SBWMA Finance Committee Meeting

TUESDAY, January 9, 2017 at 12:15 p.m.

San Carlos Library, Conference Room A
610 Elm Street, San Carlos, CA 94070

Member Bill Widmer will be attending via phone from:
158 Glenwood Ave. Atherton, CA 94027

AGENDA

1. Roll Call

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.

3. Adjourn to Closed Session – Pursuant to Government Code Section 54957.6 – Conference with Labor Negotiator
   Agency Designated Representative: Joe La Mariana
   Unrepresented Employees: Environmental Education Programs Manager and Finance Manager

   The Regular Portion of the Meeting is anticipated to start at 12:45PM

4. Roll Call

5. Additional Public Comment

6. Approval of the Minutes from the April 4, 2017 Finance Committee Meeting

7. Mid-Year FY1718 Budget Review

8. Adoption of Annual Investment Policy Recommendation

9. Consideration of Investment Options for SBWMA County Pool Funds

10. Approval of Annual Fiscal Year FY1617 Financial Audit by Maze & Associates

11. China Market Update

12. Discussion on 2018 Merit Pool for Unrepresented Employees

13. Finance Committee Member Comments

14. Adjourn

DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
April 4, 2017 – 12:15 p.m.
San Carlos Library Conference Room A

Call To Order: 12:19PM

1. Roll Call

Agency	Present	Absent
Bill Widmer	X	
Michael Brownrigg	X	
Carol Augustine	X	
Jay Benton	X	

SBWMA Staff Member Present: Farouk Fakira, Joe La Mariana, Cyndi Urman

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.

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None

3. Executive Director's Welcoming Remarks

Executive Director La Mariana welcomed the committee members to the meeting, and noted the restructuring of the committee as a standing committee. He noted the Finance committee would meet a couple of times a year, and possibly some special meetings.

4. Election of Finance Committee Chair and Vice Chair

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. Approval of Minutes from the February 23, 2017 Board of Directors Meeting

Executive Director La Mariana asked the group if they wanted to elect a chair and vice chair.

Member Brownrigg recommended against establishing a chair since it is such a small group.

Member Widmer noted that he was fine with that except that the Chair would call a special meeting if there needed to be one.

Member Brownrigg noted that if two committee members thought an agenda item was important a special meeting could be called.

Member Benton also noted that the Executive Director could call a meeting as well.

5. Approval of a 2018 Finance Committee Meeting Calendar

The group decided to meet on the second Tuesday of January and the second Tuesday of April annually for a 12:15 lunch meeting. In 2018 the Finance Committee will meet on January 9, and April 10.

6. Discussion of 2016 Bond Covenant Ratios

Staff Fakira noted positive bond covenant ratios of 1.02 bond covenant, and 1.99 debt ratio. Both results meet/exceed the bond covenant requirements. He noted that the tip fee increase helped to bring about this positive bond covenant test.

Member Widmer asked if we needed to raise it as high as we did.

Staff Fakira noted that he would answer that question when discussing the budget.

The group discussed China's quality requirements, and if the cost of recycling is higher than the cost of disposal, and the environmental benefits versus the cost.

The group then discussed composting versus recycling, and the new legislation requiring composting.

The committee asked staff to put together a policy of best practices around resident behavior, and composting practices, and then present a model ordinance at the board level.

Member Benton asked to clarify table 4, and asked about operating revenue of $43M and non-operation revenue of $50M

Staff Fakira answered that it is all related to fire.

Member Benton motioned to approve the Bond Covenant Ratios report and recommend approval to the SBWMA Board.
Member Widmer seconded the motion
Voice Vote: All in favor

7. Discussion of Shoreway Environmental Fire Insurance Status

Executive Director La Mariana noted that the SBWMA has received a letter of non-renewal from the insurance company. He noted that the premiums are $170,000, and Hanover has been our insurance company for 10 years. He added the fire claims was about $10M.

Member Widmer asked if we can get insurance through a Member Agency City insurance or hitch on to ABAG, and he also asked if the fire rover would help.

Member Brownrigg thought a piggy backing with a local consortium was a good idea, and also noted that the battery industry will be moving beyond lithium in the next 5 years.

8. FY1718 Budget Preview

Staff Fakira gave a presentation of the FY1718 budget.

Member Widmer asked if the SBWMA makes money on C and D.

Staff Fakira answered that a $1.81 increase in C and D is proposed to 100% cover the cost of the increase in disposal at Zanker. In otherwords, it's a pass-through.

Member Widmer pointed out that there is a problem with the variance in yards versus tons, and that it needed to be able to track before the Board meeting.

Member Brownrigg also added that MRF Fire cost savings needed to be clarified.

The group then had a discussion about the Transfer Station expansion planned for FY1718, and the mixed waste processing system planned for the following year.

Member Brownrigg noted the Board would not be committing to expenditures beyond this year.

Member Widmer and Member Benton didn't want to approve them separately as expanding the transfer station has the purpose of making room for the mixed waste processing system.

Member Widmer commented that it is a long discussion, but thought there was value in expanding the transfer station in FY17/18 separate from the mixed waste processing larger cost, and the debate should be on the expansion of the transfer station, as it is almost sure there will need to be additional equipment eventually.

Member Benton didn't want to separate the two projects and viewed the whole thing as a $17M project.

Member Widmer added that the project would double the SBWMA Bond, and that the mixed waste processing system would be for commercial use, and it was inappropriate for residents to pay for something that would benefit the commercial sector.

Member Benton agreed that if the commercial sector was the sector not recycling in the right way they should pay for it, and that it when it came up at the Board Meeting he would ask for the entire $17M to approved at once.

Member Widmer asked if capital projects are done what happens to the bond covenant.

Staff Fakira answered that it would reduce reserves but not affect bond covenant.

The group then discussed facility insurance options and approaches.

Member Widmer thinks the number in the budget for insurance should be higher, and an emergency reserve should be built, and that the SBWMA should take more risk with a higher deductible.

9. Consideration of Higher-Yielding Investment Options for Agency Reserves

Executive Director La Mariana noted that he put this on the agenda to remind the Finance Committee that he hasn't forgotten about their request to look into different investment options. He asked the committee members if he could contact City staff to discuss their investment options.

Member Widmer said yes contact Robert Barron.

Member Benton said to contact Jan Cooke because the SBWMA yield is higher than Hillsborough.

10. Finance Committee Member Comments

11. Adjourn 2:36PM

STAFF REPORT

To:	SBWMA Board Members
From:	Farouk Fakira, Finance Manager
Date:	January 9, 2018 Finance Committee Meeting
Subject:	Resolution Accepting Mid-Year Review of FY17/18 Annual Operating Budget

Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2018-xx attached hereto authorizing the following action:

Approval of the Mid-Year Budget Adjustments for FY17/18.

Analysis

Staff has conducted a thorough analysis of year-to-date revenues and expenditures. **Attachment A** has been prepared to provide the Board with key budget and related information as follows:

- **Attachment A** contains budget worksheets providing line item detail for all projected revenues, expenditures, cash reserve balances and capital spending.

Table 1

FY17/18 SUMMARY NET INCOME

Revenues	Approved Budget	Mid-Year Projections	Variance	Variance %
Total Revenues	$ 46,960,353	$ 49,180,563	$ 2,220,211	4.7%
Total Expenditures	44,137,464	47,569,865	3,432,401	7.8%
Net Income	$ 2,822,888	$ 1,610,698	$ (1,212,190)	-42.9%

Net Income is projected at $1,610,698 which is ($1,212,190) less than was projected in the Approved FY17/18 Budget (see **Table 1**).

As shown in **Table 1 and Table 2 below**, there was a Total positive Revenue variance of $2,220,211 due to the following:

1. A favorable increase of $2.73 million in non- franchise revenue is due to a volume increase of 15,492 tons and 27,844 in cubic yards mainly in food waste and C&D and a favorable price variance of $.13 million as a result of the projected tip fee increase in January of 2018.
2. A favorable increase in volume of $.33 million in franchise revenue is due to volume increase and $.53 million is due to the projected tip fee increase in January of 2018.

3. Unfavorable commodity revenue of ($2.102) million is due to unfavorable rate variance of ($1.1) million as a result of unfavorable blended rate of $18.20 ($123.57 vs. $141.76 as budgeted) and unfavorable volume variance of ($1.170) million due to decrease in volume of 6,573 tons.
4. Favorable commodity shared revenue to SBR of $.244 million in line with the commodity revenue decrease.
5. Lower buyback expenses than budgeted of $.013 million.

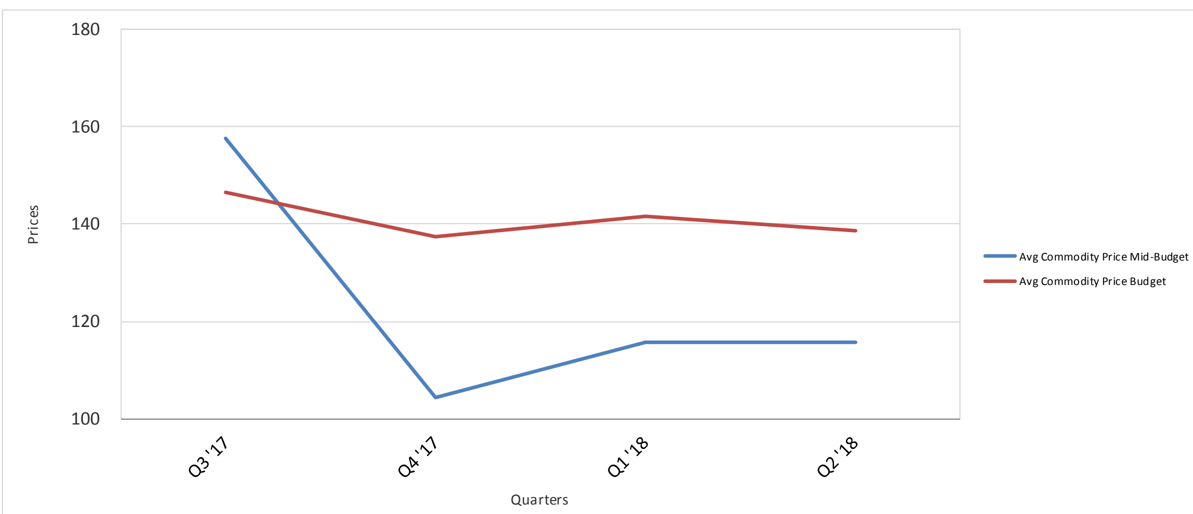
Higher than budgeted Expenditures of $3,432,401 million are primarily due to the following (see Table 4):

1. Unfavorable administrative cost of $.035 million is due to merit increase and management coverage for Faustina.
2. SBR compensation is higher due to higher rate of $.320 million caused mainly by higher residue at 12% vs. 6.96% budgeted and $.295 million is due to higher disposal volume than budgeted.
3. Higher disposal and processing cost of $2.188 million is mainly due to $.297 million in higher disposal rates than budgeted and $1.891 million due to higher volume in line with the higher revenue.

