

MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE BOARD OF DIRECTORS
April 27, 2017 – 1:00 p.m.
San Carlos Library Conference Room A/B**

Call To Order: 2:00PM

1. Roll Call

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

2. Public Comment

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

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

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

None

3. Executive Director's Report

Executive Director La Mariana opened the meeting and noted a few items from his report. He noted that the Bond Covenant requirements have been met for 2016, and the first reading of the budget will be today. He complimented Staff Mututa, and Staff Guzman for their successful Earth Day at Shoreway event. He also noted that an \$18,300 rebate from the San Mateo Energy Watch program for our LED lighting programs was received. He then noted that in the last 6-8 weeks there has been an unexpected drop in fiber commodity values, so in looking at revenues in the budget it's an important number. He added that China is trying to intercept material that isn't clean enough to reduce residual material, so staff is still working to scope and identify the long term impacts of this shift. Regarding the budget, he noted that Hanover sent a letter stating that they weren't going to renew our insurance policy. He added that staff anticipated this decision, and is currently shopping our insurance, but it's clear that our coverage options will cost significantly more and won't be as comprehensive. He also added that John O'Neil from Risk Strategies Insurance Brokerage will be at the May Board meeting to give an assessment of our choices and how it will affect the budget. He also noted that staff is working behind the scenes on an advanced fire mitigation plan and a plan to address lithium ion batteries. There will be a full report on a battery plan at the September meeting, and the SBWMA is taking a leadership role within the national industry on this issue. Lastly, he noted that the conveyor equipment replacement at the transfer station is the last fire item outstanding and is a consent item today.

Member Widmer commented that he would like to see options around possibly being self-insured, and using the emergency reserve fund as insurance. He also commented that if there is no alternative battery option, people will put it in the trash.

Member Benton asked what portion of the total commodity revenue is fiber.

Staff Gans answered that it's two thirds of the total commodity revenue so it has a big impact.

Member Aguirre complimented Staff Mututa for her tour of the facility with the Chamber of Commerce Leadership group, the class was very pleased to be able to have the tour and Staff Mututa received top points for the tour.

4. Approval of Consent Calendar

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

- A. Approval of Minutes from the March 23, 2017 Board of Directors Meeting
- B. Resolution Approving Calendar Year 2016 Financial Statements
- C. Resolution Authorization for Executive Director to enter into contract to replace transfer station conveyor in the amount not to exceed \$247,529

Motion: Member Bonilla
 Second: Member Aguirre
 Roll Call Vote: 9-0-0-3

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

5. Administration and Finance

- A. Presentation of the Preliminary FY1718 Operating Budget

Executive Director La Mariana noted that this is the first viewing of the FY17/18 budget and gave a Power Point presentation on the preliminary budget, and the May 25 meeting will be an approval of the FY1718 budget.

East Palo Alto now present 1:21 PM
 County of San Mateo now present 1:23PM

He noted that the budget plans to cover the bond covenant requirements, and meets the agency expenses in a responsible way. Regarding revenues the presentation was put together before the recent dip in fiber commodity, so he cautioned that the 7% projection in revenue may change, and that staff would have a better read on the issue at the May Board meeting as the dip just happened. Currently, the projection for commodity revenue in FY 17-18 is \$8M.

Member Benton reiterated that the fiber commodity is two thirds of that \$8M.

Staff Gans said yes, and added that Fiber has dropped about 30% in recent days.

Executive Director La Mariana then noted that currently the only recommendation for a tip fee adjustment will be \$1.81 increase to C&D which is completely passes-through the increased costs that the agency has incurred with the Zanker contract just entered into.

Member Widmer commented that he would like to see a surcharge on disposal costs to soften the step charge as the disposal contracts expired.

Executive Director La Mariana commented that staff will take a look at that and have recommendations at the May Board meeting.

