



A Public Agency

EXECUTIVE DIRECTOR'S REPORT

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Date: June 27, 2019 Board of Directors Meeting
Subject: Executive Director's Report

Staff and Agency partners are currently operating in a period of extreme high volume supporting numerous critical path projects, programs and facility initiatives since our last Board meeting. Here are highlights:

1. Administration & Finance:

a. Bond Refunding/Refinancing—*11 of 12 Member Agencies have approved; market dates now set!*

Staff and the Finance Team have now provided the intense, final technical and legal reviews of the issuance docs. On May 30th, the SBWMA's executive team (myself, John Mangini and Hilary Gans) provided comprehensive presentations to senior rating analysts from Moody's and Standard & Poors to establish the Agency's ratings for the bonds sale. Also attending and providing significant support to this process was Board Chair Jay Benton, Agency Attorney Jean Savaree and the KNN team. Thank you, Jay and Jean! The Agency's financial profile, operational statistics and organizational structural review were presented in two, three-hour sessions at the Shoreway facility with accompanying site tours. These two firms evaluate the Agency's financial position, market strengths and establish our ability to pay back our new debt obligations in this transaction. The higher the rating, the better the terms!

We have just learned that S & P assigned the SBWMA an A+ rating and Moody's assigned an A1 rating. KNN advised staff that both ratings are considered top-tier in our industry and is directly indicative of the Agency's strong Board leadership, staff management and excellent contractor performance over the years. Both rating agencies acknowledged the SBWMA's strong financial position, responsible payment history, strong Board and staff leadership, major contract stability (franchise agreements, disposal contract, etc.), and the SBWMA's joint powers authority/materials flow control model. (S&P and Moody summaries are in **Attachment A**). This confirmation is about as good as it gets folks so thank you to each of you who help move our program forward!

"Green Bonds": At Board and Finance Committee request, the 2019A Bonds will be proudly marketed as "Green Bonds" thanks to the vigorous environmental benefits that our Agency will deliver with the transaction proceeds (as verified by 3rd party auditors, Kestrel Verifiers). While there is no direct financial benefit to this rating, by marketing our bonds as "Green Bonds" the SBWMA is expected to indirectly benefit from this certification by creating much more favorable selling conditions in the bonds marketplace because many "Green Fund" fund managers are required to invest only into qualified issuances, thereby, creating a more favorable "supply/demand" scenario for the Agency. Our Finance advisors, KNN, have also advised staff that our Green Bond issuance is a first for the solid waste industry and in our County. (See Green Bond summaries in **Attachment B**). Once again, the SBWMA proudly leads the way!

One final note-on June 4th, the County of San Mateo's BOS provided the 11th approval of the Bond issuance.

Here are the (very few!) remaining milestones:

1. **June 24:** **Final Bond Pricing established—rates are locked**
2. **June 27th:** **SBWMA Board Meeting.** Staff reports out on transaction results to date.
3. **July 15th:** **Bond Closing.** Refunding transaction complete Series 2019A Bonds secured.
4. **September 1st:** **Final 2009A Bond Maturity Date** 2009A Bonds are paid off. Transaction is complete,

b. 2020 Long Range Plan (2020 Plan) Update—New Period: 2020-2024

Today's Board meeting will represent the 10th input session in the development of this crucial legacy document. The 4th draft version is Agenda item 5B for your review and discussion. Based on Board feedback, Staff expects to bring a final 2020 Plan document back to the Board for its final consideration on September 26th (or November 21st as a fallback date) to meet a desired January 1st, 2020 implementation date. We hope that you find this highly abbreviated 37-page version to be substantive and a bit easier read than the 250-page (including attachments) 2015 plan. I must acknowledge our Management Analyst extraordinaire, Grant Ligon's, extraordinary efforts in managing the process, working closely with the graphic designer to meet all project deadlines, as well as writing and organizing the bulk of this document. This was one heck of a lift for Grant, considering he just joined the RethinkWaste team on March 4th. Sure glad you joined our team Grant!

c. Administrative/Financial Services Contract Transition--Effective July 1, 2019

Along with his many other responsibilities, Sr. Finance Manager, John Mangini, continues to work closely with the terrific San Carlos and Redwood City finance teams to ensure a responsible and orderly transfer of these vital administrative services over to Redwood City per the new contract. John is working with each team's weekly punch list to execute the incremental steps necessary to facilitate this transition. We're currently working on the new banking system procedures and performing systems checks. With John at the helm, we're in very good shape.

d. Major Grants—Game on!

Although formally approved on April 30th, Staff is working with CalRecycle to facilitate the actual \$3M funding transference per the terms of the grant agreement. We're right on track to date.

On June 4th, the San Mateo County Board of Supervisors formally approved the Office of Sustainability's \$1M grant for the OREX Organics-to-Energy press and Staff is working on the actual funding transference per the terms of that agreement too. Many thanks to SBWMA Board member and BOS President Carole Groom, the OOS team of Jim Eggemeyer, SBWMA TAC member Danielle Lee and SBWMA Alternate TAC member Gordon Tong, for their vision and financial commitment to staunchly support this project. It's a real privilege working with your team as we jointly advance the green movement in our County. United we stand!

Led by the endless energy of Sr. Facilities and Contract Manager, Hilary Grans, Staff is actively working with our new Grant contractor, Momentum, (recently renamed from "The Grant Farm") to secure sales tax exemptions on our anticipated new (big-ticket!) recycling processing equipment, as well as aggressively seeking additional funding opportunities for our anticipated full-scale Organics-to-Energy scale-up in 2022-2023. As Board Member Bill Widmer once said, "if other people want to give us money, we'll gladly accept."