Revenues

The graph below shows the drop in blended (weighted average) value ($18.20) per ton for commodities as compared to the budgeted blended rate ($123.57 vs. $141.76 budgeted).

Graph 1. Commodity Price Mid-Year vs. Budgeted



Source: SBR - Actual through November, 2017; December 2017 - June 2018 based on SBWMA projections.

The positive revenue was supported mostly by an increase in tip fee revenues resulting from higher than budgeted volume into Shoreway and projected tip fees increases in the month of January, 2018 see Table 2.

Table 2				
FY17/18 REVENUE SUMMARY				
Revenues	Approved Budget	Mid-Year Projections	Variance	Variance %
Tip Fee Revenues	$ 38,780,135	$ 42,508,115	$ 3,727,980	9.6%
Non Franchised	8,691,298	11,559,769	2,868,471	33.0%
Franchised	30,088,837	30,948,346	859,509	2.9%
Net Commodity Sales Revenues*	8,015,544	6,170,872	(1,844,672)	*-23.0%*
Interest Income	106,580	175,079	68,499	*100.0%*
Other Revenue	58,094	67,990	9,896	*17.0%*
Sub Revenue	$ 46,960,353	$ 48,922,055	$ 1,961,703	*4.2%*
Fire Related Revenues:				
Insurance Proceeds	-	$ 258,508	$ 258,508	*100.0%*
Sub Fire Revenue	$ -	$ 258,508	$ 258,508	*100.0%*
Total Revenues	$ 46,960,353	$ 49,180,563	$ 2,220,211	4.7%
*Gross commodity sales less 25.00% revenue share (down from the 28.02% previous share) with SBR and buyback payments. See Attachment B - Table 2.				

Expenditures

Table 3 below shows that the higher than budgeted Shoreway Operations expense of $3.396 million mostly is due to $2.188 million in higher disposal and processing cost caused by higher disposal rates and higher projected volume, higher SBR compensation of $.616 million, higher franchise fees in line with higher revenue volume, higher insurance charges of $.203 million and fire expenses of $.259 million.

Table 3

FY17/18 EXPENDITURE DETAIL FOR SHOREWAY OPERATIONS				
Expenditures	Approved Budget	Mid-Year Projections	Variance	Variance %
SBR Compensation*	$ 18,936,520	$ 19,551,983	$ 615,463	3.3%
Disposal and Processing*	15,859,400	18,047,130	2,187,730	13.8%
Insurance Shoreway	576,500	780,000	203,500	35.3%
Education Center	60,000	60,000	-	0.0%
Credit Cards Charges	140,600	112,000	(28,600)	-20.3%
Debt Service Bond Interest	2,710,170	2,710,170	-	0.0%
Other Operating Expenses	292,690	292,690	-	0.0%
Taxes (Sewer)	61,860	44,186	(17,674)	-28.6%
Franchise Fee (San Carlos)**	1,846,710	2,024,236	177,526	9.6%
Sub Shoreway Expenses:	$ 40,484,450	$ 43,622,394	$ 3,137,945	7.8%
Fire Related Expenses:				
SBR Compensation		$ 258,508	$ 258,508	100.0%
Sub Fire Expenses		$ 258,508	$ 258,508	100.0%
Total Shoreway Operations:	$ 40,484,450	$ 43,880,902	$ 3,396,453	8.4%
* Expense projection based on estimated facility tonnage				
** Expense projection based on estimated gate revenue (tipping fees x estimated tons)				

As shown in **Table 4** below, the SBWMA administrative expense budget has a Mid-Year Budget variance increase of $.035 million due a merit increase and management coverage expense for Faustina who is on medical leave.

Table 4

FY17/18 EXPENDITURE SUMMARY				
Expenditures	Approved Budget	Mid-Year Projections	Variance	Variance %
Administrative Expenses	$ 1,729,485	$ 1,765,433	$ 35,948	2.1%
MEMBER AGENCY SUPPORT & CONTRACT COMPLIANCE	889,030	889,030	-	0.0%
STATE MANDATED PUBLIC EDUCATION & OUTREACH	1,034,500	1,034,500	-	0.0%
Total SBWMA Expenses	$ 3,653,015	$ 3,688,963	$ 35,948	1.0%
Shoreway Operations	$ 40,484,450	$ 43,880,902	$ 3,396,453	8.4%
Total Expenses	$ 44,137,464	$ 47,569,865	$ 3,432,401	7.8%

Capital Spending

No change in projected capital spending. Please see **Attachment A** for a worksheet on our capital projects.

Reserve Balances

Table 5 below captures the Mid-Year reserve balance projections for FY17/18 compared to the Approved Budget reserve balance. The projected Total Uncommitted Reserve favorable variance of $.038 million is primarily due an increase in the beginning balance by $1.250 million from the actuals for FY16/17 vs. the budgeted balance and that was offset by the unfavorable decrease in net income of $1.212 million.

Table 5

RESERVE BALANCE					
	ACTUAL FY1617	APPROVED BUDGET FY1718	MID-YEAR BUDGET FY1718	Variance	Variance%
Uncommitted Reserves:					
RATE STABILIZATON (10% of expense)	$ 4,242,701	$ 4,413,746	$ 4,756,987	$ 343,240	7.8%
EMERGENCY RESERVE (10% of total expense)	4,242,701	4,413,746	4,756,987	$ 343,240	7.8%
CAPITAL RESERVE	6,611,002	4,617,411	3,969,439	$ (647,972)	-14.0%
TOTAL UNCOMMITTED RESERVES	$ 15,096,404	$ 13,444,904	$ 13,483,412	$ 38,508	0.3%
Committed Reserves:					
EQUIPMENT REPLACEMENT (ANNUAL)	$ 991,791	$ 1,192,148	$ 1,192,148	$ -	0.0%
TOTAL COMMITTED RESERVES	$ 16,088,195	$ 14,637,052	$ 14,675,560	$ 38,508	0.3%
Other LT Projects (Fully Funded)					
SHOREWAY REMEDIATION PROJECT	$ 1,233,640	$ 1,233,640	$ 1,233,640		

Table 6 is showing the components that make up the insurance revenue claims due for the period from July, 2017 to date.

Table 6		
Insurance Outstanding Claims		
Account	Amount	Comments
SBR Hauling Charges For Residue	$ 81,001	Hauling charges for residue from MRF to TS.
Misc. Equipment Charges and other	177,507	Misc. charges.
Total Insurance Claim	$ 258,508	Total claim to insurance

Fiscal Impact

The Mid-Year Budget for FY17/18 shows Net Income of $1.611 million which is $1.212 lower than the Approved FY17/18 Budget.

Attachments:

Resolution 2018-xx

Attachment A – FY17/18 Budget Worksheets

Attachment B – Mid Budget Tables

RESOLUTION NO. 2018-xx

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS ACCEPTING MID-YEAR REVIEW OF FY1718 ANNUAL OPERATING BUDGET

WHEREAS, the South Bayside Waste Management Authority proposed budget adjustments as presented is balanced and provided sufficient funds for normal operations.

NOW THEREFORE, BE IT RESOLVED, the South Bayside Waste Management Authority hereby approves the adjustments to the fiscal year 2017/2018 operating budget.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 25th day of January, 2018, 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. 2018-xx was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 25, 2018.

ATTEST:

Bob Grassilli, Chairperson of SBWMA

Cyndi Urman, Board Secretary

	REVENUE SUMMARY	ACTUAL FY16/17	APPROVED BUDGET FY17/18	YTD EARNED 11/30/17	MID-YEAR BUDGET FY17/18	Variance to Adopted Budget	Variance % to Adopted Budget	Notes
1	ADMINISTRATIVE REVENUES							
2	INVESTMENT INCOME	$ 97,176	$ 106,580	$ 64,656	$ 175,079	$ 68,499	64.3%	County yield improved.
3	INVESTMENT (GASB 31) MARKET VALUE ADJ	-	-	-	-	-		
4	TOTAL ADMINISTRATIVE	*$ 97,176*	*$ 106,580*	*$ 64,656*	*$ 175,079*	*$ 68,499*	*64.3%*	
5	OPERATIONS REVENUES							
6	SHOREWAY TIP FEES - Non Franchised	$ 9,575,945	$ 8,691,298	$ 4,830,689	$ 11,559,769	$ 2,868,471	33.0%	Favorable price variance of $.13 million due to tip fee increase, $2.73 million is due to favorable volume (food waste & C&D).
7	SHOREWAY TIP FEES - Franchised	$ 29,349,731	$ 30,088,837	$ 12,924,418	$ 30,948,346	$ 859,509	2.9%	Favorable price variance of $.53 Milion is due Tip fee increase on 01/01/2018, and $.33 million due to volume increase.
8	COMMODITY SALES REVENUE	$ 7,375,505	$ 10,046,673	$ 3,101,594	$ 7,944,839	$ (2,101,834)	-20.9%	Unfavorable price variance of ($1.1) million is due to a drop in blended rate of $18.19 per ton and unfavorable volume variance of $1.4 million due to a decrease in volume of 9,657 tons.
9	COMMODITY REVENUE SHARING W/ SBR	(435,897)	(1,139,814)	(528,195)	(895,767)	244,047	-21.4%	In line with the decrease in commodities reveue.
10	BUY BACK CENTER - Payment to Customers	(812,243)	(891,314)	365,917	(878,200)	13,114	-1.5%	Slightly under budget in line with the drop in commodities.
11	E-SCRAP COMMODITY REVENUES	15,367	13,094	3,709	8,902	(4,192)	-32.0%	Lower ES revenue than budgeted.
12	MRF HOST FEE - SBR Third-Party Contracted Tons	$ 90,575	$ -	$ 14,088	$ 14,088	$ 14,088	0.0%	Recology continued to bring a smaller volume of tons till the month of October.
13	HHW ON-CALL COLLECTION SERVICE - NEW	335,028	-	-	-	-	0.0%	Contract discontinued.
14	COMMERCIAL RECYCLING ORDINANCE FEE	6,723	15,000	-	15,000	-	0.0%	Ordinance fee rev. paid by comm.recycler
15	MISCELLANEOUS REVENUE	136,557	30,000	-	30,000	-	0.0%	CA Paint Care program
16	**SUB OPERATIONS**	$ 45,637,291	$ 46,853,773	$ 20,712,220	$ 48,746,977	$ 1,893,204	4.0%	
17	FIRE RELATED REVENUE:							
22	NET INSURANCE PROCEEDS	$ 7,542,055	-	-	$ 258,508	258,508	0.0%	Residue hauling charges and Misc. charges
23	SUB FIRE REVENUE	$ 7,542,055	-	$ -	$ 258,508	$ 258,508	0.0%	
24	TOTAL OPERATING REVENUES	$ 53,179,346	$ 46,853,773	$ 20,712,220	$ 49,005,485	$ 2,151,712	4.6%	
25	TOTAL REVENUE	$ 53,276,522	$ 46,960,353	$ 20,776,876	$ 49,180,563	$ 2,220,211	4.7%	
26	TOTAL OPERATING EXPENSES	$ 41,732,971	$ 44,137,464	$ 42,280,176	$ 47,569,865	$ 3,432,401	7.8%	
27	NET OPERATING INCOME	$ 11,543,551	$ 2,822,888	$ (21,503,300)	$ 1,610,698	$ (1,212,190)	-42.9%	
28	*DEPRECIATION EXPENSE*	$ 3,337,059	$ 3,144,496	$ 3,144,496	$ 3,144,496	$ -	0.0%	
28	NET OPERATING INCOME AFTER DEPRECIATION	$ 8,206,492	$ (321,608)	$ (24,647,796)	$ (1,533,798)	$ (1,212,190)	376.9%	

