



MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
Tuesday, June 14, 2022, 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 Royce	X	
Jay Benton		X

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree, Julia Au, Hilary Gans, Tj Carter

Others Present: Derek Rampone, City of Redwood City, Grace Zhang Maze and Associates, John O’Neil, Risk Strategies Insurance Brokerage

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 all to the meeting. He noted that Staff Mangini would walk the committee through most of today’s discussion items and went over the agenda highlights. He also added that staff is busier than ever with several high-profile projects. The Operations Agreement RFQ has entered phase two with a recommendation to select two proposers to move forward into paralleled negotiations. This contract will have a significant financial impact on the Agency as it is clear there will be a large increase despite negotiations. The other notable project is the Site Optimization Study, the site needs to be modernized it has been working hard since 1982, so the study will look at ways to run the current operations more efficiently as well as prepare for future needs.

Member Brownrigg asked how many negotiations sessions there will be, does the management staff have the

capacity for the time commitment, and who was coaching staff through the negotiations.

Executive Director La Mariana answered there will be 16 total 8 with each of the top two proposers, and each session is three hours long from July through October, and that management staff is making the time capacity for this project because of its importance to the agency. HF&H Consulting is leading the negotiations, as well as a Board sub committee that is reviewing the proposals and giving staff feedback throughout the process.

Member Brownrigg noting that staff has been managing expectations that this will be a large increase and asked if there was a percentage range for the increase.

Executive Director La Mariana noting that it's premature to answer at this point, but it's looking like a 10% increase in this line item.

Member Brownrigg asked staff to begin to provide talking to points to other council members not involved in the SBWMA before the deal is signed to begin to manage expectations.

Member Royce agreed with Member Brownrigg, and asked staff to anticipate some Q&A, so board members could begin to socialize rate increases.

Member Brownrigg commented that the why is less important than emphasizing that operations have been very cost effective, and even with this increase they will continue to be cost effective.

Member Lee asked if there will be an environmental analysis if there is a change in operator, so that there aren't any issues like the settlement when the Allied contract ended.

Executive Director La Mariana answered that staff isn't anticipating any impact like that if there is a transition but will be mindful and guided by the technical and legal team.

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 11, 2022 Finance Committee Meeting

Motion/Second: Mendenhall/Lee

Roll Call Vote: 4-0-0-1

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

5. Review and Recommendation for Approval of Audited Financial Statements for 2021

Staff Mangini introduced the item and went over the results of the audit.

Member Lee asked regarding page 19 of the packet the bottom of the page says net position \$1M, but that isn't the net position, it should say change in net position.

Staff Mangini answered that the change would be made before the report goes to the board.

Member Lee noted that there was no explanation in the report for why the commodities were so different this year.

Staff Mangini answered that the price for commodities in 2021 were the strongest they had been in 3-4 years. Metals and fiber have been much higher. He also added that he's projecting that they won't be as high in 2022, but still not as low as they have been over the last few years.

Member Lee suggested that context to explain the difference regarding commodity revenue be added to the MDNA.

Member Mendenhall agreed with Member Lee and also noted a typo on page 51 of the packet that should be changed before presenting to the board. The word finalized should either say was not final, or was not finalized.

Staff Mangini noted he would make both of those changes.

Member Royce asked if there were any major reclassifications of any of the accounts or disagreements on any of the items by any of the auditors.

Grace Zhang of Maze and Associates answered there were no issues or recommendations except for the emphasis on the Atherton defeasance.

Motion/Second: Brownrigg/Lee with changes discussed to the MDNA
Roll call vote: 4-0-0-1

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

6. Review and provide guidance on the Property Insurance Fund section of the Reserve Policy

Staff Mangini gave an overview of the of the staff report and noted that a formal funding mechanism and language needs to be established for the property insurance fund reserve that the finance committee recommended in response to continued increases in insurance costs each year. He noted the options were:

Option 1

2.a. Sub-Emergency Reserve – Self Insurance Fund increases annually by up to a maximum of 20% of the current property insurance deductible. This fund is established to be the first fund available in the event of a property insurance claim to cover a portion of the deductible expense.

Option 2

2.a. Sub-Emergency Reserve – Self Insurance Fund increases annually based on the differential between a property insurance premium with a \$500,000 deductible and the current property insurance policy premium if the current deductible is greater than \$500,000. This fund is established to be the first fund available in the event of a property insurance claim to cover a portion of the deductible expense.

The committee discussed these two options. Member Lee asked on option 1 would the 20% be added indefinitely, or until the annual deductible was met. Staff Mangini noted that given how much property insurance has increased since the 2016 fire, he would like to build up that reserve as much as possible. This option would allow for putting the current deductible (\$300,000) into reserves and continue to build the reserve up.

Member Royce asked for clarification on option 2. Staff Mangini noted that with option 2 the reserve would increase annually based on the property insurance differential between the premium and deductible and would continue to build overtime.