Executive Director La Mariana then talked about the expense side of the budget. He noted that the anticipated increase for fire insurance premiums has been factored in. Currently fire insurance is \$178,000/year and the number is currently anticipated to jump by about \$330,000, or more.

Member Aguirre asked what is the total amount paid in insurance.

Staff Fakira answered right now its \$228,000.

Executive Director La Mariana then commented that he plans to re-energize the public programs, including a specific campaign for batteries. And a public spaces project from the long range plan to have continuity of containers when out in the public.

Member Widmer questioned how the cost of the public spaces program would work.

Executive Director La Mariana noted that there is an initial cost for the physical containers that the SBWMA will allocate for the initial purchaser. He also added some SBWMA Fellows will be working with the Member Agencies to get the public spaces campaign going. Similarly staff wants to roll out expanded school site programs and work on an education program in the schools in the SBWMA service area with a pilot in one district, where there is not only onsite classroom presentations but also technical assistance with their recycling and compost programs.

Member Aguirre asked that the Redwood City Elementary School District be the pilot district for the schools program.

Executive Director La Mariana then talked about the proposed capital budget items. He then talked about the proposed transfer station expansion originally planned for FY1718, but staff is proposing to do that expansion in the following year with the mixed waste processing system based on feedback from the finance committee.

Member Widmer asked about storm water maintenance and noted that \$1.2M didn't look like routine maintenance. It looked like more major work.

Staff Gans answered that there have been some challenges on the site complying with the new storm water regulations instituted in July. Staff is going through the process to improve and report on those improvements now, but there is a risk that we still won't comply, and if that is the case the next step is to install a truck washing system, and that is what the \$1.2M is earmarked for.

Member Widmer also added that construction costs are rising and that number may not be big enough, and thought staff should look at it again.

Staff Gans noted that an engineer's adjustment was completed and it did come in higher, and the number in the budget reflects that.

Member Brownrigg commented that he would have supported the transfer station expansion this year, based on the strength of reserves and the utility of having additional floor space. He understood that it is linked to the mixed waste processing system, and the benefit of talking about it all at once, but we spend \$9M a year bring stuff to Ox Mountain so to the extent that we can reduce that material, it's not just a cost line it reduces expenses, so as the Board talks about it more over the next year, he would like the record to reflect he would have supported the expansion.

Executive Director La Mariana added that the general thought is knowing that we have these contracts that are looming and a new bar for state mandates for diversion, staff wanted to take a different look at what is going to landfill.

Executive Director La Mariana concluded his presentation by noting that the reserves are in a very strong position. The transfer station expansion project would have been completely covered by the reserves. The larger project of \$8 to 14M would require external bond financing. He advocated for maintaining a healthy reserve to give the program more options in the future.

6. Collection and Recycling Program Support and Compliance

- A. Presentation of the Franchise Agreement Extension (FAX) Committee's Findings regarding a Model Franchise Agreement Extension with Recology San Mateo County
 - i. SBWMA Staff: Background, Goals, Timing, and Public Decision Making Considerations

Executive Director La Mariana gave a Power Point presentation with introductory remarks, and noted that today's presentation was on a high level but that two workshops will be offered to get into the financial and contract language details . . . One will be Wednesday, May 3rd from 9:30 to 1:30, and will be focused on the numbers, and the second date is being determined but will be focused on contract language. He acknowledged the FAX Members, and the Negotiation Committee Members, then began his presentation.

Member Aguirre asked for a reiteration of how much the recent concessions from Recology were.

Executive Director La Mariana answered \$961,000 and Bob Hilton will go into it further.

Executive Director La Mariana noted that this discussion represents about two thirds of the collection costs, Recology's piece is not 100%. The other 37% are all of the other contracts we talked about during the budget presentation. He then went over the timeline and the individual Member Agency City Council presentations, and noted by December 31, 2017 there needs to be at least 8 of the Member Agency with signed agreements.

