



MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
Tuesday, October 18, 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 Royse	X	
Jay Benton	X (12:08)	

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

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 noted that he would like to save the Executive Director’s comments until the end of the meeting, due to committee members needing to leave early so that the discussion of the 2023 budget detail could be prioritized.

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 September 13, 2022 Finance Committee Meeting

Motion/Second: Royse/Brownrigg

Roll Call Vote: 3-0-0-2

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

5. Finance Committee Review and Recommended Approval of a Resolution Approving of FY 2023 Operating Budget and Capital Improvement Plan

- SBWMA Revenue Projections Operating Expenses
- Capital Improvement Plan Discussion
- Proposed 2023 Tip Fee Adjustments
- Review of SBWMA Reserve Funds

Staff Mangini gave an in depth discussion on the 2023 budget. He noted that there is an increase in costs on several line items including several indices in the operations and collections agreements and cost for disposal. He also noted that this budget includes expected tonnage recovery post pandemic as volume increases which correspondingly increases costs. Overall, this budget includes an 8% increase.

Staff Mangini then noted that he is most concerned about forecasting the numbers for commodity revenue, as just in the last month commodity pricing has fallen sharply. He asked for the committee’s feedback on an additional increase in tip fees to offset the falling commodity prices and revenue. He noted that in the packet is a comparison of tip fees at other bay area disposal sites, and Shoreway is on the low end with the exception of the Sunnyvale Smart Station which he thought was subsidized.

Member Benton asked for a status update on the operations agreement.

Executive Director La Mariana answered that staff is in the final negotiation phase with the two finalists and the new contract will be awarded at the November 17, 2022 board meeting. The contract will begin in January of 2024, so it doesn’t affect the 2023 budget.

Executive Director La Mariana then called out a few budget changes:

- The proposed budget includes adding a facility project engineer position, to help with all the capital projects coming up, in addition to the likelihood of entering into a master planning phase at the facility.
- This budget includes adding benefits to the Fellows positions to help with retention of Fellows. The net impact to the budget is about \$50,000 total, and the program at the County that this program is modeled after is also offering benefits to their fellows now.
- This budget includes a 4% COLA salary adjustment.
- There are currently unknown numbers for Recology’s costs to provide the mandated SB 1383 services. An adjustment to the franchise agreements and corresponding costs will need to be made during 2023, but with those costs still unknown during the budget process, this will likely be a mid-year budget adjustment.

Member Royse asked if staff has given any thought or looked into where costs can be controlled since we are looking at such big increases.

Executive Director La Mariana staff looks at each line item critically and reduces individual line-item costs whenever possible. For example, there is a 23% decrease in SB1383 expenses prior to the previous year.

Member Royse asked if adding more members might help to control costs.

Executive Director La Mariana at Board Direction he would be open and welcome to solicit additional JPA members, but additional cities would only be at a place where they could join the agency when their franchise agreements are ending, and those contracts are long term contracts just as the SBWMA's is through 2035. So he suggested further discussion around looking at additional lines of business to help with cost control.

Staff Mangini noted that another area that is being studied for cost control is the captive insurance that this committee has been discussing. He also noted that if green waste capacity opens up in the County that could really help control costs as well. He noted that capacity doesn't exist today, but it is being looked at.

Member Brownrigg directed staff to help board members and elected officials not to just explain why costs are going up, but to be able to look rate payers in the eye and tell them what we are doing to control costs. He noted that he felt very urgent about it because in 2024 there is an even bigger cost coming with the Shoreway Operations agreement contract. He suggested the creation of a marketing fact sheet that proves the Agency is more efficient than the average waste collection company and waste collection site. And that proves the Agency is doing its best to control costs, and how projects such as the site optimization study, and additional head count at Shoreway, will save money in the long run.

Executive Director La Mariana agreed and noted staff would put something together.

Member Benton asked how the Organics-to-Energy (O2E) and MRF Phase II projects were translating into the bottom line.

Executive Director La Mariana answered with O2E, the pilot period is over, and the technology does work, but there has been a challenge due to the pandemic getting enough feed stock of food waste from commercial generators to run the equipment efficiently. He noted that it is an economies of scale operation, so until tonnage increases the O2E program won't be running at optimal efficiency.

Staff Gans added that both the O2E and the MRF Phase II equipment have been launched and are operating successfully. Regarding the O2E program staff is currently working on forming relationships with wastewater treatment plants that will lead into contracts. Currently Silicon Valley Clean Water (SVCW) takes 90% of the material from the O2E, and he is working with them to help them better embrace the program and improve the rate charged for dropping off the material from the O2E there. Regarding the MRF phase II investment is working well and improved capacity by about 25%. The MRF is now able to operate without overtime.

Member Benton asked if the MRF Phase II project has resulted in cleaner material, noting that notwithstanding the commodity pricing conversation earlier in this meeting the 2022 budget has a better commodity outcome than projected. He wondered if that was caused by the upgrades to the MRF.

Staff Gans answered no, it's not. The commodity markets are melting down now as a result of the global economy stalling. Production in Asia has stopped, and the demand for recycled material as a raw material has dropped. The efforts that the Agency has made to achieve cleaner material have helped secure outlets for the material, but not a higher price.

Staff Mangini noted that the adopted budget for 2022 had very conservative commodity market revenues projected, but up until these last couple months commodity markets have been much stronger than originally projected, that is why the big difference in 2022.

Member Benton noted that table 6 in the staff report has \$156 as the average price for commodity revenue, but fewer tons. He asked regarding the current change in the market, what staff was predicting that number would be.