Attachment A. FY17/18 Budget Expense Detail

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line	EXPENDITURE SUMMARY	ACTUAL FY16/17	APPROVED BUDGET FY17/18	YTD SPENT 11/30/17	MID-YEAR BUDGET FY17/18	Variance to Approved Budget	Variance % to Approved Budget	Staff	Notes
1	ADMINISTRATIVE EXPENSES								
2	ADMINISTRATIVE STAFF	$ 512,106	$ 538,710	$ 231,771	$ 549,645	$ 10,935	2.0%	FF	Merit increase
3	MANADATED COMPLIANCE SUPPORT STAFF	538,683	569,370	245,379	593,858	24,488	4.3%	FF	Management coverage for Faustina
4	EMPLOYEE RECRUITMENT/HR SUPPORT	1,625	15,000	325	15,000	-	0.0%	CU/FF	On call human resources planning, organization development services
6	PEO COST (RGS/LGS ADMIN FEES)	2,366	-		-	-	0.0%	FF	Discontinuation of administrative service for the recycling manager contract position.
7	BOARD COUNSEL	105,023	65,000	21,583	65,000	-	0.0%	CU	Legal expenses
8	BOARD MEETINGS	4,274	5,000	4,028	5,000	-	0.0%	CU	Includes Board meeting and Event food
9	ACCOUNTING SERVICES	139,950	145,000	72,500	145,000	-	0.0%	FF	Payment to City San Carlos for account services contracted-out
10	INFORMATION SYSTEMS	25,886	30,240	16,428	30,240	-	0.0%	CU	Expenses to maintain the information system
12	WEBSITE	12,000	12,100	8,983	12,100	-	0.0%	CU	Expenses to maintain the Web information system
13	ANNUAL AUDIT	5,735	8,860	2,588	8,860	-	0.0%	FF	Fees paid to auditors to complete FY & Calendar year financial statements.
14	D&O INSURANCE	44,890	45,890	44,580	45,890	-	0.0%	FF	Annual insurance premium for director's and officer's insurance
15	BANK FEES	7,046	9,240	3,297	9,240	-	0.0%	FF	Bank fees inclusive of fees paid to BNY as the Bond Trustee.
16	RENT	54,847	56,000	22,853	56,000	-	0.0%	CU	Rent for the office from the City of San Carlos
17	PRINTING AND POSTAGE	171	500	95	500	-	0.0%	CU	Prints and postage
20	UTILITIES	17,174	20,000	10,499	20,000	-	0.0%	CU	Includes phone and janitor services.
21	OFFICE/TENANT IMPROVEMENTS	31,267	50,000	55,375	50,000	-	0.0%	CU	Tennant improvement & office services
22	OFFICE SUPPLIES	13,567	16,000	4,550	16,000	-	0.0%	CU	Office supplies
23	OFFICE EQUIPMENT COSTS	16,517	30,000	4,401	30,000	-	0.0%	CU	Includes Copier $600 per mo. base lease and $200 per month for copies
24	PUBLICATIONS & PUBLIC NOTICES	-	3,000		3,000	-	0.0%	CU	Estimate for two public notices if doing more than one public bid this item will need to go up
25	PROFESSIONAL DUES & MEMBERSHIPS	4,034	2,500	371	2,500	-	0.0%	CU	Memberships to trade and community organizations (CRRA, SWMA, NCRA, CCAC)
26	VEHICLE MILEAGE & TOLLS	54	75	271	600	525	700.0%	CU	Auto allowance.
27	CELL PHONES	993	5,000		5,000	-	0.0%	CU	Cell phone business expense.
28	CONFERENCE & MEETINGS	12,496	20,000	4,203	20,000	-	0.0%	CU	CRRA conference, progress seminar, SWANA meetings, lunch for SBWMA meetings, State of the City addresses.
29	TRAINING	2,420	10,000	199	10,000	-	0.0%	CU	Staff training opportunities.
31	SPONSORSHIPS & DONATIONS	14,000	30,000	9,000	30,000	-	0.0%	CU	CAW,CRRA,SWANA. Acterra, Sustainable San Mateo, CPSC, NCRA conference and meetings.
32	LEGISLATIVE & REGULATORY ADVOCACY	-	30,000		30,000	-	100.0%	JL	Extend producer responsibilities (battery safety & diversion program support).
33	COMPUTER PURCHASE	4,354	12,000	10,501	12,000	-	0.0%	CU	Computer for Farouk, Ed Center and two new hires.
34	TOTAL ADMINISTRATIVE	$ 1,571,478	$ 1,729,485	$ 773,779	$ 1,765,433	$ 35,948	2.1%		
35	MEMBER AGENCY SUPPORT & CONTRACT COMPLIANCE								
36	RATE REVIEW	$ 13,861	$ 59,030	$ 34,561	$ 59,030	$ -	0.0%	FF	30k financial auditing office temp support, $30k support to align rates and cost.
37	FACILITY IMPROVEMENT OVERSIGHT	37,143	100,000	11,760	100,000	-	0.0%	HG	Engineering and construction management support
38	CONTRACT ANNUAL AUDITING	24,966	70,000		70,000	-	0.0%	FF	Annual Financial & Reporting Audit of RSMC and SBR at $40K. $15K for reviewing annual route assessment.
39	COLLECTION SERVICES FRANCHISE ADMIN.	301,953	55,000	6,230	55,000	-	0.0%	JL	FA compliance $40k; call center $15k;
40	FINANCE ANALYSIS SUPPORT	2,251	40,000	140	40,000	-	0.0%	FF	On-Call consultant support as needed to support Member Agency.
41	WASTE CHARCTERIZATION SUPPORT	27,110	30,000	12,676	30,000	-	0.0%	HG/JL	Characterization support
42	COLLECTION RFP CONSULTING SUPPORT	-	450,000		450,000	-	0.0%	JL	Placeholder amount if Recology Contract Negotiations are not successful
43	BATTERY MANAGEMENT PLANNING		85,000	3,150	85,000				
44	HHW DOOR TO DOOR COLLECTION OUTREACH	329,064	-	-	-	-	0.0%	JL	Program discontinued.
45	TOTAL MEMBER AGENCY SUPPORT & CONTRACT COMPLIANCE	$ 736,348	$ 889,030	$ 68,517	$ 889,030	$ -	0.0%		
46	STATE MANDATED PUBLIC EDUCATION & OUTREACH					-			
47	STATE'S REQUIRED ANNUAL REPORTS	$ 19,960	$ 28,000	$ 28,000	28,000	$ -	0.0%	JL	Annual AB 939 submittal of EARs for 10-MAs .
48	SBWMA ANNUAL REPORT	-	10,000		10,000	$ -	0.0%	JL	Expense for report printing and postage
49	DIVERSION PROGRAM SUPPORT	10,545	50,000		50,000	$ -	0.0%	JL	Support with diversion programs $10k and public spaces recycling assistance $40k.
50	RECYCLING REPORTING EXPENSES [1]	420	-		-	$ -	0.0%	JL	
51	EVENT GIVEAWAYS	-	15,000	3,711	15,000	$ -	0.0%	JL	
52	DIVERSION AND COMPLIANCE PROGRAMS	47,907	395,000	106,825	395,000	$ -	0.0%	JL	See detail of Diversion and LRP programs to be implemented in fiscal year
53	LARGE EVENT/VENUE SUPPORT/SHREDDING	-	12,500		12,500	$ -	0.0%	JL	Shredding support
54	CLIMATE ACTION PLANNING	12,204	29,000	7,675	29,000	$ -	0.0%	JL	Annual climate register & Member Agency support.
55	RECYCLING TECHNICAL ASSISTANCE	-	30,000		30,000	$ -	0.0%	JL	AB1826 & 341 Compliance
56	COMMERCIAL/MFD CONTAINERS	31,253	60,000		60,000	$ -	0.0%	JL	MFD recycle bags $20, internal R containers $20 MA containers $20 per Franchise Agreements.

