



NEW BUSINESS



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Date: January 26, 2012 Board of Director's Meeting
Subject: Election of New Officers for 2012

Recommendation

Staff recommends the following process for the Board to follow in electing a Chair and Vice Chair for 2012:

1. Chair calls for nominations for the position of Chair (nominations do not require a second).
2. Motion is adopted to close nominations.
3. Board votes on nominations in the order in which the nominations were made until a Chair is elected.
4. Sections 8.5 and 10.8 of the JPA Agreement require the successful vote to be by 2/3 of the Directors present.
5. The new Chair (if the current Chair is not re-elected) takes the gavel and assumes the office and calls for nominations for Vice-Chair and the same procedure is followed for electing the Vice Chair.

Background

The SBWMA Joint Powers Agreement was amended in 2005 to provide for the annual election of a Chair and Vice Chair from amongst the SBWMA Board members. (JPA Agreement sec. 8.5 and 8.6).



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Marshall Moran, Finance Manager
Date: January 26, 2012 Board of Director's Meeting
Subject: Mid-Year Review of FY2012 Annual Operating Budget

Recommendation

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors. Staff is presenting a draft budget document for consideration and review with changes from the Board to be incorporated into a revised and final staff report for the February 23, 2012 Board meeting. **Attachment A** contains budget worksheets providing line item detail for all projected revenues and expenditures. Capital spending is not addressed in this mid-year review.

Analysis

Staff has conducted a thorough analysis of year-to-date revenues and expenditures. As originally budgeted and based on the projections detailed below, staff is not expecting any required Board action for revenue transfers from reserves to meet bond covenant requirements.

Budget Variances

As detailed under "Fiscal Impact" we are projecting net income of \$3,044,790 which is \$597,160 below our approved budgeted net income of \$3,641,950. This negative variance of \$597,160 is due primarily to the following factors:

- \$859,300 in higher SBR facility operating expenses due to higher tons and a one-time payment of \$276,000 for project management costs related to the MRF sorting equipment installation per Section 7.02 of the Operations Agreement; this expense was originally assumed to be covered in the FY 2011 budget.
- \$718,700 in higher disposal and processing fees associated with higher than budgeted tons.
- \$221,300 in higher Allied Waste balancing account payments due to the timing of a quarterly payment falling in the current fiscal year.

The above higher operating expenses were partially offset by higher operating revenues of \$394,400, lower SBWMA program expenses of \$171,140 and lower buyback payments of \$502,100 due to lower payments made by SBR versus the budgeted amount based on Allied's payment trend in 2010.

Background

On June 23, 2011 the South Bayside Waste Management Authority (SBWMA) Board of Directors adopted the FY 2012 Operating Budget.

Fiscal Impact

The following tables represent FY 2012 revenues and expenditures, and payments through December 15, 2011, and year-end projections through June 30, 2012.

FY 2012 NET INCOME			
<u>Revenues</u>	<u>FY 2012 Adopted Budget</u>	<u>FY 2012 Year End Projections</u>	<u>Variance</u>
Total Revenues	\$40,132,600	\$40,527,000	\$394,400
Total Expenditures	\$36,490,650	\$37,482,210	(\$991,560)
Net Gain/(Loss):	\$3,641,950	\$3,044,790	(\$597,160)

FY 2012 REVENUES			
<u>Revenues</u>	<u>FY 2012 Adopted Budget</u>	<u>FY 2012 Year End Projections</u>	<u>Variance</u>
Tip Fee Revenues	\$28,972,200	\$29,257,100	\$284,900
Commodity Sales Revenues*	\$10,567,600	\$10,488,300	(\$79,300)
Interest Income	\$114,200	\$238,200	\$124,000
HHW and Other Revenue	\$478,000	\$543,400	\$64,800
Total Revenues:	\$40,132,600	\$40,527,000	\$394,400
* Net of commodity revenue share with SBR.			

FY 2012 EXPENDITURES				
<u>Expenditures</u>	<u>FY 2012 Adopted Budget*</u>	<u>FY 2012 Year-to-date Totals</u>	<u>FY 2012 Year End Projections</u>	<u>Variance</u>
Administrative Expenses	\$1,583,950	\$761,982	\$1,567,976	(\$15,974)
Contract Compliance & Support	\$375,000	\$73,915	\$373,232	(\$1,768)
Recycling & AB 939 Compliance	\$1,066,500	\$181,511	\$893,302	(\$173,198)
Collection Operations	\$468,600	\$174,624	\$488,400	\$19,800
Total SBWMA Expenses:	\$3,494,050	\$1,192,031	\$3,322,910	(\$171,140)
Shoreway Operations**:	\$32,996,600	\$12,543,333	\$34,159,300	\$1,162,700
Total Expenses:	\$36,490,650	\$13,735,364	\$37,482,210	\$991,560
* Exclusive of capital project expenses				
** See breakout of expenses on the next page				

FY 2012 EXPENDITURE DETAIL FOR SHOREWAY OPERATIONS

<u>Expenditures</u>	<u>FY 2012 Adopted Budget</u>	<u>FY 2012 Year-to-date Totals</u>	<u>FY 2012 Year End Projections</u>	<u>Variance</u>
Allied Operating Contract*	\$1,109,500	\$833,675	\$1,330,800	\$221,300
SBR Compensation	\$13,569,200	\$4,848,048	\$14,428,500	\$859,300
Disposal and Processing	\$12,083,300	\$5,472,502	\$12,802,00	\$718,700
Buyback Payments	\$1,099,100	\$200,237	\$597,000	(\$502,100)
Insurance Shoreway	\$281,500	\$26,104	\$248,500	(\$33,000)
Education Center	\$80,000	\$5,035	\$70,000	(\$10,000)
Debt Service Bond Interest	\$3,177,900	\$529,644	\$3,177,900	0
Other Operating Expenses**	\$170,000	\$33,667	\$85,000	(\$85,000)
Taxes (Sewer)	\$46,400	\$13,779	\$26,400	(\$20,000)
Franchise Fee (San Carlos)	\$1,379,700	\$580,642	\$1,393,200	\$13,500
Total Shoreway Operations:	\$32,996,600	\$12,543,333	\$34,159,300	\$1,162,700

* Allied Waste balancing account payments for Shoreway operations through 12/31/10.

** Includes Ox Mtn. tipper maintenance, Shoreway facility repairs, and MRF equipment maintenance >\$10k.

The Allied Operating Contract expense includes the SBWMA paying off half or \$671,000 of the 2009 Balancing Account final total amount owed to Allied of \$1,346,835. In addition, the 2nd quarter payment was booked in FY 2012 instead of FY 2011. The 2009 balance is fully paid. The final Allied balance owed for 2010 is \$642,000, half of which will be paid in FY 2012 and the remainder in FY 2013. This balance is \$231,000 lower than the estimate made for the budget based on the HFH November 2010 report.

Attachments:

A – FY2012 Mid-Year Projections

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
REVENUE SUMMARY**

FY 2011-2012 APPROVED BUDGET

REVENUE SUMMARY	ACTUAL FY 2009-2010	ACTUAL FY 2010-2011	APPROVED BUDGET FY 2011-2012	MID-YEAR PROJECTION FY 2011-2012	Variance
ADMINISTRATIVE REVENUES					
409100 INVESTMENT INCOME	79,010	137,052	114,200	238,200	124,000
409101 INVESTMENT (GASB 31) MARKET VALUE ADJ	(63,342)				
409200 INTEREST INCOME					
TOTAL ADMINISTRATIVE	15,668	137,052	114,200	238,200	124,000
OPERATIONS					
480007 TIPPING FEES	27,479,290	28,660,638	28,972,200	29,257,100	284,900
480023 COMMODITY SALES	8,691,557	10,719,422	11,796,200	11,585,200	(211,000)
COMMODITY REVENUE SHARE - NEW			(1,228,600)	(1,096,900)	131,700
480024 OX MOUNTAIN					-
480025 E-RECYCLING REVENUE - NEW		146,077	70,000	70,000	-
480031 HHW DOOR TO DOOR COLLECTION SERVICE	32,079	358,594	408,600	428,400	19,800
480032 PERFORMANCE INCENTIVE / DISINCENTIVE - NEW		71,707	-	45,000	45,000
480008 MISCELLANEOUS REVENUE	86,724	56,983			-
TOTAL OPERATIONS	36,289,650	40,013,421	40,018,400	40,288,800	270,400
TOTAL OPERATING REVENUES	36,305,318	40,150,473	40,132,600	40,527,000	394,400
MISCELLANEOUS - EQPT AUCTION	257,500				
TOTAL REVENUE	36,562,818	40,150,473	40,132,600	40,527,000	394,400
NET OPERATING INCOME / <LOSS>	(1,615,492)	3,801,627	3,641,950	3,044,790	(597,160)
% OF REVENUE					-1.49%