2. Committee Updates:

a. Finance Committee Meeting (June 12th – conference call)

At Executive Committee direction, the Finance Committee was convened to review FY19/20 Shoreway site property and fire insurance premium deductibles options. Committee members provided consensus support (via straw poll) for the Board to consider (today's Agenda item 4H) adjusting the FY19/20 Property and Fire Insurance policy deductible levels from \$500,000, which was approved on May 23rd, to \$1,000,000. The Committee also expressed a strong desire to direct the anticipated \$114k in annual premium savings into the SBWMA's Emergency Reserve account balance. The Emergency Reserve currently has \$4.5M balance.

b. Legislative/Regulatory Committee (June 4th--Executive Committee Mtg)

Agency co-sponsored AB 1509 (Mullin) will next be heard in the Senate Environmental Quality Committee on July 3rd. Staff has been working with EEC and co-sponsors and authors on new language to further define the scope of the bill. Per Senate staff direction, new amendments are being made before the bill's next hearing. Agenda item 9A provides details of bills that our legislative advocate, EEC, is currently tracking on our behalf.

c. Pub Ed/Outreach Subcommittee (*no meeting held*)

d. Technical Advisory Committee (*June 6*)

Agency contractor Ascend Environmental reported out on the upcoming CalRecycle annual reporting process that they perform in support of our ten member agency cities. A draft of the Long Range Plan (2020 Plan) was reviewed and input was provided to staff. The highly-anticipated SB 1383 regulations and implementation timeline received spirited discussion. Senior Sustainability Coordinator Eun-Soo Lim presented San Mateo County Office of Sustainability's proposed Disposable Food Service Ware Ordinance. Although this exciting waste reduction/source reduction initiative initially targets food service businesses in the unincorporated County areas, it is hoped that all 10 other SBWMA member agencies (West Bay Sanitary District does not apply) immediately adopt similar ordinances to create a plastic disposable food ware free zone throughout our County. You can learn more with this link:

https://www.rethinkwaste.org/uploads/media_items/060619-tac-8-disposable-food-service-ware-ordinance-ppt.original.pdf

e. Zero Landfill Committee (*No meeting held*)

3. Collection and Recycling Program Support and Compliance:

a. Franchise Agreement Member Agency Approvals—Our 11th Approval!

The County of San Mateo approved their Franchise Agreement on June 4.

b. Franchise Agreement "Amendment One" Process—June Board Meeting

See agenda item 6A for more info.

4. Shoreway Operations and Contract Management

a. Organics-to-Energy Project

The CalRecycle-funded OREX Press that previously resided at Recology's San Francisco facility was transferred by Anergia to the Shoreway Transfer station in May. Staff, SBR and technical partner, Anergia, are in full throttle mode to prep the site, reassembling and installing unit, and ordering/installing the necessary ancillary equipment to be fully operational by calendar year-end. Really exciting times ahead!

5. **MRF-Phase I improvement:**

With Board approval today (Agenda items 7A, 7B and 7C), Staff, SBR management and Bulky Handling Systems (BHS) are also in full "go" mode with the massive Design and Engineering project for MRF-Phase 1 set of projects, as well as other necessary routine equipment replacement projects due to normal wear and tear and electronic obsolescence.

To handle the significant influx of projects, we have initiated an internal Facilities Procurement and CIP team to track all aspects of these multiple projects. The team will continue to meet weekly and consists of myself, Hilary, Grant, Kai Ruess (agency attorney) and, when necessary, John Mangini. A Construction Management contract with Tanner Pacific is also on today's agenda for Board consideration (Agenda item 4C) to provide critically important services in support of these numerous projects.

Whew!

Respectfully submitted,



Joe La Mariana
Executive Director

Attachments:

Attachment A - Standard & Poors and Moody's Rating Summaries

Attachment B - Green Bonds—Second Party Verification Report (Kestrel Verifiers)



Rating Action: Moody's assigns A1 to South Bayside Waste Management Authority, CA's Series 2019A and 2019B solid waste enterprise revenue bonds

14 Jun 2019

New York, June 14, 2019 – Moody's Investors Service has assigned an A1 rating to South Bayside Waste Management Authority, CA's Solid Waste Enterprise Refunding Revenue Bonds (Shoreway Environmental Center), Series 2019A (Non-AMT) and Solid Waste Enterprise Revenue Bonds, (Shoreway Environmental Center), Series 2019B (AMT). The par amount of the Series 2019A bonds is estimated at \$35.2 million, with the Series 2019B bonds expected to be issued in the approximate amount of \$18.6 million. The Series 2019A refunding bonds will refinance all of the Authority's outstanding long-term obligations, which consists of the Series 2009A solid waste enterprise revenue bonds. Moody's has affirmed the A1 rating on the Series 2009A bonds of which approximately \$44.7 million are outstanding.

RATINGS RATIONALE

The A1 rating reflects stable, somewhat narrow debt service coverage levels enhanced by the presence of a rate stabilization fund expected to equal over one-year of annual debt service at the time of closing, a wealthy service area with modest growth, and tipping fees that remain affordable and competitive for the area. The rating also incorporates the Joint Powers Agreement with the authority's 12 members, under which they are obligated to direct all solid waste, recyclables and other materials to the authority, providing close to 80% of the authority's waste stream. These agreements have recently been renewed until 2034 with 11 of the 12 members. Should a member withdraw, their obligation for debt service continues as long as bonds are outstanding, requiring a proportional payment.

