MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
June 8, 2021 12:00PM
Via Zoom Tele or Video Conference

Call To Order: 12:02PM

1. Roll Call

Member	Present	Absent
Michael Brownrigg	X	
Carol Augustine	X	
Brenda Olwin	X	
Al Royse	X	
Jay Benton	X	

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree, Hilary Gans, Julia Au
Others Present: Derek Rampone, City of Redwood City, Dwight Herring, SBR, John O'Neil, Petter Fallon and Jared Black or Risk Strategies.

2. Public Comment

Pursuant to Government Code Section 54954.3(a), members of the public wishing to address the Committee may do so, and the comments shall be limited to the Special Meeting notice topic(s). Speakers may join the Zoom meeting via the meeting link and using the "raise hand" feature and the Clerk of the Board will call on people.

None

3. Executive Director's Welcome *(Verbal Only)*

Executive Director La Mariana welcomed everyone to the meeting and gave the following updates:

- He thanked Dwight Herring for his work on the VRS negotiation. Noting that SBR has had a 10-year relationship with San Mateo County's Vocational Rehabilitative Services (VRS) program to provide sorters at the facility. About 6 weeks ago, SBR was given notice that as of June 30 the County was going to discontinue the relationship with VRS. Since that time, Dwight Herring of SBR has worked with the County came to a verbal agreement to extend the services through the end of the year.
- He then gave some SBR/Shoreway Updates:
    - Commodity markets have been stronger than expected and means good news for the budget, he believes part of the reason is because of the equipment the board invested in to recover more marketable material.
    - They have also had a significant reduction in overtime due to the new equipment

- Stormwater projects improvement projects have been conducted at Shoreway, however, there was very little water in this last wet season, and a wet weather is needed to be sure the improvements were successful to be in compliance. If they weren't successful there will be discussion at the Board about the agency paying for the next series of improvements.
- SBR has expressed concerns about their profitability, which means the Agency is likely to be in a similar situation to last year, where SBR appeals to the Board for a contract adjustment.
- There are likely to be large financial implications to the Agency and/or SBR based on the California Air Resources Board (CARB) rule that by 12/31/22 the long-haul fleet will require more environmentally friendly engines. The current operations agreement with SBR expires at the end of 2023. So, there is only one year of the contract, so it's not possible to depreciate the cost of new vehicles. The operations agreement will be going through an RFP process with a new contract beginning in January 2023. Staff Gans is looking into the possibility of a variance for one year to sync up with the new contract, but CARB is not known to be favorable in these situations, however.

Member Brownrigg asked if there was an argument to bring forward the RFP dates due to this rule, so that if SBR were to win they could invest in new trucks and have the full amortization schedule before the CARB date. Executive Director La Mariana answered that the RFP is already a challenging timeline, the work plan laid out requires every bit of the 2-years that have been identified for the process, with additional time should SBR not be awarded the contract for transition.

- Staff is entering into negotiations with Recology on SB 1383 expanded services, a handful of the mandates included in the SB 1383 regulations fall into Recology's realm. Staff has contracted with HF&H Consultants to negotiate expanded services to the franchise agreements to keep the Member Agencies in compliance.
- He noted the remaining financial milestones from this year include: 1) the 2022 compensation applications, which will be reviewed at the September 9 Board/TAC study session and then considered for approval at the September 23 Board meeting. 2) The finance committee will review the draft budget on October 12, followed by a full board study session on October 22, and the considered for approval on November 18.
- Lastly, he acknowledged Finance Committee members Carol Augustine and Brenda Olwin who have announced their retirement and will no longer be serving on the Finance Committee. He will review replacement finance committee candidates with the Executive Committee.

Staff Mangini noted that he would like to pull agenda item 7 Review and Recommendation of Resolution Approving Calendar Year 2020 Financial Information from the agenda. He noted that these reports are used to report out to the bond investors, but it turns out that numbers in the report provided are missing some accruals and are not accurate so it needs to be redone before the committee reviews it.

Executive Director La Mariana requested that an item be added to the agenda which Counsel Savaree noted could be done with a super majority vote of the committee. He proposed to the committee adding an agenda item to discuss the operating financials of the organics-to-energy pilot. The amount of money that the Board has authorized has expired and the finance committee should discuss options.

Motion to add agenda item 8 to discuss organics-to-energy pilot financials
Motion/Second: Brownrigg/Benton
Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Carol Augustine	X			
Brenda Olwin				X
Al Royse	X			
Jay Benton	X			

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 Committee, 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 12, 2021 Finance Committee Meeting

Member Augustine requested a change be made to page 3 where both the words suggested highlighting and pointed out were used, there needed to be one or add the word and. Staff Mangini explained the Member Olwin wanted the staff report to highlight that the report was of the SBWMA financials not the full operating system including SBR and Recology. He noted that the auditors agreed to disclose this better in the next report. She also requested a change on page 5 with a typo.