FY2012
REVENUES

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY						
EXPENDITURE SUMMARY		ACTUAL FY 2010-2011	APPROVED BUDGET FY 2011-2012	YTD Spent Dec. 15, 2011	MID-YEAR PROJECTION FY 2011-2012	Variance
ADMINISTRATIVE EXPENSES						
520305	ADMINISTRATIVE STAFF	551,386	491,600	240,607	501,600	10,000
520306	AB 939 PROGRAM STAFF	584,949	684,100	308,645	667,800	(16,300)
520328	EMPLOYEE RECRUITMENT/HR SUPPORT	1,438	5,000	4,000	5,000	-
520337	PEO COST (HR & PR FEES)	20,733	21,600	9,307	21,600	-
520312	BOARD COUNSEL	26,114	40,000	10,828	30,000	(10,000)
520300	BOARD MEETINGS & RECORDINGS	15,514	5,000	2,542	6,000	1,000
520310	ACCOUNTING SERVICES	107,004	105,000	51,000	102,000	(3,000)
520334	INFORMATION SYSTEMS	40,641	29,500	17,647	32,000	2,500
520338	WEBSITE	12,637	10,100	5,055	10,100	-
520301	ANNUAL FINANCIAL AUDIT	9,013	8,500	4,640	8,500	-
520701	D&O INSURANCE	19,237	35,000	22,798	23,000	(12,000)
520202	BANK FEES	7,879	5,000	6,412	7,800	2,800
520203	RENT	47,444	48,000	24,066	48,476	476
520204	PRINTING AND POSTAGE	207	200	38	150	(50)
520107	UTILITIES & PHONE	15,260	17,000	5,390	13,000	(4,000)
520905	OFFICE/TENANT IMPROVEMENTS	2,876	3,000	1,110	2,250	(750)
520201	OFFICE SUPPLIES	18,681	17,000	8,133	17,000	-
520215	OFFICE EQUIPMENT COSTS	18,743	18,500	18,636	25,000	6,500
520504	PUBLICATIONS & PUBLIC NOTICES	2,088	2,000	-	1,000	(1,000)
520501	PROFESSIONAL DUES & MEMBERSHIPS	1,006	2,000	428	1,500	(500)
520801	VEHICLE MILEAGE & TOLLS	158	350	21	100	(250)
520105	CELL PHONES	6,091	5,500	2,195	5,000	(500)
520503	CONFERENCE & MEETINGS	8,685	10,000	6,637	10,000	-
520502	TRAINING	3,362	4,000	1,379	4,000	-
520511	SPONSORSHIPS & DONATIONS	9,240	9,500	1,500	8,500	(1,000)
522706	COMPUTER PURCHASE	3,000	6,500	8,968	16,600	10,100
TOTAL ADMINISTRATIVE		\$ 1,533,384	\$ 1,583,950	\$ 761,982	\$ 1,567,976	\$ (15,974)
CONTRACT COMPLIANCE AND SUPPORT RATES						
520307	RATE REVIEW	194,100	30,000	24,887	60,000	30,000
TOTAL RATE REVIEW		194,100	30,000	24,887	60,000	30,000
CONTRACTOR						
520308	FACILITY IMPROVEMENT OVERSIGHT	21,325	30,000	-	25,000	(5,000)
520309	BUSINESS CONSULTANT/HF&H	-	-	-	-	-
520309	HCM01 CONTRACT MANAGEMENT SUPPORT	3,000	-	600	1,200	1,200
520309	HCN01 CONTRACT NEGOTIATIONS/LEGAL REVIEW	-	30,000	-	10,000	(20,000)
520309	HCS02 COLLECTION SERVICES FRANCHISE ADMIN.	99,512	165,000	35,023	165,000	-
520309	HCS03 PUBLIC EDUCATION FOR COLLECTION SVCS ROLLOUT	590,302	-	2,032	2,032	2,032
520309	HCS1B FACILITY RFP & IMPLEMENTATION	21,624	-	-	-	-
520309	SHOREWAY REMEDIATION LEGAL & TECHNICAL	48,997	-	(0)	-	-
520329	ANNUAL RSMC PERFORMANCE HEARING	-	-	-	-	-
520336	QUARTERLY LOAD CONTAMINATION MONITORING	37,849	120,000	11,374	110,000	(10,000)
TOTAL CONTRACTOR		822,610	345,000	49,029	313,232	(31,768)
TOTAL CONTRACT COMPLIANCE & SUPPORT		\$ 1,016,710	\$ 375,000	\$ 73,915	\$ 373,232	\$ (1,768)

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY					
EXPENDITURE SUMMARY	ACTUAL FY 2010-2011	APPROVED BUDGET FY 2011-2012	YTD Spent Dec. 15, 2011	MID-YEAR PROJECTION FY 2011-2012	Variance
RECYCLING - AB939 COMPLIANCE					
RECYCLING ADMINISTRATION					
520311 CIWMB ANNUAL REPORTS	34,750	25,000	10,250	25,000	-
520341 SBWMA ANNUAL REPORT	3,288	5,000	0	5,000	-
520309 HDV01 DIVERSION PROGRAM SUPPORT	-	20,000	0	10,000	(10,000)
520604 EVENT GIVEAWAYS	14,500	7,500	0	5,000	(2,500)
TOTAL RECYCLING ADMINISTRATION	52,538	57,500	10,250	45,000	(12,500)
LONG RANGE PLAN/DIVERSION PROGRAMS					
520340 LONG RANGE PLAN ALTERNATIVES	5,545	50,000	3,850	45,000	(5,000)
520340 OPRFP ORGANICS PROCESSING RFP	1,746	-	-	-	-
520340 MPOTR MASTER PLAN OUTREACH	23,397	20,000	28,802	28,802	8,802
520344 SOLAR SYSTEM ENGINEERING AND EVALUATION	5,682	-	5,075	7,500	7,500
TOTAL LONG RANGE PLAN/DIVERSION PROGRAMS	36,369	70,000	37,727	81,302	11,302
COMMERCIAL PROGRAMS					
520331 LARGE EVENT/VENUE CONSULTING	1,594	0	-	-	-
520342 LARGE EVENT/VENUE RECYCLING SERVICES	11,522	25,000	2,418	15,000	(10,000)
520608 CLIMATE CHANGE REPORTING & POLICY OPTIONS	4,803	15,000	1,080	5,000	(10,000)
520604 COE01 COMMERCIAL RECYCLING TECHNICAL ASSIST	44,289	300,000	32,407	225,000	(75,000)
520604 CDRCY C&D RECYCLING PROGRAM	-	35,000	0	28,000	(7,000)
520604 GREEN GREEN BUSINESS PROGRAM	4,035	5,000	0	0	(5,000)
520604 MF001 MULTI-FAMILY OUTREACH	12,741	40,000	18,143	65,000	25,000
TOTAL COMMERCIAL PROGRAMS	78,984	420,000	54,048	338,000	(82,000)
RESIDENTIAL PROGRAMS					
520604 QLN01 QUARTERLY NEWLESTTER DESIGN/SETUP	12,561	20,000	0	10,000	(10,000)
520604 QNLPM QUARTERLY NEWLESTTER PRINTING/MAILING	183,783	230,000	74,183	200,000	(30,000)
520604 RES01 RESIDENTIAL OUTREACH PROGRAMS	3,211	166,000	3,984	140,000	(26,000)
520604 COMPS COMPOST GIVEAWAY	1,023	6,000	0	4,000	(2,000)
520604 HHWUW HHW DOOR TO DOOR COLLECTION OUTREACH	87,011	85,000	1,319	70,000	(15,000)
520335 CURBSIDE HOUSEHOLD BATTERY OUTREACH	(10,287)	8,000	0	3,000	(5,000)
520604 ECE01 ELECTRONIC COLLECTIONS EVENTS	711	4,000	0	2,000	(2,000)
TOTAL RESIDENTIAL PROGRAMS	278,014	519,000	79,486	429,000	(90,000)
TOTAL RECYCLING - AB939 COMPLIANCE	\$ 445,905	\$ 1,066,500	\$ 181,511	\$ 893,302	\$ (173,198)
SUBTOTAL SBWMA PROGRAM BUDGET	\$ 2,995,999	\$ 3,025,450	\$ 1,017,408	\$ 2,834,510	\$ (190,940)
COLLECTION OPERATIONS					
522710 HHW DOOR TO DOOR COLLECTION SERVICES	358,504	408,600	174,624	428,400	19,800
522711 CURBSIDE HOUSEHOLD BATTERY RECYCLING SERVICES	15,285	60,000	0	60,000	-
TOTAL COLLECTION OPERATIONS	373,789	468,600	174,624	488,400	19,800
TOTAL SBWMA PROGRAM BUDGET	\$ 3,369,788	\$ 3,494,050	\$ 1,192,031	\$ 3,322,910	\$ (171,140)

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY					
EXPENDITURE SUMMARY	ACTUAL FY 2010-2011	APPROVED BUDGET FY 2011-2012	YTD Spent Dec. 15, 2011	MID-YEAR PROJECTION FY 2011-2012	Variance
SHOREWAY OPERATIONS					
522701 OPERATING CONTRACT - ALLIED	13,901,342	1,109,500	833,675	1,330,800	221,300
522712 OPERATOR COMPENSATION - SBR	6,709,339	13,569,200	4,848,048	14,428,500	859,300
522713 DISPOSAL & PROCESSING COSTS	6,538,836	12,083,300	5,472,502	12,802,000	718,700
522717 BUYBACK PAYMENTS -- NEW 7/1/11	-	1,099,100	200,237	597,000	(502,100)
522718 EDUCATION CENTER OPERATIONS -- NEW 7/1/11	-	80,000	5,035	70,000	(10,000)
522716 MAINTENANCE - OX MTN TIPPER	10,413	40,000	32,342	65,000	25,000
520710 INSURANCE SHOREWAY	121,848	281,500	26,104	248,500	(33,000)
522714 SHOREWAY FACILITY COST	1,028	90,000	1,325	-	(90,000)
520901 SHOREWAY MRF EQUIPMENT MAINTENANCE > \$10k	-	40,000	-	20,000	(20,000)
521104 DEBT SERVICE BOND INTEREST	-	3,177,900	529,644	3,177,900	-
521117 AMORTIZATION OF BOND ISSUANCE	22,222	-	-	-	-
520324 TAXES (SEWER)	38,893	46,400	13,779	26,400	(20,000)
522702 FRANCHISE FEE	1,356,442	1,379,700	580,642	1,393,200	13,500
TOTAL SHOREWAY OPERATIONS	32,979,058	32,996,600	12,543,333	34,159,300	1,162,700
TOTAL OPERATING EXPENSES	\$ 36,348,846	\$ 36,490,650	\$ 13,735,364	\$ 37,482,210	\$ 991,560



STAFF REPORT

To: SBWMA Board Members
From: Marshall Moran, Finance Manager
Date: January 26, 2012 Board of Director's Meeting
Subject: Resolution Accepting the Fiscal Year 2010-2011 Annual Financial Statements

Recommendation

Staff recommends the Board approve the attached Resolution No. 2012-01, accepting the South Bayside Waste Management Authority's audited Annual Financial Statements for the fiscal year ending June 30, 2011 as prepared by the SBWMA's audit firm, Lance Soll & Lunghard, LLP.