Collection services, operations of the Shoreway Environmental Center material recovery facility, and disposal services are all provided under outside contracts, somewhat reducing uncertainty on future operational costs. The rating, however, takes into account the vulnerability of the authority's revenues to potential competition for non-franchise waste disposal as well as declines in market prices for recycled materials, which accounted for 15% of operating revenues in fiscal 2018. Recycling revenues have generally declined, with the price for mixed paper falling especially sharply, by 90%, following China's import ban in October 2017.

RATING OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Sustained higher levels of annual debt service coverage in line with projections of around two times
- Significant and sustained increase in cash reserves or additions to rate stabilization fund
- Increase in volumes and price of recycled materials

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Material decline in debt service coverage
- Erosion of cash reserves or significant draws on rate stabilization fund
- Continued and significant declines in recyclable sale revenue
- Substantial drop in waste volumes

LEGAL SECURITY

The revenue bonds are secured by net revenues of the authority's regional solid waste management system as defined under the Indenture. The bonds are additionally secured by a reserve fund, funded from the existing 2009A bonds' debt service reserve fund and a portion of bond proceeds and equal to the traditional, three-pronged test. The rate covenant requires that rates be set sufficient to provide 1.4x debt service in any calendar year. Of note, the authority is working toward moving their current June 30th fiscal year to a calendar year to coincide with this covenant. The Indenture also allows for the maintenance of a rate stabilization fund but does not establish a minimum balance requirement for this fund. The additional bonds test requires 1.4x coverage of the highest amount of principal and interest on all outstanding parity obligations, but includes an allowance for additional revenues from rate increases.

USE OF PROCEEDS

The Series 2019A refunding bonds will refund the \$44.7 million in outstanding Series 2009A bonds for net present value savings of close to 18% inclusive of a six-year extension in debt repayment. . The Series 2019B bonds will finance \$15.6 million in improvements to the material recovery facility including optical and robotic sorting equipment, provide \$1.25 million toward an organics-to-energy pilot project, and finance \$3.17 million in other improvements to the Shoreway Facility.

PROFILE

South Bayside Waste Management Authority is a joint powers authority formed to own, finance, and administer the solid waste facilities on behalf of its member agencies and provide solid waste and recycling collection services within its service area. Member agencies include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo; West Bay Sanitary District; and portions of unincorporated San Mateo County. The Authority's board consists of one elected official from each member agency, and no members individually control any of the Authority's activities. Accounting services are provided by the City of San Carlos.

Under franchise agreements with Recology to collect solid waste and recyclable materials, each member agency sets service fees charged to their customers at a level sufficient to fund their share of the combined operation. Recology collects these service fees and remits a portion of them to the Authority for the processing and disposal of collected materials. South Bay Recycling is paid by the Authority to operate its facilities (the Shoreway Environmental Center in San Carlos). SBR also collects fees from self-hauling customers, which are remitted to the Authority. Compensation by the Authority of these two contractors is adjusted annually based primarily on cost indices. The Authority also pays directly for disposal and processing of solid waste and organic materials to various vendors.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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Summary:

**South Bayside Waste Management
Authority, California; Solid
Waste/Resource Recovery**

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Rationale

Outlook

Summary:

South Bayside Waste Management Authority, California; Solid Waste/Resource Recovery

Credit Profile

US\$35.245 mil solid waste enterprise rfdg rev bnds (shoreway envir ctr) ser 2019A due 09/01/2042

Long Term Rating A+/Stable New

US\$18.575 mil solid waste enterprise rev bnds (shoreway envir ctr) ser 2019B dtd due 09/01/2031

Long Term Rating A+/Stable New

South Bayside Waste Mgmt Auth SLDWSTRES

Long Term Rating A+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to the South Bayside Waste Management Authority, Calif.'s series 2019A solid waste enterprise refunding revenue bonds and series 2019B solid waste enterprise revenue bonds. In addition, we affirmed our 'A+' rating on the authority's outstanding bonds. The outlook is stable.

The rating reflects our views of the solid waste system's exceptionally strong enterprise risk profile assessment, characterized by its:

- Deep and diverse service area economy in the San Francisco-Oakland-Hayward metropolitan area, which is characterized by above-average incomes (median household effective buying income [MHHEBI] at 170% of the U.S. average) and below-average unemployment (2.7% in 2018);
- Low industry risk as a contractual monopolistic service provider of an essential public utility;
- A weighted average monthly household waste fee of about \$31.44, and tipping fee rates of \$42 per cubic yard, which we consider affordable; and
- Good operational management assessment (where we view the system as a '2' on a six-point scale with '1' being the strongest and '6' the weakest), which, in our opinion, implies overall alignment among the system's operational characteristics and that its management strategies are sufficient and embedded, as well as very conservative. Highlights include regular rate increases in recent years.

The rating also reflects our views on the strong financial risk profile assessment reflected by:

- A history of adequate coverage levels;
- A good liquidity position with available cash and investments totaling \$17.0 million or 136 days' cash on hand;
- An above-average debt burden with a debt-to-capitalization ratio of 72.6%; and
- A good Financial Management Assessment, which indicates that the finance department maintains comprehensive policies in most, but not all, key areas. We view the system as a '2' on a six point scale with '1' being the strongest

and '6' the weakest.

The bonds are secured by a senior lien on net revenues of the authority.

