MINUTES

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

Call To Order: 12:02PM

1. Roll Call

Member	Present	Absent
Michael Brownrigg		X
Rebecca Mendenhall	X	
Rich Lee	X	
Al Royse	X	
Jay Benton	X	

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree, Hilary Gans, Julia Au, Grant Ligon
Others Present: Derek Rampone, City of Redwood City

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 the new committee members Rebecca and Rich, and gave the following updates:

- There are a handful of RFPs for agency out in the marketplace right now:
  - The biggest in the Operations Agreement RFP. That contract that is currently with SBR expires at the end of 2023. That RFP has been posted and responses are due back January 12, 2022, for the next 10-year period and includes options for an addition five one-year terms so it could be up to 15 years.
  - The MRF and Transfer station tip floor needs to be resurfaced every couple of years, and staff is currently out to bid on that project as well.
  - Lastly, the final project that will be going out for RFP is the SB 1383 additional services, and the

contract for those services will be coming to the Board for decision in January.

- There are two outstanding issues with SBR that will have major financial impacts to the agency:
  - In November of 2019, the Board approved under protest approximately $250,000 in storm water capture improvements. The work was done last year, but there was not enough rain to assess if the improvements worked satisfactorily, so if there is more rain this winter this item will come back to the board for possible financial action
  - The CARB rule requiring SBR to transition their long-haul fleet one year before the end of their contract continues to be an issue that staff is working through with SBR. Staff is trying to find some workarounds to avoid a $4.5M cost for new trucks one year before a potential change in contractor, when typically, these costs would be amortized over the life of a 9- or 10-year contract.

Member Benton asked if there were any residual issues with the Atherton exit.

Executive Director La Mariana answered no, Atherton paid all debts and both parties went their separate ways.

Member Lee commented that since he is new to this role, he would like a list of the major contracts that the SBWMA has in place. He also wondered who owns the land where the storm water improvements were made.

Executive Director La Mariana answered that all the major contracts are listed on the Agency's website under Board Resources https://rethinkwaste.org/about/board-of-directors/board-resources/ . He also noted regarding the stormwater improvements it is a contractual language interpretation that the Board reviewed extensively in 2018, but he wanted to give this committee a heads up that the issue is still out there and has the potential to have a financial impact to the rate payers. He noted that it is the legal opinion of the Agency's General Counsel Jean Savaree that this responsibility is with the contractor South Bay Recycling.

Member Lee followed up wondering if there would be an opportunity to amend the language so it is clearer where the responsibility lies.

Executive Director La Mariana answered yes, there will be an opportunity with the new agreement that is currently in the RFP process to modify that language, and we will have Counsel review that language in the new agreement.

Counsel Savaree added that she did not believe the language in the current agreement was ambiguous, but since SBR did, she would look at it with the next agreement.

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 June 8, 2021, Finance Committee Meeting

B. Approval the 2022 SBWMA Finance Committee Meeting Calendar

Motion/Second: Royse/Benton
Roll Call Vote:
4A: 2-0-2-1
4B: 4-0-0-1

Member	Yes	No	Abstain	Absent
Michael Brownrigg				**X**
Al Royse	**X**			
Jay Benton	**X**			
Rebecca Mendenhall	**B**		**A**	
Rich Lee	**B**		**A**	

5. Review and Recommendation for Approval of FY 2022 Operating Budget and Cap Ex Review

Executive Director La Mariana introduced the item, noting that this has been a really difficult year to put together a budget, and in some cases, we have made conservative estimates which will be pointed out along the way. He also noted that we have transitioned our fiscal year from a traditional government fiscal year to align with the calendar year, so the fiscal year now starts on January 1 and closes on December 31. We accomplished this with a short 6-month period in 2020. . One of the reasons for the transition was to align the operations budget with all the major contracts and rate setting for the member agencies that are calendar based. However, the facility property insurance is still on a FY, so we will try to adjust that going forward.

Staff Mangini then went over the highlights of the proposed 2022 budget.

- Projecting 1.2 million in net income to reserves
- Added an additional $1 to the franchise tip fee over projected 2022 tip fee. When the board approved the mid-year budget, they also approved a projected 2022 tip fee. In order to project a total revenue requirement that goes along with the Recology compensation application a franchise fee for 2022 needed to be estimated. The additional $1 tip fee was added because staff is planning for the SB1383 costs to be brought in house.
- Projecting volumes to stay down, but there has been some recovery in volumes as the vaccine roll out, but staff has not seen them come back as much as predicted, so you will see some of the revenue and cost categories being adjusted downward.
- Commodity revenue has been strong this year compared to recent history, but with so much market uncertainty he recommends being conservative and having a blended average of $137/ton as a revenue projection in the budget.
- Additional costs for operating the Organics to Energy processing have been added to compensate SBR for doing that work, have been added to this budget, but are offset by decreases in transportation and disposal fees which will hopefully off set each other.