Member Augustine made a motion to approve with the suggested changes made to agenda item 4A.
Motion/Second: Augustine/Brownrigg
Roll Call Vote: 4-0-2-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Carol Augustine	X			
Brenda Olwin				X
Al Royse			X	
Jay Benton			X	

5. Review and recommendation of Approval of Mid-Year Budget Review and Adjustments

A. 2022 Forecast (2022 Tip Fees for Member Agency Revenue Requirement)

Staff Mangini gave an overview of the mid-year budget and gave an update on projections on where staff thinks the budget year will end versus when the budget was approved. He noted that commodity revenues are up, and SB 1383 costs have been reassessed this year, and it looks like there will be about a $400,000 savings this year. Those two items have resulted in a mid-year projection of $2.7M in net income to reserves.

Member Benton commented that the commodity revenue is great news but asked if it was sustainable. Staff Mangini answered that in the first quarter the average was $151 per ton blended return on all commodities, and in this mid-year review he is projecting slightly lower at $141 per ton. He also reached out to Dan Domonoske at SBR, who markets the agency's material, and he expected commodities to stay strong.

Member Royse asked if the SBR requests for adjustments have been factored into this mid-year budget. Staff Mangini answered that there hasn't yet been an official monetary request for special circumstances adjustment by SBR, so those numbers are too unknown at this time to quantify them. Executive Director La Mariana added that the Organics-to-Energy number has been added to the projections, but the other items have not been officially requested for adjustment yet, so they have not been included.

Staff Mangini noted that along with the approval of the mid-year budget there is a request to approve FY2022 budget forecast because in order to set revenue requirements for Member Agencies in the fall, tipping fees need to be forecast. That forecast provides net income to reserves of approximately $1M with a tip fee increase of 3 to 5% to cover expenses.

Member Augustine commented that the staff report mentions a 15% reduction in commodity revenues for the 2022 forecast, but she couldn't find it. Staff Mangini noted that the 15% is more specifically laid out in table 3, but that he would revisit before the information was presented to the Board.

The committee discussed the 2022 forecast. Member Augustine suggested moving the FY2022 column in the middle to the right column, so that it comes after the analysis of 2021. Member Benton commented that the 2022 revenue forecast is lower than the 2021 forecast, and he wondered what was driving that. Staff Mangini answered that because commodities are currently fairly strong, he is projecting them to stay strong through 2021, but dropping off for 2022.

The committee then discussed commodity revenue. Member Benton wondered if there was something specific driving the strong commodities market or is there an expectation the commodities markets will stay strong longer term. Dwight Herring of SBR answered that prices are expected to stay strong for the remainder of 2021, but it's unknown for 2022. Executive Director La Mariana that these lower projections for 2022 are a conservative approach because the market is unknown for 2022.

Member Benton asked where the insurance reserve was in the 2022 forecast, noting that when the Board decided to raise the deductible, the differential in the premium would be put into reserve. Staff Mangini noted that it's on line 3 of table 6 listed as a sub emergency reserve $320,000. Member Benton suggested calling that out separately from the property insurance cost, because it was core to the decision to raise the deductible. He then asked what assumption was being made for property insurance costs in the mid-year budget. Staff Mangini noted that he assumed the current deductible and current coverage level $60M in coverage and $15M in deductible in the mid-year budget.

Member Brownrigg asked why the forecast tip fee revenue for 2022 was only going up a marginal amount with the tip fee increases were going up 3 to 5%, why with a higher tip fee is less revenue being projected. Staff Mangini thanked the committee for noticing that and noted he would look at the numbers and get back to the committee.

The committee discussed 3rd party tons versus public tons. Member Benton asked why there was no increase assumed for public green waste tons next year. Staff Mangini answered that 3rd party tons are commercial customers who have an account with SBR and pay by the ton. Public tons are those individuals who drive up to Shoreway and pay at the gate by the yard. He added regarding the green waste public drop off price that the price was increased by $15 in 2020 in response to increased processing cost, and he suggested not raising them again in 2021 in hopes of attracting more customers and increasing revenue. He also noted that he suggested franchise and 3rd party tons have a 2022 green waste fee increase because last year with the increase in the Recology compensation he was trying not to raise franchise tip fees, but this year they need to be raised as well to cover the increased processing cost. Member Benton commented that the Board has given historical direction that franchise tons should have favored pricing, so the optics of not raising public fees while at the same time raising franchise fees caused concern. Executive Director La Mariana commented that this is a competitive market, so we don't want to price ourselves out of the market.