Just south of San Francisco and including the northern portion of Silicon Valley in San Mateo County, the authority's members serve over 440,000 residents, according to management. MHHEBI for the county is 170% of the national level. The county's 2018 unemployment rate was 2.7%, according to the Bureau of Labor Statistics.

The authority currently serves 12 cities and towns, and unincorporated portions of San Mateo County. Membership in the authority requires participants to have the legal ability to issue franchises to waste haulers, and requires waste to be delivered to the transfer station and recycling facility. The authority negotiates a master contract with waste haulers on behalf of its members. However, each member has signed its own individual franchise agreement with Recology Inc. (f/k/a Norcal Solid Waste Systems Inc.). The authority's system includes a transfer station and recycling facility. The authority transitioned to South Bay Recycling for the operations of these facilities. Both companies replaced Allied Waste, with both agreements starting in 2009 and expiring at the end of 2020. The authority recently renegotiated the Allied Waste's Ox Mountain Landfill long-term disposal contract, which limits the authority a maximum annual rate increase to 5% but will change from 80% of the consumer price index (CPI) to 100% of CPI. The new contract expires in 2029, although there are up to six years of extensions available.

Growth of diversion programs has increased the authority's reliance on revenue from the sale of recyclable materials, which has declined in recent years, in terms of revenue. However, the new-money portion of the series 2019 bonds will fund improvements at the facility--mainly optical scanners, which are expected to improve the quality of the output and thereby increase recyclable sales. Annual debt service coverage from operating revenues was 1.09x in fiscal 2018. Although host fees paid to the city of San Carlos are subordinate to debt service under the terms of the indenture, S&P Global Ratings factors these costs into its calculation of all-in coverage. In fiscal 2018, the authority had \$17 million in cash, or what we consider a strong 136 days' cash on hand. Management is projecting coverage levels ranging from 1.87x in calendar year 2020 to 2.5x in 2023 when adjusted to remove host fees paid to San Carlos.

The 2019 bond issue will fund improvements to the materials recovery facility as well as an Organics 2 Energy Project. The authority will take organic waste and make a slurry out of it, then tank the slurry to one of two wastewater treatment plans, where it will be converted into methane gas. In addition, the 2009 bonds will be refunded and the maturities will be extended six years to keep the aggregate annual debt service of the series 2019A and B bonds under the \$4.1 million level, where it currently stands.

Outlook

The stable outlook reflects our view of the strong economic base of the service area, and limited competition, which are factors that, in our opinion, support the authority's ability to implement its planned rate increases. Given the recent operating performance of the authority, we expect that recent fee increases will have stabilized operating performance, particularly as it meets its debt obligations. The stability of the rating will depend on the authority's ability to achieve satisfactory coverage of annual debt service by system net revenue, without a recurring reliance on a rate stabilization fund, other reserves, or financing methods. Based on these factors, it is unlikely the rating will change within the next

two years.

Downside scenario

Should coverage and liquidity levels fall to below-average levels and be maintained there, it is likely the rating will be lowered.

Upside scenario

Upward rating movement would depend on ongoing improved all-in coverage (including host fees) and days' cash on hand improving likewise, coupled with a reduction of the authority's debt burden. In addition, successful completion and operations of the projects being funded with the 2019 bonds could lead to a higher rating.

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GREEN BOND SECOND PARTY OPINION

Solid Waste Enterprise Refunding Revenue Bonds Series 2019A (Non-AMT)

Solid Waste Enterprise Revenue Bonds Series 2019B (AMT) ("Series 2019 A and B Green Bonds")

Issuer:	South Bayside Waste Management Authority (SBWMA)
GBP Category:	Pollution Prevention and Control
Location (HQ):	San Mateo, CA, USA
Financing value:	\$53.8 million
Amount evaluated:	100%
Evaluation date:	June 13th, 2019
Contact:	Evan Smith, Lead Technical Verifier, Kestrel Verifiers +1 530.919.9162, evan@kestrel-inc.com

TRANSACTION OVERVIEW

South Bayside Waste Management Authority ("SBWMA") plans to issue \$53.8 million in Solid Waste Enterprise Revenue Bonds Series 2019 A and B Green Bonds.

This Second Party Opinion reflects our view of the SBWMA's project and financing, allocation and oversight and conformance of the bonds with the Green Bond Principles.

The Series 2019A bond proceeds will be used to refund the Series 2009A Bonds previously issued by South Bayside Waste Management Authority. Funds from the Series 2009A Bonds were used to design and construct major upgrades to the Shoreway Environmental Center, including a new materials recovery facility and 2700 solar panels that power 100% of recycling operations.

The Series 2019B Green Bonds will be used to fund new waste diversion and waste-to-energy projects at the Shoreway Environmental Center.

In our opinion, the Series 2019 A and B Green Bonds to be issued by SBWMA are aligned with the Green Bond Principles 2018.

INTRODUCTION

South Bayside Waste Management Authority (“SBWMA”), also known as ReThinkWaste, is a joint powers authority of twelve public agencies in San Mateo County, California. The organization is a recognized leader in the delivery of innovative waste reduction and recycling programs.

The primary goal of SBWMA is to provide cost-effective waste reduction, recycling, and solid waste programs to member agencies through franchised services and other recyclers to meet and sustain a minimum of 50% diversion of waste from landfill as mandated by California State Law, AB 939.

SBWMA owns and manages the Shoreway Environmental Center, which serves as a regional solid waste and recycling facility for the receipt, handling and transfer of refuse, recyclables and organic materials collected from the service area.

