



A Public Agency

# CONSENT CALENDAR



**DRAFT MINUTES**

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
 STUDY SESSION MEETING OF THE BOARD OF DIRECTORS AND THE  
 TECHNICAL ADVISORY COMMITTEE  
 November 7, 2019 – 2:00PM.  
 San Carlos Library Conference Room A

Call to Order: 2:06PM

**1. Roll Call Board Members:**

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

**Roll Call TAC Members:**

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

**2. Public Comment**

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

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

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

None

### 3. Executive Director's Update

Executive Director La Mariana welcomed all to the study session and made the following updates:

- The January 2020 Board Meeting will be the 5<sup>th</sup> Thursday in January rather than the usual 4<sup>th</sup> Thursday, so it will be Thursday January 30<sup>th</sup> from 2-4PM.
- Rethink Recycling day was held on October 27, here at the San Carlos library. Due to construction at Shoreway the event couldn't be at its usual home at the facility. There were about 100 attendees. There was a fix-it clinic, a clothing swap, and food preservation workshops, and he thanked the education and outreach teams for their efforts.
- The annual Earth Day event held in the spring will face similar site restrictions due the construction, but he is hoping to preserve the site tours as part of the Earth Day messaging.
- Buy back center options are being evaluated and will be discussed at the January meeting.
- The Organics-to-Energy project is making great progress and looking at going live by the end of January.
- At the November board meeting there will be a proposal for one part time additional staff to assist with high level engineering review of Shoreway projects to assist with the high volume of work that is taking place at Shoreway.
- The November Board meeting will have the calendar year financial review and staff will not be recommending a tip fee increase in 2020.
- Discussions on alternative fuels for the new Recology fleet have begun with Recology, there will be two pilot trucks starting in the next few weeks - one running on bio-gas and one electric.
  - Member Widmer asked about the possibility of renewable diesel fuel, and Executive Director La Mariana answered that it looks viable, that it won't require any retrofitting of the current vehicles. Staff will continue to look into that possibility and will be reporting back on that sooner than the other two options.
- Mike Kelly of Recology will speak at agenda item 7A about the power lines at Shoreway that keep getting hit by Recology trucks.
- AB1298 is a new statewide bond measure that Kevin Mullin is sponsoring, intended to be a funding mechanism for a broad variety of natural resources programs and projects that currently have gaps in funding. He added that this is a direct result of Kevin Mullin's team retreat at our facility.
- Veteran's day operations and collections will be business as usual.
- He introduced the 4 new fellows that joined the team in October: Juan Miranda, Janelle Osteen, Nadia Thompson and Laura Wessberg.

### 4. Approval of Consent Calendar

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

#### A. Approval of Minutes from the September 12, 2019 Board/TAC Study Session

Member Groom noted that the minutes had her as both present and absent, she was present

Motion/Second: Hurt/Brownrigg

Voice Vote: All in favor

## 5. Staff Update and Review of Draft 2020-2024 Long-Range Plan

Staff Ligon gave a PowerPoint presentation highlighting the changes since the last Long-Range Plan discussion and asked for Board and TAC feedback on the revised draft.

The Board discussed the mission statement and guiding principles and gave feedback:

- Cost Effective and efficient should stay part of the mission statement it's a crucial element
- Concerns that leading edge could be bleeding edge
- Needs to be more flexible to work when the waste stream and waste industry changes
- Questioning the Agency's role in enforcement relating to the Mission Statement
- Include something in the Mission Statement about the Agency's role in legislative analysis and development
- The cost-effective elements are still there just not called out enough
- The Mission Statement needs strike a balance between innovative programs, cost-effective and flexible

Member Widmer added that he thought he couldn't approve it in just a few weeks, and thought it needed more revision and more time to review where the technology is changing.

The Board discussed enforcement as part of the mission statement. Executive Director La Mariana noted that the next agenda item is on SB1383, and enforcement is a big part of that legislation, and putting enforcement into the mission statement is trying to address that legislation.

The Board then discussed the guiding principles and gave feedback.

- The guiding principles need to be clear that a return on investment analysis is a big part of how the Agency approaches innovative technologies. And that the return on investment analyzes both revenues generated, and costs avoided.
- Should include more about finance.
- Include specific language about batteries and plastics in the 5-year plan.
- Another member noted that the Agency is not where it needs to be on batteries but didn't think it was a long-term problem but rather it is short term and needs to be addressed before 2021.
- The guiding principles under economically sustainable were cut down to three bullet points, likely to save space, but they should be expanded and more in depth.
- Regarding Zero Waste Principles; the board discussed changing the words because actual net zero waste is not possible, while others thought Zero Waste is a stretch goal, and the Agency will support a more robust legislature program to reduce or ban products that aren't recyclable to get to Zero Waste.
- The Board asked to include specifics and stronger language on EPR in the principles, so that the Long-Range plan doesn't assume the Agency is responsible for everything.

The Board then discussed the long-range plan document and gave feedback. Member Widmer asked that the program timing table be more specific as it was too generic. Staff Ligon noted that it relates to the following pages with more detail.

Member Widmer asked why the recycling tonnage was going down. Executive Director La Mariana answered that part of it is the unsettled markets, and part is that when the fire happened the 3<sup>rd</sup> party tons that were coming in went to a different facility, and never came back.

The Board asked for continued focus on the In-School program based on the success on the pilot. They wanted to see what the diversion numbers are once the staff leaves. Member Widmer wanted to see it rolled out to all schools and all public spaces. Executive Director La Mariana added that staff does go back at the beginning of the school year to the schools they went to the year before to keep the program education going.

Executive Director La Mariana then followed up on batteries. An outreach RFP was recently conducted to do a specific battery campaign, and the Public Outreach Committee will review those responses next week. And, staff continues to work on AB1509 which is the battery EPR legislation. Member Brownrigg commented that he would like to make a request to the County to see if the County could provide a battery CRV program and require the producers to put in the deposits locally, which would put pressure on the industry. There is a draft program that the CPSC has put together. Member Groom noted that the County would be happy to investigate this.

Member Widmer wanted increased financial information in the Long-Range Plan, a return on investment for each program, and a diversion impact for each program. He also noted that the Long-Range plan should be driving the Capital Plan each year. Executive Director La Mariana noted that staff made a decision to emphasize guiding principles to make philosophical decisions about programs in the Long-Range plan, then use the budget process to flush out costs, since costs change drastically over the course of a long-range plan, and this approach allowed for more nimbleness.

3:05PM East Palo Alto now absent.

The TAC Members gave some final feedback comments for staff regarding the Long-Range plan.

- There are many programs in the Plan that could cause additional rate hikes, with that in mind, they would like staff to take a look leveraging existing resources at the County and otherwise and to be conservative with new programs with all the new rate hikes in the queue.
- Members would like to see the program table tie back to the objective or principle that it's supporting.
- There is going to need to be balanced decision making going forward to deal with unfunded mandates and become creative and get more active in Sacramento.
- Ask the haulers to do more for the schools' program.
- Enforcement for mandates needs to be contracted out, and the cost should not fall on the rate payers.

Chair Benton commented that the general theme is to watch the costs.

Executive Director La Mariana responded that staff is very mindful of cost considerations and thanked the Board and the TAC for their feedback.

## 6. Presentation and Discussion on SB1383 Compliance Planning

*Rob Hilton HF&H Consultants*

Executive Director La Mariana shared a Bloomberg article that was recently released about a NASA study that identified greenhouse gas emissions and where they are emitted from, that stated the number one emitter of methane gas in California is landfills. He noted that this is the starting point for why the SB1383 law exists and why the Agency is having this conversation.

Rob Hilton of HF&H Consultants gave a PowerPoint presentation on the initial compliance analysis that HF&H has done on behalf of the SBWMA. He noted that at the end of the presentation he would like to get specific feedback on compliance options, enforcement options, and extended regional cooperation.

The Board discussed the food recovery aspect of SB1383. It is not envisioned that the SBWMA is going to find edible food at the Transfer Station and recover it for human consumption, this part of the law is intended to divert it before it even goes into the bins. The measurement for diversion will be on minimum program standards being met, not an actual tonnage weight. Member Dehn noted that the County Health Department regulations would have to change in order to get to 20% reuse, because right now so much of that food that is excess food at a restaurant can't go to those who need it due to hours or food handling regulations. Rob Hilton noted that food safety regulations are paramount, no one wants to feed people unsafe food.

Member Carlton asked why capturing the methane gas that is being emitted through the composting process is not a part of this law. Rob Hilton answered that is addressed, but the bill is broader than that and is trying to include everything to try and address the infrastructure gaps, and the air and water boards are really focused on the permits for the composting facilities.

The Board discussed the monitoring and enforcement component of the law, and they wondered if that was at the Member Agency level or the SBWMA level. Rob Hilton answered that they think there are economies of scale to do monitoring at the SBWMA level, but the enforcement is a policy decision. Chair Benton asked what the timeline is for when the Board would need to make a decision about how to deal with enforcement. Rob Hilton answered there would be 9-12 months of implementation time before any tickets are written, and that obligation doesn't hit until 2024. Member Brownrigg asked why water efficient landscape obligations would fall to the SBWMA. Rob Hilton answered that there are 3 pieces of the ordinance that they want local agencies to adopt that involve use of what would become organic waste or re-use of what would become organic waste in landscaping. TAC Member Cook expressed concern that as enforcement and auditing get delegated out there would be confusion with the residents about who to go to. Rob Hilton noted that it will be important to have an MOU or formal document that defines what the SBWMA is taking on and what the Member Agency is keeping and help with communications internally to help staff. Member Widmer asked if enforcement is to be contracted out. Rob Hilton answered no, enforcement can not be delegated, it has to be an employee of a public agency, but a contractor could do monitoring and investigation and then call the Member Agency code enforcement when necessary.

Member Widmer commented that the residential customers should not have to pay for the costs associated with complying with this law, if the problem is apartment complexes and commercial customers that don't have food waste collection.

Member Brownrigg asked if this presentation and the resulting implications to the SBWMA assume full deployment of the Organics-to-Energy process. Rob Hilton answered that there are 3 collection options scenarios and there are significant cost differences.

Chair Benton asked if there was anything the SBWMA Board or the legislative advocates should be doing now to try and position these final regulations to benefit the SBWMA. Rob Hilton said that there would be one more formal comment period, that would only be 15 days, and they've identified some things with staff that they specifically recommend comments on.

The Board discussed the product procurement requirements of SB1383. Rob noted that this could be done in a couple of ways and asked for Board feedback. The most cost-efficient approach is to purchase renewable natural gas (RNG) for Recology's fleet, if not this approach 20 yards per jurisdiction (per capita allocation) per day of compost or mulch needs to be purchased. There is a \$10,000 per day penalty for not meeting these purchasing requirements. Executive Director La Marina noted for scale the our entire program currently brings back about 10 debris boxed sized loads of the compost to the facility per year. TAC Member Lorenz asked if it was purchased but not taken if that would meet the requirement. Rob Hilton noted that probably wouldn't work but the League of Cities is working on this issue because of the unfunded mandate. Executive Director La Marina added that many of the industry lobbyists are collaborating on this part of the law and just how big this regulation is. TAC Member Murray asked if the RNG needed to be looked at by individual Member Agency fleets beyond the Recology fleet. Rob Hilton noted this is still pending but likely some supplemental purchasing would be required. TAC Chair Oskoui commented that there will be a cost to implement RNG fueling, it's not free but maybe a better ROI.

3:48PM Member Dehn now absent the Board no longer has a quorum, the meeting is now a TAC Meeting.

Rob Hilton asked for specific feedback, regarding compliance of SB1383. He noted that there are 3 ways the SBWMA could reasonably comply with SB1383. 1) Standard Compliance, provide the 3 container system to every generator which includes enforcement; 2) a modified compliance approach, which uses the Organics-to-Energy program which maintains the enforcement requirement but avoids rolling out organics containers to all commercial and multi-family customers; 3) Performance based compliance, which waives the enforcement requirement, but the system needs to perform and the testing is expensive, and they're hard numbers to get to in terms of the organics that are coming out of the waste stream. He added that the Agency could not chose performance-based compliance and use Organics-to-Energy.

TAC Member Tong asked if there would be an option to opt in for certain jurisdictions. Noting that the County serves residents outside of the SBWMA service area and it might make sense for the County to have its own program outside of the SBWMA. He asked the cost modeling could include the County on their own.

TAC Chair Oskoui noted that as staff looks at modeling the County doing compliance on their own that all Member Agencies have an opt-in opt-out provision so the Member Agencies can evaluate the impact. Member Widmer agreed that the different Member Agencies may want to manage the regulations in their own way, so if there is going to be a global compliance plan there needs to be an opt out that has no cost associated with it.