Member Lee commented that he's leaning towards option 1, because it has a more direct relationship with the premium, not the deductible. But the language needs to change because the way it reads it would be a maximum of \$300,000 total, and he agrees that the fund should continue to be built up, so the language should change to allow for adding to the reserve fund until the premium amount is reserved.

Member Mendenhall agreed that option 1 seems to make more sense because it defines the dollar amount and gives staff some flexibility if because of budgetary constraints the full 20% couldn't be added to the reserve, but agreed with Member Lee that the

Member Brownrigg commented that the goal is to have a reserve that would cover the deductible should a significant adverse event happen. He asked why this isn't just a subset of emergency reserve.

Staff Mangini explained the background explanation in the staff report.

Member Brownrigg commented that between the emergency reserve and the rate stabilization reserve 18% is a healthy reserve, and at a time with the cost structure is going to be increasing adding another one to two points was concerning.

Executive Director La Mariana agreed that the emergency reserve could encompass the high deductible cost should the need arise, but that it's also broader and encompasses other emergencies.

Member Brownrigg commented that he's nervous about having very healthy reserves and uncommitted bond proceeds while then increasing rates with all this money on the balance sheet.

Member Royce asked if the emergency reserve would be adequate to cover two emergencies in one year. If so, there may be years in which it doesn't make sense to increase the reserve.

Executive Director La Mariana noted it would cover two. And added that the anticipated step up with the operating agreement would happen in 2024, not 2023.

Member Mendenhall noted that by adding the language up to a maximum it gives flexibility not to put the full amount in every year and recommended that the reserve could be funded after the audit is completed when there are funds available.

The committee agreed with that recommendation of having the reserve in place, but the decision to fund it to be made at the end of the year.

Member Lee asked if the reserve language could be amended to Member Mendenhall's recommendation.

Executive Director La Mariana answered yes, this discussion is about making a better policy.

Member Mendenhall made a motion to recommend amending the reserve policy to create a sub emergency reserve self-insurance fund that would increase to a maximum of 20% each year following the approval audit of the audit each year until the prior year's deductible amount is reached.

Member Lee seconded the motion

Roll call vote: 4-0-0-1

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

7. Review of Proposed Facility Property Insurance Coverage/Premium for Policy Year 2022-23

Executive Director La Mariana gave background overview of the staff report, noting his worry over ever escalating costs for insurance coverage each year, but also his discomfort with the increasing number of carriers each year. This year the proposal is for 14 different carriers for tiers of insurance coverage. He noted that he invited John O'Neill of Risk Strategies the Agencies insurance broker to answer questions.

John O'Neill gave an update on where the property market currently is. He noted that property rate increases continued through 2021, and while they may have moderated a little, underwriters are still pressing to get rates up for all but high-quality accounts. He also noted that waste facilities continue to be at the very high end of the risk spectrum and properties in this category are seeing 25% increases. He noted that the SBWMA may want to look at taken on some additional risk because even if you maintain insurance levels each year the Agency will continue to fall short.

Member Brownrigg asked what the overall replacement values of the property is.

John O'Neill answered \$85 to 90M, but the board elected to cover \$65M. He added that with inflation even maintaining coverage at \$65M means that the Agency will always be in a position of falling short.

Member Lee noted that the SBWMA is one of a number of industries that is becoming more and more uninsurable. He asked if as there is more distance from the 2016 fire would things improve for insurance costs.

John O'Neill answered that it's less about the fire and more about the industry at this point, specifically lithium-ion battery. He noted that if the premiums continue to escalate at this level, the Agency will likely want and should take on more risk, or as we discussed last year establish a captive, and he thought the Agency should revisit that discussion.

Executive Director La Mariana asked John O'Neill to explain a Captive since there are new committee members this year.

John O'Neill answered that a captive is a self-insurance mechanism in which the Agency will likely self-insure to a certain level will allow the Agency over to time much greater control over premiums, and control loss mitigation, and any profits defer back to the Agency rather than an insurance carrier.

Member Lee agreed that the SBWMA and public agencies in general should look at taking on more risk and just carrying an excess carrier for the large claims. He asked staff and Risk Strategies to prepare a cost benefit analysis on various scenarios and levels of self-insurance versus insurance coverage.

Member Royce agreed that a feasibility study was the next step to determine costs, benefits, and potential partnerships. He also asked if this incredible rise in insurance rates would continue indefinitely or would there be an eventual leveling off.

John O'Neill answered that it's hard to predict, but it is related to the industry so likely not going to level off anytime soon. He also noted that Risk Strategies is the third largest captive management companies in the country, and the next step would be to have a captive manager present to the Finance Committee on what the Agency would be looking at for costs, time frame and procedure and decide on next steps.

Executive Director La Mariana noted that the Finance Committee could discuss at their meeting in October, staff could discuss prior to that so that costs could be included in the 2023 budget.

Member Royce noted that he'd like to see if other comparable agencies have created a captive and what the lessons learned as part of the decision process. He then asked if there are any exclusions in the current coverage.

John O'Neill answered earthquakes and floods are excluded.

Member Brownrigg asked what the threat for sea level rise is at Shoreway.

