



**MINUTES**

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
 SPECIAL MEETING OF THE BOARD OF DIRECTORS  
 September 12, 2013 – 2:00 p.m.  
 Shoreway Environmental Center RethinkWaste Board Room

**1. Roll Call**

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

**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. New Business:**

A. Briefing on Contractors' Annual Compensation Adjustment Process (for discussion only)

Executive Director McCarthy, Staff Feldman, and Staff Moran gave a PowerPoint presentation on the compensation process and issues affecting the 2014 rate year.

Member Brownrigg asked for a breakdown in percentages of the rate components.

Executive Director McCarthy answered that 57-58% is Recology, 12-13% is Member Agency's franchise fees, 3½ % is the SBWMA budget and the remainder is disposal fees.

Member Widmer asked for a status of reserve funds.

Staff Moran noted that those are provided in November when tip fees are set for the following year.

Member Grocott asked for clarification on Shoreway tip fees.

Staff Moran explained the chart on page 6 of the PowerPoint.

City Manager Jim Hardy of Foster City explained further that the top half of the chart is controlled by the SBWMA Board and the bottom half is controlled by the Member Agencies.

Member Brownrigg asked if Recology's profits are fixed, and if it was fixed there was no profit incentive.

Staff Moran answered that Recology's profits are a fixed percentage, and added that there are incentive and disincentive payments as well.

Member Benton asked if total labor cost was fixed.

Staff Moran replied that due to the contract all costs are fixed indices.

Member Brownrigg asked if there are audits for fuel costs, etc.

Staff Feldman answered that Recology does provide audited financial statements each year.

Member Ross asked if there was a better breakdown of total depreciation, and a list of items being depreciated.

Staff Moran answered that there is an interest schedule by year, and that the list of depreciated items is a page in the compensation application.

Member Widmer requested more understanding and tracking of standard cost elements, and asked if the cost elements are consistent across all jurisdictions. He suggested a cost-based accounting model be applied to simplify the process.

Member Benton asked for an explanation of route hours versus route labor hours.

Staff Feldman explained that route hours is how long any given route takes. Route labor hours are the labor hours associated with the route. He gave an example of the two being different if more than one employee was on a truck, the route hours would be less than the route labor hours.

Member Widmer asked about direct costs versus allocation costs and asked if there was a penalization with indices like fuel being counted twice.

Staff Feldman answered that there is no double counting, each Member Agency's percent of fixed cost CPI applies one time.

Staff Moran added that the percent that is allocated to each agency changes, but the total paid to Recology doesn't change.

Member Benton asked for examples of what could cause an agency's percentage to go up or down in the allocation.

Staff Feldman answered that it is a percentage of the SBWMA wide total, based on route hours, route labor hours, number of lifts, and it is measured in the same 4 week period in April and May each year.

Member Widmer commented that over a trend there should be fixed allocation, and requested that a fixed allocation process be considered.

Executive Director McCarthy stated that he thought it was a worthy discussion at a future Board meeting, but noted that when you fix allocation that is it, and there could be negative consequences for some agencies to a fixed allocation process.

Member Grocott asked for confirmation of the fact that once items reached Shoreway the costs are fixed.

Staff Feldman answered that Recology's cost to pick up is variable based on how long it takes to pick up.

Mario Puccinelli agreed that the compensation process is exhausting, but gave the example that there could be construction in an agency which is slowing a route down, and would change allocations. He also added that fixed allocation should be considered.

Staff Moran added that 3 agencies changed their service levels this year, which affected allocation.

Member Benton asked for clarification if contractor compensation is the only thing that is fixed cost based on indices, and everything else on the total revenue requirement is variable.

Staff Moran noted that yes, only Recology's compensation is fixed. Agency fees vary with revenue. Disposal expense varies with tonnage delivered to Shoreway.

Member Widmer asked if there were fixed cost at Shoreway to process the material as well.

Staff Moran noted that 80% of the Shoreway cost is variable; noting that SBR and disposal processors are paid on tonnage and if tonnage goes up then the cost to process goes up.

Executive Director McCarthy added that the largest percentage of what we're being charged at the disposal processors is fixed, they receive an annual CPI adjustment to their rates.

Member Grocott requested that percentages be added to slide 13 of the presentation, to make it clearer.

Staff Moran explained the handout, which was an updated appendix G, and explained an error in the County accounts, in which money is still owed from 2011.

Member Slocum noted that it was an audit the County did independently that found the error.

Member Ross asked if all of the agencies needed to conduct audits.

Member Slocum asked how much the audit at the County cost.

Executive Director McCarthy noted that staff is open to audits, SBWMA wide.

Member Grocott suggested future action in which audits of this kind move through the entire SBWMA one agency at a time.

Staff Moran added that this finding doesn't change what Recology is owed, it means they weren't paid what they were owed in 2011.

Staff Moran then talked about other rate issues and a capitol request regarding changing of 3 trucks.