Analysis

The financial statements of the South Bayside Waste Management Authority for fiscal year ending June 30, 2011, have been prepared by the City of San Carlos Administrative Services Department and examined by the independent auditing firm of Lance Soll & Lunghard, LLP and SBWMA staff. It is the **unqualified opinion** of the firm that the financial statements present fairly the financial position of the SBWMA as of June 30, 2011, and that the financial statements were prepared in conformity with generally accepted accounting principles.

The purpose of the financial statements is to present a summary of the financial position of the Authority. The final step in the formal process of preparing these financial statements is to transmit them to the Board for its acceptance. The financial statements have previously been sent to the Board members on December 13, 2011 and are also shown in **Exhibit A**.

Overview of The Financial Statements

The annual report consists of two parts – *management's discussion and analysis* (MD&A) and the *basic financial statements*. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

The financial statements include two important schedules that present financial data for the SBWMA as a whole: The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. These two statements report the SBWMA's assets, liabilities, revenue, and expenses and changes in net assets. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Financial Condition Highlights

Net assets of the SBWMA's activities increased \$3.4 million to \$24.8 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – changed from \$6.2 million at June 30, 2010 to \$9.2 million at the June 30, 2011. Unrestricted net assets are used to fund the Board designated reserves as shown in the FY2012 budget documents. The Net Asset increase of \$3.0 million is due to higher revenue including higher

commodity prices and lower Operating Expenses as the higher costs during the Master Plan construction came to an end.

General Operating Results

The operating results for FY2011 and FY2010 were as follows:

	<u>FY2011</u>	<u>FY2010</u>
Operating Revenues	\$40,007,400	\$36,289,700
Operating Expense	<u>\$36,561,300</u>	<u>\$37,859,700</u>
Operating Income	\$3,446,100	(\$1,570,000)
<Loss>		
Non-Operating Loss	<u>(\$15,300)</u>	<u>(\$946,000)</u>
Net Asset Change	\$3,430,900	(\$2,516,000)

Long-Term Debt

At the end of the current fiscal year, the SBWMA had bond debt outstanding of \$56,694,700 after the sale of the 2009 revenue bonds for Master Plan improvements and the defeasance of the 2000 bonds.

**Outstanding Debt
Activities**

	<u>FY2011</u>	<u>FY2010</u>
Revenue Bonds	\$56,687,200	\$56,694,000

Payment of principal on the 2009 bonds begins on September 1, 2012 which is why the debt balance shows only a minor change. Additional information on the SBWMA's long-term debt can be found in the notes (5) to the accompanying financial statements.

Fiscal Impact

There is no financial impact associated with the adoption of this Resolution.

Attachments:

Resolution 2012-02 Accepting the Authority's FY 2010-2011 Financial Statements

Exhibit A - Fiscal Year 2010-2011 Annual Financial Statements



RESOLUTION NO. 2012-02
**RESOLUTION OF THE SOUTH BAYSIDE WASTE
 MANAGEMENT AUTHORITY BOARD OF DIRECTORS
 ACCEPTING THE FISCAL YEAR 2010-2011 ANNUAL FINANCIAL STATEMENTS**

WHEREAS, the South Bayside Waste Management Authority contracted with the audit firm of Lance Soll & Lunghard, LLP to conduct an audit of the Agency's financial records in accordance with Governmental Accounting Standards Board (GASB) Statement 34; and

WHEREAS, the financial statements for the fiscal year ending June 30, 2011 as prepared by said firm have been completed and are attached as Exhibit A; and

WHEREAS, it is recommended that the Board accept the financial statements.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby adopts the Annual Financial Report as prepared by Lance Soll & Lunghard, LLP for the fiscal year ending June 30, 2011.

NOW, THEREFORE, BE IT RESOLVED by the SBWMA Board of Directors hereby accepts the Fiscal Year 2010-2011 Annual Financial Statements.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the this 26th day of January, 2012, by the following vote:

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

I HEREBY CERTIFY that the foregoing Resolution No. 2012-01 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 26, 2012.

ATTEST:

 Brian Moura, Chairperson of SBWMA

 Cyndi Urman, Board Secretary



**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2011

Lance Soll & Lunghard, LLP

203 North Brea Blvd
Suite 203
Brea, CA 92821

41185 Golden Gate Circle
Suite 103
Murrieta, CA 92562

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITOR'S REPORT

To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

We have audited the statement of net assets of the South Bayside Waste Management Authority (the "Authority"), San Carlos, California, as of and for the years ended June 30, 2011, and the related statement of revenues, expenses and changes in net assets, and statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Authority, as of June 30, 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for



To Members of the Board of Directors of the
South Bayside Waste Management Authority

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lance, Soll & Lingham, LLP

Brea, California
October 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts:

- *management's discussion and analysis* (this section) and;
- the *basic financial statements*.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

The following discussion and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) provides an overview of the SBWMA's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the financial statements identified in the accompanying table of contents.

Reporting the SBWMA

The accompanying **financial tables** present financial data for the SBWMA which compare current year activity to prior year activity to provide guidance on how the financial picture has changed. The Statement of Net Assets, Table 1, and the Statement of Activities, Table 2, include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Also, the SBWMA has only one cash fund for operations and a project fund containing remaining proceeds of the bond sale used for the capital building project.

These two tables report the SBWMA's net assets and changes in them. The SBWMA's net assets – the difference between assets and liabilities – is one way to measure the SBWMA's financial health, or *financial position*. Over time, *increases and decreases* in the SBWMA's net assets are one indicator of whether its *financial health* is improving or deteriorating.

FINANCIAL STATEMENTS

A summary of the *statement of net assets* follows:

	Table 1	
	Net Assets	
	JPA Activities	
	FY 2011	FY 2010
Current and other assets	\$ 25,863,687	\$ 42,370,801
Capital assets	64,131,415	40,999,811
Total assets	<u>89,995,102</u>	<u>83,370,612</u>
Long-term debt outstanding	56,687,247	56,694,747
Other liabilities	8,515,936	5,314,800
Total liabilities	<u>65,203,183</u>	<u>62,009,547</u>
Net assets:		
Invested in capital assets, net of debt	15,589,135	15,161,321
Unrestricted	9,202,784	6,199,744
Total net assets	<u><u>\$ 24,791,919</u></u>	<u><u>\$ 21,361,065</u></u>

Analysis of Net Assets

As of June 30, 2011, the South Bayside Waste Management Authority has total assets of \$90.0 million and total liabilities of \$65.2 million resulting in net assets totaling \$24.8 million.

The increase in net assets is an indication that the overall financial position of the Authority increased during the year by \$3.4 million as indicated in the Statement of Activities Table 2 below. The increase is attributed to higher revenue from higher tip fees and better commodity prices and lower operating expenses as we transition from construction related interim operating expenses to the new facility and the new operating contract with expenses based on volume rather than fixed cost plus contract that ended on December 31, 2010.

The Authority's Net Assets, Table 1, as of June 30, 2011 are comprised of the following:

- Cash and Investments totaling \$21.2 million. This amount includes \$8.1 million of bond proceeds held by fiscal agents and \$13.1 million of pooled cash and other investments for operations. The majority of these amounts were held in short term investments as outlined in Note 2 to the financial statements.
- Other assets include receivables totaling \$4.1 million and interest receivables.
- The largest portion of the Authority's assets totaling \$64.1 million represents its investment in capital assets. These assets are land, buildings, equipment and infrastructure less accumulated depreciation. These assets are primarily located at the Shoreway Environmental Center.
- Liabilities totaling \$8.5 million include general accounts payable and interest payable totaling \$7.0 million and Shoreway environmental remediation of \$1.5 million.
- Long term debt totaling \$56.7 million is primarily composed of Solid Waste System Revenue Bonds which were issued to finance the construction of a new Materials Recovery Facility (MRF) building, expanded Transfer Station building and new MRF recycling equipment.
- Net capital assets, net of related debt, \$15.6 million, represents the Authority's investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. Therefore, these funds are not available for spending. It should be noted that even though the Authority's capital assets are reported net of related debt, the resources needed to repay this debt must be provided from other sources because capital assets cannot be used to liquidate these liabilities.
- Unrestricted net assets totaling \$9.2 million represent the part of net assets that can be used to finance operations. Included in the \$9.2 unrestricted is \$3.6 million that has been designated by the Board to be used for specific reserves as identified in Table 3.

A summary of the *statement of activities* follows:

	JPA Activities	
	FY 2011	FY 2010
Operating Revenues		
Charges for services	\$ 28,660,638	\$ 27,479,291
Commodity Revenue	10,719,422	8,691,557
Other	627,347	118,803
Total Operating Revenues	<u>40,007,407</u>	<u>36,289,651</u>
Operating Expenses		
Shoreway Operations	31,828,593	33,499,718
SBWMA Program Administration	3,171,983	2,945,232
Franchise Fee - Transfer Station	1,356,442	1,248,318
Depreciation	204,252	166,411
Total Operating Expenses	<u>36,561,270</u>	<u>37,859,679</u>
Operating Income	<u>3,446,137</u>	<u>(1,570,028)</u>
Non-Operating Revenues (Expenses)		
Investment Income	(6,575)	15,668
Interest Expense	7,500	(457,829)
Amortization expense	(22,222)	(107,768)
Unclaimed funds	6,014	-
Loss on retirement of capital assets	-	(396,214)
Total Non-Operating Expenses	<u>(15,283)</u>	<u>(946,143)</u>
Increase (decrease) in net assets	3,430,854	(2,516,171)
Beginning net assets	21,361,065	23,877,236
Ending net assets	<u>\$ 24,791,919</u>	<u>\$ 21,361,065</u>

The Statement of Activities presents program revenues and expenses. All of these are elements in the Changes in Net Assets summarized above.