Menlo Park present at 2:03PM

Member Brownrigg commented that his City Council colleagues in Burlingame were not going to be able to react to an in-depth discussion, so he suggested not casting as seeking guidance, but to put as more factual, and suggested costs per capita per city by region.

Member Aguirre added that the lay version “what is your city gaining from this” presentation.

Vice Chair Bronitsky jumped ahead and asked about the slide the noted a 14% increase between now and 2021, and asked for a discussion around smoothing that increase in over time so there isn’t a huge increase in 2021.

Counsel Savaree answered that the decision on how to handle the increase will be handled at each individual agency.

Member Widmer commented with the drop in depreciation in year 10 of the current contract it’s actually a 20% increase over what was expected, and two step increases is not smoothing. He commented that depreciation should happen at the time of purchase.

Executive Director La Mariana noted that Bob Hilton will address the depreciation issue during his presentation. He added that there are strategies that can smooth the transition, and Bob Hilton will discuss those later. He then finished his portion of the presentation by going over some of the deal points and concessions of the negotiation.

Member Widmer asked for clarification that the staff report says initial true-up, but the presentation said no true up.

Executive Director La Mariana answered that there was a request form Recology for a cost true up between now and 2021, and the FAX Committee did not agree to that true up. The word true up was used two different ways and, in this discussion, the term has been used for the difference between rate year 20 and rate year 21.

i. Financial Review by HF&H Consultants

Bob Hilton of HF&H Consultants then continued the presentation giving a financial overview and context. Bob Hilton then shared the results of negotiations for the Model Agreement.

- No changes to core collection services
- Capping Bulky Item collections to a SBWMA service area-wide cap of 150 appointments per day (currently, we’re averaging about 120), and then a meet and confer will occur if 140+ appointments per day are booked to determine whether a relaxed service appointment day is acceptable, or provide additional resources to Recology to increase the number of collections.
- Capping SBWMA service area-wide abandoned waste collection appointments at 30 per day. If this number is exceeded, a meet and confer discussion will occur between Agency staff and Recology similar to bulky item collection procedure identified above
- “Mixed Use Building” Services, the residents would receive the residential services the same as a multifamily development, and the commercial accounts would receive commercial services
- Streamlined reporting to make it more efficient
- Liquidated Damages agreed to let Recology appeal to a Member Agency if their performance standard wasn’t achieved because of an extraordinary circumstance
- Diversion Level Performance Incentives/Disincentives based on a diversion level for the prior 5 Years, and limited at \$100,000 annually
- Quarterly contamination audits have been eliminated
- The Member Agencies, the SBWMA and Recology would put together a public education and recycling technical assistance 3-year plan to manage changing circumstances and regulations in the service area

- Annual allocation adjustment process eliminated

Member Benton asked about the daily cap in bulky item collections, asking if it was a reduction, and why it was asked for.

Bob Hilton answered that it is a 25% increase from our current volumes, and it was asked for because when they estimated bulky item collections when they proposed the contract Recology proposed 450 bulky items per week, and estimated costs based on that level of support, as it is now the company is providing an average of 750 bulky item collections per week about 120 per day. The cap at 140 per day will trigger a meet and confer to decide if additional resources will be given to the company or additional time considerations will be given.

Member Brownrigg commented that SBR was purchased by Recology, and he asked if the SBR financial piece was reviewed regarding the financial return.

Bob Hilton answered no, this scope of work only includes the collection agreement, therefore, that is all that was looked at.

Member Carlton asked how many times Recology has gone over the cap.

Executive Director La Mariana answered once very early on in the contract.

Bob Hilton then highlighted the financial aspects of the contract.

