificate of Deposit- A deposit insured up to \$250,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- Refers to the ability to rapidly convert an investment into cash.

Market Value- The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and payable.

Nationally Recognized Statistical Rating Organizations (NRSRO): A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services.

New Issue- Term used when a security is originally "brought" to market.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Collection of securities held by an investor.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (SBWMA) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (SBWMA) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk- Degree of uncertainty of return on an asset.

Safekeeping- see custody.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Time Deposit – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Obligations- Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.



STAFF REPORT

To: SBWMA Board Members
From: Farouk Fakira, Finance Manager
Date: January 28, 2016 Board of Director's Meeting
Subject: Approval of Quarterly Investment Report for the Quarter Ended September 30, 2015

Recommendation

It is recommended that the SBWMA Board review and accept the Quarterly Investment Report.

Analysis

The primary objective of the Investment Policy for the SBWMA is safety of principal, while meeting the cash flow needs of the Authority, through prudent investment of unexpended cash. As of September 30, 2015, the investment portfolio was in compliance with the Investment Policy. The portfolio contains sufficient liquidity to meet the next six months of expected expenditures by the Authority as well as by other third parties.

Fiscal Impact

The attached Investment Portfolio Summary indicates that as of September 30, 2015, funds in the amount of \$21,238,203 were invested producing a weighted average yield of 0.38%.

Below is a summary of the changes from the last quarter.

	Qtr Ended 9/30/15	Qtr Ended 6/30/15	Increase (Decrease)
Total Portfolio	\$ 21,238,203	\$ 19,986,362	\$ 1,251,841
Weighted Average Yield	0.38%	0.33%	0.05%
Interest Earnings	\$ 19,865	\$ 17,026	\$ 2,839
Lehman Recovery Payment	\$ -	\$ 10,087	\$ (10,087)

The overall portfolio balance increased by \$1,251,841. The increase is mainly from the transfer of excess operating cash into the investment portfolio to earn interest. The principal and interest payments for the 2009 Series A bond offset part of the increase. As a result of higher portfolio balance and weighted average yield, the interest earnings this quarter are slightly higher than the previous quarter.

A table comparison of the portfolio components is provided below:

	9/30/2015 Balance	% of Total	6/30/2015 Balance	% of Total	Change over Prior Quarter
SM County Pool	\$ 5,728,746	27%	\$ 5,719,002	29%	\$ 9,744
LAIF	10,878,169	51%	7,971,342	40%	2,906,827
Bond Account	4,631,288	21%	6,296,018	32%	(1,664,730)
Total Portfolio	\$ 21,238,203	100%	\$ 19,986,362	100%	\$ 1,251,841

Note: There may be minor differences in totals as individual amounts are rounded to the nearest dollar

Due to arbitrage restrictions, bond investments are not included in our LAIF rate or investment pool comparison. As of September 30, 2015, the bond reserve and payment accounts of approximately \$4.6 million were invested with the trustee in short-term investments.

After the SBWMA Board approved its Audit Committee recommendation to increase the investment balance in the County Investment Pool to no less than 30% of the total investment pools in January, \$3.1 million was transferred to the County Investment Pool to meet the requirement. As of September 30, 2015, investments in the County Investment Pool totaled 34% of SBWMA's funds available for investment pools (see Attachment 1).

The average yield of the portfolio in the quarter excluding the bond proceeds was 0.46%. LAIF is used as a benchmark and the average LAIF yield for the quarter ending September 30, 2015, was 0.32%. The San Mateo County Pool average yield for the quarter was 0.73%.

The Investment Advisory Committee, consisting of Jeff Maltbie, City Manager of San Carlos; Michael Galvin, City Treasurer for San Carlos; and Rebecca Mendenhall, Administrative Services Director of San Carlos, have reviewed this report before presentation to the Board.