As of June 30, 2011, the Authority had total net assets of \$24.8 million. This amount is a increase of \$3.4 million or 15.9% from the total assets of \$21.4 million reported in the prior year.

The net assets (financial position) of the Authority changed as a result of the revenue and expense fluctuations described below.

- Total operating revenues increased by \$3.7 million or 10.2%. This increase is primarily due to higher tip fee revenue (\$1.2 M), higher commodity revenue from higher prices (\$2.0 M), and higher household hazardous waste program revenue as more cities enrolled in the program.

- Total Shoreway Operations expenses decreased by \$1.7 million or 5.1%. This decrease is primarily due to the change from the Allied cost plus operating contract ending December 31, 2010 to the new contract with SBR at a fixed rate per ton adjusted by changes in annual indexes and collective bargaining rates. As tonnage has declined, SBR is paid less versus Allied's cost plus contract would not have reflected lower cost on lower tonnage. Total other operating expenses increased by \$0.4 million or 9.1% due primarily to the increase in program administration expense and higher franchise fees paid to the City of San Carlos.
- Total net non-operating expenses decreased by \$0.9 million or 100.0% due primarily to the write off of the MRF equipment and building in the prior year and the defeasance of the old bond and the issuance of the new bond.

In 2002, the Board established a reserve policy to protect the short and long-term financial operation of the Authority. In October 2009 the Board approved a new reserve policy.

Table 3 below reflects the amount of reserves that have been designated by the Board.

Table 3		
Fund & Reserve Balances		
	JPA Activities	
	FY 2011	FY 2010
Invested in assets, net of related debt	\$ 15,589,135	\$ 15,161,321
Unrestricted		
Operating Reserve	3,649,065	4,090,915
Unrestricted	5,553,719	2,108,829
Total Unrestricted	<u>9,202,784</u>	<u>6,199,744</u>
Total Fund Balance	<u>\$ 24,791,919</u>	<u>\$ 21,361,065</u>

CAPITAL ASSETS

Capital Assets
(net of depreciation)

Table 4		
Capital Assets		
	JPA Activities	
	FY 2011	FY 2010
Land	\$ 14,000,000	\$ 14,000,000
Buildings and system	4,340,224	4,141,075
Machinery and equipment	1,819,150	1,717,393
Construction in progress	48,618,890	25,583,940
Total Accumulated depreciation	<u>(4,646,849)</u>	<u>(4,442,597)</u>
Total Net Capital Assets	<u>\$ 64,131,415</u>	<u>\$ 40,999,811</u>

The major addition to capital assets was the increase in construction in progress related to the Shoreway Master Plan spending on planning, design, engineering, construction and the purchase of new MRF equipment for the Shoreway capital project.

Additional information on the capital assets can be found in Note (4) of the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the Authority had bonded debt outstanding of \$56,687,247.

Table 5 Outstanding Debt		
	FY 2011	FY 2010
2000 Revenue Bonds	\$ -	\$ -
2009A Revenue Bond	53,500,000	53,500,000
2009B Revenue Bond	3,000,000	3,000,000
Net Premium 2009A	187,247	194,747
	\$ 56,687,247	\$ 56,694,747

Additional information on the Authority’s long-term debt can be found in the Note (5) to the accompanying financial statements.

Subsequent Events

The Master Plan construction project is proceeding with an estimated completion date of June 2012 at which time the costs will be reclassified from construction in progress to the appropriate asset category. The project capital cost in total remains on budget including the contingency amount.

Contacting the Authority’s Financial Management

This financial report is designed to provide our member agencies, investors and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the revenues and expenditures in the course of doing business. If you have questions about this report or need additional financial information, contact the Executive Director, South Bayside Waste Management Authority, 610 Elm Street, San Carlos, California 94070.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS	
Current Assets	
Cash and investments for operations	\$ 13,053,318
Accounts receivable	4,024,984
Interest receivable	78,346
Prepaid Items	<u>6,525</u>
Total Current Assets	<u>17,163,173</u>
Noncurrent Assets	
Cash and cash equivalents with fiscal agent	8,144,967
Unamortized bond issuance costs	555,547
Capital assets	
Land	14,000,000
Construction in progress	48,618,890
Building	4,340,224
Equipment	1,819,150
Less: Accumulated depreciation	<u>(4,646,849)</u>
Net capital assets	<u>64,131,415</u>
Total Noncurrent Assets	<u>72,831,929</u>
Total Assets	<u>89,995,102</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	3,721,573
Accrued liabilities	2,202,622
Interest payable	1,059,288
Unearned revenue	18,993
Current portion of compensated absences	<u>31,711</u>
Total Current Liabilities	<u>7,034,187</u>
Noncurrent Liabilities:	
Accrued liabilities	1,468,159
Compensated absences due in more than one year	13,590
Long-term debt due in more than one year	<u>56,687,247</u>
Total Noncurrent Liabilities	<u>58,168,996</u>
Total Liabilities	<u>65,203,183</u>
Net Assets	
Invested in capital assets, net of related debt	15,589,135
Unrestricted	<u>9,202,784</u>
Total Net Assets	<u>\$ 24,791,919</u>

See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

OPERATING REVENUES:

Charges for services	\$ 28,660,638
Commodity revenue	10,719,422
Other	<u>627,347</u>

TOTAL OPERATING REVENUES 40,007,407

OPERATING EXPENSES:

Shoreway operations	31,828,593
SBWMA program administration	3,171,983
Franchise fee - transfer station	1,356,442
Depreciation	<u>204,252</u>

Total Operating Expenses 36,561,270

Operating (Loss) 3,446,137

NONOPERATING REVENUES (EXPENSES):

Investment income	(6,575)
Interest expense	7,500
Amortization expense	(22,222)
Unclaimed funds	<u>6,014</u>

Net Nonoperating Revenue (Expense) (15,283)

Change in Net Assets 3,430,854

NET ASSETS AT BEGINNING OF YEAR 21,361,065

NET ASSETS AT END OF YEAR \$ 24,791,919

See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 37,167,720
Payments to suppliers	<u>(32,706,816)</u>
Net Cash Flows from Operating Activities	<u>4,460,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) decrease in cash and investments with fiscal agent	22,711,290
Interest received	<u>26,422</u>
Net Cash Flows from Investing Activities	<u>22,737,712</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	<u>(23,335,856)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(23,335,856)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>3,862,760</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,190,558</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 13,053,318</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 3,446,137</u>
Adjustments to reconcile operating loss net cash provided (used) by operating activities:	
Depreciation and amortization	204,252
Other nonoperating revenues	6,014
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(2,435,036)
(Increase) decrease in prepaid expenses	38,401
Increase (decrease) in accounts payable	3,599,071
Increase (decrease) in accrued liabilities	(410,665)
Increase (decrease) in unearned revenue	18,993
Increase (decrease) in accrued compensated absences	<u>(6,263)</u>
Total Adjustments	<u>1,014,767</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,460,904</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 14,722</u>

See independent auditor's report and notes to basic financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies

a. Organization

The South Bayside Waste Management Authority (the Authority) is a joint powers authority formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the Facilities, currently the San Carlos Transfer Station and the San Mateo Recyclery; and the planning, administration management, review, monitoring, enforcement and reporting of solid waste, recyclable material and plant material collection activities within Authority's service area.

Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitation District and the County of San Mateo.

The Authority is controlled by a twelve member board consisting of one representative from each member. None of the member entities exercise specific control over the budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by the City of San Carlos.

Through the operation of franchise agreements with each member, Republic Services, Inc. (formerly Allied Waste Management) collects fees charged for the use of the Facilities and remits them to the Authority. Pursuant to an Operations Agreement with the Authority, Republic Services, Inc. will operate the Facilities and be paid compensation based on costs, a provision for profit and incentives for cost savings and performance through December 31, 2010. Effective January 1, 2011 South Bay Recycling began operating the Facilities and is paid compensation based on fees per ton. The fees are adjusted annually based on CPI indexes and CBA agreement wage and benefit rate changes until the current CBA agreements expire in 2013 at which time they revert to index adjustments. In addition, there are various disposal and processing vendors such as BFI, Browning Ferris, Recology Grover, Zanker Road and Bio-Fuel Systems. In addition, to assist in the transition from the prior operator to the new, a third party Smurfit-Stone was utilized.

b. Enterprise Fund Accounting

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred. Enterprise fund equity includes retained earnings and contributed capital.

The Authority follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

c. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Expenditures which materially increase the value or life of capital assets plant assets are capitalized and depreciated over the remaining useful life of the asset.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Building	10-40 years
Equipment	5-20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

d. Compensated Absences

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 15 working days' vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 5 years. Maximum accumulation of vacation is two years' vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The liability for compensated absences is determined annually.

Compensated absences are liquidated by the General Fund.

e. Retirement and Deferred Compensation Plans

The Authority offers its employees a retirement plan created in accordance with Internal Revenue Code Section 401a. The employer contribution to the 401a is 10% plus a match up to 2% of the employee contribution.

