



MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
May 12, 2020 12:00PM
Via Zoom Tele or Video Conference**

Call To Order: 12:02PM

1. Roll Call

Member	Present	Absent
Michael Brownrigg	X(1:25PM)	
Carol Augustine	X	
Brenda Olwin	X	
Jay Benton	X	
Fran Dehn	X	

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree, Hilary Gans, Matt Southworth, Grant Ligon, Julia Au, Emi Hashizume, Joanna Rosales, Joan Borger
Others Present: Derek Rampone, City of Redwood City; Dwight Herring, SBR; Dan Domonoske, SBR; Mario Puccinelli, Recology, Bryce Giddens, Recology; Carl Menne Recology.

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 everyone to the meeting and recognized returning committee member Michael Brownrigg, and new committee members Fran Dehn, and Brenda Olwin. He then gave the following updates.

- The facility re-opened to the public on May 4. The facility had been closed to the public since the Shelter in Place order, but the franchised collection remained in business throughout. He noted that the Franchised tons represent about 80% of the tons at the facility.
- The projects tasks that were submitted by SBR on April 9 and approved by him, have all been completed by 10-14 displaced workers due to the decreased volumes at the facility

- There are two additional projects that may be re-assigned to either some of the furloughed drivers discussed at the April Board Meeting, or to this same group that completed the original project list. Dwight Herring added that even with the facility re-opening the volumes are still down about 50% compared to prior to the shelter in place order, mostly due to C&D. He added that a year over year comparison is that residential volumes are up 2-5%, and commercial volumes are down about 45%
- Two capital projects continue on schedule at Shoreway. The Organics-to-Energy equipment is up and running, but the material for that projects comes out of restaurants, so there is not enough material to run a full shift of the pilot at the moment. Also, the MRF Phase I equipment installation is slightly ahead of schedule and should be ready in July.

He then added that there are three agenda items of particular note today, the draft budget, and conversion to a calendar year budget, SBR’s request for compensation adjustment which is an information item, and the insurance policy because the policy premiums have gone way up.

4. 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 January 14, 2020 Finance Committee Meeting

Member Benton made a request to amendment to the minutes from January 14, to note that no decision was made about the internal spending authority being increased or changed under the Executive Director’s report portion of the minutes, and requested to add Derek Rampone to the minutes as an attendee.

Motion/Second: Augustine/Benton (as amended)

Voice Vote: 3-0-1-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg				X
Carol Augustine	X			
Brenda Olwin	X			
Jay Benton	X			
Fran Dehn			X	

5. Discussion of Cost of COVID-19 Shelter-in-Place Order

Executive Director La Mariana introduced the item and discussed the displaced workers that have been doing maintenance projects and then two weeks later the drivers who were furloughed due to decreased tonnage. He noted that the SBWMA is an observer, and the relationship is between SBR and Local 350. Staff Gans noted that the cost of the 10-14 workers who were doing the maintenance work was approximately \$5000/day, for the month of April. He thought the discussion should be centered around if the tons don’t return should projects continue to be offered to keep the workers busy but cautioned that the project list is close to being exhausted.

Member Benton asked if the expenses would come out of reserves or go to an expense line in the budget, and if it had been budgeted where would the expense come out of. Staff Mangini answered that it is a regular expense line under SBR's operations costs.

Member Benton asked if C&D tonnage was rebuilding in the second week of being open. Dwight Herring answered that current tons are about 50% lower than they were before the facility closed to the public.

Staff Mangini gave an overview of table 3 in the staff report which estimates lost revenue and cost avoidance for the month of April, and total income loss range of \$340,000 to \$400,000 per month or a potential \$1.2-\$1.4M impact for the remainder of the fiscal year. He noted that the numbers were calculated based on the assumption that the gate would be closed through the end of the fiscal year, but now that the gate is open it won't be as big of an impact.

Executive Director La Mariana commented that SBR is fully staffed but because they are paid on a per ton basis there is not enough tonnage to support a full staff. He asked the Finance Committee to give feedback on using the Emergency Reserve to cover the costs of lost tonnage.

Member Benton commented that SBR needs to manage their staff, and that the Board desires to see as many employees working as possible, but in the end it's an SBR decision. He added that he is reluctant to have the SBWMA cover the costs because any additional costs gets passed on to rate payers. With regards to the workshare program, the program requires the workers to work at least 60% of the work week and with the furloughed drivers that couldn't be guaranteed due to decreased tonnage.

Dwight Herring updated the committee that SBR didn't qualify for the federal PPP and they have checked twice, they don't qualify because Recology is a 60% voting share holder and that means the number employees exceeds the amount allowed to qualify for the program. He commented that when the facility reopened it required staffing to man the scale house 12 hours a day Monday -Friday and 8 hours per day on Saturday and Sunday, so if volumes are down 50% there is 50% less revenue with 100% of the expense.