SBWMA has established goals that support a low-carbon trajectory, including the “Triple-Zero” goal as defined by the California Air Resources Board—zero recyclables to the landfill, zero organics to the landfill, and zero net greenhouse gas emissions in operations. To achieve its sustainability vision, SBWMA has established sustainability targets to reduce waste by 75% by 2025. These targets are aligned with California State Law SB 1383, which requires SBWMA to divert 50% of organic matter from landfills by 2020, and 75% by 2025.

SBWMA has developed a green bond framework under which it plans to issue the Solid Waste Enterprise Refunding Revenue Bonds Series 2019A (Non-AMT) and Solid Waste Enterprise Revenue Bonds Series 2019B (AMT) green bonds, otherwise known as the “Series 2019 A and B Green Bonds.” This green bond framework has been published in a separate document entitled, *South Bayside Waste Management Authority Green Bond Framework*.

SBWMA plans to issue these bonds and use the proceeds to finance and refinance expenditures related to (i) waste collection, (ii) waste treatment, (iii) waste-to-energy/production of waste-derived fuels, and (iv) waste recycling.

SBWMA has engaged Kestrel Verifiers to provide an independent second party opinion on the alignment of the Series 2019 A and B Green Bonds with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”), and to the United Nations Sustainable Development Goals (“SDGs”). Kestrel Verifiers is an Approved Verifier, as per the Climate Bonds Initiative, for green bonds and Climate Bonds. The Kestrel review team included a waste management specialist.

As part of this engagement, Kestrel Verifiers reviewed the green bond framework, examined public and non-public information, and interviewed members of SBWMA’s management and finance teams. Our goal was to understand sustainability impacts of the business, planned use of proceeds, procedures for management of proceeds, and plans and practices for reporting. This document contains Kestrel’s opinion of the Series 2019 A and B Green Bonds and should be read in conjunction with SBWMA’s green bond framework for this bond issue.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY’S SUSTAINABILITY STRATEGY

Kestrel believes that the South Bayside Waste Management Authority has a strong sustainability strategy supported by a robust governance structure. SBWMA’s goals and commitment to zero waste are supported through its “Zero Waste Committee” governance structure and “Triple-Zero” goal, defined as:

- zero recyclables to the landfill,
- zero organics to the landfill, and
- zero net greenhouse gas emissions in operations.

To achieve its sustainability vision, SBWMA has established sustainability targets which include:

- (i) increase recycling and recovery rates thus reducing waste by 75% from 2014 levels by 2025 (currently at 50%);
- (ii) reduce organics going to landfill by 75% by 2024 and 50% by 2022 from a 2014 baseline; and
- (iii) landfill no more than 10 percent of readily recyclable or compostable materials by 2020 (i.e., a 90% capture rate).

SBWMA’s Core Values also drive the organization toward sustainability. These include:

1. Implementing waste reduction, recycling and environmental education programs which is seen as paramount to achieving a greater resource conservation ethic and sustainable communities.
2. Delivering high quality, and cost-effective resources and services for customers, and vendors and service providers.
3. Providing sound environmental policies and practices for member agency communities.
4. Conducting long-term planning for waste reduction and recycling programs and facility infrastructure, which is fundamental to achieving the organizational mission.
5. Facilitating excellent communication, collaboration and cooperation among all stakeholders.

PROJECT DESCRIPTION

The Series 2019 A and B Green Bonds offering consists of two parts. The first part under Series 2019A, is a refunding of SBWMA’s tax-exempt solid waste enterprise revenue bonds, Series 2009A, which were used to fund improvements to the (existing) Shoreway Environmental Center. These improvements included: a new 70,200 sq ft materials recovery facility (MRF) to process single-stream recyclables; a 14,780 sq ft expansion of the existing 62,000 sq ft transfer station building to increase unloading spaces for public customers and improve capacity to handle organic waste; a new environmental education center housed in the MRF with museum-quality exhibits promoting resource conservation and SBWMA programs; a new public recycling center for free-drop off; and a buy-back center for bottles and cans.

The original use of proceeds also acquired and put into service 2,700 solar panels to produce 100% of electricity demand at the Shoreway Environmental Center. The modern equipment and facilities upgrades that were accomplished with the Series 2009A offering allowed SBWMA to remove 30% more recycling tonnage from the waste stream.

The second part of the debt issuance is the Solid Waste Enterprise Revenue Bonds Series 2019B, which will be used to acquire and install equipment for the materials recovery facility that will improve operational efficiency. These new improvements and the desired uses include the following:

Improvement	Purpose
Optical Sorting Machine	Capture additional cardboard and containers Reduce contamination
Robotic Residue Sorting Equipment/Quality Control System	Increase capture of recyclable materials which are currently disposed
Enhanced Glass Cleanup System	Increase the quality of glass recovered by reducing contamination, thus allowing higher recycle rates
Sort System Upgrades	Meet new paper quality standards for recycling

Improvement	Purpose
Organics-to-Energy Pilot Project	A pilot project to develop a waste-to-energy system and reduce organics going to landfill. Organics and garbage will be transported as a slurry to the anaerobic digester at Silicon Valley Clean Water Wastewater Treatment Plant.

Individually and collectively, each of these improvements is intended to increase the operational efficiency of the Shoreway Environmental Center and move SBWMA toward its “Triple-Zero” goal.