Member Benton made a motion to recommend the mid-year budget adjustments, and 2022 budget forecast and tip fee projections for approval to the Board with this committees' recommendations for changes as noted in the minutes.
Motion/Second: Benton/Brownrigg
Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Carol Augustine	X			
Brenda Olwin				X
Al Royse	X			
Jay Benton	X			

6. Review and Recommendation of Proposed Facility Property Insurance Coverage/Premium for Policy Year 2021-22

Executive Director La Mariana gave background noting that since the fire at Shoreway in 2016, the cost of insurance premiums have gone on a very steep increase each year with more firms splitting the risk each year, and this year is no different. Because of these increases we've talked about a captive, and a team from Risk Strategies is here to present on what a captive is, and potentially becoming our own insurance company.

The committee gave feedback on what direction to go with insurance coverage. Staff Mangini noted that in the staff report attachment A lists the deductible and coverage amounts and compares to what is being paid in insurance costs currently. If continuing with $60M in coverage and a $1.5M deductible the quote is $1.58M. However, $81M is the total calculated insurable value of the property including equipment. A complete loss to the facility would be $81M.

John O'Neil of Risk Strategies noted that they have taken two approaches to presenting insurance options. The traditional approach which is a layered property program. In years past the SBWMA has had $60M in coverage. Earlier this year Risk Strategies did a probable maximum loss study, and a possible maximum loss study. So there are two choices keep the $60M limit or write the $81M to cover the full facility. He noted that his colleagues would be giving a presentation on the possibility of the Agency creating a captive insurance company to see if it makes sense to take the money being spent on insurance and fund loss through a captive insurance company. He added that setting up a captive takes time, so likely need to renew traditional insurance this year, and then transition.

Member Benton asked what drove the 68% increase in the mid-layer claims over $30M increase. John O'Neil answered that it's a reflection of the market condition having to get more insurers involved in a less competitive market.

Member Benton asked for clarification on the $60M versus the $81M. John O'Neil answered that for years the Agency has had $60M in coverage, but that is no longer the full value of the facility, so the property is under insured. So, if the Agency decides to stay at $60M in coverage there is potentially at $20M shortfall. Member Royse asked how long ago the engineering study that led to the $80M figure was done. John O'Neil answered in the last two months. Member Benton commented that he would be reluctant to under insure the facility.

Member Brownrigg clarified that if the deductible remains $1.5M and we chose to insure to $81 then the premium jumps from $1.2M to $1.8M per year. Member Benton commented that the incremental increase is $213,000.

The committee discussed increasing the deductible versus the total coverage amount. Member Brownrigg wondered if it made sense to insure for a total loss, but increase the deductible to $2.5M, so there wasn't such a big jump in costs. Member Augustine thought that an $81M coverage amount seemed overly conservative, especially since the catastrophic loss we had in 2016 was only $8M. Member Benton noted that he was reluctant to raise the deductible because that's what we pay no mater what the loss, and there is only $300K in insurance reserves.

Member Royse asked how much of a loss could be afforded before out of business. Staff Mangini answered if something happens to the transfer station that would be catastrophic that is the revenue maker. Member Royse suggested covering 80% of possible loss and absorbing 20% of the risk while leaving the deductible at $1.5M.

Staff Mangini noted he would ask Risk Strategies to get that 4th layer to cover 80%.

Jarid Black Managing Director of National Captive Insurance Practice of Risk Strategies gave a PowerPoint presentation on captive or a formalized version self-insurance for the agency.

Staff Mangini clarified that one way to start a captive is to take what the deductible is to fund a captive. Jarid answered yes.

Member Royse asked about the initial cost and wondered if it would be possible to set up a captive to cover layers 3 to 4 but use traditional insurance to cover layers 1 to 2. Jared answered that the captive can be established to cover any layer of line of coverage that there is a need for. Member Royse noted that he was trying to determine the trade off of having a 3rd party insurance company to cover the more likely losses and having a captive like a reserve to cover the more catastrophic losses and is there a point of diminishing returns.

Member Benton asked for more information on how to make the transition from buying millions of dollars in property insurance, to having a captive. Jarid Black answered that the captive starts by insuring the deductible $1.5M in the SBWMA's case. Then instead of putting that deductible into the reserve you pay it to the captive, and begin building the surplus in the captive, and over time the captive builds up more capital and surplus, and the Agency can take larger risk positions, and in some cases and lead to lower premiums. Member Benton noted that he didn't think a captive would reduce costs, and therefore be a benefit to the rate payers. Jarid Black agreed it would not be an immediate cost savings, and would be a discussion item for the Board, but long time does give some benefits in the insurance market.

The committee suggested staff take this under advisement and continue to evaluate but stop the presentation here.