Chair Benton commented that the compliance and enforcement pieces are the biggest parts of this law that affect the SBWMA, and the costs associated with that are being pushed locally.

TAC Chair Oskoui asked for a summary of the feedback that HF&H needs.

Rob Hilton responded asking the members if there was a strong consensus around the hybrid compliance approach, using Organics-to-Energy, understanding that there are potential risks, and then on the enforcement piece what is the feedback about who does the enforcement, and based on the opt-in/opt-out feedback HF&H would run some additional scenarios. He also cautioned that enforcement may be an easy thing to break off and do a different way, but if it came down to collection programming or processing technology making different decisions about that will be very expensive. He noted that he would look at putting something about items that would lose economies of scale in the compliance plan.

Member Brownrigg commented that it seems to be a no brainer to go for the hybrid approach, being down the road with Organics-to-Energy. He also thought there should be a lobby to Cal Recycle to get an extra year, because if it's proven to work, we save everyone in the state money.

TAC Chair Oskoui said there is still some push and pull in the final rule making, and this is a lot of information to digest. The SBWMA is way ahead of the curve. Many agencies are going to have issues with the deadline commitments. And he felt until there are final regulations things are still moving targets, he asked as things firm up they get vetted through the TAC and bring a polished presentation of options back to the Board.

## **7. Contractor Updates**

### **A. Recology**

Mike Kelly of Recology talked about the several power outages that have occurred at Shoreway due to a Recology truck hitting overhead AT&T wires and moving the poles that the powerline is attached to and the power snaps. He noted that Recology is increasing driver education, and safety protocol. He added that they are looking into installing an over height alarm system at the exits, and there are some issues with the driver being in front of the over height alarm.

Chair Benton thanked Recology for advising the Board of this problem and asked for a report back at the next Board Meeting when a solution is in place.

### **B. South Bay Recycling**

## **8. Board/TAC Member Comments**

## **9. Adjourn 4:27PM**



**DRAFT MINUTES**

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
MEETING OF THE BOARD OF DIRECTORS  
November 21, 2019– 2:00 p.m.  
San Carlos Library Conference Room A/B

Call To Order: 2:05PM

**1. Roll Call**

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

**2. Public Comment**

Persons wishing to address the Board on matters NOT on the posted agenda may do so. Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting. If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

**3. Adjourn to Closed Session:**

- A. Pursuant to Government Code Section §54957 - Public Employee Performance Evaluation; Title: Executive Director
- B. Pursuant to Government Code Section §54957.6 – Conference with Labor Negotiator; Agency Designated Representative: Jean B. Savaree; Unrepresented Employee: Executive Director
- C. Pursuant to Government Code Section §54956.9 – Conference with Legal Counsel – Anticipated Litigation (one case)

**4. Call to Order/Roll Call (Public Session)**

Call to Order: 2:42PM

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X	
Belmont	X		Redwood City	X	
Burlingame	X		San Carlos	X	

East Palo Alto		X	San Mateo	X	
Foster City		X	County of San Mateo	X	
Hillsborough	X		West Bay Sanitary District	X	

**5. Report from Closed Session**

No Report

**6. Public Comment (Public Session)**

None

**7. Executive Director’s Report**

Executive Director La Mariana welcomed the Board to the meeting and thanked them for their time with the Agency over the year, and especially over the last few months given that it’s been so busy with extra meetings. He then made the following announcements:

- SB1383 final regulations are expected to be complete at the end of January, and at that point staff will take the proposed ranges reported at the study session and start tightening up the numbers. In April staff will present a SB1383 action plan to the Board, that will work into the FY20/21 budget.
- The Organics-to-Energy Pilot’s equipment installation is underway, and Staff Gans will be updating you at agenda item 11A.
- Staff would like to collaborate with The County’s Office of Sustainability on their work regarding sea level rise vulnerability and how that relates to the Shoreway Facility.
- He introduced Reed Addis, who is the Principal of EEC Consulting the SBWMA’s legislative lobbyist, he will be giving a presentation at agenda item 9B recapping the 2019 legislative session.

**8. Approval of Consent Calendar**

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

- A. Approval of Minutes from the September 26, 2019 Board of Directors Meeting
- B. Approval of the 2020 SBWMA Board of Directors Meeting Calendar
- C. Approval of Quarterly Investment Report for the Quarter Ended September 30, 2019

Motion/Second: Bonilla/Widmer

Voice Vote: All in Favor

**9. Administration and Finance**

- A. Review and Discussion Tipping Fee Increases Effective 1/1/20—No Adjustments Recommended

Staff Mangini gave an overview of the staff report and noted that staff is not recommending a tip fee increase in 2020. He gave the detail on projections for calendar year 2019 and net commodity revenue. He also added that he projected the buyback center to remain closed through 2020.

Member Dehn commented that she thought the board would be evaluating buy back center options and wondered if it would remain closed for all of 2020.

Staff Mangini answered just for the purpose of the budget projection he left the buyback center closed.

Executive Director La Mariana answered that at the January Board meeting there will be a series of options and associated costs presented regarding the buyback center, but it will take 90 days after any decision is made to re-open the buyback center which puts any re-opening very late into the fiscal year.

B. 2019 Legislative Session Update – Presentation by Environmental and Energy Consulting (EEC)

Reed Addis of EEC gave a Power Point presentation highlighting the 2019 Legislative Session with an update on key SBWMA priorities.

Member Brownrigg commented on the two plastics bills AB1080/SB54. He asked why the CRRC sometimes supported it, and sometimes went neutral. He also wondered what plastics would not be permitted if the bill were to pass.

Mr. Addis answered that he couldn't comment on CRRC's changes in position, but it did happen. He also noted that the bill uses the types of plastics that are being picked up on the beaches as the list of the types of single use plastics that would be targeted through the bill, and the language has changed to single use packaging rather than just plastics.

Member Hurt asked if there were walking pieces created for the legislators, and if yes could the Board have copies for their own advocacy.

Mr. Addis said he would be happy share pieces that they've worked on.

Executive Director La Mariana concluded by commenting that staff is working on putting together a Bay Area coalition on these environmental issues to get a louder voice in Sacramento, because currently the local solid waste industry is very decentralized.

Member Brownrigg reiterated that Board Members see the legislators in their work as elected officials so if they could get the walking papers and have the talking points rather than it all going through staff they could help move these messages.

**10. Collection and Recycling Program Support and Compliance**

No Items

**11. Shoreway Operations and Contract Management**

A. Organics-to-Energy Pilot Project Update

Staff Gans gave an Organics-to-Energy pilot update, noting that he hopes the pilot will be operational in March. Currently the construction of the pilot equipment is 60% complete and equipment testing is starting. He noted that Silicon Valley Clean Water is ready to take material now, but ran into a permitting issue with the Air Board and can now only take one truck load per day, and the pilot will generate 3 truck loads per day so staff is looking at other partners.

Member Widmer asked if the Air Board issue will impact the full project.

Staff Gans answered that the full project hasn't been addressed with the Air Board yet, the permit is just for the pilot. However, Silicon Valley Clean Water learned in bringing the pilot through the Air Board's process that the Air Board is a potential obstacle for the full project.

Member Widmer asked if the Board should be involved with more education with the Air Board and Silicon Valley clean water on what the whole project is about to help move things along.

Member Groom noted that she is a long time Air District Board Member and a past chair of the Board. She noted that she can help move discussions up to a higher level and help move things along.

Executive Director La Mariana noted that we are lucky enough to have two Board members who serve on the Air Board.

Vice Chair Aguirre noted that she is the Chair of Silicon Valley Clean Water and reminded staff to use the Board Members to help move projects along especially those with a regional benefit like this project.

Member Hurt commented on her perspective from the Air Board noting that with anaerobic digestion the Air Board needs to be conscientious about the odor. So, while the SBWMA is trying to be innovative they're trying to think about public health and safety.

- B. Resolution Approving Change Order #2 in the Amount of \$121,496.39 and Allocating an Additional \$103,504 for Future Change Orders on the Amended Public Project Agreement for Organics Extrusion Recovery System Purchase and Installation at Shoreway Environmental Center with Anaergia Technologies, LLC

Staff Gans gave an overview of the staff report.

Chair Benton clarified that the \$121,496.39 is for the work detailed in the staff report, and that the \$103,504 is contingency.

Staff Gans answered yes, there was never a contingency set up for the project in the beginning.

Member Hurt asked for clarification that there was already a change order of \$300,000.

Staff Gans answered yes, but this work and their \$300k costs were, indeed budgeted in the original project total because the dollar amount was known when the project was bid. So it was anticipated, but there was missing information from PG&E to include it in the original contract.

Motion/Second: Carlton/Bonilla

Member Widmer asked if \$103,504 was enough contingency.

Staff Gans answered yes, for the Anaergia contract it will be enough, there are some collateral complications related to transportation that are unanticipated that may be another cost item associated with the pilot.

Member Brownrigg asked for a reminder when the upgraded paper sorting equipment will come online.

Staff Gans answered that the contract is with BHS, and final engineering on that project equipment was recently approved, and BHS has moved into manufacturing. The equipment will start to arrive in late January, and installation will take place through the spring, and start up is targeted for July 1. He added that there is an expectation that this equipment will pre-sort the organics out of the garbage to feed into the Organics-to-Energy equipment and thus simulate the full project.

Voice Vote: All in Favor

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

C. Resolution Approving a Part-Time, Exempt, Non-Benefitted (unless mandated by law),5-Year Limited-Term Position of Senior Facility Projects Engineer (unbudgeted)

Executive Director La Marina gave an overview of the staff report, and list of the known projects this part time limited term employee would be working on.

Member Dehn noted that she's in support of the position but wondered if there was someone who would want this work part-time.

Executive Director La Marina answered yes, we already have a strong candidate in mind who is a high-level solid waste engineer who has another part time commitment.

Member Widmer asked for confirmation that the fiscal impact would be the one on the resolution and not the one on the job description.

Executive Director La Marina answered yes, the job description salary range is full time and matches the other two senior position salary ranges, but the resolution divides that range in half due to the position being 20 hours per week.

Motion/Second: Bonilla/Aguirre

Voice Vote: All in favor

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

D. Resolution Authorizing the Executive Director to Direct South Bay Recycling to Transport Organic Material Produced During the Organics-to-Energy Pilot Program to Various Processing Facilities

Executive Director La Marina gave an overview of the staff reporting noting that the amendment to the SBR agreement that was approved by the Board for the Organics-to-Energy pilot work included operation of the processing equipment but not the transportation. The SBWMA has the contractual right to direct SBR to do that work.

Member Widmer didn't want to direct SBR to buy a tanker for the pilot for a short-term.

Executive Director La Marina noted that the short period of time is the challenge. If the pilot yields the results in the pro-forma it's a full project and more long-term. He added that the details of the solution are

not fully vetted yet, there is some possible solutions being discussed, but staff has identified a gap in the contract language and this approval bridges that gap.

Member Widmer wondered if the item could be continued and approved once all the details of the transportation are worked out.

Member La Mariana answered that this approval bridges a contractual gap, and directs them to transport the pilot material, and staff feels like it's been pretty well vetted.

Chair Benton noted that this authorizes staff to direct SBR, which is different than an amendment.

Counsel Savaree answered that this is not an amendment because in the contract the SBWMA has the right to direct them to do this work. So this resolution indicates that the SBWMA would like to direct SBR to take this material wherever they are directed to do so. She added that staff doesn't have the right to direct SBR, it's a Board decision, since the SBWMA holds the contract with SBR. She noted that the details of how the material is transported can all get worked out later, this is just the authorization to direct that they do the work.

Motion/Second: Dehn/Rak

Voice Vote: All in Favor

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

E. Resolution Approving the Expenditure of Funds in an Amount Not to Exceed \$236,500 to Fund the Stormwater System Improvements at the Shoreway Recycling and Disposal Center to be Completed by South Bay Recycling

Executive Director La Marina gave an overview of the staff report, noting there is an ongoing issue with compliance of the storm water quality at the facility. By contract, SBR is required to maintain the permits, and therefore maintain compliance. He added that staff and SBR are currently at a difference of opinion after a number of discussions with SBR. There is a non-negotiable timing component on this work, so even though the difference of opinion has not yet been resolved staff is recommending moving forward with the proposal from SBR on a protest basis. That way the work could be funded and concurrently the dialogue could continue to try and resolve the difference of opinion.

Member Carlton asked who would get penalized if the timing didn't get met.

Executive Director La Marina answered SBR that would have to pay all fines that would be leveled.

Counsel Savaree added that it would be in both parties' best interest to get this work done.

Member Widmer commented that he was disappointed to be back in a similar situation to the one faced a few years ago with the Riverwatch lawsuit. He believes SBR should be responsible for the costs associated with this work.