ENVIRONMENTAL BENEFITS

New Sorting Improvements

Studies have shown that effective source-segregated recycling of key waste materials can notably reduce GHG impacts of waste management¹. Higher efficiency of sorting in the Shoreway Environmental Center through use of optical and robotic sorting equipment increases the GHG benefit of diversion from landfills.

Organics-to-Energy Pilot Project

SBWMA will demonstrate an Organics-to-Energy Program by implementing a pilot project. Upon demonstration of a successful Organics-to-Energy Pilot Project, at least 75 tons of organics and solid waste per day will be diverted from the Shoreway Environmental Center, converted to a slurry, and trucked three miles to the Silicon Valley Clean Water Facility where it will be put into anaerobic digesters to produce gas for energy use.

There is a three-fold benefit to SBWMA’s Organics-to-Energy Program, which will be demonstrated with this pilot. First, it will reduce the number of large trucks making the 73-mile one-way trip to the landfill. Second, reduced organics sent to the landfill will result in fewer methane emissions from organic material in the landfill. Third, the resulting biogas energy source will produce 2 MW of continuous base-load power per day. Furthermore, if this pilot is successful and scaled, it is a goal of SBWMA to pipe biogas from the anaerobic digesters back to the Shoreway Environmental Center to fuel the waste management vehicle fleet. The fleet currently uses over one million gallons of diesel fuel per year.

While this project starts small, it has potential to provide clean energy, reduce diesel fuel usage, and reduce methane emissions from landfills. All would represent significant decreases in potent greenhouse gas emissions.

ALIGNMENT WITH GREEN BOND PRINCIPLES

Use of Proceeds

Bond proceeds will be used for “Pollution Prevention and Control,” which is recognized by the ICMA Green Bond Principles as an eligible project category with positive environmental benefits.

Project Evaluation and Selection

SBWMA’s project evaluation and selection process is executed through a dedicated “Zero Waste Committee” supported by the finance committee and the Board of Directors. Kestrel assesses this process as a best market practice due to the active and transparent participation of the Board and management.

¹ David A. Turner, Ian D. Williams, Simon Kemp, “Greenhouse gas emission factors for recycling of source-segregated waste materials,” *Resources, Conservation & Recycling* 105 (2015): 186–197.

Management of Proceeds

SBWMA's management of proceeds is in line with market practices. Net proceeds will be tracked by SBWMA's Finance team and will all be allocated immediately at bond closing. Prior to the expenditure of bond proceeds, funds will be held by a trustee under the bond indenture and can only be invested in the instruments specifically permitted by the indenture. In practice, the proceeds are expected to be invested in U.S. Treasuries, federal agencies, or in a money market fund that invests exclusively in such instruments.

Reporting

SBWMA will make, and keep readily available, up-to-date information on the use of proceeds to be renewed annually until full expenditure. The annual report will include a list of projects to which green bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. So long as the Series 2019 A and B Green Bonds are outstanding, the SBWMA will annually report on the use of proceeds, the currently allocated and outstanding amounts, and provide management confirmation that the use of proceeds of the Bonds is still in alignment with the Green Bond Principles. This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. Kestrel Verifiers will provide a post-issuance Use of Proceeds report, which the SBWMA will post on EMMA.

ALIGNMENT WITH UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

In addition to following the guidelines of the Green Bond Principles, SBWMA also recognizes the United Nations Sustainable Development Goals ("SDGs"). The Series 2019 A and B Green Bonds align with the following SDGs:

- **SDG 9: Industry, Innovation and Infrastructure** sets a goal to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Funding of optical and robotic sorting at the MRF clearly addresses this goal in an environmentally sound way with innovation and increased efficiencies, and by working toward SBWMA's goal of diverting more waste from landfills.
- **SDG 12: Responsible Production and Consumption** sets a goal to ensure sustainable consumption and production patterns. Construction and upgrades at the Shoreway Environmental Center, a Leadership in Energy and Environmental Design (LEED) Certified Gold facility, and increased sorting efficiency addresses this goal by substantially reducing waste generation through recycling.

IMPACT OF USE OF PROCEEDS

All eligible project categories for the use of proceeds—namely (i) waste collection, (ii) waste treatment, (iii) waste-to-energy/production of waste-derived fuels and (iv) waste recycling—are recognized as impactful by the GBP, and Kestrel views the selection of these project categories positively. There are many positive environmental impacts of responsible waste management.

Kestrel is of the opinion that the financing of SBWMA's operations will deliver a significant positive environmental contribution by reducing ground and air pollution thorough reduced landfilling. The manufacture of new products from recycled materials requires significantly less energy in comparison to extraction and processing of raw materials to make new products, therefore an additional environmental benefit is an indirect positive contribution to reduced energy consumption. Similarly, SBWMA's waste-to-

energy pilot will contribute to a reduction in fossil-fuel use and resultant GHG emissions. If the pilot demonstrates success, then SBWMA has potential to annually divert at least 75 tons of organic and other waste for biogas production, power the fleets of SBWMA and its key contractors, and reduce diesel fuel use by up to one million gallons per year.

Responsible waste management also yields clear social and economic benefits in the form of better public health through avoidance of air and water pollution, and new job opportunities in the field of collection and recycling of materials.

Overall, Kestrel believes that the eligible projects under the *South Bayside Waste Management Authority Green Bond Framework* will contribute to improving the environment through responsible waste management.