- No "True Up" during Current Agreement term
- 2021 compensation reflects actual costs in 2016 projected forward, plus CPI and vehicle replacement, and Recology will be taking some risks
- Allocations will no longer be SBWMA wide. In 2021 each agency will be responsible for the CPI adjustment and growth in their own agency
- 2021 costs will be adjusted for changes in fuel price and changes in subscription level. Recology is taking the risk that the assumed increases in their 2021 number are right
- Agency retention of billings net of compensation and disposal/processing costs
- The only exhibit Q fee added is a relocation fee which requires Recology to provide a special truck that pulls a bin out to the street for service and then put the bin back when service is complete
- Vehicle Replacement Plan to meet and confer by 2023, to look at technology, policy and regulations before determining what kind of vehicles will replace the existing fleet
- There is a notable cost savings benefit to the Member Agencies by extending the term to 15 years.
- Provision for One Extension of Up to 5 Years
- Moving to Regional vs. Current National Indices which are more appropriate to costs here
- There is an adjustment in compensation for change in subscription level using 3 year rolling average to smooth out changes
- 5% cap on annual change in contractor's compensation,, and if the number gets to 10% of contractor's base compensation the parties will meet and confer on how the Member Agencies will make them whole
- Sharing 50/50 the increase in depreciation costs up to \$700,000, to cover the increase, with maximum exposure to the Agency capped at \$350,000. Recology bears all risk beyond \$701,000.
- In 2026 or 2027 the actual vehicle

- Adjustment will happen after vehicles are purchased

Member Aguirre asked regarding the added relocation fees if there were a lot of accounts requiring this service.

Bob Hilton answered not now, but a lot of the new growth are these types of buildings--where the parking is underground and the bins are kept underground and, therefore, need to be brought to street level to be serviced.

Member Widmer commented that he thought the 5% rolling cap on change in annual contractor's compensation was too low, and it should be closer to 10%. He thought at the end of the contract there would be a big number, and it wasn't clear how the number gets resolved.

Bob Hilton answered that the contract requires that once the number gets to 10% you're required to meet with the company and balance those costs. This is to meet the TAC's need for rate predictability and stability rather than having an automatic adjustment for changes in the indices plus growth.

Member Benton asked for clarification on vehicle depreciation, and asked if the initial contract price will include depreciation for vehicles that have already been depreciated or will be depreciated in the future, and he asked if Recology would be getting the benefit of income against which there is no expense.

Bob Hilton stated that the depreciation at the beginning of this contract is for vehicles that will be purchased in the future. The current contract has a 9 year depreciation schedule, the final year of the current contract doesn't have any depreciation in it, so some of the depreciation expense that will be incurred in 2021 was moved forward to 2020 for the replacement fleet. Depreciation will be paid on an estimate and then adjusted for the actual costs in approximately 2026.

Member Benton reiterated that this gives them reimbursement that they are not otherwise entitled to under the current contract.

Bob Hilton answered that it could be looked at that way, or it could be looked at as a smoothing of the compensation increase and preventing a very large increase that would happen otherwise. It seemed a reasonable strategy to phase in the increased costs in compensation.

Member Carlton suggested making a reserve fund to deal with the step rather than paying Recology before depreciation is due. She asked how it would benefit the Member Agency's to pay out money ahead of when it is due.

Bob Hilton answered that you could do that, but we're adjusting to the actual costs and Recology is taking the risk.

Member Carlton disagreed that it was not an actual cost, because it's an estimation and then adjusting many years later.

Bob Hilton said it would be adjusted in 2026 based on the actual costs at that time.

Member Carlton asked if the money had to be paid at the time or could a structure where the money is on our books until necessary.

Bob Hilton assured the board that you're not paying more money than is due. You are paying depreciation over 16 years instead of 15, but it's the same depreciation amount.

Bob Hilton went over the details of the Sloan/Vazquez and Ron Proto review of actual costs.

Member Brownrigg asked what profit margin was assumed when costs were being assessed for fairness.

Ron Proto answered that only the total cost of operations was looked at, it didn't include profit. It was a costs to costs comparison.

Member Widmer commented rates to rates should have been the comparison. He also added that he would like to see a closer look at paying up front for depreciation on vehicles not yet purchased.

