

MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE**

April 11, 2019 12:00N

SBWMA Conference Room, 610 Elm Street Suite 202, San Carlos, CA

Call To Order: 12:08PM

1. Roll Call

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

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree, and Grant Ligon, Others Present: Melissa Schick, KNN Public Finance; David Brodsky, KNN Public Finance via phone Kevin Civale Bond Attorney, Steve Sherman Consultant

2. Public Comment

Persons wishing to address the Board on matters NOT on the posted agenda may do so. Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting. If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

3. Executive Director's Update

Executive Director La Mariana welcomed the committee to the meeting and made some announcements.

- Staff is working to finalize the disposal contract terms and the action item for the new Landfill Disposal contract will be on the May Board Agenda as there are still deal points to be finalized.
- Member Brownrigg would like to cycle off the Finance Committee but will stay on the committee until the Bond decision is made.
- Long Range Plan refresh feedback will be the last item on today's agenda. All TAC members have been asked to respond to a survey about ½ have responded so far. The Pub Ed Committee, the Zero Landfill now Zero Waste committee, and the TAC Committee have all had to opportunity for input, and staff will be meeting with Recology and SBR for their input as well. The final Draft report will be presented to the TAC on May 9, and the Board on May 23.
- Executive Director La Mariana presented on AB1509 to the state assembly committee of Environmental Safety and Toxic Materials. The bill passed that committee 6-0 and he will be

presenting again on April 22 to the Natural Resources Committee.

4. Consent Calendar

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

A. Approval of Minutes from the February 14, 2019 Finance Committee Meeting

Motion/Second: Brownrigg/Benton

Voice Vote: All in Favor

5. Approval of 2017 Calendar Year Financial Statements

Staff Mangini gave an overview of the staff report. He noted that the bond covenant ratios were met without dipping into reserves as was the case last year due to the tip fee increases approved for 2019.

The committee discussed that the ratios were tight, Staff Mangini noted that typically the rates are set to just cover the bond covenant ratios. In January of 2019 tip fees were raised 13-14% which should help those ratios going forward.

The committee discussed the new Bond debt and if there would be a bond covenant issue going forward. Staff Mangini noted that by extending the term there is no increase in annual debt service which gives additional coverage to meet the bonds covenants, and that potential operational savings from the new equipment are not taken into account here but also provide additional debt coverage.

The committee discussed if the forthcoming new contracts with Recology and landfill would create pricing pressure and affect covenant ratios.

Executive Director La Mariana noted that the anticipated step up in 2021 with the Recology Franchise Agreement Extension is about 8.3% for their operation, which doesn't include a fuel pass through, so staff has been rounding up and saying about 10%, The Member Agencies have been asked to take this step up into consideration since last year as they set their rates for these last years of the current contract. He also noted that the landfill contract will be before the Board in May for decision but is expected to be an 18% increase next year, but that is only 15-20% of the entire operation. The total increase would be about 12% with the new contracts.

The committee discussed the Member Agency service level adjustment in the Amended and Restated Franchise Agreement that will affect rates going forward. This would be Member Agency specific based on growth. Staff Mangini explained that there would be a phased in approach to the service level adjustment and a 3-year rolling average so that rate increases would be softened.

Member Benton noted that he doesn't want to dip into reserves to meet coverage ratios, so with all the coming changes and the ratios so close he was nervous.

Staff noted that it is helpful to know that as the budget is prepared, but also noted that the commodity drop did add to the ratio drop this year. KNN will also be working on the debt policy, and ratio targets will be addressed in that policy.

Motion/Second: Brownrigg/Widmer with the correction on page 2 regarding the word pension to position.

Voice Vote: All in favor

6. Bond Refunding Process Update: Provide Overview and Review of Bond Documents and Financing Parameter

Staff Mangini introduced Kevin Civalo on the phone who is the Bond Counsel and Kevin went over the key documents in the packet.

Kevin noted that the most important documents in the bond package

- 1) The JPA agreement which notes that the Member Agencies are obligated to bring their material to Shoreway.
- 2) The indenture of trust which notes that the authority agrees to pay
- 3) The Escrow Agreement which pays off the 2009 bonds when the 2019 close.
- 4) The Disclosure Certificate which requires annual notice of certain changes.
- 5) The Resolution

Member Benton noted that the debt service was driving the amount of the bonds but asked how they are protected. Melissa Schick of KNN noted that the resolution would include a not to exceed amount of annual debt service as well as a not to exceed final maturity.