The committee discussed the change in staff costs. Member Mendenhall noted that staff costs were going up significantly, she thought it would be helpful in the staff report to discuss which staff was new and which staff was being restored after freezing positions during Covid. Executive Director La Mariana answered with the downturn in the economy with the pandemic staff wanted to be prudent with staffing decisions. There are five fellow positions that run three programs. The tours program, the in-school education program, and the public spaces program. When in-person tours went virtual, and schools could not allow staff on campus those fellows hour were reduced and when positions were vacated, they were not filled. Now that those programs are back up and running, we need all five fellows to run those programs. Two positions had an adjustment due to a shift in responsibilities, and an additional position was added because of the SB1383 mandate to manage those programs, so that is a newly created position as of April. Member Mendenall suggested expanding the staff report for this section to explain the increases in staffing.

The committee then discussed the increase in reserves. Member Mendenhall commented that typically government does not budget a surplus, but that she understood there are a lot of uncertainties related to insurance and SB1383. Staff Mangini noted that this has come up in the past and he changed the wording so that instead of it saying net income it now says net income to reserves. He also noted that net income is used to pay bond principal payments, and for capital. He suggested that he could add columns underneath the net income to reserve that explains what net income to reserves is doing to the net position. The committee agreed that this would be helpful.

The committee discussed the Organics-to-Energy program. Member Lee wondered where the recycled water comes from and what the end product methane would be used for. The committee agreed to move this conversation offline because it is a lengthy conversation but noted that as the new San Mateo wastewater treatment plant comes online if they are interested in receiving material to get in touch with SBWMA staff soon.

The committee then discussed specific line items in the budget:

- Member Lee asked why there is a 34% increase in this line item. Staff Au answered in the new amended and restated franchise agreement printing for bill inserts became the responsibility of the SBWMA.
- Member Lee asked what the line item for airport feasibility consultants was for. Executive Director La Mariana answered that staff is in preliminary conversations with San Mateo County, about the possibility of acquiring or long-term leasing a small portion the County owned land at the San Carlos airport (1-2) acres which is adjacent to the Shoreway facility, to be able to have space to bring in some innovative projects including the charging stations for the electric vehicles. This money has been included in the budget to do see if this feasible from a wetland's standpoint, and technical standpoint.

Member Benton suggested adding trend lines related to the budget summary presentation especially since COVID happened at the same time as the transition to a calendar year budget. Staff Mangini noted he would make that change to help with the narrative.

Member Benton commented that this budget hangs on three points, 1) reduced volume revenue; 2) reduced commodity revenue, and 3) a sharp increase in operating expense and administrative expenses.

Regarding reduced volume revenue: Member Benton noted that the increase in operating expense is due to SB1383 implementation, but wondered why the revenues are low, and if the presentation does a good enough job of explaining. He wondered if there was a fundamental issue that cause the reduction. Staff Mangini noted that most of the volume does not come from specific customers that have accounts with SBR. It mostly comes through as an individual customer, and we do not have data tracking on specific customers in those categories which makes it difficult, but that said, SBR might have some insights as to what is driving the reduction. He noted he would ask SBR and if it is relevant, add it to the staff report. Member Benton noted that the SBWMA runs a business, and it is easy to say the reduction is COVID related, but noted that at the mid-year, budget review staff was concerned about being competitive with gate fees in the area, so if this is a competitive issue that is important in understanding what to do to bring revenue back up.

Regarding reduced commodity revenue: Member Benton supported staff's conservative approach because it has been so volatile.

Regarding increased operating expense and administrative expenses: Member Benton noted that is a substantial number which comes back to SB1383 implementation. He reiterated that he was worried the Agency was taking on too much of the cost and that those should be pushed back to the individual city agencies. Staff Mangini commented that it is important to differentiate between the collection portion of the costs and the administrative portions of the cost. The collection costs will be allocated based on the service level adjustment methodology set forth in the Recology Franchise Agreements. There are small SB1383 costs anticipated not in this budget related to SBR for mandatory material sampling that we do not have cost projections from SBR yet, so those are still outstanding. For the collection costs the cost increases will be on those accounts that need to add green carts, but for a city like Hillsborough, there will be little to no increase because there is no commercial, and all the residential accounts already have green carts. He concluded that for the purposes of this budget the administrative part of the SB1383 costs are included, which is allocated to member agencies based on the tipping fees paid on the volume that comes into the facility from that specific agency.

The committee discussed reserves and insurance. Member Benton commented that reserves were not going up in 2022 to cover the increased deductible for insurance. Staff Mangini noted that the deductible for 2022 is the same, so that number was not changed, but asked the committee for their feedback on how to manage reserves. Member Benton noted that the concept the Board suggested when they voted to go with the higher deductible was to keep putting money away to build a much larger reserve to cover up to a million dollars out of our pocket for the increased deductible if there was another catastrophic fire, so that number should not be a static number. Staff Mangini commented that he would consult with the agency's insurance broker to calculate an increased insurance reserve and adjust the reserve budget accordingly. Member Royse commented that he supported Member Benton's approach but recommended calling it a self-insurance fund account.