Attachment A. FY17/18 Budget Expense Detail

line	EXPENDITURE SUMMARY	ACTUAL FY16/17	APPROVED BUDGET FY17/18	YTD SPENT 11/30/17	MID-YEAR BUDGET FY17/18	Variance to Approved Budget	Variance % to Approved Budget	Staff	Notes
52	MULTI-FAMILY OUTREACH	1,545	50,000		50,000	$ -	0.0%	JL	AB341&1826 Compliance $10; MFD Toolkit $20; Battery phones subscription $10; Annual MFD awards $10
58	MEMBER AGENCY & RATE PAYER EDUCATION	-	110,000		110,000	$ -	0.0%	JL	Quarterly news letters to Agencies.
59	RESIDENTIAL OUTREACH PROGRAMS	6,806	65,000	9,441	65,000	$ -	0.0%	JL	Outreach per FA $40k; Annual Service Notice FA $10k; website & Social media $15k;
60	COMMUNITY EVENTS	-	20,000		20,000	$ -	0.0%	JL	Community events support
61	HHW PROGRAM OUTREACH	40,619	80,000		80,000	$ -	0.0%	JL	Education letters regarding HHW disposition.
62	CURBSIDE HOUSEHOLD BATTERY OUTREACH	-	75,000		75,000	$ -	0.0%	JL	New program to educate customers about risk of battery fires and recycling options
63	SHRED EVENT SERVICE	4,318	5,000	9,654	5,000	$ -	0.0%	JL	
64	TOTAL STATE MANDATED PUBLIC EDUCATION & OUTREACH	$ 175,577	$ 1,034,500	$ 165,306	$ 1,034,500	$ -	0.0%		
65	TOTAL SBWMA PROGRAM BUDGET	$ 2,483,403	$ 3,653,015	$ 1,007,603	$ 3,688,963	$ 35,948	1.0%		
66	SHOREWAY OPERATIONS								
67	OPERATING CONTRACT - SBR OPERATIONS	18,518,805	18,936,520	8,986,563	19,551,983	615,463	3.3%	FF	Unfavorabe rate variance of $.320 million due to higher residue percentage of 12% vs. 7% budgeted, and unfavorable volume variance of $.295 million due to higher volume.
68	DISPOSAL	16,513,386	15,859,400	7,376,159	18,047,130	2,187,730	13.8%	FF	Unfavorable price variance of $.297 million due to increase in disposal rates and unfavorable volume variance of $1.891 million due to higher volume of 28,707 tons mostly in food waste and C&D.
69	INSURANCE SHOREWAY	206,052	576,500	384,509	780,000	203,500	35.3%	FF	Noticable increase in property insurance due to fire.
70	SHOREWAY FACILITY COST	131,514	200,000	178,652	200,000	-	0.0%	HG	Budget for unanticipated routine Shoreway maintenance items that are non-CapEx
71	SHOREWAY MAINTENANCE - NEW	28,221	-		-	-	0.0%	HG	
72	CREDIT CARDS CHARGES	104,283	140,600	46,624	112,000	(28,600)	-20.3%	FF	Averaging lower bank charges than budgeted.
73	SHOREWAY CHARGES	26,690	26,690	11,121	26,690	-	0.0%	FF	Amortization of trailer cost
74	EDUCATION CENTER OPERATIONS	44,486	60,000	21,661	60,000	-	0.0%	JL	Expense for Shoreway tours program and busing, (w/o staff expense)
75	MAINTENANCE - OX MTN TIPPER	18,110	36,000	1,698	36,000	-	0.0%	HG	Maintenance expense for truck tipper located at Ox Mtn and owned by JPA
76	SHOREWAY MRF EQUIP. MAINTENANCE > $10k	-	30,000		30,000	-	0.0%	HG	Unanticipated MRF equipment maintenance (non-CapEx) expense
77	SEWER FEES (PROPERTY TAX)	60,351	61,860	22,093	44,186	(17,674)	-28.6%	FF	Property tax for Shoreway operation are down due to the running of only one shift in 2018.
78	SUB SHOREWAY OPERATIONS COST	$ 35,651,898	$ 35,927,570	$ 17,029,079	$ 38,887,988	$ 2,960,418	8.2%		
79	FIRE RELATED EXPENSES:								
80	OPERATING CONTRACT - SBR - FIRE RELATED	$ 4,725,903	$ -	$ -	$ 258,508	$ 258,508		FF	Hauling charges for residue from MRF to TS and other miscellaneous fire expenses.
83	SUB FIRE COST	$ 4,725,903	$ -	$ -	$ 258,508	$ 258,508	0.0%		
84	TOTAL SHOREWAY OPERATION	$ 40,377,801	$ 35,927,570	$ 17,029,079	$ 39,146,496	$ 3,218,926	9.0%		
85	NON-OPERATING EXPENSES					-			
86	DEBT SERVICE BOND INTEREST	$ 2,759,746	$ 2,710,170	$ 459,752	$ 2,710,170	$ -	0.0%	FF	Solid Waste Enterprise Revenue Bond interest payments.
87	FRANCHISE FEE	1,853,604	1,846,710	845,481	2,024,236	177,526	9.6%	FF	5% Franchise fees paid by JPA to the City of San Carlos.(amount changes as Shoreway tip fees change)
88	TOTAL NON-OPERATING EXPENSES	$ 4,613,350	$ 4,556,880	$ 1,305,233	$ 4,734,406	$ 177,526	3.9%		
89	TOTAL SHOREWAY OPERATING EXPENSES	$ 44,991,151	$ 40,484,450	$ 18,334,312	$ 43,880,902	$ 3,396,453	8.4%		
90	TOTAL OPERATING EXPENSES (SBWMA Program + Shoreway Operations)	$ 47,474,554	$ 44,137,464	$ 19,341,915	$ 47,569,865	$ 3,432,401	7.8%		

Attachment A. FY17/18 Mid-YR Capital Budget

Capital Project Name	FY17/18	FY18/19	FY19/20	FY20/21
Transfer station tipping floor resurfacing	$ 225,000	$ -	$ 250,000	$ -
Site paving repairs and restriping	50,000	-	500,000	500,000
Transfer station building maintenance	50,000	50,000	50,000	50,000
Administration building maintenance	75,000	40,000	40,000	200,000
Site maintenance	150,000	50,000	50,000	50,000
Enhanced fire suppression	325,000	200,000	50,000	100,000
Repairs to landfill tipper	15,000	15,000	15,000	-
Education center exhibits	15,000	-	-	30,000
Storm water treatment system	30,000	1,200,000	50,000	
Glass conveyance and loadout system	550,000	-	-	-
Transfer station building expansion [1]	-	2,865,437		
MRF Equipment Replacement [4]	-	-	-	1,206,940
Total	$ 1,840,000	$ 4,495,437	$ 1,095,000	$ 2,211,940
Mixed waste processing equipment [2]	-	*13,984,400*	-	-
Fueling system replacement [3]	-	-	*1,500,000*	-
MRF sorting equipment replacement [4]	-	-	-	

<u>*Special Funding for Above Italic Items*</u>

1. Proposed funding from Capital Reserves (Mid-Year FY16/17 balance $4.66M)

2. Proposed funding though new JPA debt

3. Proposed funding from Shoreway Remediation Fund (Mid-Year FY16/17 balance $1.20M)

4. MRF Equipment Replacement Reserve (Mid-Year FY16/17 balance $1.5M)

ATTACHMENT B - Mid Budget FY 2018
Update: January 2018
Summary Tables

Table 1

TIP FEE REVENUE	FY1718 Proposed Budget	FY1718 Mid-Year Projections	2018 Mid-Year vs. Budget Variance	%
Franchise				
Tons	287,850	288,283	433	0.2%
Wtd Avg.Tip Fee	$ 104.53	$ 107.35	$ 2.82	2.7%
Franchise Revenue	$ 30,088,837	$ 30,948,346	$ 859,509	2.9%
Public				
Tons	13,058	28,550	15,492	118.6%
Wtd Avg.Tip Fee	$ 101.47	$ 106.54	$ 5.08	5.0%
Public Revenue (Tons)	$ 1,324,957	$ 3,041,853	$ 1,716,897	129.6%
Yards	192,232	220,076	27,844	14.5%
Wtd Avg.Tip Fee	$ 38.32	$ 38.70	$ 0.38	1.0%
Public Revenue (CY)	$ 7,366,342	$ 8,517,916	$ 1,151,574	15.6%
Total Public	$ 8,691,298	$ 11,559,769	$ 2,868,471	33.0%
Total Tip Fee Revenue	$ 38,780,135	$ 42,508,115	$ 3,727,980	9.6%

Table 2

COMMODITY REVENUE	FY1718 Proposed Budget	FY1718 Mid-Year Projections	2018 Mid-Year vs. Budget Variance	%
Tons Sold	70,869	64,296	(6,573)	-9.3%
Wtd Avg. Price	$ 141.76	$ 123.57	$ (18.20)	-12.8%
Gross Revenue	$ 10,046,673	$ 7,944,839	$ (2,101,834)	-20.9%
Revenue Share w/ SBR	$ (1,139,814)	$ (895,767)	244,047	-21.4%
Buyback Payments	$ (891,314)	$ (878,200)	13,114	-1.5%
Net Commodity Revenue	$ 8,015,544	$ 6,170,872	$ (1,844,672)	-23.0%

Table 3

SBR OPERATING EXPENSE

a. Summary	FY1718 Proposed Budget	FY1718 Mid-Year Projections	2018 Mid-Year vs. Budget Variance	%
MRF	$ 6,940,933	$ 6,617,893	$ (323,040)	-4.7%
Transfer Station	$ 4,736,799	$ 5,110,956	374,157	7.9%
Transportation	$ 7,144,512	$ 7,708,865	564,353	7.9%
Interest	$ 114,277	$ 114,270	(7.00)	0.0%
TOTAL SBR EXPENSE	$ 18,936,520	$ 19,551,983	$ 615,463	3.3%

b. SBR Expense Detail		FY1718 Proposed Budget		FY1718 Mid-Year Projections		2018 Mid-Year vs. Budget Variance	%
MRF							
Tons, net		76,171		73,281		(2,890)	-3.8%
Rate	$	91.12	$	90.31	$	(0.81)	-0.9%
Expense	$	6,940,933	$	6,617,893	$	(323,040)	-4.7%
Transfer Station							
Tons		363,382		392,090		28,707	7.9%
Rate	$	13.04	$	13.04	$	(0.00)	0.0%
Expense	$	4,736,799	$	5,110,956	$	374,157	7.9%
Transportation							
Tons		363,382		392,090		28,707	7.9%
Wtd. Avg. Rate	$	19.66	$	19.66	$	(0.00)	0.0%
Expense	$	7,144,512	$	7,708,865	$	564,353	7.9%
Interest		114,277		114,270	$	(7)	0.0%
TOTAL SBR EXPENSE	$	18,936,520	$	19,551,983	$	615,463	3.3%