Staff Mangini commented that even if the lower numbers from 2022 are used for 2023 at the current prices there still needs to be another \$600,000 in revenue generated to cover the cost increases in other areas. If he were going to develop this budget today with the commodity pricing the way it is he would budget the commodity price average in the \$137 range. But that creates a \$700,000 to \$800,000 hole.

Member Benton asked how staff proposed to get that money back.

Staff Mangini suggested raising public tonnage rates to match neighboring facilities as mentioned earlier, and also raising franchised tip fees a little more than they have already been raised.

Member Benton commented that it is hard to approve this budget to the Board when a significant adjustment is needed to commodity revenue projections.

Staff agreed and noted that in the last couple of weeks there has been a big shift and these materials were already prepared and posted for this meeting. Executive Director La Mariana noted that commodity markets are always challenging to track, so the approach has always been to stay conservative, but the current market drop is challenging that.

Member Benton commented that the green waste tip fee is a 4.2% increase, but the contract rate is up 22%, he asked how that would work.

Staff Mangini noted that if you look at the history the green waste tip fees have been raised quite a bit in recent years, and he was working to not raise franchise tip fees too much. He noted that the 4.2% increase does cover costs in total, but not on that line item.

Member Benton asked what the debt service obligation is.

Staff Mangini answered that 1.4%. So, there is a bit of wiggle room there, there has to be a positive revenue over expense of about \$500,000.

Member Lee asked regarding the 4% COLA, what the SBWMA's policy on COLA is, and will this 4% maintain consistency with that policy.

Executive Director La Mariana answered median, noting that there was currently a salary survey in process, but the numbers being gathered for the most part were last year's numbers before the inflationary period, so the contractor recommended using 4% as a guide.

Member Lee noted that 4% is exactly the number coming in with San Mateo's CBAs.

Member Benton asked how do tip fee increases translate into rate payer increases.

Staff Mangini answered that in June 2022 the Board approved a projected forecast for 2023 tip fees. And those tip fees were then used to calculate the 2023 revenue requirement. On top of that a few more dollar increases were added in order to make the budget whole, it's about 3-4% increase on the disposal side which is a 1-2% increase in rates.

Executive Director La Marina noted that the Operations Agreement RFQ will result in at least a 10% rate increase in 2024, and he encouraged member agencies to try to smooth out that large jump by adding at least 5% to this year's rates so next year isn't such a large jump on top of the normal COLA adjustment.

Member Brownrigg commented that he is frustrated that there are no choices, there is either a deficit or the need to raise tip fees. He noted that he was open to the argument to raise rates above where they need to be this year in order to smooth the jump in 2024.

Staff Mangini noted he has concerns about raising anything in the budget more than necessary because that will only increase reserves and won't help the rate payers.

Member Brownrigg commented that in light of the state of the global economy, he wondered if now is the time to talk about site planning - is spending money to develop the site justified.

12:55PM Rich Lee Now Absent

The committee then discussed the capital budget. Staff Gans gave an overview of the table on page 32 of the packet outlining the capital budget and major projects proposed in the coming year. He noted that there are projects listed at the bottom of the table with questions around how much they are going to cost, and how to pay for them. He added that there is a balance of \$12M in the green bond account, but \$11M is already earmarked in the upcoming years, and there are other unfunded mandates like the CARB rule project that will need to be funded but the agency will have to figure out how to pay for.

Executive Director La Marina noted that there is \$18M projected in reserves in 2023, \$12M in bond money, and staff is asking the two Operations Agreement finalist proposers to provide extra capital in their agreements as funding sources for these capital projects. For additional capital the agency may need another bond.

Member Brownrigg asked when the agency planned to invest in the solar infrastructure for the trucks.

Staff Gans noted that it will depend on the technology of the vehicles which will drive the procurement schedule. In early 2024 there will a half step of about 12 smaller vehicles being purchased as part of the Recology fleet, but not the large collection vehicles which will happen at a later date.

Member Brownrigg noted that he didn't want to pre-fund any mandates, so he recommended putting off as long as possible the solar infrastructure and CARB.

Member Royse agreed with Member Brownrigg and noted that he hoped there would be grants to help Agencies like this fund this infrastructure. He suggested talking to legislators about state aid for these unfunded mandates.

The committee then discussed reserves. Staff Mangini gave an overview of established reserves and how they are funded.

Executive Director La Marina called out the \$1.2M in reserves that was part of a settlement from when BFI/Allied Waste was the contractor at the facility, that is earmarked for the mandated underground storage tank removal project, staff thinks it will cover about 35% of the total cost of the project. He also called out the plan to reallocate reserves over the next few years to add \$400,000 into the equipment replacement reserve fund to responsibly plan for future needs.

Member Royse commented that overall, when the budget is presented that items that are risks or concern be highlighted so that items that are hard to budget for are called out, including commodity revenues, tip fees, and long term projects with unknown costs.

Member Brownrigg now absent 1:25PM, the quorum was lost, and the meeting was adjourned. All other items tabled to the next meeting.

- 6. Green Bond Status Report and Finance Committee Input on Potential Green Bond Eligible Projects**
- 7. Follow up from September SBWMA Board Meeting Action Item: Finance Committee Investment Fund Discussion**
- 8. Review of Agency Specific Financial Models and Recommendation for Creating a Captive Insurance Plan**
- 9. Discussion and Recommendation of 2023 Finance Committee Meeting Calendar**
- 10. Finance Committee Member Comments**

Member Benton and Executive Director La Mariana thanked John for his nearly 5 years of service to the Agency.

- 11. Adjourn 1:25PM**