Member Benton asked why the capital reserve was going down from year to year. Staff Mangini answered that three things impact reserve balances. 1) net income projected for the year. 2) costs to pay the bond principal, and 3) capital that will be spent during the year. So once the bond principle is paid and the budget for capital is set it reduced the net position in reserves. Member Benton asked for clarification on mid-year capital reserves numbers versus 2022 numbers. Staff Mangini commented that there is a portion in the mid-year budget needed to draw funds for the Organics-to-Energy capital project that is not complete yet. Those funds will be drawn up from the bond account in 2021 before the close of the year, which is helping to boost up the uncommitted reserves shown at mid-year. Member Benton asked staff to look at the reserve tables noting he thought they did not track. Staff Mangini noted he would check that.

Member Mendenhall recommended showing the inflows and outflows to the reserve table. Staff Mangini replied that he would add the inflows and outflows to the reserve table.

Staff Mangini concluded the operations budget discussion by noting that he budgeted conservatively to be conscious of budgeting to a number that will cover debt coverage which is why he recommends some net income to reserves, and often there are better results than what is in the budget because of the conservative nature of the budget.

The committee discussed the capital expenditure budget. Staff Gans highlighted the large capital projects for 2022. Including the fuel island removal project, which is in engineering phase during 2022, the routine maintenance capital items on lines 1-7, masterplan projects which are still being defined, and EV fleet conversion. He noted that staff does not recommend expanding the Organics-to-Energy pilot into a full organic extracting project. The MRF upgrade project is now being broken up into a Phase II and Phase III. Phase II was going to be $6M, but now is split between the two phases. The reason being that a potential new contractor may start in 2024 and will likely have some ideas of improvements, and we want to collaborate with them if those ideas and improvements make sense.

Executive Director La Mariana commented that there is still about half the bond refunding money left for the projects marked bond funded which will not have any impact on the rate payers.

Member Mendenhall expressed concerned about spending money on a Styrofoam densifier when so many agencies are working to ban Styrofoam, even though it is low dollars.

Member Benton made a motion to recommend approval of the presented budget once it incorporated all the committee comments to the full Board.
Member Royse seconded

Member	**Yes**	**No**	**Abstain**	**Absent**
Michael Brownrigg				**X**
Al Royse	**X**			
Jay Benton	**X**			
Rebecca Mendenhall	**X**			
Rich Lee	**X**			

6. Review and Recommendation for Approval of Audited Financial Statements for the 6-month Period ending December 31. 2020

Staff Mangini gave an overview of the staff report noting that this is the unqualified opinion of Maze and Associates the independent auditor represents fairly the position of the SBWMA for the shortened financial period of July 1, 2020, to December 31, 2020. He did note that it is difficult to compare these numbers since they are for a shortened period.

Member Royse asked who uses this financial statement, and if the auditors discussed restating the proforma to account for the new accounting period. Staff Mangini answered that the report is for the investors, and that the auditors did not mention restating 2020 so that there could be comparable periods.

Derek Rampone noted that the only way to restate would be to go back and perform another audit, but that the issue never came up in conversation with Maze.

Staff Mangini also noted that there is a calendar year compilation report that could be used in this circumstance.

Staff Mangini commented that the calendar year financial statements are posted on the website and were approved by this committee in June, so there is comparative data available on the financial information for users of this data.

Member Mendenhall noted that in the Management Discussion and Analysis (MD&A) there is leeway to talk about the annualized comparison, so she suggested asking Maze to put a column in to talk about an annualized comparison that would tie back to the MD&A narrative. She commented that for the record and committee members knowledge she did send these questions to Staff in advance of the meeting. She also suggested changing the narrative in the MD&A to bullet points to make it easier for rating agencies to review and explain the why the switch to the calendar year.

Member Mendenhall then commented on Atherton's exit. She noted that Atherton's exit cost was posted to operation revenue and thought staff should have a conversation with Maze if it should really be posted there. She thought it should be a non-operating expense since it is not regular in nature. And she suggested a footnote about how staff come up with the calculation for the dollar amount for Atherton to leave the Agency and the rationale behind it, to add more transparency to the report.

Lastly Member Mendenhall suggested adding narrative to the MD&A footnotes regarding the reserve policies and adding narrative about the new reserve for self-insurance, and why it was set up.

Staff Mangini noted that the reserve policy has not been amended, so the self-insurance reserve was set up as a sub-emergency reserve fund, so it might be appropriate to change the reserve policy and then add the language Member Mendenhall suggests to the MD&A.

Member Royse commented that he thought the investment policy had been changed post 12/31/20, so that needs to be noted as well. Staff Mangini noted that the committee did recommend that change, but the full Board has not approved that change yet, the change in investment policy will be on the Board's January 2022 agenda.

Staff Mangini commented that this item needs to be altered. Especially related to how the revenue from the Atherton is being classified which will change the audit.

The committee decided to review the audit report with the suggested changes at the next meeting before it is recommended to the Board.

7. Finance Committee Member Comments

Member Lee asked if price of commodities and the quality of commodities correlates to the amount in operations budget that is spend on education. Executive Director La Mariana answered that the reason the environmental education program is such a big part of what the Agency does is to get the right stuff in the right carts and the wrong stuff out, because there is significant costs associated with processing the carts and getting the contamination out, the conclusion is that that cleaner the material, the better it is for the Agency's financial position.

8. Adjourn 2:04PM