Table 4

DISPOSAL & PROCESSING EXPENSE

		FY1718 Proposed Budget		FY1718 Mid-Year Projections		2018 Mid-Year vs. Budget Variance	%
Summary							
TS Tons		363,382		392,090		28,707	7.9%
Wtd Avg.Rate	$	43.64	$	46.03	$	2.38	5.5%
Disposal Expense	$	15,859,400	$	18,047,130		2,187,730	13.8%

Detail - 2018 Budget		FY1718 Budget Rate		FY1718 Mid-Budget Rate		FY1718 Mid-Budget Expense	% of Total
Ox Mountain MSW	$	41.43	$	41.42	$	8,537,845	47%
Ox Mountain Aggregates	$	27.96	$	27.96	$	-	0%
Organics (Newby)	$	53.22	$	58.87	$	2,946,031	16%
Organics (Grover)	$	36.27	$	36.29	$	2,826,214	16%
C&D	$	62.02	$	62.26	$	3,613,794	20%
Other (misc disposal less MRF & 3rd party residue paid by SBR)	$	-	$	-	$	123,246	1%
TOTAL	$	43.13	$	45.71	$	18,047,130	100%

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STAFF REPORT

To:	SBWMA Board Members
From:	Farouk Fakira, Finance Manager
Date:	January 9, 2018 Finance Committee Meeting
Subject:	Resolution Approving Revised SBWMA Investment Policy for 2018

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2018-xx attached hereto authorizing the adoption of the Investment Policy for 2018. See **Exhibit A** to the Resolution for the actual 2018 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 26, 2017. It has been reviewed by the Board Adhoc Finance Sub-Committee (comprised of Board Members Bill Widmer, Michael Brownrigg, and Jay Benton. Committee member and Burlingame City Treasurer, Carol Augustine was not able to participate in this discussion due to a conflict) which recommends approval. The minor changes to the policy that have been recommended are shown in the attached redline version (see **Exhibit B**). It should be noted that the Finance Committee has expressed a strong interest in evaluating alternative, higher-performing investment options for a portion of the Agency's overall investment portfolio. This topic will be discussed further at upcoming Finance Committee meetings a report back will be provided to the Board of any recommendations that emerge from this process.

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.

Staff have prepared an analysis that will be presented to the Board Adhoc Finance Sub Committee separately addressing the potential use of an Asset Management firm to manage the funds that are currently been invested with the County of San Mateo.

Fiscal Impact

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

Attachments:

Resolution 2018-xx

Exhibit A – Investment Policy

Exhibit B – Redline version of Investment Policy showing changes (available online only at www.rethinkwaste.org)

RESOLUTION NO. 2018-xx__

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING A REVISED INVESTMENT POLICY FOR 2018

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 2018 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 25th day of January, 2018, 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. 2018-xx was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 25, 2018.

ATTEST:

Bob Grassilli, Chairperson of SBWMA

Cynthia Urman, Board Secretary

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
INVESTMENT POLICY

January 2018

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. If there are no Board of Director meetings within the 60-day period, the quarterly report shall be presented to the Board of Directors at the soonest possible meeting thereafter.

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. 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.

3. 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.

4. 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 40% of the cost value of the portfolio. Also, no more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.

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

5. Commercial paper ranked the highest letter and number rating 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 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the cost value of the portfolio.

6. 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.

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 30% 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 $65 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	40%	(B)
Commercial Paper	53601(h)	270 Days	Highest letter and number rating by an NRSRO	25%	(A)
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	(A)
Time Certificates of Deposit – Banks or Savings and Loans	53601.8	5 Years	N/A	30%	(A)
Medium Term Corporate Notes	53601(k)	5 Years	A	30%	(A)

(A) 10% of outstanding paper of issuing corporation and 10% of the portfolio in one corporation
(B) No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.

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.

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STAFF REPORT

To: SBWMA Board Members

From: Joe La Mariana, Executive Director
Farouk Fakira, Finance Manager

Date: January 9, 2017 Finance Committee Meeting

Subject: Investment options for SBWMA County Investment Fund

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2018-xx attached hereto authorizing the following actions: **Approving the stay of the SBWMA fund currently invested with the County of San Mateo with the San Mateo County.**

Summary

The SBWMA currently invests idle cash through participation in LAIF and the County of San Mateo's investment pools. LAIF provides greater liquidity and hence is not the subject of this transfer. The County pool's depositors include the County of San Mateo, elementary schools, high schools, community colleges and various other special districts and agencies within the County. Acting on the Finance Committee's recommendation to explore better investment opportunities for the SBWMA's idle cash than the County pool can offer, three agencies within the SBWMA JPA were surveyed for portfolio yield comparisons. In this analysis, we have identified these Agencies as Agency 1, 2 and 3.

Analysis

All three agencies surveyed have maintained their LAIF investments to meet liquidity needs, but have utilized a separate portfolio, managed by two different investment asset management firms and self-managed by the third Agency, for investment of cash for longer-term needs. Table 1 below compares the SBWMA portfolio with the County of San Mateo to the other three Agencies, utilizing data as of October 31, 2017.

Table 1
Agencies Performances:

Agency	Investment Provider	Amount	Yield	Yield Amount	Fees	%	Net Yield	Net Yield $
SBWMA	County	$ 6,141,927	1.0150%	$ 62,341	$ -	0.000%	1.015%	$ 62,341
Agency 1	Insight Investment	$ 20,364,963	1.0050%	$ 204,668	$ 20,365	0.1000%	0.905%	$ 184,303
Agency 2	PFM Asset Management	$ 93,300,000	1.5200%	$ 1,418,160	$ 75,310	0.0807%	1.439%	$ 1,342,850
Agency 3	Self Managed	$ 5,092,152	1.4683%	$ 74,768	$ -	0.0000%	1.468%	$ 74,768

Looking at Table 1 above, when management fees are considered, Agency 3 appears to have obtained the highest yield among the four agencies.

The two asset management firms charge on basis points and have a minimum fee to be paid monthly. Table 2 below shows the various fee requirements for each agency. For SBWMA, the fees for Agency 3 were used for the comparability purposes on Table 3.

Table 2

Fees:	Category	1st Layer	2nd Layer	3rd Layer	Total YR/Fees	Minimum YR/ Fees	Total Fees [1]
SBWMA	Basis Points	0.001					
	Threshold	$ 6,141,927					
	Fees	$ 6,142			$ 6,142	$ 15,000	$ 15,000
Agency 1	Basis Points	0.001					
	Threshold	$ 20,364,963					
	Fees	$ 20,365			$ 20,365	$ 12,000	$ 20,365
Agency 2	Basis Points	0.001	0.0008	0.0007			
	Threshold	$ 25,000,000	$ 25,000,000	$ 43,300,000			
	Fees	$ 25,000	$ 20,000	$ 30,310	$ 75,310	$ 15,000	$ 75,310
Agency 3	Basis Points	0			0		
	Threshold	$ 5,092,152					
	Fees	$ -			$ -	$0	$0
*1 If total year fees are higher than the minimum year fees, then the amount is the total year fees.							

[1] If the size of the portfolio results in fees that are lower than the minimum, the minimum management fee applies.

Agency 3 has the highest yield. Therefore, we will build the assumption on Agency 3 results.

Table 3

Summary	Investment Provider	Amount	Yield	Yield Amount	Fees	%	Net Yield	Net Yield $
SBWMA	Self Managed	$ 6,141,927	1.4683%	$ 90,182	$ -	0.000%	1.468%	$ 90,182
SBWMA	Self Managed	County Yield		B/(W)				
	$ 90,182	$ 62,341	$ 27,841					

Table 3 above shows that using the higher yield provided by a professionally managed portfolio such as the one utilized by Agencies 2 or self-managed as with Agency 3 could yield annual returns (net of fees) of approximately $75,000 to $90,000. The yield for the portfolio as of October 31, 2017 for SBWMA with the County pool was $62,341.

Based on the above comparability, SBWMA would have generated and extra $15,000-30,000 to its annual investment earnings if it had invested the funds (currently in the County pool) in a comparable self-managed portfolio as of October 31, 2017. The additional time that the SBWMA staff might spend in administering this fund can amount to about three hours monthly. Investment decisions by Agency 3 are made by the staff and the overall investing strategy and policy is reviewed by an investment committee.

Fiscal Impact

Assuming no changes in market conditions, the recommended change in utilizing PFM Asset Management firm or opt to self-manage to invest the current $6,141,927 for SBWMA which is currently invested with the County of San Mateo pool is projected to generate an extra $15,000-30,000 in interest earnings for SBWMA.

It is to be noted here that based on 2017 investment policy for the San Mateo County, article XVI - Withdrawal requests for pool participants, any request to withdraw funds shall be released at no more than 12.5% per month.

The staff did call PFM Asset Management to explore the opportunity of using their services and were told that the fund level is too small for them to consider. However, they offered that SBWMA can utilize the “CAMP” fund pool that they have and which offer greater liquidity. This funds’ yield is currently comparable to the County yield.

That leaves the self-managed option that it is utilized by Agency 3 to be the only remaining option. However, the SBWMA staff don’t have an investment committee to render expert opinions to them. Accordingly, we recommend that no migration to another fund is to be made.

Attachments:

Resolution 2018-XX

RESOLUTION NO. 2018-xx

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING THE FUNDS CURRENTLY INVESTED WITH THE SAN MATEO POOL FUND TO STAY WITH THE COUNTY OF SAN MATEO FUND POOL

WHEREAS, staff has submitted a report to the Board, dated January 25th, 2017 recommending the Board to approve the status of the investment fund currently invested with the County of San Mateo to stay with the County.

WHEREAS, the SBWMA Board has reviewed the suggested stay of funds with the San Mateo County.