Executive Director La Marina answered that this protest approach allows the work to move forward, while negotiation continues. He added that there has been a step up in regulations since July 1, so it's even more important that the work gets completed.

Member Bonilla asked if the project was shovel ready, and if it would it interfere with operations.

Dwight Herring of SBR answered yes, the project is ready, and it will not interfere with operations.

Member Carlton asked if the project total was the total amount of money in dispute.

Executive Director La Marina answered that the original scope of work was \$1.2M and the team at SBR and their compliance group came up with this interim measure of \$236,500 that is a subset of the full project. The idea is to try a less expensive solution first to see if it passes storm water regulations, and if it doesn't there will be subsequent steps at additional cost up to the original cost of the project or more.

Member Carlton asked if the Agency could pay half and SBR could pay half of the amount of the project.

Counsel Savaree noted that the Board could decide to do something different than what is recommended in the staff report. Her recommendation was that the Agency pay the whole thing because of the tight timeline to get the project done. And, that she would continue to negotiate with SBR regarding who is responsible for the costs, so whether that negotiation is over half the cost or the full cost is irrelevant. The hope is to come to some sort of agreement, but if not, there will be mediation.

Dwight Herring noted he would need to talk to his Board before knowing if SBR would be willing to pay for half of the project.

Member Widmer suggested approving the whole amount but wait for a Board response from SBR before starting the project.

Member Dehn asked if this is an allocation that is given to SBR with protest, but without expectation of repayment, and she also asked for the total settlement on the lawsuit a few years back on a similar issue.

Counsel Savaree answered that the settlement was negotiated at \$35,000. She added that they have advised SBR and they don't believe the SBWMA is responsible of any portion of the payment, and they have taken the position that they think the SBWMA is responsible for all of this cost. And that is where the negotiations stand with a project that needs to be done.

Member Bonilla suggested putting a timeline on the negotiations, that they would need to be completed by a certain date, and to treat the payment as a loan, and withhold payment if negotiations aren't complete.

Counsel Savaree noted that staff is recommending the Agency fund the project under protest to ensure that SBR does move forward with the project, and to continue with negotiations concurrently. She added that the plan is to come back to the January meeting with either a report that it's been resolved, or to get direction from the Board on the next steps.

Member Brownrigg asked if the project SBR is suggesting as an interim measure is based on the newer storm water standards.

Executive Director La Marina answered the new July 1, 2019 standards.

Chair Benton asked how long the work will take.

Dwight Herring answered 3-4 months.

The Board discussed the logistics of the cash flow. Staff Mangini noted that SBR would be reimbursed for monthly expenditures on the project through the monthly invoices. Or it could be reimbursed at the term of the project.

Member Bonilla motioned to approve resolution 2019-58.

Member Carlton motioned to amend the resolution to be contingent upon payment at completion.

Member Widmer seconded the amendment.

Chair Benton clarified that payment would be made at the completion of the work and under protest.

Voice Vote: All in favor

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

## 12. Public Education and Outreach

No Items

## 13. Informational Items Only (no action required)

- A. 2019 Finance and Rate Setting Calendar
- B. Check Register Detail for September – October 2019
- C. Potential Future Board Agenda Items

## 14. Board Member Comments

Chair Benton wished everyone a Happy Thanksgiving, and holiday season.

## 15. Adjourn 4:07PM

## STAFF REPORT

---

To: SBWMA Board Members  
From: John Mangini, Senior Finance Manager  
Date: January 30, 2020 Board of Directors Meeting  
Subject: Resolution Accepting the FY18/19 Audited Financial Statements

---

### Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2020-01 attached hereto authorizing the following action:

Accept the South Bayside Waste Management Authority's audited Annual Financial Statements (see **Exhibit A to the Resolution**) for the fiscal year ending June 30, 2019 as prepared by the SBWMA's audit firm, Maze & Associates.

### Summary

The purpose of the financial statements is to present a summary of the financial position of the Authority for the fiscal year. These reports have been reviewed by the Board Finance Committee which recommends approval. The final step in the formal process of preparing these financial statements is to present them to the Board for its acceptance.

### Analysis

The financial statements of the SBWMA for fiscal year ending June 30, 2019, have been prepared by the City of Redwood City Administrative Services Department and examined by the independent auditing firm Maze & Associates and SBWMA staff. It is the **unqualified opinion** of the audit firm that the financial statements present fairly the financial position of the SBWMA as of June 30, 2019, and that the financial statements were prepared in conformity with generally accepted accounting principles. No exceptions or qualifications were found.

### *Financial Condition Summary*

As shown in Table 1 of the Audit report, total net position increased by \$1.1 million to \$21.3 million. The unrestricted net assets (Unrestricted Reserve) remained flat at \$16.3 million at June 30, 2019 (see Tables 1 and 4 in the Audit report). Operating income including depreciation increased \$1.0 million.

### *General Operating Results*

The operating results for FY18/19 are compared to FY17/18 in Table 1 below:

**Table 1 – Operating Results**

	<u>FY2018</u>	<u>FY2019</u>	<u>Variance</u>
			<u>Better / (Worse)</u>
Tip Fee Revenue	\$ 42,678,598	\$ 46,377,395	\$ 3,698,797
Commodity Revenue	\$ 7,282,216	\$ 6,140,314	\$ (1,141,902)
Other Revenue <sup>1</sup>	\$ 29,392	\$ 28,329	\$ (1,063)
<b>Total Revenues</b>	<b>\$ 49,990,206</b>	<b>\$ 52,546,038</b>	<b>\$ 2,555,832</b>
Shoreway Operations Expense	41,208,573	42,195,199	(986,626)
SBWMA Program Expense	2,543,223	3,019,870	(476,647)
Franchise Fees	2,032,946	2,206,790	(173,844)
Depreciation Expense	3,145,332	3,075,887	69,445
<b>Total Expenses</b>	<b>\$ 48,930,074</b>	<b>\$ 50,497,746</b>	<b>\$ (1,567,672)</b>
<b>Operating Income</b>	<b>\$ 1,060,132</b>	<b>\$ 2,048,292</b>	<b>\$ 988,160</b>
Investment Income, Other	\$ 263,423	\$ 621,287	\$ 357,864
Interest Expense	(2,702,669)	(2,633,833)	68,836
Grant Revenue		1,020,000	1,020,000
<b>NET POSITION</b>	<b>\$ (1,379,114)</b>	<b>\$ 1,055,746</b>	<b>\$ 2,434,860</b>
1 E-waste & other miscellaneous revenue			

**Variance explanations:**

- Higher Tip Fee Revenue mainly due to tip fee increases.
- Commodity Revenue decrease due to higher standards set by China resulting in lower commodity prices.
- Higher Shoreway Operations Expense primarily due to disposal and processing costs increasing \$1.1 million (6.4%) due to contracted disposal and processing fee increases. SBR Compensation increased \$0.3 million, while Shoreway facility costs decreased by \$0.6 million.
- The SBWMA Program budget increased in FY19 by \$0.5 million primarily due to a full year of cost for the Fellowship Program and filling a vacated staff position with a Management Analyst. Increased consulting costs arose for Amendment 1, Franchise Agreement, Landfill Disposal RFP, Interim Finance Manager and Board Counsel. Additionally, the Agency performed a large battery outreach campaign.
- Franchise Fees paid to the City of San Carlos increased \$0.2 million due to the increased tip fee revenue.
- Investment income increased due to higher balances and interest rates.
- The agency received Grant Revenue from CalRecycle to help fund the Organics to Energy Project.

***Long-Term Debt***

At the end of the current fiscal year, the SBWMA had bond debt outstanding of \$44,812,247.

	<u>FY2018</u>	<u>FY2019</u>
Revenue Bonds 2009A	\$46,239,747	\$44,812,247

Payment of principal on the 2009A bonds began on September 1, 2013. Additional information on the SBWMA's long-term debt can be found in note (5) to the accompanying financial statements.

Note: In July 2019, the Series 2009A Bonds were refunded as part of the Series 2019A Refunding Bond issuance. Additional information on the refunding can be found in note (10) to the accompanying financial statements.

**Fiscal Impact**

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

**Attachments:**

Resolution 2020-01. Accepting the Authority's FY18/19 Financial Statements

Exhibit A – SBWMA FY18/19 Audited Annual Financial Statements



## RESOLUTION NO. 2020-01

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS ACCEPTING THE FISCAL YEAR 2018-2019 ANNUAL FINANCIAL STATEMENTS

**WHEREAS**, the South Bayside Waste Management Authority contracted with the audit firm Maze & Associates 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, 2019 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 approves the Annual Financial Report as prepared by Maze & Associates for the fiscal year ending June 30, 2019.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 30<sup>th</sup> day of January, 2020, 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. 2020-01 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 30, 2020.

ATTEST:

\_\_\_\_\_  
Jay Benton, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Board Secretary

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY**

**BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2019**

This Page Left Intentionally Blank

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY**

**BASIC FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2019**

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position .....	8
Statement of Revenues, Expenses and Changes In Net Position .....	9
Statement of Cash Flows .....	10
Notes to Basic Financial Statements .....	11
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT'S PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	25

This Page Left Intentionally Blank



## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the South Bayside Waste Management Authority (Authority), California, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Accountancy Corporation  
3478 Buskirk Avenue, Suite 215  
Pleasant Hill, CA 94523

T 925.930.0902  
F 925.930.0135  
E [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
W [mazeassociates.com](http://mazeassociates.com)

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019 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* in considering the Authority's internal control over financial reporting and compliance.

*Maze & Associates*

Pleasant Hill, California  
December 18, 2019

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**  
**Management's Discussion and Analysis**  
**June 30, 2019**

The Management's Discussion and Analysis (MD&A) section presents an overview and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) for the fiscal year (FY) ended June 30, 2019. It should be read in conjunction with the audited financial statements that follow this section.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The SBWMA's financial statements include:

*Statement of Net Position* presents information on the SBWMA's assets and liabilities as of the fiscal year-end, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

*Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the SBWMA's operations over the course of the fiscal year and information as to how the net position changed during the fiscal year. These statements can be used as an indicator of the extent to which the Authority has successfully recovered its costs through user fees and other charges.

*Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. The statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

*Notes to Financial Statements* provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

**FINANCIAL ANALYSIS**

The following table summarizes the Authority's change in net position from last fiscal year to this fiscal year.

**Table 1**  
**Comparative Net Position**  
**June 30, 2018 and 2019**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 28,446,570	\$ 29,127,137	\$ 680,567	2.4%
Capital assets, net of depreciation	46,060,056	45,604,576	(455,480)	-1.0%
Total assets	<u>74,506,626</u>	<u>74,731,713</u>	<u>225,087</u>	0.3%
Long-term debt outstanding	46,239,747	44,812,247	(1,427,500)	-3.1%
Other liabilities	7,995,729	8,592,570	596,841	7.5%
Total liabilities	<u>54,235,476</u>	<u>53,404,817</u>	<u>(830,659)</u>	-1.5%
Net position:				
Net investment in capital assets	3,950,710	5,008,608	1,057,898	26.8%
Unrestricted	16,320,440	16,318,288	(2,152)	0.0%
Total net position	<u>\$ 20,271,150</u>	<u>\$ 21,326,896</u>	<u>\$ 1,055,746</u>	<u>5.2%</u>

## Net Position

The total net position increased by \$1.1 million or 5.2% from the prior fiscal year. This increase is comprised solely of an increase in net investment in capital assets of \$1.1 million.

The total liabilities decreased by \$0.8 million or 1.5%. The decrease of \$1.4 million or 3.1% in long-term debt is associated with the \$1.4 million principal payment made on the 2009A bonds. This change is later explained in the “*Long-term Debt*” section. The increase of \$.6 million or 7.5% in other liabilities is primarily related to an increase in accounts payable, which is a result of the timing of payments for the Shoreway operations.

The largest portion of the Authority’s assets is its investment in net capital assets totaling \$45.6 million. These assets are comprised of land, buildings, equipment and infrastructure, less accumulated depreciation, and are primarily located at the Shoreway Environmental Center. The actual year-over-year comparison of the capital assets, net of accumulated depreciation, shows a decrease of \$.5 million or 1.0% due to the increase in accumulated depreciation exceeding annual capital asset additions. These changes are explained further in the “*Capital Assets*” section.

The net investment in capital assets is \$5.0 million as of June 30, 2019. It represents the Authority’s investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. It should be noted that these funds are not available for spending because the capital assets cannot be liquidated to settle liabilities. Therefore, the resources needed to repay the debt must be provided from other sources. Unrestricted net position totaling \$16.3 million represents the part of net position that can be used to finance operations.

## Results of Operations

The following table summarizes the Authority’s revenues, expenses, and changes in net position.

