



MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
Tuesday, January 11, 2022, 12:00PM
Via Zoom Tele or Video Conference**

Call To Order: 12:03PM

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, Julia Au
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 everyone and gave the following updates:

- COVID has hit the contractors hard, and there have been service performance issues due to staffing shortages. Recology is currently actively recruiting to fill these gaps, but it’s a challenge. Staff is working with management with both contractors to get service-related issues resolved and get service back on track.

Member Brownrigg commented that he has experienced more complaints in the last 4 weeks than he has in the whole 10 years since the current contract started. He asked for a memo from Recology related to the service issues and explaining the staffing issue they are having that goes to the Board and every city manager.

- With the heavy rains the Shoreway facility has experienced roof failures, and staff did not anticipate needing roof repairs in this budget year. There are some short-term fixes that fall within the Executive Director spending limits which are being done, but the long term fix for both buildings is \$200 to \$300K.

Member Benton asked if the rains had tested the storm water capture system fix that the board had agreed to under protest in 2019 but couldn't be tested last year due to lack of rain.

Executive Director La Mariana noted that he needed to check with SBR.

- Tomorrow at 3PM is the deadline for submittals to the Operations Agreement RFP, and he gave an overview of the process and timeline.

Member Benton asked staff about a notice he received from the Town of Hillsborough about collection vehicles coming to town hall to collect recyclable material. He asked if this would intrude into the SBWMA's revenue source.

Member Royse commented that this is a group of high school students through the Leo Club collecting plastics for a project and it's short term.

Executive Director La Mariana answered that he would research this and give a response.

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 October 12, 2021 Finance Committee Meeting

Motion/Second: Royse/Mendenhall

Roll Call Vote: 4-0-1-0

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

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

Staff Mangini noted that Finance Committee requested changes to the audited financial statements for the 6-month budget period that was presented at the October Finance Committee. He noted that the items the committee recommended editing changing and have been updated since the October meeting included:

- Reclassify Atherton's withdrawal payment to Non-Operating Revenue – *which has been done*
- Expand on Note 1 regarding Atherton's withdrawal from the JPA explaining the process and Board approval of Atherton's liquidation of existing debts, obligations, and liabilities – *that note has been updated in the financial statements.*

- Explain why the Agency aligned its fiscal year with the calendar year necessitating a 6-month period – *that further explanation is now in the document.*
- Include a proforma column in the Management Discussion and Analysis (MDA) annualizing the 6-month financials for comparative purposes – *that explanation has been added*
- Add an explanation of the newly created Sub-Emergency Reserve for Self-Insurance Fund – *this has been explained in the document and is also part of the review of the revised reserve policy discussion at agenda item 7 today,*

The committee thanked Staff Mangini for listening to their comments and concerns and making these changes.

Member Benton asked if there was any backlash because this financial statement was over a year ago.

Staff Mangini noted that the old document is posted, because the requirement for debt obligation disclosure is 270 days. So, the Agency was not late in posting, and once these documents are approved by the board, he will post an update.

Member Royse suggested a comment be added to the repost to explain why they are being reposted.

Motion/Second: Benton/Royse

Roll Call Vote:

5-0-0-0

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 the 2022 SBWMA Investment Policy

Staff Mangini gave an overview of the staff report noting that this is an item that is before the board each year usually in January. He noted that this committee reviewed investment returns in the spring of 2021 and recommended expanding the allowable percentage in the County Pool and the LAIF, so those changes have been made to allow for up to 80% in each of those investments. He noted that the policy in the packet was red lined to highlight the changes.

Member Benton asked for clarification and background on changing the term investment oversight committee in the policy.

Staff Mangini answered that this is related to the change in accounting service providers from the City of San Carlos to the City of Redwood City. Redwood City had some preferences to the language that was used in this area of the policy because their senior finance professionals make up the investment oversight committee, and he wanted to align the language used throughout the document.

Member Lee expressed concern in the expansion of allowable percentages in the County Pool. He noted that

PFM serves as the external investment advisor for the City of Redwood City, the SBWMA and the County, so there is a bit of a conflict. But, he noted that there aren't that many external investment advisors in California so it's very difficult to not have that kind of conflict. He noted that he has worked with PFM prior and is confident that they have the professional capacity to avoid being self-serving, but thought it was worth mentioning.

Staff Mangini noted that the change in percentage was directed by this committee not PFM, so maybe that could ease concerns about the conflict.

Member Brownrigg commented that he was very comfortable giving management and the financial advisors the ability to maximize either LAIF or the County Pool, but noted that the City of Burlingame over the last 5 years has invested in commercial paper, which they are allowed to have up to 25% invested in, and has been giving the City a slightly higher yield, and he would support investing outside of the just the County Pool and LAIF we already have the authority to do this, we just have to decide to do it. He added that it would be helpful to have a list to steer clear of certain types of companies that don't align with RethinkWaste's mission, like petrol chemicals.