Member Benton added that it's complicated without easy answer, but the public sector can't tell a private sector how to manage their business per their contract. He suggested a possibility of reduced hours to align with current needs, and suggested SBR present those options to the SBWMA.

6. Resolution Recommending Approval of Revised SBWMA Investment Policy for 2020

Staff Mangini noted that the Finance Committee had recommended the investment policy to the Board in June, but the Board requested that staff include environmental language in the policy so those changes have been implemented and is now back to the Finance Committee for review.

Member Benton commented that the language change needs to be doable and asked if the City of Redwood City who manages the investments was comfortable with the request.

Derek Rampone Finance Director for the City of Redwood City noted that they had reviewed the language changes and had their investment firm PFM review the language as well, and both were fine with the language changes.

The Committee discussed the LAIF and County Pool aspect of the investments. Member Benton asked since the investments are in these two accounts, and LAIF and County Pool don't have a similar policy will it make a difference. Derek Rampone noted that he would look at the two investment pools to see if they included language about the environment. He noted that if the Agency wanted to invest outside of the two pools with a firm like PFM, it would be possible to see what other investment opportunities exist. Member Augustine commented that for now the language changes won't do much because of the pooled investments, but if the Agency wants to make a change in the future the language will be there to support that.

Member Olwin asked why the maximum percentage for LAIF is 50-70% and the maximum percentage for the County Pool is 30-50%. Member Benton noted that in 2014-15 elected officials were very nervous about the County Pool because of the Lehman hit in 2008-09. However, the County Pool was outperforming LAIF, so the Board created these ranges favoring LAIF as the more conservative portfolio historically, but tried to take advantage of the better returns with County Pool. Since then the two investments are more equally performing.

Member Olwin concluded that she thought the committee should go with this recommendation this year, but thought it was something the committee should discuss further when deciding on investments next year to really look at liquidity and cash projections needs to wisely manage investments without taking on too much risk. Member Augustine noted the policy was written to have flexibility so there wasn't 100% invested either place.

Staff Mangini noted that the language change isn't meant to change current investments but to be a policy statement.

Motion/Second: Olwin/Augustine recommended approval to the Board
 Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg				X
Carol Augustine	X			
Brenda Olwin	X			
Jay Benton	X			
Fran Dehn	X			

7. Proposed Work Plan Transitioning the South Bayside Waste Management Authority's Financial Systems from a Fiscal Year Accounting Period Ending June 30, to Calendar Year Accounting Period Ending December 31

Staff Mangini gave an overview of the staff report, and noted it would be an action item for the May 28th meeting.

The Committee supported the plan but no vote was taken.

8. Review Property Insurance Renewal

Executive Director La Mariana gave background and an overview of the staff report.

Staff Mangini noted that particularly the waste industry business sector is experiencing large increases year over year in insurance costs due to fire risk. And based on the early returns from the RFP the premium increase will be 40% more than last year. He also noted that all the quotes for all of the layers of coverage are not in yet, so this is just informational and to inform the committee of the sticker shock regarding insurance for next year.

Member Benton brought up to the committee whether to stay at a \$1M deductible or recommend a higher deductible and what kind of risk that would mean for the Agency. Staff Mangini noted that the Board would discuss at the 5/28/20 meeting for further feedback.

9. Resolution Recommending Approval of the Calendar Year 2019 Financial Statements

Staff Mangini gave an overview of the staff report, and noted that the new bonds have a different set of requirements than the previous bonds they require a statement of revenues, expenses and debt service, and the bond covenant test is 8.28 which clearly meets the requirement. He added that the reason the bond covenant is so high this year is because the actual debt service is only \$1.3M because of the refinancing of the bonds.

Member Benton asked if the \$1.3M would be an annual number. Staff Mangini answered that the \$1.3M was just due to the refunding, going forward it will be \$3.6M, it will have an impact as the Committee and Board look at the budget.

Motion/Second: Benton/Augustine

Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg				X
Carol Augustine	X			
Brenda Olwin	X			
Jay Benton	X			
Fran Dehn	X			

10. Review of FY 20/21 budget and 6-month (July 1, 2020 – December 31, 2020) Transition Budget and Cap-Ex Review

Staff Mangini gave an overview of the staff report and explained that the 6-month budget will be presented to the Board as well as the full fiscal year so that tip fees and the revenue requirement for Member Agencies can be calculated. He also noted that the Finance Committee has been presented two budgets, one is the status quo with normal operations without COVID19 volume drops. The second, presented budget is with reduced volume assumption due to COVID19. Neither presented budget included the increase insurance costs previously discussed. He asked for committee feedback on presenting a reduced volume budget to the Board and what the reduced volumes do to the Bond Covenant test.