NOW, THEREFORE, BE IT RESOLVED that the SBWMA Board approves the stay of funds with the San Mateo County.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the this 25th day of January, 2018, 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. 2018-xx was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 25, 2018.

ATTEST: Bob Grassilli, Chairperson of SBWMA

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Cyndi Urman, Board Secretary

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STAFF REPORT

To:	SBWMA Board Members
From:	Farouk Fakira, Finance Manager
Date:	January 9, 2018 Finance Committee Meeting
Subject:	Resolution Accepting the FY1617 Annual Financial Statements

Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2018-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, 2017 as prepared by the SBWMA's audit firm, Maze & Associates.

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, 2017, have been prepared by the City of San Carlos Administrative Services Department and examined by the independent auditing firm of Maze & Associates 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, 2017, 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 on page 5 of the Audit report, ending net position increased by $2.8 million to $21.7 million in FY17 from $18.8 million in FY16. That is due to the following:

1. Higher actual franchise revenue of $2.4 million is due to favorable volumes of $.6 million in solid waste and green waste and higher tipping fees increase of $1.8 million due to $10 per ton increase in tipping fees in January of 2017.
2. Higher actual of $1.9 million in self haul revenue is due to $.9 million in higher volume in green waste and C&D and $1 million is due to favorable tipping fees increase per cubic yards of $2.50 effective July 1st, 2016 and $2.50 effective January 1st, 2017.
3. That was offset by a decrease of $1.1 million in commodity revenue due to a drop in volume because of the fire at Shoreway of 27.8K tons for $3.730 million, which was offset by favorable blended rate delta of $29.96

($157.55 vs. $127.59 for 2016) for $1.303 million, lower sharing revenues to SBR of $.640 million and in favorable single stream revenue for $.641 million.

4. Lower host fees revenue and other is mainly due to the discontinuation of the contract with Recology for $551K.
5. Favorable net insurance proceeds of $7.5 million.

All were more than offset by higher Shoreway operating expense of $4.7 million. That is due to the following:

1. This is mainly due to $4.7 million in fire related expenses.
2. Higher disposal of $.756 million, higher SBR operation expenses of $.243 million were offset with savings from the discontinuation of HHW services of ($.320) million, ($.323) million in depreciation write off due to fire and ($.195) million in lower public education expenses and other misc. expenses.

The unrestricted net assets (Unrestricted Reserves) increased by $2.3 million to $16.1 million as of June 30, 2017 (see Table 1 in the Audit report). Net position income increased by $5.4 million (see Table 2 in Audit report). Unrestricted net assets are used to fund the Board designated reserves as shown in Table 4 of the Audit report.

General Operating Results

The operating results for FY1617 and FY1516 are as follows:

	FY2017	FY2016	Variance
			Better / (Worse)
Operating Revenues	$ 46,546,710	$ 43,914,951	$ 2,631,759
Insurance Proceeds	7,542,055	-	7,542,055
Total Revenues	$ 54,088,765	$ 43,914,951	$ 10,173,814
Operating Expenses	40,801,075	40,424,253	(376,822)
Fire-Related Expense	4,725,903	-	(4,725,903)
Depreciation Expense	2,985,261	3,308,421	323,160
Total Expenses	$ 48,512,239	$ 43,732,674	$ (4,779,565)
Operating Income <Loss>	$ 5,576,526	$ 182,277	$ 5,394,249
Interest Expense	(2,759,746)	(2,810,821)	51,075
Net Asset Change	$ 2,816,780	$ (2,628,544)	$ 5,445,324
per Table 2 in Audit Report			

Long-Term Debt

At the end of the current fiscal year, the SBWMA had bond debt outstanding of $47,612,247.

Outstanding Debt
Activities

	FY2017	FY2016
Revenue Bonds 2009A	$47,612,247	$48,929,747

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 2018-xx. Accepting the Authority's FY1617 Financial Statements

Exhibits A I & II – SBWMA FY1617 Audited Annual Financial Statements

RESOLUTION NO. 2018-xx

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS ACCEPTING THE FISCAL YEAR 2016-2017 ANNUAL FINANCIAL STATEMENTS

WHEREAS, the South Bayside Waste Management Authority contracted with the audit firm of Maze & Associates 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, 2017 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 Maze & Associates for the fiscal year ending June 30, 2017.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 25th day of January, 2018, 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. 2018-xx was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 25, 2018.

ATTEST:

Bob Grassilli, Chairperson of SBWMA

Cyndi Urman, Board Secretary

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2017

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SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S 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 (Authority) as of and for the year ended June 30, 2017, 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 the 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 Authority'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 Authority'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in financial position and, cash flows 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 November 9, 2017 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.

Maze & Associates

Pleasant Hill, California
November 9, 2017

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
Management's Discussion and Analysis
June 30, 2017

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, 2017. 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, 2017 and 2016

	FY 2017	FY 2016	$ Change	% Change
Current and other assets	$ 26,256,369	$ 26,613,281	$ (356,912)	-1.3%
Capital assets, net of depreciation	49,041,382	49,811,020	(769,638)	-1.5%
Total assets	75,297,751	76,424,301	(1,126,550)	-1.5%
Long-term debt outstanding	47,612,247	48,929,747	(1,317,500)	-2.7%
Other liabilities	6,035,240	8,661,067	(2,625,827)	-30.3%
Total liabilities	53,647,487	57,590,814	(3,943,327)	-6.8%
Net position:				
Net investment in capital assets	5,562,069	5,011,381	550,688	11.0%
Unrestricted	16,088,195	13,822,106	2,266,089	16.4%
Total net position	$ 21,650,264	$ 18,833,487	$ 2,816,777	15.0%

Net Position

The total net position increased by $2.8 million or 15% from the prior fiscal year. This increase is comprised of a $0.5 million increase in net investment in capital assets and a $2.3 million increase in unrestricted net position.

The total liabilities decreased by $3.9 million or 6.8%. The decrease of $1.3 million or 2.7% in long-term debt is associated with the $1.4 million principal payment made on the 2009A bonds. This change is explained further in the *"Long-term Debt"* section below. The decrease of $2.6 million or 30.3% 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 $49 million. These assets are comprised of land, buildings, equipment and infrastructure, less accumulated depreciation, and 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 $0.8 million or 1.5% due to an increase in accumulated depreciation. This decrease is lower than the previous fiscal year due to a large investment in capital assets to repair the Shoreway Center following the fire in September 2016. These changes are explained further in the *"Capital Assets"* section below.

The net investment in capital assets is $5.6 million as of June 30, 2017. 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 $16.1 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
For the Years Ended June 30, 2017 and 2016

	FY 2017	FY 2016	$ Change	% Change
Revenues				
Charges for services	38,925,676	34,644,943	4,280,733	12.4%
Commodity revenue	6,939,608	8,036,208	(1,096,600)	-13.6%
Other operating revenues	584,250	1,125,875	(541,625)	-48.1%
Net Insurance Proceeds	7,542,055	-	7,542,055	-
Investment Income	97,176	107,925	(10,749)	-10.0%
Total Revenues	54,088,765	43,914,951	10,173,814	23.2%
Expenses				
Operating expenses	43,786,336	43,732,674	53,662	0.1%
Fire-related expenses	4,725,903	-	4,725,903	-
Interest expense	2,759,746	2,810,821	(51,075)	-1.8%
Total Expenses	51,271,985	46,543,495	4,728,490	10.2%
Increase (decrease) in net position	2,816,780	(2,628,544)	5,445,324	207.2%
Beginning net position	18,833,484	21,462,029	(2,628,545)	-12.2%
Restatements			-	100.0%
Beginning net position, restated	18,833,484	21,462,029	(2,628,545)	-12.2%
Ending net position	21,650,264	18,833,485	2,816,779	15.0%

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.

Charges for services, also known as tipping fee revenue, increased by $4.3 million or 12.4%, from $34.6 million in FY16 to $38.9 million in FY17. $1.9 million of the revenue growth was due to an increase in "self-haul" public solid waste, split by $0.9 million due to an increase in volumes and $1.0 million due to a tipping fee increase. The remaining revenue growth of $2.4 million was due to an increase in franchise waste, split by $0.6 million due to an increase in volumes and $1.8 million due to an increase in franchise tip fees. Public revenue is the revenue generated from non-franchised waste that is delivered to the Shoreway facility by members of the public, while franchise revenue is from solid waste and organic materials collected by Recology San Mateo County from customers of SBWMA's member agencies and delivered to the Shoreway facility. Commodity Revenues decreased by $1.1 million in FY17 compared to FY16 due to the fire at the Shoreway Center in September 2016 which caused considerable damage and halted intake of commodities for a four month period. This was offset by insurance proceeds of $1.4m received for lost revenue. The remainder of the $8.9m total insurance proceeds covered cost of repairs to the Center and replacement of damaged capital assets. Other operating revenues decreased by $0.5m largely due to cessation of the Household Hazardous Waste Collection Service in December 2016. Investment income was static compared to FY16 at $0.1m.

The primary component of operating expenses is related to the Shoreway operations that constitute about 84% of non-discretionary, contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expense. The Shoreway operations expense increased only slightly by $0.4 million in FY17 compared to the prior year.

Table 3 below shows just the operating results of the Authority. It excludes all revenue and expenditure not directly associated with operating activities such as investment income and expense, and depreciation. For the current fiscal year, operating results were $5.6 million compared to $3.4 million for the prior year.

Table 3

Operating Results

For the Years Ended June 30, 2017 and 2016

	FY 2017	FY 2016	$ Change	% Change
Operating Revenue				
Charges for Services	$ 38,925,676	$ 34,644,943	$ 4,280,734	12.4%
Commodity Fee	6,939,608	8,036,208	(1,096,600)	-13.6%
Other Operating Revenue	584,250	1,125,875	(541,625)	-48.1%
Total Operating Revenue	46,449,534	43,807,025	2,642,508	6.0%
Operating Expense (excl Depn.)				
Shoreway Operations	(36,784,182)	(36,344,429)	(439,753)	1.2%
Program Admin	(2,163,289)	(2,430,066)	266,777	-11.0%
Franchise Fee	(1,853,604)	(1,649,758)	(203,846)	12.4%
Total Operating Expense (excl Depn.)	$ (40,801,075)	$ (40,424,253)	(376,822)	0.9%
Total Operating Results	5,648,459	3,382,772	2,265,687	67.0%

Reserves

Table 4 below reflects the amount of reserves that have been designated by the Board in the fiscal years 2017 and 2016.

