
MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
SPECIAL MEETING OF THE BOARD OF DIRECTORS
October 6, 2011 – 10:00 a.m.
San Carlos Library Conference Room A/B**

1. Roll Call: CTO 10:08 a.m.

In attendance: Atherton, Belmont, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, County of San Mateo and West Bay Sanitary District.

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. Old Business:

A. Resolution Approving 2012 Recology San Mateo County Compensation Application

Agenda item 3B presented before agenda item 3A

B. Presentation on Consolidated 2012 Rate Report

Executive Director McCarthy welcomed newest Board Member Afshin Oskoui of Belmont.

Executive Director McCarthy noted that Staff had met with several agencies and there were questions about how the process works, so he gave an overview to the Board.

First he noted that there were several questions about how the costs were allocated amongst the member agencies. Adding that in the combined rate report in agenda item 3B there is a total pie, but the process of allocating costs to the member agencies doesn't adjust the total pie number.

He also noted that this process is very similar to the process that's been used since 2000 under the Allied contract. Noting that the difference is last year the numbers used were based on Recology RFP submittal cost assumptions from 2008, this year the numbers were based on the snapshot of true data from Recology's May 2011 operations, noting that this is the process set up in the contract. We experienced wide year over year variances in rate increases in the past under Allied Waste.

Executive Director McCarthy added that these numbers have not been audited or verified by the SBWMA yet, noting that the SBWMA has started an auditing project with HF&H, and if the numbers haven't been audited, they will be, as prescribed in the contract. He also noted that Recology will be going through annual route audit assessments which were not done this first year of the contract, but will be done in the future. Concluding that going forward Recology will use operational metrics based on real data and that data will be audited. He commented that this doesn't mean that there won't be year to year rate impacts associated with the metrics changing.

Executive Director McCarthy continued that some of the Agencies have questioned the underlying data. He explained that each Agency's Franchise Agreement allows access to account data. Executive Director McCarthy encouraged the agencies to avail themselves of that data and verify it, and to take ownership of their Agreements.

Executive Director McCarthy remarked last the over all rate impact was 13.3%. This year the overall rate impact is 6.6%. Adding that there is not a cost problem there is a revenue problem. Noting that the reasons for the revenue problem are late rate setting, cart migration, and the fact that the price of service for 20 and 32 gallon rates carts doesn't cover the costs of servicing them, stating that the progressive rate structure is causing the SBWMA to dig a bigger revenue hole every year.

Executive Director McCarthy concluded that the bottom line is there is nothing out of line with the base costs for operations; the trend line for those numbers is that they have been cut in half from last year.

A. Resolution Approving 2012 Recology San Mateo County Compensation Application

Executive McCarthy commented on the primary changes in the report since the September 22 Board meeting. First, he noted that the main issue which arose at the last Board meeting was the Agency facility allocation costs. Staff and Recology came to the conclusion that they could not allocate these costs to the letter of the contract in time for Agencies to go to their councils to get rates approved by January 1st. So, it was agreed to assume the same allocations as last year, and that it will be part of the revenue reconciliation process.

Second, he noted that there were some errors in the report. Some Agencies have already started collecting money through their Franchise Fees to pay off Allied; those numbers were double counted in certain line items, which have been corrected.

Member Hardy asked for clarification on the allocations that are being used for 2012. Questioning if when the Agency Facility service fees are adjusted with the correct metrics will it change the allocation.

Staff Feldman answered that Recology is developing a system to capture the operational metrics of Agency Facility fees more accurately, adding that it will be done in about a month. When completed a capture of a 2-4 week period will take place to look at the actual operational metrics. Then those numbers will be applied to this current year and in the revenue reconciliation report due at the end of March the adjustments will be made. It changes the mix of how 1.7% of the total will be allocated amongst the agencies adding that it will be a minor change.

Executive Director McCarthy reiterated that the SBWMA has a much more robust contract than with the Allied operations, noting that there will be auditing of all of this data, and clarifying that there will continue to be year over year changes depending on the data that is collected in the field; this was the same under the old Allied franchise agreements.

Member Galli expressed concern over the fluctuations in the allocations, noting that the Agencies have been saying to Councils there will be reduced fluctuation with the new contract. She noted that Recology's costs might not have as much fluctuation because of the indices based contract, but noted that all of the agencies are tied together because costs are based on actual metrics. Commenting that if one agency changes service levels it could affect all of the agencies.