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457b. Pursuant to the IRC subsection (g), all amounts of compensation deferred under the deferred compensation plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the Plan. Deferred compensation funds are not subject to the claims of the Authority's general creditors; consequently, the assets and related liabilities of the plan are not included within the Authority's financial statements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments

The Authority pools cash from all sources except cash and investments held by fiscal agents so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution.

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Authority employs the Trust Department of a bank as the custodian of certain Authority managed investments, regardless of their form.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

b. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

<u>Statements of Net Assets</u>	
Cash and investments for operations	\$ 13,053,318
Cash and investments with fiscal agent	<u>8,144,967</u>
Total Cash and Investments	<u>\$ 21,198,285</u>

Cash and investments for operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

c. Investment Authorized by the California Government Code and the Authority's Investment Policy

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy where the Authority's Investment Policy where is more restrictive.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Investment In One Issuer</u>
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$40,000,000 per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	\$40,000,000 per account	N/A
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

d. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

<u>Authorized Investment Type</u>	<u>Minimum Credit Quality</u>
Direct obligations of the Department of the Treasury of the United States	None
Fully guaranteed obligations of federal agencies	None
Direct obligations of FNMA, FHLMC, REFCORP, Federal Home Loan, AMBAC Assurance	AAA
U.S. dollar denominated deposit accounts	A-1+
Commercial Paper	AA
Money market fund	AAA
Pre-refunded municipal obligations	None
General obligations of States	A2/A
State of California Local Agency Investment Fund	None
San Mateo County Investment Pool	None

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

Investment Type	12 Months or less	12 to 25 Months	Total
San Mateo County Investment Pool	\$ 2,075,395	\$ -	\$ 2,075,395
U.S. Government-Sponsored Enterprise Agencies Non-callable	-	3,904,292	3,904,292
California Local Agency Investment Fund	10,157,315	-	10,157,315
Money Market	<u>2,293,493</u>	<u>-</u>	<u>2,293,493</u>
Total Investments	<u>\$ 14,526,203</u>	<u>\$ 3,904,292</u>	18,430,495
Total Cash in Bank and Cash on Hand			<u>2,767,790</u>
Total Cash and Investments			<u>\$ 21,198,285</u>

Local Agency Investment Fund

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

San Mateo County Investment Fund

The Authority is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The Authority reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Cash and Investments (Continued)

notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The Authority reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

On Aug. 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on Aug. 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac to AA+ from AAA. The Authority invests in both LAIF and the SMCIF, which invest in various underlying securities, including the federal agency securities listed above. While neither LAIF nor the SMCIF is rated, the federal agency securities are, and these have been affected by this rating change.

Presented below is the actual rating as of June 30, 2011 for each investment type as provided by Moody's ratings:

Investment Type	AAA	Total
U.S. Government Sponsored Enterprises Agencies		
Non-callable	\$ 3,904,292	\$ 3,904,292
Money Market (U.S. Securities)	2,293,493	2,293,493
Totals	<u>6,197,785</u>	6,197,785
California Local Agency Investment Fund		10,157,316
San Mateo County Investment Pool		<u>2,075,394</u>
Total Investments		<u>18,430,495</u>
Total Cash in bank and cash on hand		<u>2,767,790</u>
Total Cash and Investments		<u>\$ 21,198,285</u>

g. Concentration of Credit Risk

The Authority's investment policy contains certain limitations on the amount that can be invested in any one issuer. In certain categories, these limitations surpass those required by California Government Code Sections 53600 et seq. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2011:

Issuer	Investment Type	Reported Amount
Federal Home Loan Mortgage Corp.	Federal agency securities	\$ 3,904,292

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 3: Capital Assets and Facilities Operations

Pursuant to a sales agreement with Republic Services, Inc., the Authority purchased land, and buildings and personal property amounting to \$14 million and \$5.228 million, respectively. These facilities comprise the San Carlos Transfer Station and San Mateo Recyclery. The Authority signed an agreement to lease back the facilities to Republic Services, Inc. which operates them. This agreement expired on December 31, 2006 and the Authority has extended the agreement until December 31, 2010. During the year ended June 30, 2011, as of December 31, 2010 the Authority paid \$13,901,342 to Republic Services, Inc. to operate the facilities. Effective January 1, 2011 through June 30, 2011 the Authority paid \$6,709,339 to South Bay Recycling to operate the Facility, \$6,538,836 to various processing vendors and \$4,278,696 to Smurfit-Stone for interim operations during the transition.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal 2010-2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Business-type activities				
Capital assets not depreciated:				
Land	\$ 14,000,000	\$ -	\$ -	\$ 14,000,000
Construction in Progress	25,583,940	23,034,950	-	48,618,890
Total non-depreciable assets	39,583,940	23,034,950	-	62,618,890
Capital assets being depreciated:				
Buildings	4,141,075	199,149	-	4,340,224
Equipment	1,717,393	101,757	-	1,819,150
Total depreciable assets	5,858,468	300,906	-	6,159,374
Less accumulated depreciation:				
Buildings	(3,190,281)	(141,185)	-	(3,331,466)
Equipment	(1,252,316)	(63,067)	-	(1,315,383)
Total accumulated depreciation	(4,442,597)	(204,252)	-	(4,646,849)
Net depreciable assets	1,415,871	96,654	-	1,512,525
Capital assets, net	<u>\$ 40,999,811</u>	<u>\$ 23,131,604</u>	<u>\$ -</u>	<u>\$ 64,131,415</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Revenue Bonds

The Authority's debt issues and transactions are summarized below and discussed in detail thereafter.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>one year</u>
2009A Solid Waste					
System Revenue Bonds	\$ 53,500,000	\$ -	\$ -	\$ 53,500,000	\$ -
2009B Solid Waste					
System Revenue Bonds	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
	<u>\$ 56,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,500,000</u>	<u>\$ -</u>
				<u>187,247</u>	
			Add: Unamortized premiums/discounts	<u>\$ 56,687,247</u>	
			Net Long-Term Debt		

a. Solid Waste Enterprise Revenue Bonds Series 2009A

On September 2, 2009, the Authority issued \$53,500,000 of *Solid Waste Enterprise Revenue Bonds Series 2009A*. The 2009A Bonds were issued to pay for the construction and renovation of a solid waste materials recovery facility and transfer station and related equipment, to fund a Reserve Fund, to fund capitalized interest, and to fund certain working capital and pay other costs, including issuance costs.

The series 2009A bonds are solely payable from and secured by the net revenues and debt service reserve fund held by the Authority's trustee, as defined under the bond indenture. Net Revenues means, for any period, all of the revenues during such period less all of the maintenance and operation costs during such period. Revenues mean all gross income and revenue received or receivable by the Authority.

Principal payments are payable annually on September 1, commencing September 1, 2012. The bond bears interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing on March 1, 2010.

The bond is secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. The pledge of future net revenue ends upon repayment of the 2009A bonds in the amount \$53.5 million in remaining debt service on the bonds which is scheduled to occur in 2036.

For fiscal year 2011, gross revenues including operating revenues and non-operating interest earnings amounted to \$40,014,907 and; operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but not interest, depreciation or amortization and amounted to \$36,357,018. As a result, the net revenue (loss) for fiscal 2011 amounted to a loss of \$3,657,889.

b. Solid Waste Enterprise Revenue Bonds Series 2009B

On September 2, 2009, the Authority also issued \$3,000,000 of taxable Solid Waste Enterprise Revenue Bonds Series 2009B.

The series 2009B bonds are solely payable from and secured by the subordinate net revenues, as defined under the bond indenture. Subordinate net revenues means, for any period, net revenues during such period remaining after payment of all amounts

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Revenue Bonds (Continued)

required to be paid pursuant to the senior lien obligations or a senior lien indenture during such period, in an amount that is equal to debt service on the bonds and any subordinate parity obligations.

Principal repayment in entirety in the amount of \$3,000,000 is due September 14, 2014. The bond bear interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing March 1, 2010.

The bond is secured by a pledge of the Authority's net revenue as defined under the bond indenture. The pledge of future net revenue ends upon repayment of the 2009B bonds in the amount of \$3 million which is scheduled to occur in 2014.

c. Debt Service Requirements

Annual debt service requirements on the bonds are shown below with specified repayment terms:

For the Year Ending June 30	Business-type Activity	
	Principal	Interest
2012	\$ -	\$ 3,177,862
2013	1,095,000	3,150,487
2014	1,150,000	3,094,362
2015	4,205,000	2,960,488
2016	1,270,000	2,833,138
2017-2021	7,160,000	13,326,094
2022-2026	9,165,000	12,087,838
2027-2031	12,185,000	9,412,063
2032-2036	16,380,000	6,903,000
2037-2041	3,890,000	690,300
Total	<u>\$ 56,500,000</u>	<u>\$ 57,635,632</u>

Note 6: Insurance

The Authority purchases commercial insurance policies to protect itself from claims arising from the following types of losses:

Type of Coverage	Coverage Limits
General Aggregate Limit	\$ 2,000,000
Products-Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury Limit	1,000,000
Each Occurrence	1,000,000
Damage to Rented Premises Limit	300,000
Medical Expense Limit (Any one person)	25,000
Hired & Non-Owned Auto Limit	1,000,000
Pollution Legal Liability	1,000,000
Self-Insured Retention (SIR)	\$10,000 SIR
Environmental Impact Liability	per Incident

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 7: Pollution Remediation

Since 2000, the Authority is the current property owner of 333 Shoreway Road in San Carlos, which has ground water contamination. However, the County regulator has identified site operator and former property owner, Allied Waste (Allied), as the responsible party.

There has been an ongoing project to treat ground water contamination for at least six years that Allied as the responsible party had been paying for. The contamination predates the ownership of the property by the Authority in 2000. Several sites have been treated except for one site under the building which remains contaminated and awaits treatment pending approval of the treatment method by the County. The project for this treatment and subsequent site monitoring remains outstanding as of June 30, 2011. This project to treat the contaminated site is in the preliminary stage. Final cost is unknown but estimated to not exceed \$1,500,000 over the next ten years, ending in fiscal 2020.