Member Grocott asked how we get more efficient service.

Staff Feldman noted SBWMA staff or Member Agencies could work with Recology to provide operational analysis and then work with Recology operations to implement recommended changes to improve efficiency.

Vice Chair Frisella noted that changing of the 3 trucks might not make Recology more efficient.

Member Widmer suggested that we get to a place of fixed allocations first, and then look at capitol based on the right thing for all agencies.

Mario Puccinelli explained that this capitol request is a flat cost to Member Agencies, noting that 3 side loaders would be added and 3 front loaders would be taken out of the fleet.

Member Ross asked for clarification from Recology, wondering if they needed better equipment to do their job, and would they still have enough commercial vehicles.

Mario Puccinelli explained that it's not better equipment, its different equipment.

Member Brownrigg asked what the downside would be.

Executive Director McCarthy noted that the downside is that it does flow down through allocations. Some routes may become less efficient due to the lack of commercial trucks, and it's not known who will save and who won't. He added that it was a leap of faith in terms on not understanding the math.

Member Benton noted that it goes back to the fixed allocation discussion earlier.

Member Brownrigg noted that he thought fixed allocation was a mistake and that a dynamic model worked in favor of the smaller agencies.

Executive Director McCarthy acknowledged that the contracts do get in the way of making business decisions because Recology gets the 3 trucks they lower their operating costs.

Vice Chair Frisella commented that we have to trust the contractor. She added that Foster City residents are 99.5% satisfied with the service, so we have to trust that they know how to give the best service.

Member Ross commented that the commercial trucks are just sitting and that is already inefficient.

Member Carlton asked when we would know how the changing of the 3 trucks would change allocations.

Executive Director McCarthy noted that Recology has to do that analysis and answer.

Member Grocott asked whose job it is to pay attention to growth forecasting and what needed to be done to avoid astronomical rate increases as we experience growth.

Executive Director McCarthy answered that it's a dynamic allocation model, and the contract provides that CPI will be enough to cover growth.

Mark Arsenault of Recology added that using the right truck benefits all agencies because we get more efficient service area wide.

Chair Ira asked if there is a way for Recology to know the effect of the different trucks until it happened.

Executive Director McCarthy stated that we wouldn't know until we do an audit.

Chair Ira stated that cost isn't an issue, we want Recology to be as efficient as possible and that is a savings all the agencies are sharing.

Executive Director McCarthy noted staff would like some sense from the Board about what to do with this item.

Member Carlton asked if it would impact the environment.

Executive Director McCarthy stated that it was the same number of trucks, so no change in environmental impact.

Mario Puccinelli added that if we did nothing we would have to have commercial trucks serving residential accounts.

Most of the Board members stated they were in support of the truck change.

Member Widmer stated that he was for fixed allocations first.

Member Benton stated that rate stability was most important.

Staff Moran then talked about the interest accrual issues when Member Agencies carry forward a large surplus.

Member Widmer commented that Recology can't have it both ways: if interest is being earned on the surplus then it is owed to the agencies.

Chair Ira commented that agencies should have their own rate stabilization funds and Recology should not be the bank.

Mark Arsenault commented the Recology doesn't want to be the bank.

Member Slocum, Member Brownrigg and Member Wozniack now absent.

B. Resolution Approving Response to the San Mateo County Civil Grand Jury Report entitled "South Bayside Waste Management Authority Board – Elected Officials or Senior Management Staff"

Counsel Lanzone introduced the item and asked if there were any questions.

Motion/Second: Frisella/Ross

Voice Vote: All in Favor

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

- C. Staff Update on Recology Customer Service Call Center Monitoring Results
- D. Staff Update on Findings from Review of Collection Services and Facility Operations Reports, Tonnage Data and Customer Service Systems Audits Performed by HF&H Consulting, LLC
- E. Staff Update on Report on 2012 Financial Systems Audit of Recology and SBR Performed by HF&H Consulting, LLC

Member Benton now absent

Executive Director McCarthy introduced the staff reports for items 3C to 3E together. He noted that they are all audits and the findings are tied to numbers that are in the compensation application.

Vice Chair Frisella asked if we have to do these audits every year.

Executive Director McCarthy stated no, but we continue to see issues when the audits are performed.

Member Dehn also added that it seemed like many of the issues were around code issues and asked if the codes could be simplified.

Executive Director McCarthy stated that the SBWMA doesn't prescribe codes, but noted that when this audit was done a year ago Recology did decrease the number of codes, but noted that this year there is still significant room for improvement.

Member Dehn questioned who paid for the annual audits.

Executive Director McCarthy stated that they are part of the SBWMA budget.

Member Grocott asked how complaints that come into City Hall end up with Recology.

Executive Director McCarthy stated that there is an online system that each Member Agency has access to, where complaints can be logged in and get sent to Recology, or City staff can call or email Recology, but added that they still have to get into Recology's system.

#### 4. Board Member Comments

5. **Adjourn: 4:23 PM**