**Table 2**  
**Comparative Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2018 and 2019**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	\$ 42,678,598	\$ 46,377,395	\$ 3,698,797	8.7%
Commodity revenue	7,282,216	6,140,314	(1,141,902)	-15.7%
Other operating revenues	29,392	28,329	(1,063)	-3.6%
Net Insurance Proceeds	88,592	-	(88,592)	-100.0%
Grant revenue		1,020,000	1,020,000	
Investment Income	263,255	621,287	358,032	136.0%
Total Revenues	<u>50,342,053</u>	<u>54,187,325</u>	<u>3,845,272</u>	7.6%
Expenses				
Operating expenses	48,930,074	50,497,746	1,567,672	3.2%
Fire-related expenses	88,424	-	(88,424)	-100.0%
Interest expense	2,702,669	2,633,833	(68,836)	-2.5%
Total Expenses	<u>51,721,167</u>	<u>53,131,579</u>	<u>1,410,412</u>	2.7%
Increase (decrease) in net position	(1,379,114)	1,055,746	2,434,860	176.6%
Beginning net position	<u>21,650,264</u>	<u>20,271,150</u>	<u>(1,379,114)</u>	-6.4%
Ending net position	<u>\$ 20,271,150</u>	<u>\$ 21,326,896</u>	<u>\$ 1,055,746</u>	5.2%

While the Statement of Net Position (Table 1) shows the change in financial position, the Statement of Activities (Table 2 above) provides answers as to the nature and sources of the changes.

Charges for services, also known as tipping fee revenue, increased by \$3.7 million or 8.7%, from \$42.7 million in FY18 to \$46.4 million in FY19. \$.4 million of the revenue growth was due to an increase in “self-haul” public tipping fees and \$3.3 million was due to an increase in franchise tipping fees. Public revenue is the revenue generated from non-franchised waste that is delivered to the Shoreway facility by members of the public, while franchise revenue is from solid waste and organic materials collected by Recology San Mateo County from customers of SBWMA’s member agencies and delivered to the Shoreway facility. FY19 was a challenging year for recyclable commodities due to the crash in commodity market price for mixed paper as a result of China’s tightening of contamination standards. Due to this event, commodity revenue decreased by \$1.1 million or 15.7% from \$7.3 million in FY 2018 to \$6.1 million in FY19. Other operating revenues were virtually unchanged from FY18 to FY19. Investment income, which is nonoperating revenue, was \$0.4m higher in FY19 than FY18 due to stronger performance by both the Local Agency Investment Fund (LAIF) and San Mateo County Investment Pool. The Authority also received a grant in the amount of \$1.0 million in FY19 from CalRecycle for the Organics to Energy Project.

The primary component of operating expenses (83.6%) is related to the Shoreway operations that include contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expenses. The Shoreway operations expense (Table 3) increased by \$1.0 million, or 2.4%, from FY18 to FY19.

Table 3 below shows just the operating results of the Authority (excluding depreciation). It excludes all revenue and expenditure not directly associated with operating activities such as investment income, grant revenue, and interest expense. For the current fiscal year, operating results were \$5.1 million compared to \$4.2 million for the prior fiscal year, an increase of 21.8%.

**Table 3**  
**Operating Results**  
**For the Fiscal Years Ended June 30, 2018 and 2019**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenue				
Charges for Services	\$ 42,678,598	\$ 46,377,395	\$ 3,698,797	8.7%
Commodity Fee	7,282,216	6,140,314	(1,141,902)	-15.7%
Other Operating Revenue	29,392	28,329	(1,063)	-3.6%
Total Operating Revenue	<u>49,990,206</u>	<u>52,546,038</u>	<u>2,555,832</u>	5.1%
Operating Expense (excl Depn.)				
Shoreway Operations	41,208,573	42,195,199	986,626	2.4%
Program Admin	2,543,222	3,019,870	476,648	18.7%
Franchise Fee	2,032,946	2,206,790	173,844	8.6%
Total Operating Expense (excl Depn.)	<u>\$ 45,784,742</u>	<u>\$ 47,421,859</u>	<u>1,637,118</u>	3.6%
Total Operating Results (excl Depn.)	<u>\$ 4,205,464</u>	<u>\$ 5,124,179</u>	<u>\$ 918,714</u>	<u>21.8%</u>

## Reserves

Table 4 below reflects the amount of reserves that have been designated by the Board as of June 30, 2018 and 2019.

**Table 4**  
**Unrestricted Reserves Balances**

	<u>FY 2018</u>	<u>FY 2019</u>
Rate Stabilization Reserve	\$ 4,764,699	\$ 4,100,000
Emergency Reserve	4,764,699	4,454,754
Equipment Replacement Reserve	1,192,148	1,397,514
2009 A Bond Repayment	1,183,333	
Capital Fund Reserve		4,886,222
Undesignated Reserve	4,415,561	1,479,798
Total Unrestricted Reserves	<u>\$ 16,320,440</u>	<u>\$ 16,318,288</u>

In 2002, the SBWMA Board established a cash reserve policy to set aside certain portions of unrestricted net position for specific uses in order to protect the short and long-term financial operation of the Authority. In May 2013, the Board revised the Cash Reserve Policy to accomplish the goal of more clearly defining the reserve accounts. In November 2018, the Board further revised the Cash Reserve Policy to include a Capital Reserve Fund to fund future capital projects that cannot be absorbed in one budget period. The current policy consists of a Rate Stabilization Reserve, Emergency Reserve, Equipment Replacement Reserve, Capital Fund Reserve, and Undesignated Reserve. The Rate Stabilization Reserve & Emergency Reserve are calculated at up to 10% of operating expenses. Operating expenses include Shoreway Operations expense, SBWMA program expenses, bond interest expense, and franchise fees. Operating expenses exclude depreciation, buyback, and household hazardous waste payments. The Emergency Reserve is to address unexpected and sudden capital needs or significant one-time increases in Shoreway operating expenses associated with “damage by natural disasters, acts of war or terrorism, or other community emergency scenarios that are not covered by existing insurance policies”. The current policy prioritizes the order of the accounts so the Rate Stabilization Reserve is first in priority followed by the Emergency Reserve.

All reserve fund levels are approved by the Board each year as part of the adoption of the fiscal year budget.

## Capital Assets

The following table summarizes changes in the Authority’s capital assets.

**Table 5**  
**Capital Assets, Net of Depreciation**  
**For the Fiscal Years Ended June 30, 2018 and 2019**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	0.0%
Construction in progress		2,435,552	2,435,552	
Buildings and systems	35,704,825	35,884,604	179,779	0.5%
Machinery and equipment	23,480,648	23,579,722	99,074	0.4%
Total accumulated depreciation	<u>(27,125,417)</u>	<u>(30,295,302)</u>	<u>(3,169,885)</u>	11.7%
Total Net Capital Assets	<u>\$ 46,060,056</u>	<u>\$ 45,604,576</u>	<u>\$ (455,480)</u>	<u>-1.0%</u>

The net capital assets decreased by \$.5 million, or 1.0%, from \$46.1 million in FY18 to \$45.6 million in FY19. This decrease is the net of the annual \$3.2 million depreciation charge and \$2.7m in capital expenditures to replace equipment and start the Organics-to-Energy pilot 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 \$44.8 million total debt outstanding.

**Table 6**  
**Outstanding Debt, Net of Amortized Costs**  
**June 30, 2018 and 2019**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	\$ 46,105,000	\$ 44,685,000	\$ (1,420,000)	-3.1%
Net Premium 2009A	134,747	127,247	(7,500)	-5.6%
Total	<u>\$ 46,239,747</u>	<u>\$ 44,812,247</u>	<u>\$ (1,427,500)</u>	<u>-3.1%</u>

Long-term debt consists of the Series 2009A Revenue Bonds that were issued to finance the construction and renovation of a solid waste materials recovery facility and transfer station as well as related equipment.

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

In July 2019, the Series 2009A Revenue Bonds were refunded as part of the Series 2019A Refunding Revenue Bond issuance. Additional information on the refunding can be found in Note (10) to the accompanying financial statements.

**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 expenses 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 POSITION  
JUNE 30, 2019**

---

**ASSETS**

Current Assets:	
Cash and investments for operations (Note 2)	\$18,457,739
Accounts receivable	3,942,454
Interest receivable	115,113
Prepaid items	962
	<hr/>
Total Current Assets	22,516,268
	<hr/>
Noncurrent Assets:	
Cash and investments with fiscal agent (Note 2)	6,610,869
Capital assets (Note 4):	
Land	14,000,000
Construction in progress	2,435,552
Building	35,884,604
Equipment	23,579,722
Less Accumulated Depreciation	(30,295,302)
	<hr/>
Net capital assets	45,604,576
	<hr/>
Total Noncurrent Assets	52,215,445
	<hr/>
Total Assets	74,731,713
	<hr/>

**LIABILITIES**

Current Liabilities:	
Accounts payable	6,359,454
Interest payable	876,500
Current portion of compensated absences	69,020
Long-term debt due in one year (Note 5)	1,495,000
	<hr/>
Total Current Liabilities	8,799,974
	<hr/>
Noncurrent Liabilities:	
Compensated absences due in more than one year	53,956
Accrued liabilities (Note 7)	1,233,640
Long-term debt due in more than one year (Note 5)	43,317,247
	<hr/>
Total Noncurrent Liabilities	44,604,843
	<hr/>
Total Liabilities	53,404,817
	<hr/>

**NET POSITION**

Net investment in capital assets	5,008,608
Unrestricted	16,318,288
	<hr/>
Total Net Position	\$21,326,896
	<hr/> <hr/>

See accompanying notes to the financial statements

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

---

OPERATING REVENUES:	
Charges for services	\$46,377,395
Commodity revenue	6,140,314
Other	28,329
	<hr/>
Total Operating Revenues	52,546,038
OPERATING EXPENSES:	
Shoreway operations	42,195,199
SBWMA program administration	3,019,870
Franchise fee - transfer station	2,206,790
Depreciation (Note 4)	3,075,887
	<hr/>
Total Operating Expenses	50,497,746
	<hr/>
Operating Income	2,048,292
NONOPERATING REVENUES (EXPENSES):	
Grant revenue	1,020,000
Investment income	621,287
Interest expense	(2,633,833)
	<hr/>
Net Nonoperating Revenue (Expense)	(992,546)
	<hr/>
Change in Net Position	1,055,746
NET POSITION AT BEGINNING OF FISCAL YEAR	20,271,150
	<hr/>
NET POSITION AT END OF FISCAL YEAR	\$21,326,896
	<hr/> <hr/>

See accompanying notes to the financial statements

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$53,329,421
Payments to suppliers	(45,282,216)
Payments to employees	(1,386,354)
	<u>6,660,851</u>
Net Cash Flows (used for) Operating Activities	<u>6,660,851</u>
CASH FLOWS FROM NONCAPITAL AND FINANCING ACTIVITIES	
Grant revenue	<u>1,020,000</u>
Net Cash Flows (used for) Noncapital and Financing Activities	<u>1,020,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>575,721</u>
Net Cash Flows from Investing Activities	<u>575,721</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets additions	(2,620,407)
Retirement of long-term debt	(1,420,000)
Interest paid	(2,665,000)
	<u>(6,705,407)</u>
Net Cash Flows (Used for) Capital and Related Financing Activities	<u>(6,705,407)</u>
Net Cash Flows	1,551,165
Cash and investments for operations - beginning of fiscal year	<u>23,517,443</u>
Cash and investments - end of fiscal year	<u><u>\$25,068,608</u></u>
Reconciliation of operating income to net cash flows from operating activities:	
Operating income (loss)	\$2,048,292
Adjustments to reconcile operating income to cash flows from operating activities:	
Depreciation	3,075,887
Net change in:	
Accounts receivable	783,383
Prepays	132,781
Accounts payable	847,677
Accrued liabilities	(252,493)
Compensated absences	25,324
	<u>5,062,559</u>
Net Cash Flows from Operating Activities	<u><u>\$6,660,851</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	\$7,500

See accompanying notes to the financial statements

# **SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

## **NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2019**

---

### **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 Shoreway Environmental Center in San Carlos; 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 towns of Atherton and Hillsborough, and the cities of Belmont, Burlingame, East Palo Alto, Foster City, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary District and the County of San Mateo.

The Authority is controlled by a twelve member board consisting of one elected 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.

Based on the franchise agreements with each member agency and Recology effective January 1, 2011, the Authority collects service fees from Recology for the processing and disposal of collected materials. The facility operator, South Bay Recycling, also collects fees from public customers which are remitted to the Authority. South Bay Recycling is paid by the Authority to operate the facility and transport materials to disposal and processing facilities on a per ton basis pursuant to the Operations Agreement. The compensation to both contractors is adjusted annually based primarily on various CPI indices. The Authority also directly pays for disposal and processing of solid waste and organics materials to vendors such as BFI/Republic, Recology Grover, Zanker Road.