In fiscal 2010, the Authority and the on-site contractor, Republic Services (formerly Allied Waste and BFI) signed a settlement and release agreement. As part of the agreement, Republic Services paid the Authority \$1,500,000 as the estimated cost of remediation project. Remediation cost estimate was negotiated with Allied per methods approved by County regulators based on input from environmental engineers on remaining cost of work. There was no known additional cost as of June 30, 2011. As of June 30, 2011, the Authority had recorded \$1,468,159 of accrued liabilities.

Note 8: Net Assets

The Authority has designated \$3,649,065 of the unrestricted net assets for future spending plans or concerns about the availability of future resources. These designations may be modified, amended or removed by Authority Board action.



STAFF REPORT

To: SBWMA Board Members
From: Cliff Feldman, Recycling Programs Manager
Date: January 26, 2012 Board of Directors Meeting
Subject: Update on Contractor Auditing: Collection Services and Facility Operations Auditing and Financial Systems Auditing

Recommendation

This is an informational report and no action is necessary.

Analysis

The Member Agencies Franchise Agreements with Recology San Mateo County (Recology) provide several provisions related to auditing the company's operations and compensation related information. A list of these provisions is provided as **Attachment A**. In addition, RethinkWaste staff currently is managing an auditing project with Hilton, Farnkopf and Hobson (HF&H) pertaining to both Recology and South Bay Recycling (SBR) and recently issued a Request for Proposals (RFP) for another financial systems related audit of both contractor's. Below is an explanation of these two auditing projects:

HF&H Auditing Project

This project entails conducting an audit of Collection Services (Recology) and Facility Operations (SBR) Contractor Data, Records, Systems and Reports. RethinkWaste issued an RFP for this project and Hilton, Farnkopf and Hobson (HF&H) was selected. The scope of work specifically requires HF&H to evaluate and audit data collection and record keeping, assess and analyze customer service systems and procedures, audit tonnage reporting, perform a detailed contractor performance evaluation and comprehensive auditing of reports (i.e., Monthly, Quarterly and Annual). The project commenced in September 2011 and will be completed in March/April 2012 after submittal and review of both contractors' first Annual Reports in February 2012. The budget for this project is \$70,000 and staff is working on amending the scope to include an audit of Recology's customer billings. HF&H was selected from the three firms that responded to staff's RFP.

Recology and SBR Financial Systems Audit

This project is planned for March-May 2012 and will entail conducting a detailed audit of all financial related activities of both contractors. For example, the scope will include a comprehensive audit of revenue billed/collected, Agency fees billed/collected/paid, and statistics used for cost allocation. The RFP for this project was recently issued and proposals are due in February. Staff anticipates selecting a contractor and executing a contract in March. We will request that representatives from two Member Agencies assist staff with evaluating proposals and selecting a contractor.

Background

The Member Agencies Franchise Agreements with Recology and the Facility Operations agreement with SBR require the companies to provide services, collect and remit revenue, gather and manage data, and submit

monthly, quarterly and annual reports. Many of the performance standards are self-reported by Recology and SBR. The tonnage data is by and large reported by SBR with the exception of the allocation of tonnage to the Member Agencies which is Recology's responsibility. In addition, the financial related data and reporting functions required by both contractors are handled separately by each company. Staff has budgeted funds for FY 2012 to proceed with the auditing projects mentioned above.

Attachment

Attachment A – Recology Franchise Agreement Auditing Provisions



Simple. Smart. Green.

Attachment A

Recology San Mateo County Franchise Agreement Auditing and Performance Hearing Provisions

Section 7.01.A (Customer Billing)

3. Bill Format. Contractor shall Bill Customers using a Bill format (i.e., post-card Billing format or conventional envelope/insert) approved by the Agency, if Customer does not opt-out by requesting use of the automated Billing and payment system. Contractor shall promote the website-based Billing and payment system on all paper Bills sent to Customers. Agency shall have the right to revise the Billing format (e.g., size, font, frequency, etc.) and to itemize certain charges and to review the Billing procedures. Contractor shall be compensated for any cost increases that result from the Agency-directed change to the Billing format.
4. Records. Contractor shall maintain, for inspection by the Agency, copies of Customer Billings and receipts, in chronological order, for a period of five (5) years after the date of service. Contractor shall maintain those records in electronic format. SBWMA and Agency staff or representatives shall be given access to such records upon one (1) Business Day notice.

Agency shall be allowed to access and review Contractor's Billing systems on an appointment basis and such access shall not be unreasonably withheld by Contractor.

Section 7.01.E (Customer Billing)

- E. **Review of Billings**. Contractor shall review its Billings to Customers, issued pursuant to Section 7.01.A. The purpose of the review is to determine that the amount which Contractor is Billing each Customer is correct in terms of the level of service (i.e., frequency of Collection, size of Container, location of Container) being provided to such Customer by Contractor. Contractor shall review Customer accounts not less than once every three (3) calendar years for each Commercial, Multi-Family Dwelling and SFD Customer, unless Agency shall direct Contractor to do so more frequently. Contractor shall submit to Agency a written report of the status of its review annually no later than forty-five (45) Days after the end of each calendar year. The intent of this Section is for Agency to receive reports on an annual basis for one-third (1/3) of all Customer accounts, and for all Customer

accounts to be reviewed every third year of the Agreement. The scope of the review and the reviewer's work plan shall be submitted to Agency for approval no later than six (6) months before the submission of the first report.

Section 7.01.F (Customer Billing)

- F. **Agency or SBWMA Billing Review.** Contractor acknowledges that Agency or SBWMA may perform, or cause to be performed, Billing reviews periodically. Contractor agrees to participate and cooperate with SBWMA and Agency and its agents to accomplish these reviews and conduct any data collection and report preparation that may be requested. The Contractor's full cooperation with these reviews may include, but is not limited to: (i) allowing Agency or SBWMA staff or consultants to ride along with drivers in Collection vehicles during daily Collection operations; (ii) providing for interviews of personnel at all levels, with or without management oversight; (iii) providing reporting related to franchised operations available through Contractor's automated systems; and, (iv) adjusting routing, public information, outreach, or program availability based upon the recommendations of the audit, if approved by the SBWMA or Agency.

Section 7.07 (Program Evaluation)

7.07 PROGRAM EVALUATION

The Agency may require the Contractor to periodically conduct audits of the Residential and Commercial Solid Waste, Targeted Recyclable Materials, and Organic Materials Collection programs to assess one (1) or more of the following performance indicators: average volume of Targeted Recyclable Materials per set-out per Customer, average volume of Organic Materials per set-out per Customer, participation level (i.e., number of Customers setting out Containers per week), Contamination levels, etc. Contractor shall perform up to five (5) Days of route auditing at no additional cost to the Agency or Customers once per calendar year. Prior to the program evaluation audit, Agency and Contractor shall meet and discuss the purpose of the audit and agree on the method, scope, and data to be provided by the Contractor. If Agency requires more than five (5) Days of auditing for the purposes of program evaluation, the activity shall be considered an Agency-directed change in scope and handled in accordance with provisions in Section 15.12.

If the Contractor does not Collect Multi-Family Dwelling Solid Waste, Targeted Recyclable Materials, and Organic Materials using dedicated Collection vehicles, thereby precluding regular and accurate reporting of the Tonnage of Solid Waste, Targeted Recyclable Materials, and Organic Materials Collected from Multi-Family Residential Complexes, the Agency may require the Contractor to conduct a semi-annual or annual Tonnage assessment that involves separately Collecting, weighing, and reporting Multi-Family Dwelling Solid Waste, Targeted Recyclable Materials, and Organic Materials to quantify Tonnage Collected during a given week. This assessment shall be performed by Contractor at no additional cost to the Agency or Customers.

If the Agency wants to collect program data, perform field work, conduct route audits to investigate Customer participation levels and set-out volumes, and/or evaluate and monitor program results related to Solid Waste, Targeted Recyclable Materials, and Organic Materials Collected in the Agency by the Contractor, the Contractor shall cooperate with the Agency and its agent(s), which may include the SBWMA and its consultants.

Section 7.11 (Environmental Management Program)

7.11 ENVIRONMENTAL MANAGEMENT PROGRAM

Contractor shall implement and maintain an environmental management program combining several elements to minimize the environmental impacts of its operations in the Service Area. Contractor shall provide upon request from Agency a description of topics discussed at its bi-monthly environmental team roundtable and training program meeting(s) and the semiannual corporate environmental compliance staff meetings. Contractor shall provide Agency access to its “Norcal’s Environmental and Safety Tracking” (NEST) system upon request. Contractor shall provide Agency copies of its internal environmental compliance audits, third-party audits and disposition of corrective actions, within thirty (30) Days upon request from Agency.

Section 7.12 (Annual Route Assessment)

7.12 ANNUAL ROUTE ASSESSMENT

Contractor shall conduct a route assessment of the Service Area each Rate Year. This comprehensive route assessment shall require Contractor to assess all of its Solid Waste, Targeted Recyclable Materials and Organic Materials Collection Customers over a one (1) week period during the same month each year for the Term. The assessment is intended to annually confirm and update Contractor’s data related to Customer accounts, service levels and operations, including, but not limited to: (i) number of Accounts; (ii) Customer address; (iii) number and type of Containers at each Account; and (iv) Collection frequency of each Container at each Account; (v) . Bin and Cart lifts; (vi) Drop Box pulls; (vii) service stops; (viii) route hours per year; and (ix) tonnage Collected. All service level information related to lifts and pulls will be derived in part from Contractors database management system. All route labor hours shall be based on total route hours for routes exclusive to each Agency and Tonnage information shall be based on actual tons Collected. For routes that service more than one Agency, the Tonnage Collected on these routes and total route hours shall be allocated to the respective Agencies based on the type and number of accounts and service levels attributable to each Agency.