Staff Mangini noted that he appreciated those comments and added that language was added to the policy last year regarding green business investments. He added that he would survey the member agencies to see what they are doing and look at ways to expand investment opportunities.

Member Royse wondered if there was an option to carve out certain funds and put them into a trust for higher returns.

Staff Mangini noted that if it's specifically for pensions then this doesn't apply because the SBWMA doesn't have pensions.

Member Brownrigg added that there are two questions; one-- does the SBWMA have the ability legislatively to take more risk, and two--does the agency want to take more risk.

Member Royse concluded that the County and LAIF investments are very conservative, and that safety and liquidity are the number one concerns for investments. But if there are other options, they should be looked at in the near future.

Motion/Second: Lee/Brownrigg

Roll Call Vote:

5-0-0-0

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

7. Resolution Approving the Revised Reserve Policy

Staff Mangini gave an overview of the staff report, noting that this recommended revised reserve policy is to formalize the need for a sub emergency reserve to cover the increase in insurance deductible which has led to the creation of a self-insurance fund. He noted that over the last several budget cycles staff has been increasing the amount in this reserve to cover the difference in the deductible, but adding this to the reserve policy will formalize this new reserve.

Member Lee commented that this leads to a larger discussion regarding the eventual need to be fully self-insured. Over the last several years municipalities and JPAs have been asked to take on increased risk in order to keep premiums manageable although industry wide municipalities and JPAs are seeing astronomical increases in insurance costs across the board.

Staff Mangini noted that at the June 2021 Finance Committee meeting the SBWMA's insurance broker spoke to this committee about creating a Captive and going the self-insurance route. He asked if the committee would like to revisit that discussion.

Member Mendenhall agreed with Member Lee's comments but asked if staff was asking for feedback on what the policy should be like going up at a certain percentage each year, or feedback on a bigger discussion on how the SBWMA's insurance is funded.

Member Benton gave a historical background on the Board's decision to go to a \$1M deductible and create a reserve fund for the difference. Since then that deductible has gone up to \$1.5M, so he noted if this is being based on the premium differential, he'd like to see it go back to the original \$500,000 difference and not keep increasing the amount going into the fund year over year.

Member Brownrigg asked for Member Lee's opinion on what he thought the number to self-insure to would be.

Member Lee said a few years ago he likely could have said a couple million, but after having an event with an adversarial outcome and the rate to settle was \$20M and that would be close to \$30M today. And even though there is money in reserves it's not for insurance purposes. So, you basically have one bullet in reserves for an adversarial outcome, if there is more than one there is trouble.

Executive Director La Mariana commented that at the June presentation the insurance company that gave the presentation about creating a captive for self-insurance this issue of having multiple events came up and there is a safety net available to buy insurance if the SBWMA is self-insured for a second or multiple event scenario.

The committee discussed the current set of insurance carriers the SBWMA has. Executive Director La Mariana noted that at the time of the 2016 fires the agency had one carrier with a \$5,000 deductible. Now, there is a \$1.5M deductible and 7 different carriers with different layers of insurance coverage. He also noted that fewer and fewer insurance companies are responding to the RFP for insurance coverage each year,

Member Brownrigg commented that unlike cities that can have multiple things go wrong this agency has one really big risk with lithium-ion batteries. And the agency has invested a lot in hardening the facility to mitigate that risk, and there is an opportunity through the legislative process to help reduce that risk in the future. So, it's a little different than the risk profile of a city for the SBWMA. So, he thought understanding what it would mean to self-insure would be an exercise worth performing.

Member Benton asked if the committee were to recommend going back to the original \$500,000 number and whatever differential is between \$500,000 and the current deductible, how big of an impact on the budget would

that have.

Staff Mangini noted that he would need to go back to the insurance broker to ask them what the premium would be with a \$500,000 deductible. He did note that it's been very difficult to get quotes with different deductible levels out of the insurance companies. But he could go to the broker and get a number, to see if that is something this committee would recommend adjusting at the mid-year budget.

Staff Mangini noted that this approval would update the reserve policy to formalize the sub-emergency reserve fund, it doesn't include the methodology for how the reserve is funded. The policy leaves it open for this committee to decide how to fund it.

Member Mendenhall noted that the other reserves in the policy have a defined funding mechanism, so should this committee be defining what the funding mechanism should be or will staff just put into the reserve the amount the budget will allow.

Staff Mangini answered that he had envisioned this committee reviewing the amount that went into the reserve each year but could write into the policy a funding mechanism based on the difference in insurance deductibles.