#### **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 and the sale of commodities.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 1: Summary of Significant Accounting Policies (Continued)**

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.

**c. Net Position Flow Policy**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is used.

**d. 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 are capitalized and depreciated over the remaining useful life of the asset. The Authority’s policy is to capitalize all assets with costs exceeding the \$10,000 threshold and a useful life of more than one year.

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; meaning 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 of capital assets by type as listed below:

Building	10 - 40 years
Improvements	5 - 20 years
Equipment	5 - 15 years

# SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2019

---

### Note 1: Summary of Significant Accounting Policies (Continued)

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.

#### e. 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 and 50% of their sick leave balance. The liability for compensated absences is determined annually.

#### f. 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.

#### g. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

## SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

### NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2019

---

#### Note 1: Summary of Significant Accounting Policies (Continued)

##### h. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

#### 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 Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

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.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 2: Cash and Investments (Continued)**

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>Statement of Net Position</u>	
Cash and investments for operations	\$ 18,457,739
Cash and investments with fiscal agent	<u>6,610,869</u>
Total Cash and Investments	<u>\$ 25,068,608</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.

**b. 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 when the Authority's Investment Policy is more restrictive.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
State Local Agency Investment Fund	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than \$65 million permitted by LAIF	\$65 million per Account
San Mateo County Investment Pool	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	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	40%	(B)
Commercial Paper	270 Days	Highest letter and number rating by an NRSRO	25%	(A)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	30%	(A)
Medium Term Corporate Notes	5 Years	A	30%	(A)

(A) 5% of outstanding paper of issuing corporation and 10% of the portfolio in one corporation

(B) No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 2: Cash and Investments (Continued)**

**c. 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:

Authorized Investment Type	Minimum Credit Quality
Direct obligations of the Department of the Treasury of the United States	None
Obligations issued or guaranteed by FMHA, FHA, General Services Administration, GNMA, U.S. Maritime Administration, HUD, and backed by the full faith and credit of the United States of America	None
Direct obligations of FHLB, FHLMC, FNMA, REFCORP, Farm Credit Enterprise, Federal Agriculture Mortgage Association, Tennessee Valley Authority	None
Money Market Fund	AA
U.S. dollar denominated Certificates of Deposit, savings accounts, deposit accounts	None
Investment agreements, including GIC's forward purchase agreements and reserve fund put agreements	None
Commercial Paper	A-1
General obligations of States or municipalities	AAA
Bankers acceptances	A-1+
Medium Term Notes	AAA
State of California Local Agency Investment Fund	None
San Mateo County Investment Pool	None

**d. 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:

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 2: Cash and Investments (Continued)**

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$ 11,642,950	\$ 11,642,950
San Mateo County Investment Pool	5,275,348	5,275,348
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	6,610,869	6,610,869
Total Investments	\$ 23,529,167	23,529,167
Total Cash in Bank and Cash on Hand		1,539,441
Total Cash and Investments		\$ 25,068,608

**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 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.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 2: Cash and Investments (Continued)**

**e. 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. Investments in California Local Agency Investment Fund and San Mateo County Investment Pool are not rated and therefore no rating is shown.

Presented below is the actual rating as of June 30, 2019, for each investment type as provided by S&P ratings:

Investment Type	AAAm	Total
Cash and Cash Equivalents with Fiscal Agent:		
Money Market Fund	\$ 6,610,869	\$ 6,610,869
Totals	\$ 6,610,869	6,610,869
Not rated:		
California Local Agency Investment Fund		11,642,950
San Mateo County Investment Pool		5,275,348
Total Investments		23,529,167
Total Cash in bank and cash on hand		1,539,441
Total Cash and Investments		\$ 25,068,608

**f. Fair Value Hierarchy**

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 2: Cash and Investments (Continued)**

The following is a summary of the fair value hierarchy of the fair value of investments of the Authority as of June 30, 2019:

Investment Type	Exempt	Total
<b>Investments by Fair Value:</b>		
California Local Agency Investment Fund	\$ 11,642,950	\$ 11,642,950
San Mateo County Investment Pool	5,275,348	5,275,348
Total Investments at Fair Value	<u>\$ 16,918,298</u>	16,918,298
<b>Investments Measured at Amortized Cost:</b>		
Money Market Fund		<u>6,610,869</u>
Total Investments		23,529,167
<i>Cash in banks</i>		<u>1,539,441</u>
Total Cash and Investments		<u>\$ 25,068,608</u>

Both the California Local Agency Investment Fund and the San Mateo County Investment Pool are external investment pools and exempted in the fair value hierarchy, under GASB 72.

**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. There were no such investments at June 30, 2019.

**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 Shoreway Environmental Center in San Carlos. The Authority signed an agreement to lease back the facilities to Republic Services, Inc. to operate them. This agreement expired on December 31, 2006 and the Authority had extended the agreement until December 31, 2010. The Authority signed a new agreement effective January 1, 2011 with South Bay Recycling to operate the facility. For the fiscal year ended June 30, 2019, the Authority paid \$21,029,629 to South Bay Recycling to operate the Facility.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Note 4: Capital Assets**

Changes in capital assets were as follows for fiscal year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Adjustment	Balance at June 30, 2019
Capital assets not being depreciated:				
Land	\$ 14,000,000	\$ -	\$ -	\$ 14,000,000
Construction in progress	-	2,435,552	-	2,435,552
Total non-depreciable assets	<u>14,000,000</u>	<u>2,435,552</u>	<u>-</u>	<u>16,435,552</u>
Capital assets being depreciated:				
Buildings	35,704,825	197,493	(17,714)	35,884,604
Equipment	23,480,648	60,728	38,346	23,579,722
Total capital assets being depreciated	<u>59,185,473</u>	<u>258,221</u>	<u>20,632</u>	<u>59,464,326</u>
Less accumulated depreciation for:				
Buildings	(13,144,551)	(1,193,112)	17,712	(14,319,951)
Equipment	(13,980,866)	(1,882,775)	(111,710)	(15,975,351)
Total accumulated depreciation	<u>(27,125,417)</u>	<u>(3,075,887)</u>	<u>(93,998)</u>	<u>(30,295,302)</u>
Net capital assets being depreciated	<u>32,060,056</u>	<u>(2,817,666)</u>	<u>(73,366)</u>	<u>29,169,024</u>
Capital assets, net	<u>\$ 46,060,056</u>	<u>\$ (382,114)</u>	<u>\$ (73,366)</u>	<u>\$ 45,604,576</u>

**Note 5: Revenue Bonds**

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

	Balance June 30, 2018	Retirements	Balance June 30, 2019	Due Within One Year
2009A Solid Waste System Revenue Bonds	\$ 46,105,000	\$ (1,420,000)	\$ 44,685,000	\$ 1,495,000
Bond premiums	134,747	(7,500)	127,247	-
	<u>\$ 46,239,747</u>	<u>\$ (1,427,500)</u>	<u>\$ 44,812,247</u>	<u>\$ 1,495,000</u>

**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.

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**Note 5: Revenue Bonds (Continued)**

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 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.

The bond covenants contain events of default that require the revenue of the Authority to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure of the Authority to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by the Authority; or if any court or competent jurisdiction shall assume custody or control of the Authority. There were no such events occurred during the fiscal year ending June 30, 2019.

**b. Revenue Pledge**

The bonds are secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. For the 2009A bonds, the pledge of future net revenue ends upon repayment of the 2009A bonds in the amount of \$78,925,076 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2037.

According to the Rate Covenant in the 2009A Bond Indenture, the Authority will maintain a Net Revenue to Debt Service coverage ratio of 1.40. As of the Fiscal Year 2019, the Net Revenues to Debt Service Coverage ratio was 2.09.

**c. Debt Service Requirements**

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

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 1,495,000	\$ 2,592,125	\$ 4,087,125
2021	1,570,000	2,554,750	4,124,750
2022	1,650,000	2,554,750	4,204,750
2023	1,735,000	2,554,750	4,289,750
2024	1,830,000	2,554,750	4,384,750
2024 - 2028	10,815,000	10,716,013	21,531,013
2029 - 2033	14,570,000	7,261,438	21,831,438
2034 - 2037	11,020,000	3,451,500	14,471,500
Total	<u>\$ 44,685,000</u>	<u>\$ 34,240,076</u>	<u>\$ 78,925,076</u>

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

---

**Note 6: Insurance**

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

<u>Type of Coverage</u>	<u>Coverage Limits</u>
General Aggregate Limit	\$ 2,000,000
General Liability deductible	2,500 SIR
Environmental Impact Liability aggregate	2,000,000
Environmental Liability deductible	25,000 SIR
Hired & Non-Owned Auto Limit	1,000,000
Employee Benefits Liability	1,000,000
Excess Liability	10,000,000

**Note 7: Pollution Remediation**

In 2000 the South Bay Waste Management Authority (SBWMA) purchased the property located at 225/333 Shoreway Road in San Carlos. The property had pre-existing ground water contamination issues and the former property owner Allied Waste (now Republic Services) was identified as the responsible party. The ground water contamination is the result of hydrocarbon and petroleum products. Both Allied Waste and the SBWMA have managed a remediation effort under supervision from the County of San Mateo Department of Environmental Health.

The San Mateo County Health System (SMCHS) and the California Regional Water Quality Control Board (RWQCB) have reviewed and approved the SBWMA's "Closure Report" submitted on January 29, 2013 to close the Shoreway Environmental Center ("Shoreway") groundwater remediation project and issued a NOTICE OF CASE CLOSURE on April 29, 2014. This case closure letter is the final step in the Shoreway remediation closure and "no further remediation action" is required at the Shoreway facility. While no further remediation effort was deemed necessary, due to concerns about potential residual contamination, the property has a deed restriction requiring it to remain industrially zoned.

In March of 2010, the SBWMA received a lump sum settlement payment of \$1,500,000 from Republic Services (formerly Allied Waste and BFI). This money was deposited into a SBWMA account dedicated to the ongoing clean-up efforts at Shoreway (the remediation cost estimate was negotiated with Allied per methods approved by County regulators and based on input from environmental engineers). At the close of remediation efforts on April 29, 2014 the Shoreway Remediation Fund had an unspent balance of \$1,239,826. The unspent balance as of June 30, 2019 is \$1,233,640 and is reported as accrued liabilities.

# **SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

## **NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2019**

---

### **Note 8: Net Position**

#### Designations

The Authority has designated \$14,838,490 of the unrestricted net position for several reserves which include: \$4,100,000 for rate stabilization, \$4,454,754 for emergency reserve, \$1,397,514 for equipment replacement, and \$4,886,222 for capital items. These designations may be modified, amended or removed by Authority Board action.

### **Note 9: Commitments and Contingent Liabilities**

#### Litigation

SBWMA is subject to litigation arising in the normal course of business. In the opinion of legal counsel there is no pending litigation, which is likely to have a material adverse effect on the financial position of SBWMA.

#### Construction Commitments

There are no significant construction commitments as of June 30, 2019.

### **Note 10: Subsequent Events**

On July 9, 2019 SWBMA issued Solid Waste Enterprise Refunding Revenue Bonds, Series 2019A, Non-Alternative Minimum Tax Green Bonds in the amount of \$31.86 million and Solid Waste Enterprise Revenue Bonds, Series 2019B, Alternative Minimum Tax Green Bonds in the amount of \$16.915 million. The Series 2019A Bonds were issued to refund, in full, the Series 2009A bonds, pay a portion of the cost of a debt reserve insurance policy, and pay costs of issuance of the Series 2019A Bonds, including a portion of the cost of a municipal bond insurance policy. The Series 2019B Bonds were issued to pay certain costs incurred by SBWMA in connection with the construction of various improvements and acquisition of certain associated equipment to SBWMA's solid waste materials recovery facility and transfer station located in the City of San Carols, CA, pay a portion of the cost of the Reserve Policy, and pay costs of issuance of the series 2019B Bonds, including a portion of the cost of a municipal bond insurance policy.