Section 8.11 (Annual Performance Hearing)

8.11 ANNUAL PERFORMANCE HEARING

- A. **Objectives.** Agency or SBWMA may hold a public performance hearing in April or May of each Rate Year, at which time Contractor shall be present and shall participate by making a presentation and responding to questions. SBWMA shall convene the hearing to address the positive and negative aspects of Contractor's overall performance. The purpose of the hearing may also involve discussion and review of technological, economic, and regulatory changes in Collection, waste reduction, Recycling, processing, and Disposal practices that can improve quality of service; increase waste reduction and diversion; and ensure services are being provided effectively and economically. Topics for discussion and review at the performance hearing shall include, but not be limited to: Contractor's accomplishments and compliance with various provisions of the Agreement, services provided, feasibility of providing new services, application of new technologies, Customer Complaints, possible amendments to this Agreement, developments in the Applicable Laws and regulations, new initiatives for meeting or exceeding waste reduction and Recycling goals, regulatory constraints, and Contractor performance. SBWMA and Contractor may each select additional topics for discussion at the performance hearing.
- B. **Process.** Within sixty (60) Days of notification provided by Agency or SBWMA to Contractor of its intent to conduct a performance hearing, Agency or SBWMA will submit questions to Contractor pertaining to Contractor's performance and Contractor shall submit its written response within thirty (30) days. SBWMA and Contractor shall meet to discuss the questions and Contractor's response prior to submittal by Contractor. SBWMA and Contractor may request from one another information or documents related to the scheduled public hearing and SBWMA and Contractor shall provide such information promptly.

In addition to Contractor's responses to the questions submitted by SBWMA, Contractor may be required to submit a self-assessment report of Contractor's performance and information pertaining to the following:

1. Recommended Changes or New Services. Changes and/or new services recommended to improve Agency's ability to meet and/or exceed the Agency's waste reduction and recycling goals and those of the Act.
2. Complaint Records. The reports required by this Agreement regarding Complaints shall be used as one basis for review. Contractor may submit other relevant performance information and reports for consideration. Agency may request Contractor to submit specific information for the hearing. In addition, any Person may submit comments or Complaints during or before the hearing, either orally or in writing, and these shall be considered.
3. Action Plan. Contractor shall prepare and submit an action plan for improving and/or modifying its Collection services and other services if requested.

Not less than ten (10) Business Days prior to the scheduled hearing date, SBWMA and Contractor shall exchange any written reports and other documents that will be provided or presented at the hearing. Not less than five (5) Business Days before

the scheduled hearing date, SBWMA and Contractor shall ensure their availability to discuss the content and underlying support for such reports.

SBWMA and Contractor shall attend and participate in the performance hearing. Contractor may be required to present an oral report on its performance at the performance hearing. Contractor's failure to attend and participate in the performance hearing and provide an oral presentation upon request; provide a written response to the questions or request for a self-assessment report submitted by Agency or SBWMA; or submit an action plan if requested by Agency or SBWMA may result in Liquidated Damages pursuant to Attachment J.

Within sixty (60) Days after the conclusion of each performance hearing, SBWMA may issue a report. As a result of the review, Agency may require Contractor to provide expanded or new services within a reasonable time frame and for reasonable compensation; and Agency or SBWMA may direct Contractor to take corrective actions for any performance inadequacies.

Section 9.02.B (Record Keeping)

- B. **Inspection of Records.** Agency shall have the right to inspect or review the payroll tax reports, specific documents or records required expressly or by inference pursuant to this Agreement, or any other similar records or reports of Contractor that Agency shall deem, in its sole discretion, reasonably necessary to evaluate annual reports, compensation applications provided for in this Agreement, and Contractor's performance or other matters related to this Agreement.

The Agency, its auditors and other agents selected by the Agency, shall have the right, during regular business hours, to conduct unannounced on-site inspections and review of the records and accounting systems of Contractor and to make copies of any of Contractor's documents relevant to this Agreement. Upon request, Contractor shall arrange for records of Related Party Entities to be made available to Agency and its official representatives for review, to the extent such records are reasonably necessary to evaluate annual reports, compensation applications, Contractor's performance, or other matters related to this Agreement.

Section 11.04 (Compensation)

11.04 APPLICATION PROCESS FOR CONTRACTOR'S COMPENSATION

- A. **Application Date and Content.** Contractor shall prepare and submit to Agency and SBWMA by July 1 of each year, beginning on July 1, 2010, an Application for determination of Contractor's Compensation for the next Rate Year. This Application will cover all Member Agencies and will allocate total costs to each Member Agency using the allocation methodology prescribed in Attachment K and illustrated in Attachment N. Contractor shall provide any additional information requested by the Agency or by SBWMA during its review of the Application.
- B. **Review of Application.** The Application shall be reviewed by SBWMA for accuracy and consistency with the procedures for determining Contractor's Compensation specified in this Agreement as described in Attachment K. SBWMA

shall share with Contractor any factual or calculation errors identified in the Application and Contractor shall have the opportunity to revise its Application.

Section 11.07 (Compensation)

11.07 RATE-SETTING PROCESS

- A. **General.** The Agency shall be solely responsible for establishing and adjusting Rates as described in this Article.
- B. **Annual Review Process.** The Rates shall be reviewed annually by Agency, commencing with Rate Year One (2011) and continuing through the remaining Term including any extension periods. The Agency shall adjust Rates as necessary to generate annual Gross Revenues Billed equal to Contractor's Compensation approved for the Rate Year and approved Pass-Through Costs.

If Agency elects to set rates that are below those recommended in the SBWMA report, (or delays acting to revise rates such that the recommended rates do not go into effect until after January 1), and the Revenue Reconciliation process conducted by SBWMA for that Rate Year demonstrates that Net Revenues Billed were less than the approved Contractor's Compensation contained in the SBWMA report, interest shall accrue on the difference. Interest shall apply (i) to fifty percent (50%) of the difference during the Rate Year in which the shortfall in revenue occurred, and (ii) one-hundred percent (100%) of the difference during the immediately following Rate Year. The interest rate applied to both years shall be the prime rate in effect when SBWMA issued the report for that Rate Year plus one percent (1%).



STAFF REPORT

To: SBWMA Board Members
From: Cliff Feldman, Recycling Programs Manager
Date: January 26, 2012 Board of Directors Meeting
Subject: Results of 2011 Fourth Quarter Recology Franchise Agreement(s) Quarterly Contamination Measurement for Loads of Recyclable Materials, Organic Materials and Plant Materials

Recommendation

This is an informational report and no action is necessary.

Analysis

Sampling Process and Protocol

The SBWMA is charged with performing a quarterly analysis of the contamination levels present in five distinct types of materials collected (see **Table 1**) and delivered to the Shoreway Environmental Center (SEC) by Recology San Mateo County (Recology) per the Franchise Agreement(s) with the Member Agencies. The 2011 Fourth Quarter sampling project was conducted from December 12-16, 2011 by Sloan Vasquez LLC (Irvine, CA) with the full cooperation of both Recology and South Bay Recycling (SBR). The full sampling report can be found in Attachment A.

Both the route or truck to be sampled and the location of the material pulled out of the load are selected completely at random. The sampling process is to randomly pull out approximately 175 pounds of material from each randomly selected collection vehicle (i.e., this amount ranges from 125 to 225 pounds depending on the material type). These 175 pound samples are taken from 12 different collection vehicles for each material stream per the requirements to achieve statistically significant or accurate results per Franchise Agreement Attachment E-2. The material from each sample is then required to be divided into two basic categories which includes both acceptable and unacceptable items. (However, beginning with the Third Quarter Sampling, Sloan Vasquez is separating most material streams into as many as twelve categories to provide additional pertinent data on the composition of the samples.) The definitions and other sections of the Franchise Agreement(s) primarily govern how this process will unfold; however, the SBWMA, Sloan Vasquez, Recology and SBR all worked closely to develop a more detailed approach (i.e., actual policy and procedures for the sampling process) to get this work done accurately and cost effectively. **Table 1** (on the next page) lists the material types and number of samples measured from each.

Table 1
2011 Fourth Quarter Material Types and Number of Samples

<u>Material</u>	<u>Total Number of Samples Measured</u>
Commercial Targeted Recyclable Materials	12
Commercial Organic Materials	12
Commercial Plant Materials	12
Residential Targeted Recyclable Materials	12
Residential Organic Materials	12
Total	60

2011 Fourth Quarter *Sampling Results*

Four of the five material types sampled complied with the allowable contamination thresholds prescribed in the Franchise Agreement(s). **Table 2** provides the allowable contamination thresholds, the results from the 2011 Fourth Quarter sampling (i.e., measured contamination level) and the percent difference for each material type.

Table 2
2011 Fourth Quarter Sampling Results

<u>Material</u>	<u>Allowable Maximum Contamination Level</u>	<u>Measured Contamination Level</u>	<u>Percent Difference</u>
Commercial Targeted Recyclable Materials (CR)	8.0%	15.0%	7.0%
Commercial Organic Materials (CO)	10.0%	2.2%	- 7.8% ²
Commercial Plant Materials (CP)	5.0%	0.0%	- 5.0% ²
Residential Targeted Recyclable Materials (RR)	20.0% ¹	11.7%	- 8.3% ²
Residential Organic Materials (RO)	5.0%	4.7%	- 0.3% ²

¹ The Residential Targeted Recyclable Materials Maximum Allowable Contamination Level for years 2-10 (i.e., 2012 – 2020) of the Recology Franchise Agreement(s) will be established as the average percentage measured for all four quarters in 2011.