Bob Hilton showed a slide explaining the difference in costs with the roll forward depreciation and without. He noted that the last year of the existing agreement doesn't have any depreciation in it, so some of the depreciation expense that will be incurred in 2021 was moved forward to 2020, otherwise in 2020 the rates would go down about 7%. He then explained the anticipated base contractor's compensation adjustments with the roll forward and without. Without the roll forward, in 2021 the rate would go up by 24.9% for a 10 year term, and for a 15 year term by 21.9%. With the roll forward instead of a 7% reduction in 2021 there would be a .5% increase in 2020 and a 17% increase in 2021 with the 10 year term, and for a 15 year term there would be a 2.4% increase in 2020, and a 10.9% increase in 2021. He added that the additional value from the 15 year and the roll forward is what made the FAX committee recommend the 15 year term.

Chair Grassilli asked what the increase was going to be in 2021.

Bob Hilton answered that it is estimated to be 10.2%, and that the base contractor's compensation makes up about 60% of what is in a rate to the customer, and added that at the workshop on Wednesday, the numbers will be gone over at a more detailed level.

Member Benton commented that the key number is the \$65.3M, and asked for background as to where that number came from.

Bob Hilton answered that the intent was to give a summary, and then more details will be given at the workshop on Wednesday.

Member Benton prefaced his remarks by noting that Recology is a great company, and have provided a great service to our Agency, but asked the question "do we extend or go out to market"?. He disagreed that the Member Agencies wouldn't save money if they did decide to go out to bid. He wanted to be sure that the \$65.3M number was fair to his rate payers.

Bob Hilton noted the benefits of the Recology deal to the rate payers. He noted that Recology has taken the risk on CBA negotiations greater than CPI, if there was a bid process every company bidding would have the same wages and benefits and they would propose those costs as a pass through. He also listed some other benefits of the Recology proposal:

- Benefit of useful life of the collection fleet 2-3 years longer with current fleet, if there was a bid process there would be all new vehicles
- Carts not automatically replaced, if there was a bid process all the carts would be replaced
- With a new contractor there would amortization of implementation of the new contract.

He added that when you look at the big cost factors it becomes hard to see how a new bid would be lower.

Member Benton commented that he is concerned about optics, over 15 years this a billion dollar public contract, so he wants to be absolutely sure at a very significant level.

Member Aguirre asked how many contracts are 5 year extensions, would that even make sense.

Bob Hilton answered that a 5 year contract would not be a bid contract, that wouldn't be cost effective. Sometimes agreements are extended 3-5 years, but as you get toward the end of the extension the vehicles have to be replaced and, that around 12-13 years, the cost of maintenance for these vehicles gets higher than the cost of replacement. And, given the cost of vehicles, shorter term contracts are hard to do.

Chair Grassilli reminded the Board that the last time the Board was making this decision it was a staff Board, and elected officials were not part of the decision making process, and he thought with more questions and a more thoughtful process was a better way to go.

Member Aguirre reminded the Board that the results of the last process is what prompted the Board change at the SBWMA to elected officials.

ii. Recology Presentation

Mario Puccinelli then gave a Power Point presentation. He thanked the Board for the opportunity to speak. He thanked Executive Director La Mariana and Staff Gans, and the HF&H and Negotiation team for the professional negotiations, and he thanked the Recology team for their hard work and dedication. He commented on why Recology and why this deal, noting that the Member Agencies will continue to reap the benefits of the efficient work Recology is doing, it is still a fixed cost contract not a cost plus contract. He concluded the presentations with how this contract will meet the goals of the TAC and FAX Committees:

- Rate Setting Stability and Predictability
 - Shared Inflation Risk on Vehicle Purchases
 - No Inflation Risk to MAs on CBA Wages & Benefits
- Simplified Rate Setting Process
 - Fixed Allocations
- Clear Performance Measures and Tracking
 - Collaborative Public Education and Technical Assistance Plans
- Long-Term Cost Projections
 - CPI Based Contract
 - Continued Cost Savings from Collection Efficiencies
- 15-Year Term
 - Extended use of Collection Vehicles
 - Lower Annual Depreciation Costs
- 5.9% Projected Increase in Operating Costs. He then noted that this amount was adjusted during an earlier part of today's presentation.

iii. Q&A Session

Chair Grassilli noted that there is a lot of detail, and he encouraged Board Members to attend the workshop next week to work through the details.