Member Royse made a motion to recommend 80% of a total possible loss in coverage with a $1.5M deductible to the Board.
Second: Member Benton
Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Carol Augustine	X			
Brenda Olwin				X
Al Royse	X			
Jay Benton	X			

7. Review and Recommendation of Resolution Approving Calendar Year 2020 Financial Information

As noted in the Executive Director's Report this item was pulled from discussion.

8. Review of Quarterly Investment Returns – Reexamine the Investment Policy's Allowable Percentage Investment in County Pool and LAIF

Staff Mangini gave an overview of the staff report, noting that this report was at the request of the committee, but returns are down currently. He asked for the committees' feedback on increasing the agency's investment in the County pool, noting that they have the ability to move investments into either LAIF of the County Pool to hopefully see better returns. Staff Mangini asked if there is any risk in increasing investment in the County pool, or if the committee felt this was a safe investment. Currently the agency's policy is 30-50% investment in the County pool, and 50-70% in LAIF.

Member Benton commented that looking at the report, the investment is almost 50/50 in both areas, but a few months ago LAIF was stronger, but now the County is stronger. He thought being around 50/50 mark was a good place to be.

Member Brownrigg disagreed noting that government investment pools are so conservative by state law. So his recommendation is to let the management team move investments around as they see fit with Finance Committee review, with up to 100% in the County pool, and allowing the agency to be more flexible with investments.

Member Augustine noted that the County pool only allows for you to withdraw 12% of your total holdings at a time, so it can take a while to withdraw completely, and suggested moving investments around based on cash flow needs.

Member Brownrigg clarified that his suggestion is the remove allocation limits so that either one could have as 80%, and create the ability for management to allocate, subject to finance committee review. He would like to see more flexibility in allocation.

Member Benton commented that he was fine with raising the percentage in the funds but wasn't comfortable leaving it completely up to management.

The committee suggested investigating weather there is more flexibility in investments with the bond funds, noting that if it's not a productive investment it's a loss.

Member Royse commented that having 100% of investments in any one endeavor didn't feel safe, but he was fine with increasing the allowable investment to 70-80%.

Member Benton made a motion to recommend that staff can move funds up to 80% into either investment pool, with historical reports brought to the finance committee.
Member Royse seconded
Roll call vote: 4-0-0-1

Member	**Yes**	**No**	**Abstain**	**Absent**
Michael Brownrigg	**X**			
Carol Augustine	**X**			
Brenda Olwin				**X**
Al Royse	**X**			
Jay Benton	**X**			

9. Added Agenda Item: Discussion on Organics-to Energy Pilot program costs

Executive Director La Mariana explained the situation, noting that the pilot was approved in 2019 for 6-months, with very little data for financial expectations on the project. In 2019 the cost projections were best guess scenarios, and staff has since learned that the organics-to-energy pilot requires more labor than expected and therefore SBR has already used the $104,000 that the Board approved in additional operating expenses for the project. So, the Board has a decision to make, to continue the project or not. Staff's strong recommendation is to fund the project through October at approximately $500,000, which has already been included in the mid-year budget adjustments.

Member Benton commented that $500,000 to keep the pilot project going through October, was probably a pretty easy question, but the bigger question would be to keep the project going all.

Executive Director La Mariana noted that based on what we know now, with the pilot only running for 2 months, it looks like the cost to run organics-to-energy is revenue neutral compared to offsite processing costs of the same material.

Member Benton commented that there is a lot invested in this project and it is experimental, and he recommended moving forward with the funding assuming the resources to keep it going exist.

Member Brownrigg commented that he agreed with Member Benton at a high level, and he supported moving forward with the investment in the project. He also commented that this discussion seemed more important to him than discussing layers of insurance, and asked staff to look at meeting management issues.

Member Royse noted that he also would not cut of the project for $500,000 and supported moving forward.

Member Augustine made a motion to approve a budget amendment to continue the organics-to-energy operation.

Member Brownrigg seconded the motion and asked to see the draft staff report on this item before it was distributed to the board.
Roll Call Vote: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Carol Augustine	X			
Brenda Olwin				X
Al Royse	X			
Jay Benton	X			

10. Finance Committee Member Comments

Executive Director La Mariana announced that the battery bill that staff worked on did not pass the senate appropriations committee and is therefore not moving forward in this legislative cycle. He asked if anyone has connection with firefighters' unions to get them to back the battery bill would be very helpful.

Member Brownrigg noted that the Board would like to have presentation by the lobbyist on what happened. Executive Director La Mariana noted it would be on the July agenda.

Lastly Executive Director La Mariana asked if there were any objections to him advancing two names to the Executive Committee for recommendation to fill the two vacancies on the Finance Committee: Rebecca Mendenhall, Administrative Services Director for the City of San Carlos, and Richard Lee, Finance Director at City of San Mateo.

11. Adjourn 2:24PM