² No disincentive payments are associated with results that are at or below the allowable maximum contamination levels.

The ramifications to the SBWMA of Recology failing to deliver material to the SEC that is consistently equal to or under the allowable contamination thresholds are primarily fiscal. This is the fundamental rationale for including the contamination related provisions in both the Recology Franchise Agreement(s) and the contract with South Bay Recycling. The presence of unacceptable materials or contamination in the recyclable materials collected by Recology results in additional disposal costs and potentially reduced commodity revenue for the SBWMA. The per ton disincentive payments that must be paid by Recology for exceeding the maximum allowable contamination level for any of the five material categories are prescribed in the Franchise Agreement(s) Attachment I - Performance Incentives and Disincentives.

The SBWMA and Recology are meeting monthly to discuss commercial recycling issues and staff is confident that Recology will work diligently to ensure that the contamination present in commercial recycling and organic materials loads is minimized. Recology has conveyed that it will continue to implement best practices such as regular load grading and frequent observation of loads being tipped at the SEC in an effort to reduce contamination. The 2011 Year-End Sampling Results are provided in **Table 3** on the next page.

**Table 3
2011 Year-End Sampling Results**

<u>Material</u>	<u>Allowable Maximum Contamination Level</u>	<u>Q1-2011 Results</u>	<u>Q2-2011 Results</u>	<u>Q3-2011 Results</u>	<u>Q4-2011 Results</u>	<u>2011 Year-End Results (average)</u>
CR	8.0%	22.0%	10.0%	4.2% ²	15.0%	12.8%
CO	10.0%	14.7%	11.1%	3.1% ²	2.2% ²	7.8%
CP	5.0%	4.2% ²	1.5% ²	2.7% ²	0.0% ²	2.1%
RR ¹	20.0% ¹	8.3% ²	7.8% ²	6.2% ²	11.7% ²	8.5% ¹
RO	5.0%	3.9% ²	2.90% ²	3.1% ²	4.7% ²	3.7%

¹ The Residential Targeted Recyclable Materials Maximum Allowable Contamination Level for years 2-10 (i.e., 2012 – 2020) of the Recology Franchise Agreement(s) will be established as the average percentage measured for all four quarters in 2011.

² No disincentive payments are associated with results that are at or below the allowable maximum contamination levels.

Background

In 2007, the Board approved staff's recommendation to ensure that a comprehensive contamination management program would be included in both the future Franchise Agreement and SEC Operations Agreement. The primary rationale for this recommendation was to control costs for the SBWMA as excessive contamination increases disposal and processing costs and can also result in reduced commodity revenue. Subsequently, the Collection Services and Facility Operations RFPs were issued with provisions mitigating the impact of contamination on both the SBWMA and Member Agencies. Thus, the Franchise Agreement(s) with Recology and the SEC Operations Agreement with SBR both include specific provisions and associated monetary penalties to reduce contamination as much as possible.

The Franchise Agreement(s) with Recology contain provisions in section 6.02 and Attachment I (Performance Incentives and Disincentives) that explains the maximum contamination levels and how monetary penalties associated with exceeding these levels would be calculated. In addition, Attachment E-2 (Contamination Measurement Methodology: Quarterly Protocol) prescribes in detail the sampling methodology and statistical rationale supporting implementation of this methodology that is used to measure contamination on a quarterly basis.

Fiscal Impact

The fiscal impact to the SBWMA for the results of the 2011 Fourth Quarter Contamination Sampling will be approximately \$29,000 in payments from Recology to the SBWMA for excessive contamination levels in the commercial recycling materials. The exact amount will be calculated by Recology and payment is owed with the company's Fourth Quarter 2011 Report due on January 30, 2012. The total amount of contamination disincentive payments calculated for Recology in 2011 are provided in Table 4 on the next page.

Table 4
2011 Contamination Disincentive Payments

<u>Material</u>	<u>Q1-2011 Contamination Disincentive Payment</u>	<u>Q2-2011 Contamination Disincentive Payment</u>	<u>Q3-2011 Contamination Disincentive Payment</u>	<u>Q4-2011 Contamination Disincentive Payment</u>	<u>2011 Contamination Year-End Totals</u>
CR	\$50,335	\$7,957	\$0.0	\$29,000 ¹	\$87,292 ¹
CO	\$10,829	\$2,566	\$0.0	\$0.0	\$13,395
CP	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
RR	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
RO	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

¹ The Fourth Quarter Commercial Targeted Recyclable Materials contamination disincentive payment is estimated.

Attachment:

Attachment A – Sloan Vazquez LLC Fourth Quarter 2011 Contamination Measurement Sampling Report



**Agenda Item 4E
Results of 2011 Fourth Quarter Recology Franchise
Agreement(s) Quarterly Contamination Measurement
for Loads of Recyclable Materials, Organic Materials and
Plant Materials**

**Attachment A: Sloan Vazquez LLC Fourth Quarter 2011
Contamination Measurement Sampling Report**

- ◆ Sloan Vazquez LLC Fourth Quarter 2011 Contamination Measurement Sampling Report
 - ◆ *File too large to include with Packet*
- Posted on Website: www.rethinkwaste.org



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Date: January 26, 2012 Board of Directors Meeting
Subject: Discussion on Topics for Future Board Retreat

Recommendation

This is an informational report and no action is necessary.

Analysis

The Executive Committee of the Board based on full Board feedback has started the early planning efforts for a new Strategic Plan. At the November 17, 2011 Board meeting staff made a presentation entitled “**Rethinking Our Waste: A True Success Story in San Mateo County**” to help start the Board discussion on future strategic priorities. Staff believes that we have a great foundation to build on for future success including:

- A modern, flexible new collection system for residents and businesses
- New Shoreway facility infrastructure to support current and future processing and transfer needs
- New Uniform Franchise Agreement and Shoreway Operations Agreement with high performance standards, incentives and disincentives, more transparent and accountable compensation methodology, and shared requirements to reduce contamination
- A high performing, professional and accountable organization with a lower cost overhead structure
- A great brand to build on

Staff also noted in the presentation that there are three key strategic drivers that will influence our future strategic priorities including:

- AB 341 with its 75% statewide recycling goal by 2020 and mandatory commercial recycling provisions
- Ox Mountain Disposal Agreement expiration on December 31, 2019
- Policy goal of greater rate stability and predictability

There certainly are other key factors that will influence future efforts and relative success of the JPA such as level of member agency engagement and other governance issues, continuity and stability of JPA staff, level of cooperation and quality of relationship with our contractors and their performance, and extended commodity market collapse to name a few.

The goal of this Board meeting is to further flesh out topics and issues to be discussed at a future Board retreat with a goal of focusing on strategic issues (e.g., how to leverage additional capacity at Shoreway to handle more member agency tonnage and third party tonnage, how to spend unallocated free cash if available, plan for mitigating impact of future higher disposal expenses, how to incentivize diversion, etc.) and not tactical issues (e.g., a specific budget line item).

Background

On March 27, 2008 the Board adopted a one-page document entitled **Strategic Plan 2008 – 2012 as attached**. This document was reviewed at a Board retreat on February 22, 2008, and was meant as a high level summary document that captures the SBWMA's mission, values, strategic priorities, and a vision statement. More detailed operational level documents (e.g., Shoreway master plan, SBWMA long range plan, annual performance hearing report, annual rate review reports, etc.) were in place to address the agency's strategic priorities.

One of the major follow-up steps after Board approval of the Strategic Plan was to reinstate a long range planning process for the SBWMA's programmatic needs. A Long Range Plan was first developed by SBWMA staff in 2002 and updated in 2005. The intent was to prepare a new long range plan through a process called "**Green Vision 2020**" (**GV2020**), but such efforts were never started given the exceptional workload in 2008 through 2011 from the contractor selection process and facility master plan.

Attachments:

Attachment A - Strategic Plan 2008 – 2012



Strategic Plan 2008 - 2012

Our History

Formed in 1982, the South Bayside Waste Management Authority (SBWMA) is a joint powers authority of twelve member agencies in San Mateo County, California and is a leader in delivering innovative waste reduction and recycling programs. The SBWMA owns the Shoreway Environmental Center (SEC) which receives all the recyclables, organic materials, and residual materials (i.e., solid waste) collected in its service area.

Our Mission

SBWMA designs and implements sustainable waste reduction, recycling and facility operations services to achieve our member agencies environmental goals and requirements.

Our Values

1. Implementing environmental practices and policies are good for our customers, local businesses and residents.
2. Long term planning for waste reduction, recycling, and residuals management are fundamental to achieving our mission.
3. We believe providing environmental education for children and adults fosters a greater resource conservation ethic which results in more livable and sustainable communities.
4. We believe in delivering cost-effective and customer friendly service.
5. We believe supporting collaboration and cooperation among member agencies and key stakeholders produces the best long-term results.

Our Strategic Priorities

1. Provide strategic oversight and direction to the environmental services companies that collect, process, recycle and dispose of residuals for the member agencies.
2. Ensure contractors' and SBWMA programs are managed cost effectively for the ratepayers with performance metrics for all programs.
3. Deliver strategic oversight and management of the Shoreway Environmental Center to meet financial, operational, and environmental goals.
4. Ensure compliance with environmental regulations governing the collection and processing of recyclables and organic materials and meet or exceed diversion goals.
5. Anticipate trends and implement innovative solutions for waste reduction, recycling and facility operations services.
6. Monitor and assess contractor performance so that customer satisfaction and service delivery meets or exceeds contractual requirements.
7. Adhere to best practices in office operations, operational infrastructure, procurement, human resource, IT and governance.
8. Support SBWMA programs and policies through relevant outreach, education, and focused communication.

Our Vision

SBWMA is nationally recognized for environmental leadership in sustainable materials management practices to support livable communities.