This Page Left Intentionally Blank



**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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, the basic financial statements of the South Bayside Waste Management Authority (Authority), as of and for the year ended June 30, 2019, and have issued our report thereon dated December 18, 2019.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Accountancy Corporation**  
3478 Buskirk Avenue, Suite 215  
Pleasant Hill, CA 94523

T 925.930.0902  
F 925.930.0135  
E [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
W [mazeassociates.com](http://mazeassociates.com)

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 18, 2019, which is an integral part of our audit and should be read in conjunction with this report.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Maze & Associates*

Pleasant Hill, California  
December 18, 2019

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

This Page Left Intentionally Blank

**SOUTH BAYSIDE WASTE  
MANAGEMENT AUTHORITY  
MEMORANDUM ON INTERNAL CONTROL  
AND  
REQUIRED COMMUNICATIONS**

**For The Fiscal Year Ended June 30, 2019**

**Table of Contents**

	<b><u>Page</u></b>
<i>Memorandum on Internal Control</i> .....	1
<i>Required Communications</i> .....	3
Significant Audit Findings:	
Accounting Policies.....	3
Unusual Transactions, Controversial or Emerging Areas .....	3
Accounting Estimates.....	3
Disclosures.....	4
Difficulties Encountered in Performing the Audit.....	4
Corrected and Uncorrected Misstatements.....	4
Disagreements with Management.....	4
Management Representations .....	4
Management Consultations with Other Independent Accountants .....	5
Other Audit Findings or Issues .....	5
Other Information Accompanying the Financial Statements.....	5

This Page Left Intentionally Blank



## MEMORANDUM ON INTERNAL CONTROL

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

In planning and performing our audit of the basic financial statements of the South Bayside Waste Management Authority (Authority) as of and for the fiscal year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Maze & Associates*

Pleasant Hill, California  
December 18, 2019

**Accountancy Corporation**  
3478 Buskirk Avenue, Suite 215  
Pleasant Hill, CA 94523

T 925.930.0902  
F 925.930.0135  
E [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
W [mazeassociates.com](http://mazeassociates.com)

This Page Left Intentionally Blank



## REQUIRED COMMUNICATIONS

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

We have audited the basic financial statements of the South Bayside Waste Management Authority (Authority) for the fiscal year ended June 30, 2019. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

### **Significant Audit Findings**

#### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year.

#### ***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the Authority during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the Authority's financial statements were):

*Estimated Fair Value of Investments:* As of June 30, 2019, the Authority held approximately \$25.1 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2019. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2019.

*Estimate of Depreciation:* Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

*Estimate of Compensated Absences:* Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1e to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

### ***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Authority's financial reporting process.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Authority Board.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in a management representation letter dated December 18, 2019.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each fiscal year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Information Accompanying the Financial Statements**

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for 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 did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

\*\*\*\*\*

This information is intended solely for the use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.



Pleasant Hill, California  
December 18, 2019

This Page Left Intentionally Blank

## STAFF REPORT

---

**To:** SBWMA Board Members  
**From:** John Mangini, Senior Finance Manager  
**Date:** January 30, 2020 Board of Director's Meeting  
**Subject:** Resolution Approving Revised SBWMA Investment Policy for 2020

---

### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2020-02 attached hereto authorizing the adoption of the Investment Policy for 2020. See **Exhibit A** to the Resolution for the proposed 2020 Investment Policy.

### Summary

The Investment Policy states that the policy shall be reviewed and adopted by resolution of the Board on an annual basis. It was last approved by the Board on January 24, 2019. The 2020 policy has been reviewed by the Board Finance Sub-Committee (comprised of Board Members Bill Widmer, Jay Benton, Fran Dehn and Member Agency Finance Directors Carol Augustine and Brenda Olwin) which recommends approval. The recommended minor changes to the policy are shown in the attached redline version (see **Exhibit A**). The changes involve the assignment of managing the SBWMA's investments to the newly selected City of Redwood City Accounting Services Team (serving as the Fiscal Agent for the Authority) and updating language to be consistent with California Code. Redwood City Staff and Redwood City's investment advisory firm, PFM Consulting, also reviewed the investment policy and provided the redline edits related to California code language. There are no substantial changes to the policy.

### Analysis

On August 24, 2000, the Board approved the first Investment Policy based on the City of San Carlos' Investment Policy. The Board has since approved revisions on an annual basis. The attached 2020 Investment Policy is fully compliant with California Code. The primary objective of the Investment Policy is safety of principal, while meeting the cash flow needs of the JPA, through prudent investment of surplus cash.

### Background

In January 2015, the Audit Committee reviewed the mix of investments between the County Pool and the state LAIF fund. The Audit Sub-Committee agreed to increase the County Fund to 30% to 50% while keeping the state LAIF Fund at 50% to 70%. This change was approved by the Board at the January 22, 2015 Board meeting.

### Fiscal Impact

There is no fiscal impact associated with approving the attached revised Investment Policy.

### Attachments:

Resolution 2020-02

Exhibit A – Investment Policy (red-line version)



A Public Agency

## RESOLUTION NO. 2020-02

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING A REVISED INVESTMENT POLICY FOR 2020

**WHEREAS**, the South Bayside Waste Management Authority (SBWMA) and the City of Redwood City has reviewed and revised the SBWMA's current Investment Policy;

**WHEREAS**, the Board's Finance Sub-Committee has also reviewed the Policy and supports the recommended changes;

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby approves the 2020 SBWMA Investment Policy document as shown in Exhibit A.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 30<sup>th</sup> day of January, 2020, 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. 2020-02 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 30, 2020.

ATTEST:

\_\_\_\_\_  
Jess E (Jay) Benton, Chairperson of SBWMA

\_\_\_\_\_  
Cynthia Urman, Board Secretary

## **SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY INVESTMENT POLICY**

January ~~2019~~2020

### **POLICY**

The investment of the funds of the South Bayside Waste Management Authority (SBWMA) is directed to the goals of safety, liquidity and yield. This Investment Policy incorporates the policies defined by the certified investment policy standards recommended by the California Debt and Investment Advisory Commission (CDIAC). The authority governing investments for municipal governments is set forth in the California Government Code, Sections ~~53604-53600~~ through 53686.

The primary objective of the investment policy of the South Bayside Waste Management Authority is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The SBWMA's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the SBWMA the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

### **SCOPE**

The investment policy applies to all financial assets of the South Bayside Waste Management Authority as accounted for in the Annual Financial Statements. Policy statements outlined in this document focus on the SBWMA's pooled funds and debt-related funds held by the trustee/ fiscal agent.

### **PRUDENCE**

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

It is the SBWMA's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Assistant City Manager and Administrative Services Director, Financial Services Manager, and Principal Analyst of the City of Redwood City (RWC) San Carlos (City) and other individuals assigned, as approved by the SBWMA Executive Director and SBWMA Senior Finance Manager to manage the SBWMA investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

## OBJECTIVES

### Safety of Principal

Safety of principal is the foremost objective of the South Bayside Waste Management Authority. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The SBWMA shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the SBWMA's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the SBWMA's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

### Liquidity

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the SBWMA's investment portfolio will remain sufficiently liquid to enable the SBWMA to meet all reasonably anticipated operating requirements.

### MATURITY MATRIX

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should be invested in the following maturity sectors:

Maturity Range	Suggested Percentage
1 day to 7 days	10 to 50%
7 days to 180	10 to 30%
180 days to 360 days	10 to 30%
1 year to 2 years	10 to 20%
2 years to 3 years	0 to 20%
3 years to 4 years	0 to 20%
4 years to 5 years	0 to 20%
Over 5 years	Board Authorization Required *

\* One exception does exist regarding the investment of bond reserve funds. If, in the opinion of the Executive Director or the SBWMA Board of Directors, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

### PERFORMANCE EVALUATION

Investment performance is monitored and evaluated by the Investment Advisory Committee, whose membership is outlined in the following section. Investment performance statistics and activity reports are generated on a quarterly basis for presentation to the Investment Advisory Committee and to the SBWMA Board of Directors. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Investment Advisory Committee and to the SBWMA Board of Directors for Board consideration at a public meeting.

The SBWMA's investment portfolio is designed to at least attain a market average rate of return through economic cycles. The market average rate of return is defined as average return on the Local Agency Investment Fund (assuming the State does not adversely affect LAIF's returns due to budget constraints).

### DELEGATION OF AUTHORITY

The Joint Powers Authority Agreement of the South Bayside Waste Management Authority and the authority granted by SBWMA Board assign the responsibility of investing unexpended cash to the City's Assistant City Manager and Administrative Services Director or Principal Analyst. Daily management responsibility of the investment program may be delegated to the City's Financial Services Manager, who shall establish procedures for the operation consistent with this investment policy.

### INVESTMENT ~~OVERSIGHT~~ COMMITTEE

~~The Assistant City Manager and Administrative Services Director, Financial Services Manager, and Principal Analyst (City Treasurer) of the City of Redwood City will provide general oversight and direction concerning the~~ An investment committee consisting of the City of San Carlos Treasurer, City Manager, and Administrative Services Director shall be established to provide general oversight and direction concerning the policy related to management of the SBWMA's investments pool. ~~In conjunction with the City's investment advisory firm,~~ The Financial Services Manager shall ~~not be a member of the committee but shall serve in a staff and advisory capacity.~~ The committee shall review and approve quarterly investment reports prepared by the Finance ~~Division~~ department and ~~reviewed by the Financial Services Manager or~~ and meet as necessary to discuss changes to the report or the investment strategy. The SBWMA Board will be provided with ~~Investment Committee serving as the legislative body of the Investment Policy will have the~~ quarterly reports for their review within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code.

### ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make

impartial investment decisions. Additionally the City's Assistant City Manager and Administrative Services Director and the Financial Services Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

### SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the SBWMA shall be held in safekeeping by a third party bank trust department, acting as agent for the SBWMA under the terms of a custody agreement. All trades executed by a dealer will settle delivery versus payment (DVP) through the SBWMA's safekeeping agent.

Securities held custody for the SBWMA shall be monitored by the City's Financial Administrative Services Manager Director to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City's Financial Administrative Services Manager Director in written form and included in the quarterly reporting to the Investment Committee and the SBWMA Board of Directors.

### INTERNAL CONTROL

Separation of functions between the City's Administrative Services Director or Financial Services Manager and/or the Principal Analyst, Senior Accountant, Accountant, Account Technician, and/or Account Clerk is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the City's Financial Administrative Services Manager Director, executed by the Principal Analyst, Administrative Services Director or Financial Services Manager and confirmed by the Senior Accountant, Accountant, Account Technician, and/or Account Clerk. All wire transfers initiated by the Accountant or Account Technician Administrative Services Director or Financial Services Manager must be reconfirmed by the appropriate financial institution to the Financial Services Manager Senior Accountant. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Account Technician Senior Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the Agency's cash and investments that have a material impact on the financial statements. The Financial Administrative Services Manager Director and/or Investment Committee shall review and assure compliance with investment process and procedures.

### REPORTING

The City's Financial Administrative Services Manager Director shall review and render quarterly reports to the Investment Advisory Committee and to the Board of Directors which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due

for all securities. The quarterly reports will be submitted to the ~~Board of Directors Investment Committee~~ within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code. ~~Once approved by the Investment Committee, the quarterly reports shall be placed on the Board of Director's meeting agenda for its review and approval no later than 60 days after the quarter ends.~~ If there are no Board of Director meetings within the 360-day period, the quarterly report shall be presented to the Board of Directors at the soonest possible meeting thereafter.

### QUALIFIED BROKER/DEALERS

The SBWMA shall transact business only with banks, savings and loans, and with broker/dealers. The broker/dealers should be primary or regional dealers. The City currently does not maintain a list of broker/dealers approved to do business with the City. When necessary, the City shall go through the Request for Proposal processes to select the broker/dealers. ~~The City's Administrative Services Director will make exceptions only upon written authorization.~~ Investment staff shall investigate dealers wishing to do business with the SBWMA to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the SBWMA's needs. The SBWMA's investment policy shall be made available on the Authority's website for broker/dealers' review.

### COLLATERAL REQUIREMENTS

Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

### AUTHORIZED INVESTMENTS

Investment of SBWMA funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool, and San Mateo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when they are part of the list of authorized investments, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.
3. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

Commented [AK1]: Language from Code to replace paragraph below.

Commented [FR2R1]: This should be sufficient and includes agency mortgage-backed securities.

- ~~3. Most mortgage backed securities are obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio that can be invested in this category, although a five year maturity limitation is applicable. A mortgage passthrough security, collateralized mortgage obligation, mortgage backed or other pay through bond, equipment lease backed certificate, consumer receivable passthrough certificate, or consumer receivable backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category of "A" or its equivalent or better for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.~~
4. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 40% of the cost value of the portfolio. Also, no more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.
5. Commercial paper ranked the highest letter and number rating by a nationally recognized statistical rating organization (NRSRO), such as Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services, and issued by domestic corporations having assets in excess of \$500,000,000 and having a rating in the rating category of "A" or the equivalent or better rating on its' long term debentures as provided by NRSRO. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than ~~10~~10 of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the cost value of the portfolio. No more than 5% of the market value of the portfolio may be invested in any one issuer.
6. Negotiable Certificates of Deposit issued by nationally or state chartered banks (FDIC insured institutions), a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable. No more than 5% of the market value of the portfolio may be invested in any one issuer.
7. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 30% of the investment portfolio may be invested in this investment type. A maturity limitation of five years is applicable.
8. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated in a rating category of "A" or the equivalent or better by an NRSRO. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 5% of the market value of the portfolio may be

**Commented [AK3]:** I recommend deleting this paragraph to replace it with the paragraph added above, which is directly from Code and allows investment in federal agencies.