Member Mendenhall commented that she thought that wording "up to" the dollar amount could be added to the policy language in case there wasn't enough money in the budget to fund the full amount, but at least the language would define and memorialize the purpose of what this fund was originally set up for.

Staff Mangini noted he would make those changes to the policy language.

Member Benton noted that there is a line in the table related to fire, but there is nothing in it. He noted that the line needs to be removed before the final policy goes to the Board.

Member Royse asked if the reserve funds are frozen for that use only.

Staff Mangini yes that is the intent of the reserves, but the board has the right to do what ever they want with the reserves. He then asked the committee if they wanted staff to rewrite the policy and bring it back to committee at their May meeting, or make the changes noted and have this go directly to the Board in January.

The committee gave direction to revise the policy language before the January Board meeting to the Finance Committee via email for feedback.

No vote was taken.

8. Review and Provide Feedback on the SBWMA's Operating Budget Data tables

Staff Mangini gave the background that at the October study session Board Member Froomin asked questions about how the data was presented. He noted that the Finance Committee didn't think that net income to reserve properly reflected government accounting which is why it had since been changed to net revenue and expense. He asked for committee feedback to make sure that they way the data is presented accurately reflects the budget and finances, and more digestible for board members who are not on the finance committee.

Member Benton commented that he thought the term non-revenue and non-expense was very confusing.

Member Lee suggested adding non-operating revenue and non-operating expense.

Member Mendenhall suggested wording it as net-change in fund balance.

The committee recommended that Staff Mangini take this conversation off-line with the two finance directors on the call to work through the best way to present the data.

Member Royse commented that in the budget tables the self-insurance reserve is listed under uncommitted reserves, but he thought with the previous items discussion that reserve should be moved to the committed reserve category.

Staff Mangini noted he would make that change.

Member Brownrigg commented that there is significant value in being able to compare data across time, and if terms keep changing it can make cross year analysis difficult. He directed staff to use their best judgement but would not be in favor of changing things for one member that would then make analysis difficult going forward.

9. Bond Refunding Balance Report Out

Executive Director La Mariana gave background of the bond refunding process then went over the current bond balance. The agency netted \$20M that was earmarked for capital improvements, and since then has spent \$7.8M, so there is a balance of approximately \$12.2M. About half of the remaining balance is earmarked for Phase II and Phase III of the MRF upgrades, as well as some operation upgrades to the organics-to-energy equipment. After those projects it's anticipated that there will be about \$5M remaining in bond funds. However, at the January Board meeting there will be an item on the agenda authorizing an RFP for a site optimization plan, which will lead to the need for further capital, so in the very near future, this committee will be tasked with coming up with a plan for funding the projects that come out of the site optimization study, to ensure that the Shoreway site is being operated at it's highest and best use.

Member Brownrigg commented that seeking Green Bond status means that the agency must be mindful that the investors who purchased these bonds expect that their money is helping the environment, so he thought fixing the roof wouldn't count towards helping the environment. He wanted staff to be aware of that, and work with the finance committee to make sure those goals are met when the time comes for site optimization projects. He also commented that keeping some money available so that when technology comes up that can make it easier, cleaner, more environmentally friendly investments in the facility, there are funds available to act on that.

Member Benton asked if there were any other restrictions besides the green issue that would dictate how the bond money could be spent.

Executive Director La Mariana answered that the green bonds is the guiding restriction, but there was a time restriction when the bonds were issued that 85% needed to be spent within 3 years, but staff has been in contact with our bond financial advisors, KNN, and have been advised that because it was the intent to spend it within 3 years, and with the pandemic pushing a lot of plans back there is not an issue with that restriction.

The committee then had a brief update on the Organics-to-Energy program. The pilot was up and running, and the technology is viable. There are a couple of challenges still to deal with. One is the feedstock material has not come back to pre-pandemic levels but should be coming back over the next few months. And secondly the current obstacle which has cause a temporary suspension of operations, is that Silicon Valley Clean Water

(SVCW) has temporarily halted the acceptance of the material for the Organics-to-Energy program because they received a notice of violation from the air board for emission violations, which are not caused by the Organics-to-Energy material, but SVCW has halted all inbound material that they can control to try and determine what the cause of the violation is. There are other partnerships with other wastewater treatment plants, but they are much further away which means transportation costs.

Member Brownrigg commented that different from city bonds that build roads and it's all cost, these investments have the potential to save money either by reducing costs or generating revenue. So it's important to try and make the best possible choices.

Executive Director La Mariana conclude that staff will continue to give updates on the bonds annually.

10. Finance Committee Member Comments

Member Brownrigg asked if the potential MOU with Full Circle Bio-Plastics should also be run by the Finance Committee.

Executive Director noted that if there if there a financial crossroads as the project evolves, it will definitely come to this Finance Committee.

11. Adjourn 1:35PM