The Committee discussed default responsibility to the directors. Executive Director noted that the JPA holds Director and Officers insurance. The committee asked to have that circulated, and that when new Board Members join, they get a copy. Jean Savaree added that Board Members and public officials have indemnity and immunity for actions as a public official.

Kevin Civalo noted that Board Members should familiarize themselves with the POS document once it is ready.

Kevin noted that the resolution that approves the issuing of bonds cannot be approved until San Carlos' approval as the host city and that language is included in the resolution.

The Committee discussed the possibility of Member Agencies leaving the JPA and if that complicates the Bond issuance. Kevin Civalo noted that it's worth mentioning, but not concerning as a disclosure issue, he also noted that the JPA agreement will still be in effect, so there will be a cost associated with exiting which will be in the new documents.

Member Benton asked what is required for the bond to get approved. Executive Director La Mariana noted that it is a super majority which is 8 of the 12. Member Benton noted that with the County and Atherton have not approved the Recology Agreement Amendment there may be two Member Agencies not in the JPA for the long haul. Executive Director La Mariana noted that there has been no indication that the Bond wouldn't be supported by the Member Agencies.

The committee discussed the resolution. Member Brownrigg noted that to the lay person it looks like the Agency took on \$57M in debt 10 years ago, and now the Agency is taking on \$64M. Staff Mangini noted that the old debt all gets paid off, and the principal outstanding will be closer to \$55M. Member Brownrigg clarified that the debt load for the Agency is \$64M.

Member Brownrigg asked who would make the decision if these are green bonds. Kevin Civalo noted that at the end of the day it's the Authority's decision. Member Brownrigg commented that he would like to call them out as Green bonds, that it leads to a higher quality of buyer, so if it's optional he would like to opt in.

Member Brownrigg asked how long before the bonds can be paid down, the answer was generally 10 years. Member Brownrigg noted that the Agencies borrowing capacity is impaired for a long time if something

catastrophic were to happen. David Bordesley of KNN noted that there isn't a capacity issue, the Agency could take on additional debt.

Kevin Civale continued to go over the various documents that would get approved.

Member Benton asked for clarification on series A versus series B and if A was paying of the existing bond and B was new money, then why was B being paid off first.

Melissa Schick, KNN noted that overall the structure is designed to meet the Agencies objectives, the useful life of the projects being funded with the bond money would have been shorter than the bond, so it was structured to pay off the new money first which is paying for the new projects, and the refunded bonds are being paid off second.

The committee discussed the interest rate versus par. Member Brownrigg noted that it was a little odd to tell the public that the bonds were being financed at a lower rate but then the stated interest rate was 5%. David Brodsley noted that it's not an intuitive process, but the higher interest is on a lower par in exchange for a lower interest on a higher par. The true interest cost is 3.7%. However, if your buying the bonds your buying a 5% bond at a premium and the annual interest will be 5%.

The committee discussed arbitrage rules if more is borrowed than is used. Staff Mangini noted there will be a reimbursement resolution that staff will recommend that will protect the Agency.

The Finance Committee supported the documents and approach and moving forward to the full Board.

Staff Mangini noted that the POS which is the Bond marketing document is still an outstanding item and it will go to the Board for formal decision with all the Bond documents in May.

7. Finance Committee Discussion on Long Range Plan Refresh

Staff Ligon updated the Finance Committee and asked for feedback on the mission statement and guiding principles from the committee.

Member Widmer commented that all the items need to include a financial impact section, and zero waste should be a goal but not if it's cost prohibitive. He wanted a balance between advanced technologies and costs, and a flexible agile facility.

Member Benton asked if the solid waste principles mentioned in the "adhere to solid waste principles" were well documented.

Consultant Steve Sherman noted that there was a section in principles that bullet pointed solid waste principal definitions.

Member Widmer gave feedback that each of the projects should include benefits of how much material will be kept out of the waste steam by implementing the project.

8. Finance Committee Member Comments

The Committee discussed the May 7 Finance Committee meeting and with some availability issues the meeting was changed from an in-person meeting to a conference call.

9. Adjourn 2:14 PM