**Commented [AK4]:** The Code language added here applies to non-agency mortgage backed securities and asset-backed securities 53601(o). It is my assumption that this policy wants to permit investment in agency mortgage backed securities only (which are permitted by the language I added). As such, I recommend deleting this language.

**Commented [FR5R4]:** I don't believe you want non-agency mortgage backed securities, so this should be deleted.

**Commented [AK6]:** Language more in line with Code

**Commented [AK7]:** I recommend leaving this at 10%, per Code.

**Commented [AK8]:** Language added to address what I think you were trying to accomplish by changing 10% to 5% in prior sentence.

**Commented [AK9]:** Added this language per Code

**Commented [AK10]:** Suggest adding this language to increase safety and it is consistent with the requirement for other credit sectors in the policy.

invested in notes issued by one corporation. ~~Commercial paper holdings should also be included when calculating the 15-10% limitation.~~

9. Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are prohibited from use in this portfolio. It is noted that special circumstances arise that necessitate the purchase of securities beyond the five-year limitation. On such occasions, requests must be approved by Board of Directors prior to purchase.
10. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the SBWMA may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the SBWMA's total pooled funds portfolio:

Authorized Investment Type	Government Code	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than \$675 million permitted by LAIF	N/A
San Mateo County Investment Pool	53684	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	N/A
Treasury Obligations (bills, notes & bonds)	53601(b)	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	N/A	100%	N/A
<del>Mortgage Pass-Through Securities or Mortgage-Backed Securities</del>	<del>53601(e)</del>	<del>5 Years</del>	<del>(A-C)</del>	<del>20%</del>	<del>N/A</del>
Bankers' Acceptances	53601(g)	180 Days	N/A	40%	30%
Commercial Paper	53601(h)	270 Days	Highest letter and	25%	5%

Commented [AK11]: LAIF increased the limit to \$75 million effective January 1, 2020. You may want to consider changing this to \$75 million.

Commented [FR12R11]: agree

Commented [AK13]: I recommend deleting this. I don't believe they want to add non-agency MBS/asset-backed securities as a permitted investment. However, if they do, we will need to add the language above.

			number rating by an NRSRO		
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	5%
Time Certificates of Deposit – Banks or Savings and Loans	53601.8	5 Years	N/A	30%	N/A
Medium Term Corporate Notes	53601(k)	5 Years	Rating category “A” by NRSRO	30%	5%

- (A) ~~10% of outstanding paper of issuing corporation, and 10% of the portfolio in one corporation~~
- ~~No more than 30% of the agency's money may be in bankers' acceptances of any one commercial bank.~~
- (B) ~~Issued by an issuer rated in a rating category of “A” or its equivalent or better for the issuer's debt as provided by an NRSRO and rated in a rating category of “AA” or its equivalent or better by an NRSRO.~~

Commented [AK14]: I think this should be deleted.

Commented [FR15R14]: Seems out of place

Commented [FR16]: Delete if deleting mortgage-backed securities.

**DERIVATIVE INVESTMENTS**

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The use of derivatives is prohibited under this policy.

**LEGISLATIVE CHANGES**

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the South Bayside Waste Management Authority's Investment Policy and supersede any and all previous applicable language.

**INTEREST EARNINGS**

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance in each fund at quarter end as a percentage of the entire pooled portfolio.

**LIMITING MARKET VALUE EROSION**

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the SBWMA to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the SBWMA's best interest to sell or trade a security prior to maturity.

### **PORTFOLIO MANAGEMENT ACTIVITY**

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management. Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the SBWMA shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

Security Swaps. The SBWMA may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the SBWMA permanent investment file documents.

Competitive Bidding. It is the policy of the SBWMA to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

### **POLICY REVIEW**

The South Bayside Waste Management Authority's investment policy shall be adopted by resolution of the Board on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Board for approval.

### **Glossary of Terms**

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

**Amortization-** An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

**Annual Financial Report -** The official annual financial report for the SBWMA. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principles (GAAP).

**Asked Price-** The price a broker dealer offers to sell securities.

**Basis Point-** One basis point is one hundredth of one percent (.01).

**Bid Price-** The price a broker dealer offers to purchase securities.

**Bond-** A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

**Bond Swap –** Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

**Book Entry Securities –** Securities, such stocks held in “street name,” that are recorded in a customer’s account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. All the large New York City banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the “book-entry” custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

**Bearer and Registered Bonds -** In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in “book-entry” form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury’s new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

**Book Value-** The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

**Broker –** In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

Certificate of Deposit- A deposit insured up to \$250,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and approximately 3,000 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- Refers to the ability to rapidly convert an investment into cash.

Market Value- The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and payable.

Nationally Recognized Statistical Rating Organizations (NRSRO): A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services.

New Issue- Term used when a security is originally "brought" to market.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Collection of securities held by an investor.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (SBWMA) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (SBWMA) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk- Degree of uncertainty of return on an asset.

Safekeeping- see custody.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Time Deposit – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Obligations- Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.



## STAFF REPORT

---

**To:** SBWMA Board Members  
**From:** Hilary Gans, Senior Contracts and Facilities Manager  
**Date:** January 30, 2020 Board of Directors Meeting  
**Subject:** Resolution Approving a contract with LPG Fire Protection Company Inc for a not to exceed amount of \$77,778.

---

**Recommendation:**

Staff recommends that the Board of Directors approve the resolution 2020-03 for a contract with LPG Fire Protection Inc for a not to exceed amount of \$77,778.

**Summary**

As a condition of approval by the San Carlos Building Department, a separate fire sprinkler system must be installed in the transfer station covering the new O2E equipment installation. The sprinkler system is outside of equipment installation scope of work being performed by Anaergia so, upon approval, the SBWMA will contract for this work directly with fire protection companies to comply with permit requirements.

**Analysis**

During the permit review of the O2E equipment installation the San Carlos Building Department included a requirement that the existing building fire sprinkler system be augmented to cover the new equipment (the existing transfer station building has an advanced fire suppression system that was installed during the 2010 construction). Anaergia and SBWMA have work to engage fire protection companies over the past six-months, have solicited bids from seven companies, and have obtained two bids for the work. LPG Fire Protection Inc. was low at \$58,570 with the next lowest bid from LiquidTech at \$91,400. LPG Fire Protection Inc., provided a proposal for design, permitting, and installation of a system that meets national fire protection and City of San Carlos code requirement. Due to the potential need for additional fire elements that may be required by the building department to obtain a permit, staff is requesting funds detailed below for a not to exceed amount of \$77,778. A 15% contingency is requested to address any further related critical path items that may emerge during this specialized installation.

\$58,570	LPG Proposed base system cost
<u>\$9,064</u>	Additional recommended fire suppression equipment
\$67,634	Total LPG Proposal
<u>\$6,763</u>	15% contingency
<b>\$77,778</b>	<b>Subtotal NTE amount requested</b>

**Background**

The O2E Pilot project installation commenced in July 2019, will be completed in February 2020, and with a start of operations scheduled for March 2020. The project design was approved by the San Carlos Building Department with a deferred submission requirement for the fire protection system. Seven companies were contacted to

provide quotes for the fire protection installation and all but two declined. The completion of the fire suppression system installation is a permit condition that must be met prior to operations of the O2E system.

### **Fiscal Impact**

The Organics to Energy Pilot project received grants from the State and the County of San Mateo totaling over \$3M. Due to the large grants supporting the Pilot, there is currently a fund surplus of roughly \$1M beyond the total anticipated project expense which will be used to cover the fire protection system installation. As such, there will be no impact to the SBWMA operating budget.

#### **Attachments:**

Resolution 2020-03

A. Proposal by LPG Fire Protection, Inc.



## RESOLUTION NO. 2020-03

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS RESOLUTION APPROVING A CONTRACT WITH LPG FIRE PROTECTION COMPANY INC FOR A NOT TO EXCEED AMOUNT OF \$77,778

**WHEREAS**, South Bayside Waste Management Authority (SBWMA) is installing an Organics to Energy Pilot project in the Shoreway transfer station,

**WHEREAS**, the San Carlos building Department has required additional fire suppression be added to the equipment as a condition of permit approval,

**WHEREAS**, the fire suppression system is an additional scope outside of the equipment installation and therefore falls on the SBWMA to install, 3 to 5 years;

**WHEREAS**, the SBWMA and Anaergia have solicited bids from seven companies and have obtained a low bid from LPG Fire Protection Inc for an amount of \$67,634 (base proposal plus recommended items).

**WHEREAS**, an additional project contingency of 15% is recommended for the project for a total of \$77,778.

**NOW THEREFORE BE IT RESOLVED**, the SBWMA Board hereby authorizes **Resolution Approving a contract with LPG Fire Protection Company Inc for a not to exceed amount of \$77,778**

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the January 30, 2020, 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 District				

I HEREBY CERTIFY that the foregoing Resolution No. 2020-03 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 30, 2020.

ATTEST:

\_\_\_\_\_  
Jess E. (Jay) Benton, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Clerk of the Board

LPG Fire Protection, Inc.  
1742 Seville Way  
San Jose, Ca. 95131  
Tel: 408-636-6803  
Fax: 669-235-5624  
[luis@lpgfireprotection.com](mailto:luis@lpgfireprotection.com)  
C-16 / Lic. #990237

December 27, 2019

Reference: SBWMA ti  
Redwood City, Ca.

To Whom It May Concern-

LPG is pleased to submit for your review and consideration this proposal to provide: **design, F.D. permit, labor, materials, and equip.** necessary for a new code compliant fire sprinkler system additions.

Proposal is based on REV 6 drawings dated 5-7-19.

- **Proposal is valid for 60 days.**

Our proposal is qualified as follows:

#### **CLARIFICATIONS**

1. LPG will provide Automatic Fire Sprinkler (AFS) system additions to the three new large pieces of sorting equipment, as well as conveyors which meet the minimum code requirement for AFS protection.
2. Proposal is based on exposed fire sprinkler heads, lines, main supply lines.
3. Proposal is based on the use of existing overhead fire sprinkler main for primary additions supply.
4. LPG will install galvanized piping. All grooved fittings shall be factory painted finish.
5. Sprinkler heads will be provided with head guards attached.
6. **All installation shall be per NFPA 13 and the City of San Carlos requirements.**
7. Material selection and/or manufacturer to be at LPG's discretion. All materials will be UL listed for use in fire protection systems.
8. **Proposal assumes the interior work areas will be accessible by mechanical scissor lift at time of installation.**
9. Proposal is based on work being performed during **regular** working hours.
10. Proposal includes an **ADD** cost to provide AFS protection at the south side large conveyor under the same permit. LPG believes the fire dept. inspector will require protection at this conveyor. Add cost only includes AFS protection at interior portions of the conveyor.

**EXCLUSIONS:**

1. Fire hose/extinguishers and/or cabinets.
2. Upgrades to the existing AFS overhead system and/ or risers.
3. Fire watch.
4. Overtime labor.
5. Structural calculations related to attachment load values to equipment.
6. Bonds. (Available upon request for an additional cost)

**BASE BID: \$ 58,570.00**

*Add for south conveyor: \$ 9,064.00*

Respectfully Submitted,

**LPG Fire Protection**

*Should you have any questions or comments please do not hesitate to contact LPG.*

**Proposal Acceptance:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Title:** \_\_\_\_\_



## STAFF REPORT

**To:** SBWMA Board Members  
**From:** John Mangini, Senior Finance Manager  
**Date:** January 30, 2020 Board of Directors Meeting  
**Subject:** Approval of Quarterly Investment Report for the Quarter Ended December 31, 2019

### Recommendation

It is recommended that the SBWMA Board review and accept the Quarterly Investment Report.

### Analysis

The primary objective of the Investment Policy for the SBWMA is safety of principal, while meeting the cash flow needs of the Authority, through prudent investment of unexpended cash. As of December 31, 2019, the investment portfolio was in compliance with the Investment Policy, with the exception of the LAIF and County Pool investment mix as explained in the Fiscal Impact section of this staff report. The portfolio contains sufficient liquidity to meet the next six months of expected expenditures by the Authority as well as by other third parties.

### Fiscal Impact

The attached Investment Portfolio Summary indicates that as of December 31, 2019, funds in the amount of \$38,088,537 were invested, producing a weighted average yield of 2.07%.

Below is a summary of the changes from the last quarter.