SECOND OPINION ON GREEN BOND PRINCIPLES ALIGNMENT

South Bayside Waste Management Authority has developed a green bond framework under which it intends to issue the Series 2019 A and B Green Bonds. Proceeds under the framework will be used to finance or refinance green assets and green activities related to (i) waste collection, (ii) waste treatment, (iii) waste-to-energy/production of waste-derived fuels, and (iv) waste recycling. These activities are recognized as impactful under the “Pollution Prevention and Control” category of the Green Bond Principles. SBWMA’s project selection process, management of proceeds, and reporting are also in line with market practices. Based on these tenets and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the GBP.

SBWMA has committed to:

- ☑ allocating the full amount of the net proceeds of bonds to eligible green projects, as defined by the Green Bond Framework;
 - ☑ using clear “green” criteria, as defined by the issuer, to select projects for funding;
 - ☑ managing and tracking proceeds; and
 - ☑ committing to regular reporting of environmental impact and use of proceeds.
-

Kestrel is of the opinion that the green activities funded by the proceeds of the Series 2019 A and B Green Bonds will provide a meaningful contribution to SBWMA’s strong sustainability commitments and targets, and positively contribute to the transition toward a more circular and low-carbon economy.

Based on the above, Kestrel is of the opinion that SBWMA is well positioned to issue the green bonds; that the corresponding green bond framework is credible, robust and aligned with the four pillars of the Green Bond Principles 2018; and the use of proceeds are aligned with United Nations Sustainable Development Goals 9 and 12.

About Kestrel Verifiers

To public and corporate finance teams who are preparing green bonds, Kestrel is an Approved Verifier with direct and varied project experience in many sectors: water, renewable energy, energy efficiency, pollution prevention and control, sustainable water and wastewater management, climate change adaptation and environmentally sustainable management of natural resources and land uses. As bespoke US municipal specialists, we strive to provide a personal, focused approach and dedicated support. We bring real-world experience, relationships and tools to efficiently verify and report on green bonds and Climate Bonds. Kestrel is a Woman-Owned Small Business and a certified Women’s Business Enterprise.

For more information, visit www.kestrelverifiers.com

GREEN BOND INDEPENDENT EXTERNAL REVIEW FORM

Solid Waste Enterprise Refunding Revenue Bonds Series 2019A (Non-AMT)

Solid Waste Enterprise Revenue Bonds 2019B (AMT)

(“Series 2019 A and B Green Bonds”)

South Bayside Waste Management Authority

SECTION 1. BASIC INFORMATION

Issuer name: South Bayside Waste Management Authority (SBWMA)

Issuer Green Bond Framework Name: *South Bayside Waste Management Authority Green Bond Framework*

Independent External Review provider’s name: Kestrel Verifiers

Completion date of this form: June 13, 2019

Publication date of review publication: June 13, 2019

SECTION 2. REVIEW OVERVIEW

Scope of Review

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

Role(s) of Independent External Review Provider

- | | |
|---|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Executive Summary of Review

South Bayside Waste Management Authority (“SBWMA”), also known as ReThinkWaste, is a joint powers authority of twelve public agencies in San Mateo County, California. SBWMA plans to issue \$53.8 million in Solid Waste Enterprise Revenue Bonds Series 2019 A and B Green Bonds. The Series 2019A bond proceeds will be used to refund the Series 2009A Bonds previously issued by SBWMA. Funds from the Series 2009A Bonds were used to design and construct major upgrades to the Shoreway Environmental Center, including a new materials recovery facility and 2700 solar panels that power 100% of recycling operations. The Series 2019B Green Bonds will be used to fund new waste diversion and waste-to-energy projects at the Shoreway Environmental Center.

SBWMA has engaged Kestrel Verifiers to provide an independent second party opinion on the alignment of the Series 2019 A and B Green Bonds with the Green Bond Principles 2018 (the “GBP”), as administered by the International Capital Market Association (the “ICMA”), and to the United Nations Sustainable Development Goals (“SDGs”). As part of this engagement, Kestrel Verifiers reviewed the green bond framework, examined public and non-public information, and interviewed members of SBWMA’s management and finance teams. Our goal was to understand sustainability impacts of the business, planned use of proceeds, procedures for management of proceeds, and plans and practices for reporting.

Kestrel is of the opinion that the green activities funded by the proceeds of the Series 2019 A and B Green Bonds will provide a meaningful contribution to SBWMA’s strong sustainability commitments and targets, and positively contribute to the transition toward a more circular and low-carbon economy.

Based on the above, Kestrel is of the opinion that SBWMA is well positioned to issue the green bonds; that the corresponding green bond framework is credible, robust and aligned with the four pillars of the Green Bond Principles 2018; and the use of proceeds are aligned with United Nations Sustainable Development Goals 9 and 12.

SECTION 3. DETAILED REVIEW

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. Use of Proceeds

Overall comment on section:

South Bayside Waste Management Authority will use the Series 2019 A and B Green Bonds proceeds for refunding of the Shoreway Environmental Center construction costs and new funding on equipment and projects that will improve operational efficiency, increase the amount of materials to be recycled, and reduce the amount of waste sent to the landfill. Bond proceeds will be used for “Pollution Prevention and Control,” which is recognized by the ICMA Green Bond Principles as an eligible project category with positive environmental benefits.