Table 4

Unrestricted Reserves Balances

	FY 2017	FY 2016
Rate Stabilization Reserve	$ 4,242,701	$ 4,174,238
Emergency Reserve	4,242,701	4,174,238
Equipment Replacement	991,791	1,736,098
2009 A Bond Repayment	1,137,500	1,091,667
Undesignated	5,473,502	2,645,859
Total Unrestricted Reserves	$ 16,088,195	$ 13,822,103

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.

Capital Assets

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

Table 5
Capital Assets, Net of Depreciation
For the Years Ended June 30, 2017 and 2016

	FY 2017	FY 2016	$ Change	% Change
Land	$ 14,000,000	$ 14,000,000	$ -	-
Buildings and systems	35,679,927	35,359,894	320,033	0.9%
Machinery and equipment	23,439,074	22,574,212	864,862	3.8%
Construction in progress	-	126,347	(126,347)	-100.0%
Total accumulated depreciation	(24,077,619)	(22,249,433)	(1,828,186)	8.2%
Total Net Capital Assets	$ 49,041,382	$ 49,811,019	$ (769,637)	-1.5%

The net capital assets decreased by $0.8 million or 1.5% from $49.8 million in FY16 to $49 million in FY17. This decrease is the net of the annual $3 million increase in accumulated depreciation, a one-off asset write-off (impairment) of $1.3m due to damaged assets caused by the fire, and $3.5m in additional capital expenditure to replace damaged assets and to upgrade various buildings at the Center, as well as retrofit all light installations with LED lighting.

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 $47.6 million total debt outstanding.

Table 6
Outstanding Debt, Net of Amortized Costs
June 30, 2017 and 2016

	FY 2017	FY 2016	$ Change	% Change
2009A Revenue Bond	$ 47,470,000	$ 48,780,000	$ (1,310,000)	-2.7%
Net Premium 2009A	142,247	149,747	(7,500)	-5.0%
Total	$ 47,612,247	$ 48,929,747	$ (1,317,500)	-2.7%

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, 2017

ASSETS	
Current Assets:	
Cash and investments for operations (Note 2)	$14,861,163
Accounts receivable	4,615,340
Interest receivable	36,178
Inventory	378,709
Prepaid items	720
Total Current Assets	19,892,110
Noncurrent Assets:	
Cash and investments with fiscal agent (Note 2)	6,364,259
Capital assets (Note 4):	
Land	14,000,000
Building	35,679,927
Equipment	23,439,074
Less Accumulated Depreciation	(24,077,619)
Net capital assets	49,041,382
Total Noncurrent Assets	55,405,641
Total Assets	75,297,751
LIABILITIES	
Current Liabilities:	
Accounts payable	3,594,995
Accrued liabilities	186,656
Interest payable	919,504
Current portion of compensated absences	75,925
Long-term debt due in one year (Note 5)	1,365,000
Total Current Liabilities	6,142,080
Noncurrent Liabilities:	
Compensated absences due in more than one year	24,520
Accrued liabilities (Note 7)	1,233,640
Long-term debt due in more than one year (Note 5)	46,247,247
Total Noncurrent Liabilities	47,505,407
Total Liabilities	53,647,487
NET POSITION	
Net investment in capital assets	5,562,069
Unrestricted	16,088,195
Total Net Position	$21,650,264

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES:	
Charges for services	$38,925,676
Commodity revenue	6,939,608
Other	584,250
Total Operating Revenues	46,449,534
OPERATING EXPENSES:	
Shoreway operations	36,784,182
SBWMA program administration	2,163,289
Franchise fee - transfer station	1,853,604
Depreciation (Note 4)	2,985,261
Total Operating Expenses	43,786,336
Operating Income	2,663,198
NONOPERATING REVENUES (EXPENSES):	
Insurance proceeds (Net of Impairment - Note 4)	7,542,055
Investment income	97,176
Fire-related expenses	(4,725,903)
Interest expense	(2,759,746)
Net Nonoperating Revenue (Expense)	153,582
Change in Net Position	2,816,780
NET POSITION AT BEGINNING OF YEAR	18,833,484
NET POSITION AT END OF YEAR	$21,650,264

See accompanying notes to the financial statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	$45,967,487
Payments to suppliers	(42,470,796)
Payments to employees	(930,339)
Inventory	(378,709)
Net Cash Flows (used for) Operating Activities	2,187,643
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES	
Insurance proceeds	8,852,902
Fire-related expenses	(4,725,903)
Net Cash Flows (used for) Noncapital and Financing Activities	4,126,999
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	84,016
Net Cash Flows from Investing Activities	84,016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets additions	(3,535,493)
Retirement of long-term debt	(1,310,000)
Interest paid	(2,784,713)
Net Cash Flows (Used for) Capital and Related Financing Activities	(7,630,206)
Net Cash Flows	(1,231,548)
Cash and investments for operations - beginning of year	22,456,970
Cash and investments - end of year	$21,225,422
Reconciliation of operating income to net cash flows from operating activities:	
Operating income (loss)	$2,663,198
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	2,985,261
Loss on disposal of capital asset	9,023
Net change in:	
Accounts receivable	(482,047)
Prepaids	(720)
Inventory	(378,709)
Accounts payable	(2,688,304)
Accrued liabilities	30,255
Compensated absences	49,686
Net Cash Flows from Operating Activities	$2,187,643
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	$7,500
Loss on disposal of capital asset	(9,023)
Impairment loss	(1,310,847)

See accompanying notes to the financial statements

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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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 Policy

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 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

Note 1: Summary of Significant Accounting Policies (Continued)

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 50% of their sick leave balance. 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 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 reports 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 reports 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 1: Summary of Significant Accounting Policies (Continued)

h. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

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.

Note 2: Cash and Investments (Continued)

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.

Statement of Net Position		
Cash and investments for operations	$	14,861,163
Cash and investments with fiscal agent		6,364,259
Total Cash and Investments	$	21,225,422

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.

Note 2: Cash and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State Local Agency Investment Fund	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than $65 million permitted by LAIF	$65 million per account
San Mateo County Investment Pool	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	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	40%	(A), (B)
Commercial Paper	270 Days	A-1	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	30%	(A), (B)
Medium Term Corporate Notes	5 Years	A-1	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 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:

Note 2: Cash and Investments (Continued)

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:

Note 2: Cash and Investments (Continued)

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	$ 6,836,659	$ 6,836,659
San Mateo County Investment Pool	6,814,034	6,814,034
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,364,259	6,364,259
Total Investments	$ 20,014,952	20,014,952
Total Cash in Bank and Cash on Hand		1,210,470
Total Cash and Investments		$ 21,225,422

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.

Note 2: Cash and Investments (Continued)

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, 2017, for each investment type as provided by S&P ratings:

Investment Type	AAAm	Total
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	$ 6,364,259	$ 6,364,259
Totals	$ 6,364,259	6,364,259
Not rated:		
California Local Agency Investment Fund		6,836,659
San Mateo County Investment Pool		6,814,034
Total Investments		20,014,952
Total Cash in bank and cash on hand		1,210,470
Total Cash and Investments		$ 21,225,422

g. Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Note 2: Cash and Investments (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of June 30, 2017:

Investment Type	Exempt	Total
Investments by Fair Value:		
California Local Agency Investment Fund	$ 6,836,659	$ 6,836,659
San Mateo County Investment Pool	6,814,034	6,814,034
Total Investments at Fair Value	$ 13,650,693	13,650,693
Investments Measured at Amortized Cost:		
Money Market Fund		6,364,259
Total Investments		20,014,952
Cash in banks		1,210,470
Total Cash and Investments		$ 21,225,422

Both the California Local Agency Investment Fund and the San Mateo County Investment Pool are external investment pools and exempted in the fair value hierarchy, under GASB 72.

h. 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, 2017.

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, 2017, the Authority paid $18,518,805 to South Bay Recycling to operate the Facility.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal year ended June 30, 2017:

	Balance at June 30, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Capital assets not being depreciated:					
Land	$ 14,000,000	$ -	$ -	$ -	$ 14,000,000
Construction in Progress	126,347	-	-	(126,347)	-
Total non-depreciable assets	14,126,347	-	-	(126,347)	14,000,000
Capital assets being depreciated:					
Buildings	35,359,894	250,265	(56,579)	126,347	35,679,927
Equipment	22,574,212	3,285,227	(2,420,365)	-	23,439,074
Total capital assets being depreciated	57,934,106	3,535,492	(2,476,944)	126,347	59,119,001
Less accumulated depreciation for:					
Buildings	(10,701,382)	(1,277,610)	47,557	-	(11,931,435)
Equipment	(11,548,051)	(1,707,651)	1,109,518	-	(12,146,184)
Total accumulated depreciation	(22,249,433)	(2,985,261)	1,157,075	-	(24,077,619)
Net capital assets being depreciated	35,684,673	550,231	(1,319,869)	126,347	35,041,382
Capital assets, net	$ 49,811,020	$ 550,231	$ (1,319,869)	$ -	$ 49,041,382

In September 2016, a Fire at the Shoreway Environmental Center caused considerable damage to the Material Recycling Facility sorting equipment. A calculation was made to determine the impairment required to be made to the damaged sorting system asset. This was calculated to be $1.3m and is treated in the table above and in the financial statements as a proportionate reduction of both the reported value of the asset and accumulated depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset. It is also shown in the Statement of Revenues, Expenses and Changes in Net Position netted against Insurance Proceeds, the total received of which was $8.8m. Net proceeds after deduction of the impairment were $7.5m.

Note 5: Revenue Bonds

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

	Balance June 30, 2016	Retirements	Balance June 30, 2017	Due Within One Year
2009A Solid Waste System Revenue Bonds	$ 48,780,000	$ (1,310,000)	$ 47,470,000	$ 1,365,000
Bond premiums	149,747	(7,500)	142,247	-
	$ 48,929,747	$ (1,317,500)	$ 47,612,247	$ 1,365,000

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 $87.1 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 Fiscal Year 2016, the Net Revenues to Debt Service Coverage ratio was 1.47 .