Executive Director La Mariana answered that facility is tied directly to the levees that surround the Redwood Shores Facility and the airport. There are FEMA discussions going on currently to raise the levels of those, but the County is involved in that process the SBWMA has been a step removed.

Member Royce made a motion to recommend the \$2.1M insurance premium for policy year 2022-2023.

Member Brownrigg seconded the motion

Roll Call Vote: 4-0-0-1

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

8. Review of FY2022 Mid-Year Budget Projections and FY2023 Preliminary Budget Forecast with Tip Fee Projections for Member Agencies 2023 Revenue Requirement

Staff Mangini gave an update on the mid-year budget results compared to the approved budget and gave an overview of the staff report. He then went over the capital budget, he noted that money was pulled other capital projects that were in the adopted budget but haven't been completed in order to pay for some unexpected items like the MRF wall repair, and roof replacement projects.

Member Lee asked why line items two through 4 say work completed in 2022, but there are dollar amounts plugged in for the next 3 years.

Staff Mangini answered that the tip floor and MRF floor repairs are constant and need continuous maintenance.

Staff Gans went over the capital budget. He noted that the capital budget broken down into items that staff is dealing with now in the mid-year budget. Then anticipated costs of keeping the site up, but are capital costs not operating costs, and then at the bottom are projects in which costs will be split over multiple years. Lastly at the very bottom are large projects staff is calling out in anticipation of future projects needing to be done over the next few years, but there is not a budget for, and capturing all the costs in one year would be very difficult. He drew the committee's attention to the underground storage tank replacement project that has to be completed by the end of 2024 per state law, and the odor mitigation law that the air board has put on hold due to COVID, but staff anticipates being reinitiated which are very large dollar amount items but required by law. He also drew attention to the power supply for the facility noting that the facility power system is maxed out, so adding power to electrify the collection fleet will be a big cost.

Member Lee asked if the capital budget which projects four years out has factored in construction cost escalation as those costs continue to rise.

Staff Gans answered no, these are vague place holder numbers, not even engineers estimates at this point.

Member Mendenhall asked if there is a long-term capital funding program in place and if not, would that be something coming to the Finance Committee for review in the next budget cycle.

Executive Director La Mariana answered the following budget cycle for 2024.

Staff Mangini reminded the committee that staff is looking for a recommendation from the Finance Committee to approve the mid-year operating budget.

Motion/Second: Lee/Royce

Roll call vote: 4-0-0-1

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

9. Discussion on redirecting the bond fund balance towards other anticipated capital projects

Executive Director La Mariana gave a high-level overview of where the agency is with bond proceed spending. He noted that the first project that the bond money was used on was the MRF Phase I upgrades which have had a very favorable return on investment. Now, staff is looking at phase II and phase III. There is \$12M left in the account, and because of COVID the requirement to use bond proceeds in the first 3 years has been relaxed. He then asked Staff Mangini to discuss what the bond funds were originally anticipated for, and how some of the money might be redirected for anticipated capital projects in the future.

Staff Mangini noted that in the original bond documents roughly \$15M was designated for MRF enhancements, \$1.3M on the Organics-to-Energy project, and \$3M for unspecified other projects. The bonds were marketed into the community as green project bonds, so they can't be used for just anything, the projects must meet the green bond specifications.

Member Brownrigg commented that it doesn't make sense to save money for a project that's never going to happen, so repurposing the funds is fine in principle. But, noted that the bonds were marketed with the intent of making the facility more environmentally friendly, so that needs to continue to be a key objective going forward. He reminded staff that the facility can and should be a leader for how to do recycling better and this bond money exists so RethinkWaste can be a leader. He thought that the bond money is precious, and it should be invested carefully. But generally, was fine with redirecting it and investing in projects that have a higher ROI for the agency and the environment.

Member Royce commented that he was in alignment with Member Brownrigg, he noted he would feel better if the extension on the use of the funds was in writing.

Member Lee commented that as long as there is a reasonable expectation that bond proceeds can be used within three years that is what the bond agencies are after.

10. Senate Bill 1383 Compensation and Resources Request from Recology San Mateo County

Executive Director La Mariana gave background noting that at the Agency's request Recology has put together a proposal on what SB 1383 means on the collection side.

Evan Boyd of Recology noted that the plan presented at this point is just the head count perspective to deliver compliance with SB 1383 across the service area. Recology is not at a point where they can estimate total costs, and they view this proposal as a starting off point with headcount numbers. This is going to take a number of discussions between Recology the SBWMA, this committee and the board at large, for a fully comprehensive compliance plan, and what it is going to mean outside of the current scope of work for Recology. He added that there are mechanisms in the current agreement that cover a lot of the compliance costs. The

items that are more change of law items outside of the current compensation methodology are administrative support positions, additional Waste Zero Specialist and G&A positions.

Executive Director La Mariana noted that as staff works through the proposal there will be more to report on the financial implications of Recology's plan to comply with SB 1383.

11. Finance Committee Member Comments

12. Adjourn 2:01PM