	<b>Qtr Ended 9/30/19</b>	<b>Qtr Ended 12/31/19</b>	<b>Increase (Decrease)</b>
Total Portfolio	\$ 36,285,182	\$ 38,088,537	\$ 1,803,355
Weighted Average Return	2.15%	2.07%	-0.08%
Interest/Dividends Earnings	\$ 177,684	\$ 183,786	\$ 6,102

The total quarter-end portfolio balance increased by \$1,803,355 when compared to the previous quarter. The increase was primarily due to transfers of excess operating cash into the investment portfolio, partially offset by drawdowns of bond proceeds, which were used to reimburse the Authority for project costs. As a result of the increased portfolio balance, total interest and dividend earnings were higher than the previous quarter.

A table comparison of the portfolio components is provided below:

	<b>9/30/2019 Balance</b>	<b>% of Total</b>	<b>12/31/2019 Balance</b>	<b>% of Total</b>	<b>Change over Prior Quarter</b>
SM County Pool	\$ 5,292,948	15%	\$ 5,321,963	14%	\$ 29,015
LAIF	10,891,545	30%	14,412,065	38%	3,520,520
Bond Accounts	20,100,689	55%	18,354,509	48%	(1,746,180)
<b>Total Portfolio</b>	<b>\$ 36,285,182</b>	<b>100%</b>	<b>\$ 38,088,537</b>	<b>100%</b>	<b>\$ 1,803,355</b>

Note: There may be minor differences in totals as individual amounts are rounded to the nearest dollar

Due to arbitrage restrictions, bond investments are not included in our LAIF rate or investment pool comparison. As of December 31, 2019, the bond cost of issuance and project accounts of approximately \$18.4 million were invested with the trustee in short-term investments.

As of December 31, 2019, investments in the County Investment Pool totaled 27.0% of SBWMA's funds available for investment pools (see Attachment 1). The percentage is slightly below the range specified by the SBWMA Board. It is anticipated that during the quarter ending March 31, 2020, the percentage will adjust to within the range specified by the SBWMA Board. The Board approved the following investment mix at its January 22, 2015 meeting. LAIF – 50% to 70% and COPOOL 30% to 50%.

The weighted average yield of the portfolio in the quarter excluding the bond proceeds was 2.18%. LAIF is used as a benchmark and the average LAIF yield for the quarter ending December 31, 2019, was 2.29%. The San Mateo County Pool average yield for the quarter was 1.88%.

Derek Rampone, the Financial Services Manager of the City of Redwood City, has reviewed this report before presentation to the Board.

**Attachments:**

- A. Summary of All Investments for Quarter Ending December 31, 2019
- B. Investment Portfolio 12/31/2019 - Chart
- C. Historical Summary of Investment Portfolio

## SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

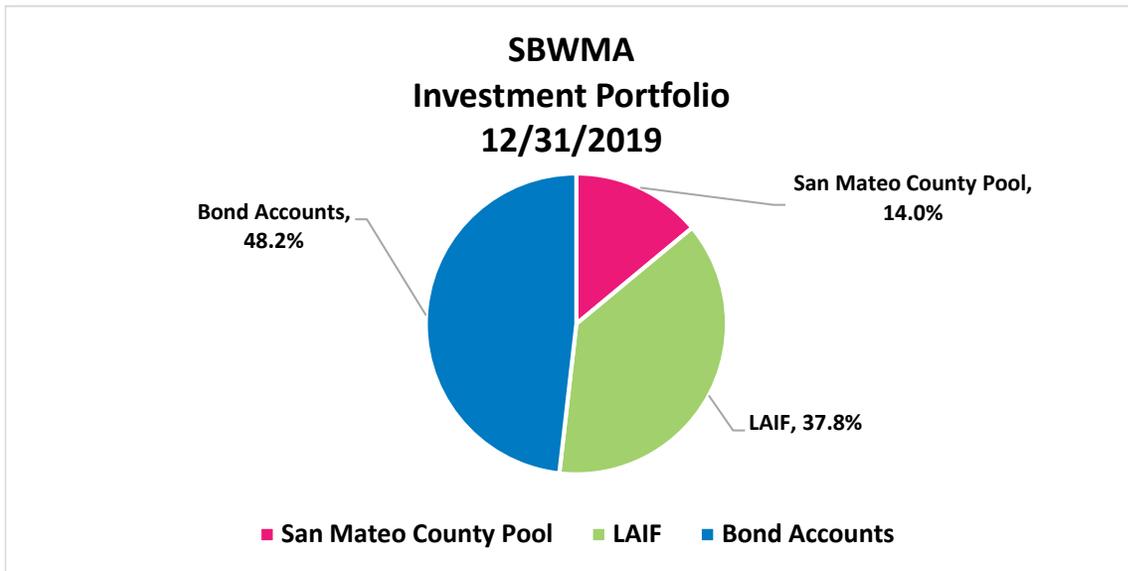
**SUMMARY OF ALL INVESTMENTS**  
For Quarter Ending December 31, 2019

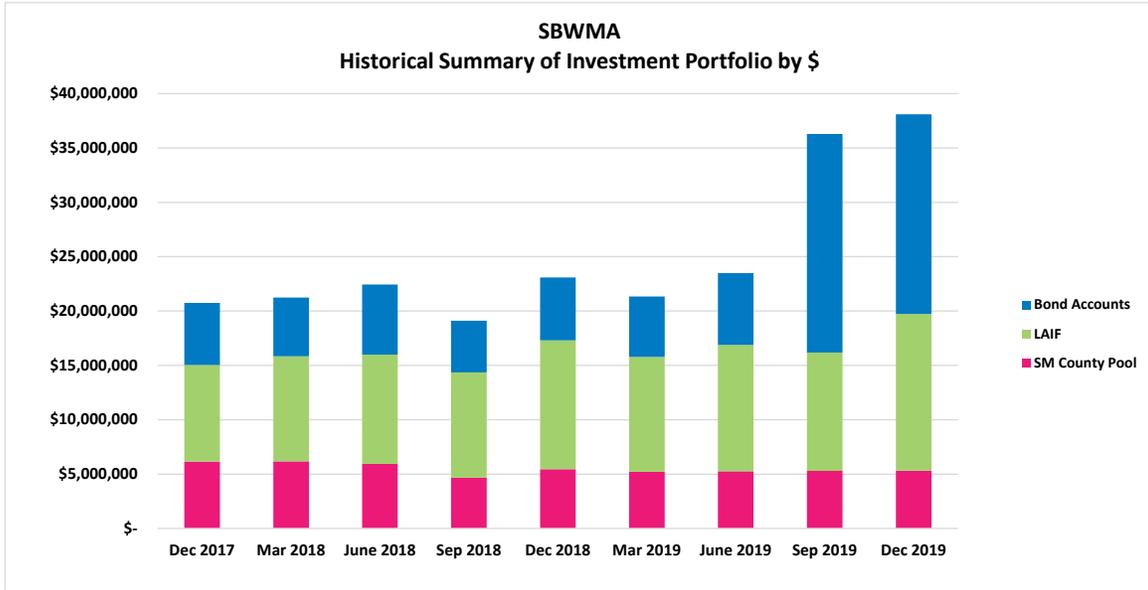
Category	Rate of Return	Historical Cost	% of Portfolio	Market Value*	Interest/Dividend Earned
<b>Liquid Investments:</b>					
San Mateo County Investment Pool (COPOOL)	1.88%	\$ 5,321,963	27.0%	\$ 5,326,687	\$ 29,015
Local Agency Investment Fund (LAIF)	2.29%	14,412,065	73.0%	14,437,579	68,309
	Weighted Average				
<b>Total - Investments</b>	<b>2.18%</b>	<b>19,734,028</b>	<b>100.0%</b>	<b>19,764,266</b>	<b>97,324</b>
	Rate of Return				
<b>Bond Accounts - Cash with Fiscal Agents</b>					
BNY - 2009A Reserve Fund	1.85%	-		-	41
BNY - 2009A Payment Fund	1.85%	-		-	21
BNY - 2019AB Refunding Costs Fund	1.95%	23,720		23,720	105
BNY - 2019AB Refunding Project Fund	1.95%	18,330,789		18,330,789	86,295
<b>Total - Bond Accounts</b>		<b>18,354,509</b>		<b>18,354,509</b>	<b>86,462</b>
	Weighted Average				
<b>GRAND TOTAL OF PORTFOLIO</b>	<b>2.07%</b>	<b>\$ 38,088,537</b>		<b>\$ 38,118,775</b>	<b>\$ 183,786</b>
<b>Total Interest/Dividend Earned This Quarter</b>					<b>183,786</b>
<b>Total Interest/Dividend Earned Fiscal Year-to-Date</b>					<b>361,470</b>

**Note: SBWMA Board approved the following investment mix at its January 22, 2015 meeting:**

LAIF - 50% to 70%  
COPOOL - 30% to 50%

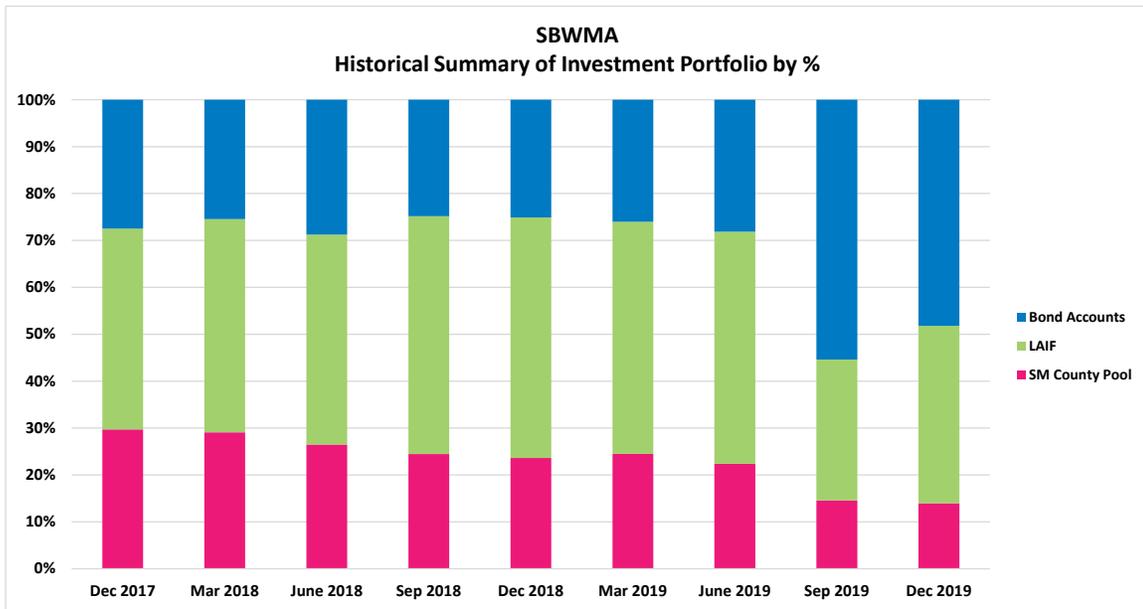
\*Difference in value between Historical Cost and Market Value may be due to timing of purchase. Investments in the investment pools may have been purchased when interest rates were lower or higher than the end date of this report. As interest rates increase or decrease, the value of the investment pools will decrease or increase accordingly. However, interest rate fluctuations do not have any impact to SBWMA's balance in the investment pools (other than interest earnings). The market values are presented as a reference only and are used for accounting purposes.





South Bayside Waste Management Authority Portfolio

	Dec 2017	Mar 2018	June 2018	Sep 2018	Dec 2018	Mar 2019	June 2019	Sep 2019	Dec 2019
SM County Pool	6,160,258	6,178,931	5,950,328	4,677,171	5,453,401	5,230,212	5,261,667	5,292,948	5,321,963
LAIF	8,882,011	9,657,438	10,043,712	9,683,992	11,840,565	10,553,938	11,623,054	10,891,545	14,412,065
Bond Accounts	5,704,703	5,401,411	6,452,737	4,742,350	5,798,255	5,547,155	6,610,869	20,100,689	18,354,509
<b>Grand Total</b>	<b>\$ 20,746,972</b>	<b>\$ 21,237,780</b>	<b>\$ 22,446,777</b>	<b>\$ 19,103,513</b>	<b>\$ 23,092,221</b>	<b>\$ 21,331,305</b>	<b>\$ 23,495,590</b>	<b>\$ 36,285,182</b>	<b>\$ 38,088,537</b>



	Dec 2017	Mar 2018	June 2018	Sep 2018	Dec 2018	Mar 2019	June 2019	Sep 2019	Dec 2019
SM County Pool	29.7%	29.1%	26.5%	24.5%	23.6%	24.5%	22.4%	14.6%	14.0%
LAIF	42.8%	45.5%	44.7%	50.7%	51.3%	49.5%	49.5%	30.0%	37.8%
Bond Accounts	27.5%	25.4%	28.7%	24.8%	25.1%	26.0%	28.1%	55.4%	48.2%
<b>Grand Total</b>	<b>100.0%</b>								