Note 5: Revenue Bonds (Continued)

c. Debt Service Requirements

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

For the Year Ending June 30	Principal	Interest	Total
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	1,570,000	2,554,750	4,124,750
2022	1,650,000	2,554,750	4,204,750
2023 - 2027	9,665,000	11,630,563	21,295,563
2028 - 2032	12,940,000	8,695,188	21,635,188
2033 - 2037	17,365,000	6,212,700	23,577,700
Total	$ 47,470,000	$ 39,634,582	$ 87,104,582

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
General Liability deductible	2,500 SIR
Environmental Impact Liability aggregate	2,000,000
Environmental Liability deductible	25,000 SIR
Hired & Non-Owned Auto Limit	1,000,000
Employee Benefits Liability	1,000,000
Excess Liability	10,000,000

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.

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, 2017 is $1,233,640 and is reported as accrued liabilities.

Note 8: Net Position

Designations

The Authority has designated $10,614,693 of the unrestricted net position for several reserves which include: $4,242,701 for rate stabilization, $4,242,701 for emergency reserve, 991,791 for equipment replacement, $1,137,500 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, 2017.

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S 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 Members of the Board of Directors
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 basic financial statements of the South Bayside Waste Management Authority (Authority), as of and for the year ended June 30, 2017, and have issued our report thereon dated November 9, 2017.

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.

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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 that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated November 9, 2017 which is an integral part of our audit and should be read in conjunction with this report.

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 Authority'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.

Maze & Associates

Pleasant Hill, California
November 9, 2017

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2017

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SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY MEMORANDUM ON INTERNAL CONTROL AND REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2017

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of the South Bayside Waste Management Authority (Authority) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 9, 2017

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REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the South Bayside Waste Management Authority (Authority) for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

Unusual Transactions, Controversial or Emerging Areas

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

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 most sensitive estimate(s) affecting the Authority's financial statements were):

> *Estimated Fair Value of Investments:* As of June 30, 2017, the Authority held approximately $14.9 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.

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Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1e to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

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 clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Authority's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Authority Board.

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 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 a management representation letter dated November 9, 2017.

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 Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

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This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
November 9, 2017

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CITY OF SAN CARLOS, CALIFORNIA
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

FOR THE YEAR ENDED JUNE 30, 2017

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CITY OF SAN CARLOS, CALIFORNIA
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS

For The Year Ended June 30, 2017

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MAZE & ASSOCIATES

MEMORANDUM ON INTERNAL CONTROL

To the City Council of
The City of San Carlos, California

In planning and performing our audit of the basic financial statements of the City of San Carlos (City) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, City Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Audit Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 26, 2017

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NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

EFFECTIVE FISCAL YEAR 2017/18:

GASB 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan*s, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

SCHEDULE OF OTHER MATTERS

DEFINED BENEFIT OPEB

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria

For OPEB that is administered through a trust that meets the specified criteria, requirements differ based on the number of employers whose employees are provided with OPEB through the OPEB plan and whether OPEB obligations and OPEB plan assets are shared by the employers. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit OPEB through single-employer OPEB plans—OPEB plans in which OPEB is provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit OPEB through agent multiple-employer OPEB plans—OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

Measurement of the OPEB Liability to Employees for Benefits

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The total OPEB liability generally is required to be determined through an actuarial valuation. However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation is permitted. An actuarial valuation or a calculation using the specified alternative measurement method of the total OPEB liability is required to be performed at least every two years, with more frequent valuations or calculations encouraged. If an actuarial valuation or a calculation using the alternative measurement method is not performed as of the measurement date, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date. For purposes of evaluating the benefit terms, consideration is required to be given to the written plan document, as well as other information, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit-related costs with inactive employees. Certain legal or contractual caps on benefit payments to be provided are required to be considered in projections of benefit payments.

This Statement requires that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates future compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also are required to be included in the projections. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This Statement requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the entry age actuarial cost method with each period’s service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the first period in which the employee provides service under the benefit terms, through the period in which the employee exits active service.

Alternative Measurement Method

This Statement includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through an OPEB plan in which fewer than 100 employees (active and inactive) are provided with OPEB through the plan. The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

SINGLE AND AGENT EMPLOYERS

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net OPEB liability. The net OPEB liability is required to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year (the measurement date), consistently applied from period to period.

The OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability—that is, changes in the total OPEB liability and in the OPEB plan’s fiduciary net position.

This Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in OPEB expense immediately. Projected earnings on the OPEB plan's investments also are required to be included in the determination of OPEB expense immediately.

In circumstances in which the net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period.

Under all means of determining the net OPEB liability, the effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning in the current period.

Changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources.

In governmental fund financial statements, a net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements

This Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also are required to disclose information that includes the following, as applicable:

- For the current year, sources of changes in the net OPEB liability

- Significant assumptions and other inputs used to calculate the total OPEB liability, including those about inflation, the healthcare cost trend rate, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies

- The date of the actuarial valuation or calculation using the alternative measurement method used to determine the total OPEB liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the OPEB plan, and information about the purchase of allocated insurance contracts, if any.

Required Supplementary Information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net OPEB liability

- The components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. If a single or agent employer does not have information about an actuarially determined contribution but has a contribution requirement that is established by statute or contract, the employer is required to present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the OPEB plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, are required to be presented as notes to required supplementary information. In addition, the employer is required to explain certain factors that significantly affect trends in the amounts reported in the schedules.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

In addition, the effects of (1) a change in the employer's proportion of the collective net OPEB liability and (2) differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net

OPEB liability are required to be determined. These effects are required to be recognized in the employer's OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees). The portions of the effects not recognized in the employer's OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability also are required to be reported as deferred outflows of resources related to OPEB.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the OPEB plans through which the OPEB is provided. Cost-sharing employers are required to identify the discount rate and assumptions made in the measurement of their proportionate shares of net OPEB liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also are required to disclose information about how their contributions to the OPEB plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net OPEB liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the OPEB plan, and related ratios.

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria

For employers that provide insured benefits—defined benefit OPEB through an arrangement whereby premiums are paid or other payments are made to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees—this Statement requires recognition of OPEB expense/expenditures equal to the amount of premiums or other payments required in accordance with their agreement with the insurance company. In addition to the amount of OPEB expense/expenditures recognized in the current period, a brief description of the benefits provided through the arrangement is required to be disclosed.

For defined benefit OPEB, other than insured benefits, that are provided through OPEB plans that are not administered through trusts that meet the specified criteria, this Statement requires an approach to measurement of OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB parallel to that which is required for OPEB provided through OPEB plans that are administered through trusts that meet the specified criteria. Similar note disclosures and required supplementary information are required to be presented. However, the requirements incorporate modifications to reflect the absence of OPEB plan assets for financial reporting purposes.

DEFINED CONTRIBUTION OPEB

This Statement requires an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the OPEB liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan. In governmental fund financial statements, OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to (or benefit payments through) an OPEB plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. An OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan are required to include descriptive information about the OPEB plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

SPECIAL FUNDING SITUATIONS

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity. Relevant forms of financial support are contributions directly to an OPEB plan that is administered through a trust that meets the specified criteria, including benefit payments as OPEB comes due for OPEB provided through such a plan, or making benefit payments directly as the OPEB comes due in circumstances in which OPEB is provided through an OPEB plan that is not administered through a trust that meets the specified criteria. Such support is a special funding situation if either (1) the amount of contributions or benefit payments, as applicable, for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to the OPEB or (2) the nonemployer entity is the only entity with a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as OPEB comes due, as applicable.

This Statement requires an employer that has a special funding situation for defined benefit OPEB to recognize an OPEB liability and deferred outflows of resources and deferred inflows of resources related to OPEB with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective OPEB expense, as well as additional OPEB expense and revenue for the OPEB support of the nonemployer contributing entities. This Statement requires that the employer disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach that is required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit OPEB is similar to the approach required for cost-sharing employers.

The information that is required to be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net OPEB liability that it recognizes. In circumstances in which a governmental nonemployer contributing entity recognizes a substantial proportion of the collective net OPEB liability, requirements for note disclosures and required supplementary information are similar to those for cost-sharing employers. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net OPEB liability.

This Statement also establishes requirements related to special funding situations for defined contribution OPEB.

Effective Date

This Statement is effective for fiscal years beginning after June 15, 2017.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.

- Explanations of how and why the OPEB liability changed from year to year will improve transparency.

- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.

- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations

- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms

- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

GASB 81 – ***Irrevocable Split-Interest Agreements***

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

How the Changes in This Statement Improve Financial Reporting

This Statement enhances the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

GASB 85 – ***Omnibus 2017***

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation

- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements.

EFFECTIVE FISCAL YEAR 2018/19:

GASB 83 – *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

How the Changes in This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

Effective Date

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

SCHEDULE OF OTHER MATTERS

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

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REQUIRED COMMUNICATIONS

To the City Council of
The City of San Carlos, California

We have audited the basic financial statements of the City of San Carlos for the year ended June 30, 2017. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB 82 – ***Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73***

> The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.
>
> The pronouncement became effective, but did not have a material effect on the financial statements or the footnotes. It only affected the Pension-related Required Supplementary Information.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the City 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.

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Accounting Estimates

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 most sensitive estimate(s) affecting the City's financial statements were:

> *Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources:* Management's estimate of the net pension assets and liabilities and deferred outflows/inflows of resources are disclosed in Note 10 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Net OPEB Asset:* Management's estimate of the net OPEB Asset is disclosed in Note 11 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimated Fair Value of Investments:* As of June 30, 2017, the City held approximately $132.1 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2017. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2017.
>
> *Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.
>
> *Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 8 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Claims Liabilities: Management's estimate of the claims liabilities payable is disclosed in Note 12 to the financial statements and is based on the claims experience of the City. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

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 clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the City's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the City Council.

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 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 a management representation letter dated October 26, 2017.

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 City'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 City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Information Accompanying the Financial Statements</u>

We applied certain limited procedures to the required supplementary information that accompanies and 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 required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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This information is intended solely for the use of City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 26, 2017

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Agenda Item 11

China Market Updated

Discussion Item only – No Report

Verbal Presentation given at the January 9, 2018 Finance Committee Meeting

Agenda Item 12

Discussion on 2018 Merit Pool for Unrepresented Employees

Discussion Item only – No Report

Verbal Presentation given at the January 9, 2018 Finance Committee Meeting