Attachments

- A – Summary of All Investments for Quarter Ending September 30, 2015
- B – Investment Portfolio 9/30/2015 - Chart
- C – Historical Summary of Investment Portfolio

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

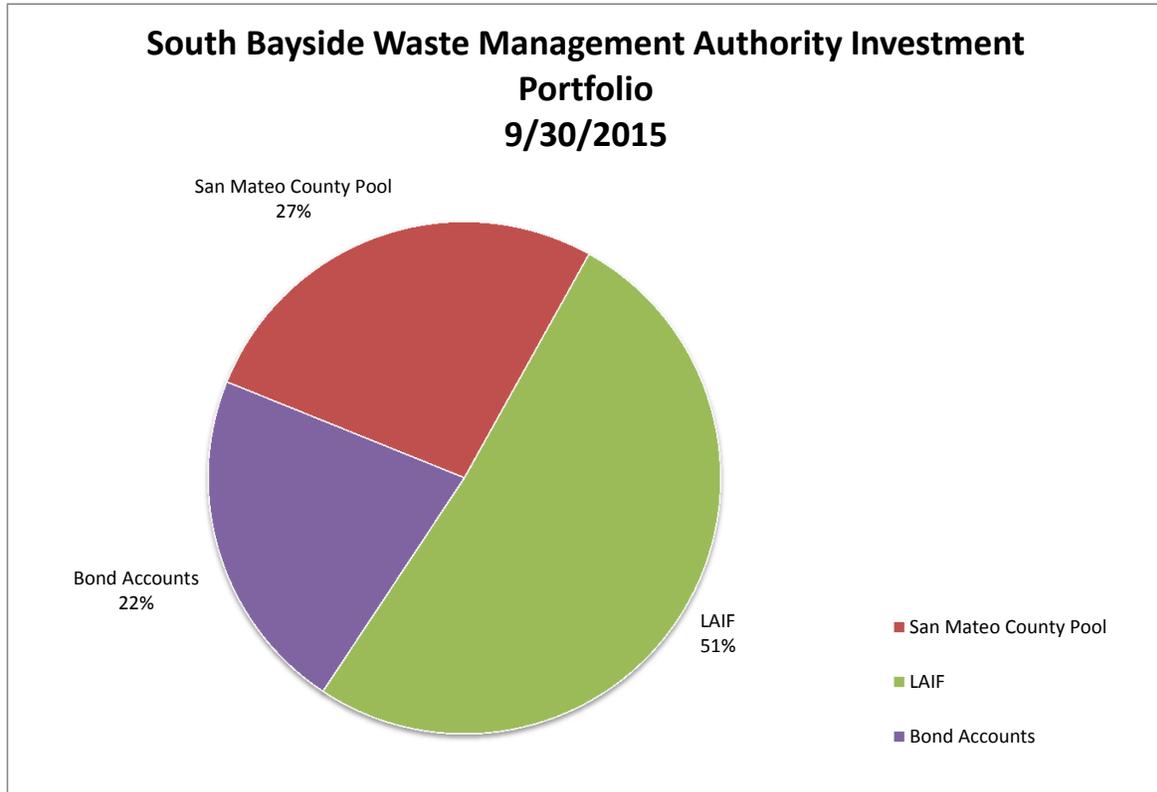
SUMMARY OF ALL INVESTMENTS
For Quarter Ending September 30, 2015