The committee discussed the alternative budget with reduced volume versus the status quo budget. Member Dehn asked if the reduced volumes were for the 6-month budget or for the full fiscal year. Staff Mangini answered that it's split between both budgets. Staff Mangini noted that generally tip fees are going up between

4-7%, with the exception of organics due to a large increase in processing costs which are going up 42%. Executive Director La Mariana noted that this budget also reflects a full year of the step up in landfill disposal as well because that contract began January 1st, of 2020. Member Benton asked about the projected material drop even in the status quo budget. Staff Mangini commented that he projected the maximum drop would be about \$1M due to COVID19. Member Benton concluded that the numbers show going from about \$4M in revenues to \$1.5, because our revenue is going up slower than expenses, and asked what is driving the expense increase that isn't covered through the tip fees. Staff Mangini philosophically he was trying not to raise tip fees as much, knowing that there are some layering costs coming in January with the amended and restated franchise agreements with Recology, the organics processing costs going up over 50%, so he didn't pace the revenue with the expenses.

The Committee discussed the \$1M in the budget for expenses related to SB1383. Executive Director La Mariana noted that the regulations aren't yet final, staff has been expecting them for some time, there will be a Board/TAC study session in October when the first calendar year budget would be reviewed. As part of that study session there would be an SB1383 action plan review. The committee recommended moving the SB1383 expenses from the 6-month budget and putting that in the fully year January 1 budget. Member Brownrigg specifically asked to develop a more robust lobbying strategy in Sacramento to work towards reducing the expense and burden on local governments or perhaps differ implementation given the current economic impacts on local communities. Executive Director La Mariana noted that the SBWMA's lobbyist is currently working on a response letter exactly to that effect. Member Brownrigg asked that staff engage the Member Agencies in the lobbying efforts as well.

Member Olwin asked if the increased insurance cost would impact bond covenants. Staff Mangini answered yes, in the conservative budget the bond covenants would not be met but could budget to use emergency reserves to meet bond covenants if the bond covenant is not met. Member Olwin suggested some scenario planning around reserves and what reserves would look like if the COVID19 emergency lasts for 2 years. Staff Mangini noted that with roughly \$500,000 a year in net income the SBWMA will meet bond covenants.

The Committee concluded to present the more conservative alternative budget that drives the lower expenses to the Board removing most of the SB1383 costs for this 6-month budget, and that includes the increased insurance costs, and an analysis or reserves should they need to be used over the next few years.

11. Presentation by South Bay Recycling (SBR) regarding their Request for Compensation Adjustment

Executive Director La Mariana introduced the item noting that section 7.11 of the SBR Operations Agreement allows SBR to make a formal request of the SBWMA for an adjustment to compensation should the increase in expenses exceed 2% of their total operations budget.

Dwight Herring and Dan Domonoske of SBR gave PowerPoint presentation highlighting their request for an adjustment in compensation due to a change in law – China's National Sword. Dan Domonoske highlighted the components of the additional expenses totaling \$1,672,276 for 2019 as a result of China's National Sword. Dwight Herring continued the presentation highlighting the effects of the Buyback Center closure in August of 2019 and noting that SBR is requesting a contract amendment adjusting the revenue guarantee to \$691,000.

Member Benton thanked SBR for their presentation and noted that the committee would need to discuss it further, it's a complex issue with a heavy legal component

The Committee discussed the revenue guarantee portion of the presentation. Member Brownrigg asked if money flowed back to the agency in the good years of the revenue share agreement. Dan Domonoske answered yes, 75% of the revenue over the guarantee was transferred to the Agency. Member Benton asked if the commodity revenue has dropped below the guarantee. Dan Domonoske answered that it has come close but has not dropped below the guarantee.

The Committee discussed the request related to the Buyback center. Member Benton asked for clarification on this request. Dan Domonoske explained that the request is to remove the revenue that would have been received from the state for Buyback center containers from the revenue guarantee requirement.

The Committee discussed the revenue share loss request of \$887,108 related to the change in law request not the Buyback Center request. Member Benton asked if the \$887,108 request was agreed upon would SBR be made whole with the revenue share. Dan Domonoske answered yes. Member Benton noted that the contract was written because the revenue share is a variable number no one knew what the excess would be. He asked what would justify asking for a full reimbursement as though there was no change. Dan Domonoske noted that during the RFP process SBR was repeatedly asked why they didn't have enough compensation in the forms of revenue in the contract, (the tons in the transfer station and the tons in the MRF). SBR's answer was they were relying on that additional source of revenue from the revenue share.

Member Benton asked about the difference SBR has the right to be made whole versus asking to be made whole. Dan Domonoske noted that SBR has the right to ask, and then the Agency has an obligation to have that ask analyzed in comparison with the requirements in the operating agreement.

Member Brownrigg commented that the Committee has a great deal of respect for SBR and the work that they do, and the committee needs to discuss and reflect but at the end of the day the Committee and Board have a fiduciary responsibility to the Bonds, the Member Agencies and the rate payers.

12. Finance Committee Member Comments

13. Adjourn 2:25PM