Executive Director McCarthy answered that it's possible, because there could be small changes in allocations, but added, if Recology reports metrics that are substantially different than this year that is a bigger issue. These operations should be getting normalized; there should not be huge year over year changes.

Staff Feldman added that the agencies are only tied together on the cost side, not the revenue side, because Agencies all do their own rate setting. He added that overall stability comes after 3 years. The 3 bumps are the first year, this second year with the Allied piece and the migration piece, and the 3rd year cost side adjustment (from service level adjustments) coming next year, which will be set going forward for the remainder of the contract. Then the rates will only rise by CPI and CBA adjustments. Then he answered if an agency changes the level of services, it will be handled as a one off change. All Agencies can change service per contractual amendment, but it would be handled outside the overall scope, and it would be a specific carve out related to allocation for that Agency.

Executive Director McCarthy added that one agency can't decide to change service levels and then a neighboring Agency's routes get less efficient and costs rise; the contract doesn't work that way. What service level changes mean to an Agency is that it makes it more difficult to get the full benefit of making that adjustment if your routes are tied to another agency.

Member Fotu requested that for next year's rate application process to see year to year comparison. Noting that it would be helpful for each agency to know how those numbers are developed and how it is part of the overall evaluation of the operations and who is doing the evaluation.

Executive Director McCarthy stated that the proposers in 2008 who answered the RFP spent a lot of time making assumptions on what it would take to service the SBWMA area. Now those assumptions are being compared to actual numbers. Going forward, if an Agency thinks there is something wrong with the source data, if the costs go up and there is no apparent error in the data that is the reality of the contract. He added that the SBWMA is not in the business of monitoring the efficiencies of the Recology operation. Clarifying that if Recology is not delivering a service standard there are liquidated damages and other controls in place, but the SBWMA is not auditing the efficiencies of the Recology operation.

Staff Feldman added that Recology has every incentive to be efficient, because if they are not efficient they eat the cost. The SBWMA has a lot of controls for standards, and it is to Recology's benefit to be as efficient as possible. If an Agency wants to look into the routes and efficiencies they have every right to do that. There is a lot of transparency built into the contract.

Member Oskoui suggested that while the SBWMA is in this 2 to 3 year transition period that Agencies get the information mid term so we can start predicting earlier how each Agency is tracking.

Executive Director McCarthy added that staff has some suggestions for improving the process, but asked Board Members to communicate specifically if there are changes each Agency would like to see. He noted that the SBWMA and the individual Agencies suffer from a very tight rate setting process; assuring that next year disposal numbers and revenue projections will come to the Agencies sooner, as well as getting the July 1st rate submittal by Recology to the Agencies on July 1st. He asked the Board Members for feedback on improving the process.

Member Fotu asked if the SBWMA would consider working with a 3rd party to assist in evaluating the compensation package.

Executive Director McCarthy stated that the SBWMA used a fulltime accounting temp for 3 months to get through the numbers. He acknowledged that staff has to do a better job of getting the source data to the Agencies. Noting that it is a huge effort on the part of Recology to get the data to the SBWMA, and then for staff to turn it around and get it to the Agencies. He asked the Board Members to accept that if the Agencies get this information sooner, the SBWMA staff needs Board Members and Agency staff to really engage in the numbers and have an open dialogue.

Member Fotu commented on efficiencies, noting that Recology is looking at the SBWMA as a whole service area, and questioned if it could create an inequitable situation, and proposed that it be looked at.

Member Masbad commented that Hillsborough's costs have increased by \$70,000 between now and the September 22, 2011 meeting related to the Agency facilities allocation. Noting that if Hillsborough paid the 2012 commercial rates it would be half of what they are being charged by Recology to service our Agency facilities. She announced that in the spirit of cooperation Hillsborough will be voting yes, but with a strong request that by next year Hillsborough receive an assurance and audit trail to come up with the true cost for Agency Facility Costs.

Staff Feldman answered that if Hillsborough is correct the Agency will get an equitable adjustment credit for this year's Agency facility costs in next year's application through the revenue reconciliation process.

Member Chan requested some kind of workshop to be set up after the data is released so Agencies don't have go through the data on their own.

M/S: Hardy/Maltbie

Roll Call Vote:

Motion Passes: 8-1-1-2

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			

4. Board Member Comments

5. Adjourn 10:50 AM

Next Regular meeting scheduled for October 27, 2011, San Carlos Library at 2:00 pm