Shoreway Environmental Center

SBWMA owns and manages the Shoreway Environmental Center, which serves as a regional solid waste and recycling facility for the receipt, handling and transfer of refuse, recyclables and organic materials collected from the service area. The Series 2019 A and B Green Bonds offering consists of two parts. The first part under Series 2019A, is a refunding of SBWMA’s tax-exempt solid waste enterprise revenue bonds, Series 2009A which were

used to fund improvements to the (existing) Shoreway Environmental Center. These improvements included: a new 70,200 sq ft materials recovery facility (MRF) to process single-stream recyclables; a 14,780 sq ft expansion of the existing 62,000 sq ft transfer station building to increase unloading spaces for public customers and improve capacity to handle organic waste; a new environmental education center housed in the MRF with museum-quality exhibits promoting resource conservation and SBWMA programs; a new public recycling center for free-drop off; and a buy-back center for bottles and cans.

The original use of proceeds also acquired and put into service 2,700 solar panels to produce 100% of electricity demand at the Shoreway Environmental Center. The modern equipment and facilities upgrades that were accomplished with the Series 2009A offering allowed SBWMA to remove 30% more recycling tonnage from the waste stream. The facility received a LEED Gold certification.

Facility Upgrades

The second part of the debt issuance is the Solid Waste Enterprise Revenue Bonds Series 2019B, which will be used to acquire and install equipment for the Materials Recovery Facility that will improve operational efficiency. These new improvements and the desired uses include the following:

Improvement	Purpose
Optical Sorting Machine	Capture additional cardboard and containers Reduce contamination
Robotic Residue Sorting Equipment/Quality Control System	Increase the capture of recyclable materials which are currently disposed
Enhanced Glass Cleanup System	Increase the quality of glass recovered by reducing contamination, thus allowing higher recycle rates
Sort System Upgrades	Meet new paper quality standards for recycling
Organics-to-Energy Pilot Project	A pilot project to develop a waste-to-energy system and reduce organics going to landfill. Organics and garbage will be transported as a slurry to the anaerobic digester at Silicon Valley Clean Water Wastewater Treatment Plant.

Individually and collectively, each of these improvements is intended to increase the operational efficiency of the Shoreway Environmental Center and move SBWMA toward its “Triple-Zero” goal, defined as:

- zero recyclables to the landfill,
- zero organics to the landfill, and
- zero net greenhouse gas emissions in operations.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |

Use of proceeds categories as per GBP:

- Sustainable water and wastewater management
- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs
- Climate change adaptation
- Green buildings
- Other *(please specify)*:

If applicable please specify the environmental taxonomy, if other than GBPs:

Not applicable.

2. Process for Project Evaluation and Selection

Overall comment on section *(if applicable)*:

SBWMA utilizes a robust and transparent annual process to prioritize capital improvements for financing. SBWMA’s project evaluation and selection process is executed through a dedicated “Zero Waste Committee” supported by the finance committee and the Board of Directors. Kestrel assesses this process as a best market practice due to the active participation of the Board and management.

Evaluation and selection

- Credentials on the issuer’s environmental sustainability objectives
- Defined and transparent criteria for projects eligible for Green Bond proceeds
- Summary criteria for project evaluation and selection publicly available
- Documented process to determine that projects fit within defined categories
- Documented process to identify and manage potential ESG risks associated with the project
- Other *(please specify)*:

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other *(please specify)*:

3. Management of Proceeds

Overall comment on section *(if applicable):*

SBWMA's management of proceeds is in line with market practices. The net proceeds will be tracked by SBWMA's Finance team and will all be allocated immediately at bond closing. Funds on hold to be expended will be held or invested in a portfolio of liquidity investments in line with the company's treasury management policies.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other *(please specify):*

Additional disclosure:

- | | |
|--|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify):</i> |

4. Reporting

Overall comment on section:

SBWMA will make, and keep readily available, up-to-date information on the use of proceeds to be renewed annually until full expenditure. The annual report will include a list of projects to which green bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. So long as the Series 2019 A and B Green Bonds are outstanding, the SBWMA will annually report on the use of proceeds, the currently allocated and outstanding amounts, and provide management confirmation that the use of proceeds of the Bonds is still in alignment with the Green Bond Principles. This reporting will be done annually on the Electronic Municipal Market Access (EMMA) system operated by the MSRB. Kestrel Verifiers will provide a post-issuance Use of Proceeds report, which the SBWMA will post on EMMA.

Use of proceeds reporting:

- | | |
|---|---|
| <input type="checkbox"/> Project-by-project | <input type="checkbox"/> On a project portfolio basis |
| <input checked="" type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify):</i> |

Information reported:

- Allocated amounts Green Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Frequency:

- Annual Semi-annual
- Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Other ESG indicators - Tons of waste diverted from landfill

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify):
- Reporting reviewed (Kestrel Verifiers will provide a post-issuance Use of Proceeds report, which the SBWMA will post on EMMA.)

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

www.kestrelverifiers.com

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**Type(s) of Review provided:**

- | | |
|---|---|
| <input checked="" type="checkbox"/> Second Party Opinion | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):**Date of publication:** June 13th, 2019

Monica Reid, Verification Team Leader
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Kestrel Verifiers

About Kestrel Verifiers

To public and corporate finance teams who are preparing green bonds, Kestrel is an Approved Verifier with direct and varied project experience in many sectors: water, renewable energy, energy efficiency, pollution prevention and control, sustainable water and wastewater management, climate change adaptation and environmentally sustainable management of natural resources and land uses. As bespoke US municipal specialists, we strive to provide a personal, focused approach and dedicated support. We bring real-world experience, relationships and tools to efficiently verify and report on green bonds and Climate Bonds. Kestrel is a Woman-Owned Small Business and a certified Women's Business Enterprise.

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About Roles of Independent Review Providers as Defined by the GBP

- 1. Second Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- 2. Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.



3. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
4. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.