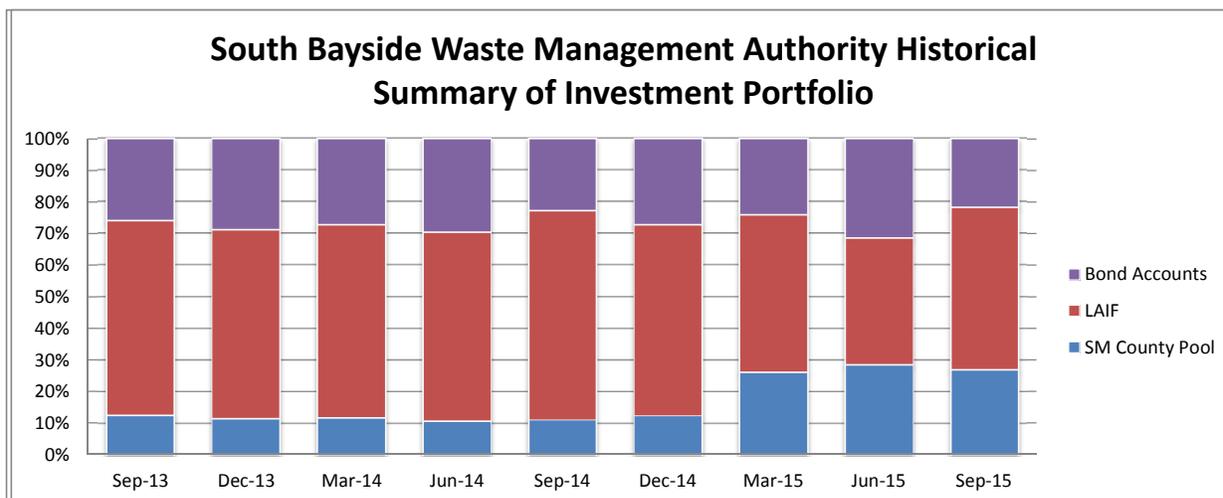
Category	Weighted Average Interest Rate	Historical Book Value	% of Portfolio	GASB 31 ADJ Market Value*	Interest Earned
Liquid Investments:					
San Mateo County Investment Pool (COPOOL)	0.73%	\$ 5,728,746	34%	5,728,746	10,444
Local Agency Investment Fund (LAIF)	0.32%	10,878,169	66%	10,884,638	7,185
Total - Investments	0.46%	16,606,915	100.00%	16,613,384	17,629
Bond Accounts - Cash with Fiscal Agents					
BNY Western Trust - Certificates of Deposit 2009A Reserve Fund Account	0.43%	744,000		744,000	2,236
BNY Western Trust - Dreyfus Cash Mgmt 670 Inv 2009A Reserve Fund Account	0.00%	3,383,599		3,383,599	-
BNY Western Trust - Dreyfus Cash Mgmt 670 Inv 2009A Payment Fund Account	0.00%	503,689		503,689	-
Total - Bond Accounts	0.07%	4,631,288		4,631,288	2,236
GRAND TOTAL OF PORTFOLIO	0.38%	21,238,203		21,244,672	19,865
Total Interest Earned This Quarter				19,865	
Total Interest Earned Fiscal Year-to-Date				19,865	

Note: SBWMA Board approved the following investment mix at its January 22, 2015 meeting:

LAIF - 50% to 70%
COPOOL - 30% to 50%

*Difference in value between Historical Value and Market Value may be due to timing of purchase. Investments in the investment pools may have been purchased when interest rates were lower or higher than the end date of this report. As interest rates increase or decrease, the value of the investment pools will decrease or increase accordingly. However, interest rate fluctuations does not have any impact to SBWMA's balance in the investment pools. The market values are presented as a reference only.





South Bayside Waste Management Authority Portfolio

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
SM County Pool	2,265,903	2,269,668	2,286,013	2,289,604	2,293,037	2,596,754	5,700,859	5,719,002	5,728,746
LAIF	10,921,027	11,628,111	11,584,976	12,591,585	13,448,147	12,456,035	10,864,026	7,971,342	10,878,169
Bond Accounts	4,619,074	5,653,984	5,226,893	6,257,859	4,628,312	5,659,274	5,264,849	6,296,018	4,631,288
Grand Total	\$ 17,806,004	\$ 19,551,763	\$ 19,097,882	\$ 21,139,048	\$ 20,369,496	\$ 20,712,063	\$ 21,829,734	\$ 19,986,362	\$ 21,238,203