Executive Director La Mariana noted that it is a supreme challenge to present the complex and nuanced information to you in a meaningful way, and each person comes at it from different levels. He asked the Board Secretary to notice the workshop as a Board Meeting in case more than 6 Board Members wanted to attend the workshop. He also noted there would also be a second version of the workshop intended for the member agency's Attorneys and County Counsel and that this workshop date would send it out to the Board as soon as confirmed.

Member Dehn asked if was feasible to come for part of the workshop.

Executive Director La Mariana answered yes.

Member Benton commented that it would be helpful to have projected start times for each agenda section so Board Members could arrive at the approximate time for the parts of the discussion they wanted to be a part of.

Executive Director La Mariana noted that they would try to do that.

Executive Director La Mariana then also thank the Recology negotiating team, noting he had neglected to introduce them at the beginning of his presentation which was inadvertent on his part.

Member Brownrigg commented that there is only one number that matters, and that is the stair step at the end of this contract, and how much it should step up, and if everything stayed the same there would be a 15-17% uplift. He noted that one, if there is going to be a stair step every so often any gain you have from a fixed cost contract evaporates, so it might as well have been cost plus. Two, he didn't believe that Recology is or would be losing money, and didn't believe in a proforma without a profit margin built in, and something in the underlying analysis didn't add up to him, and if it were that un economical then you wouldn't see the counter party agreeing to a 15 year term. So he thinks there is a lower number that would be fair. Three, if this were such a great deal over the last 10 years then our rates would not be at the median for the peninsula, and if you raise compensation and, therefore, rates by 15% our average gets into the 75-80 percentile for the bay area. He concluded that it feels like a big jump, and he wants to feel good about that jump to say this is why we sole sourced the next 15 years of our service.

Member Widmer commented that he would like a shorter extension considered.

Chair Grassilli commented that there are going to be 12 different opinions so we all have to talk to our councils and when it comes to a vote every agency has to do their own due diligence and their own study because we won't all agree.

Member Benton noted that he was disturbed by Chair Grassilli's comments. He noted he thought this SBWMA Board's job was to come up with an agreement that then can go back to our individual Councils with and have comfort with asking our councils for support.

Chair Grassilli noted that the 12 of us are not going to re-negotiating a deal.

Executive Director La Mariana commented that the purpose of the workshop is not to renegotiate but to educate, and provide a level of detail that provides comfort for the public decision making process. And if there is not comfort then the negotiation team needs to go back.

Chair Grassilli asked when that part is finished it comes to the individual councils and it won't be renegotiated at that time.

Staff Gans reminded the Board that staff is available to answer questions even if you can't make the workshop.

7. Shoreway Operations and Contract Management

No Items

8. Informational Items Only (no action required)

- A. Franchise Agreement Extension Discussions Calendar
- B. March 2017 Check Register Detail
- C. 2018 Finance and Rate Setting Calendar
- D. Technical Consulting and Professional Services Agreements for First Quarter 2017
- E. Future Board Agenda Items

9. Board Member Comments

Chair Grassilli commented that the Board learned a lot today, and thanks Executive Director La Mariana and Mario Puccinelli for their leadership in the process.

Member Benton commented that he remembers that Mario Puccinelli was working 24/7 during the last transition, and noted that Mario's leadership made the conversion go as it did.

10. Adjourn 3:37PM