A Public Agency

SPECIAL SBWMA FINANCE COMMITTEE MEETING

TUESDAY March 28, 2023 at 1:00 p.m.

IN PERSON OR VIA ZOOM

Place:
RethinkWaste Offices
610 Elm Street Suite 202
San Carlos, CA 94070

Join Zoom Meeting:
https://us02web.zoom.us/j/85032445126?pwd=QWR4eDBRSGE1c3hSWjdxWDduL0RHZz09
Dial in: 1 669 900 9128
Meeting ID: 850 3244 5126
Passcode: 337036

The public may observe/participate in Committee meetings using remote public comment options or attending in person. Committee members shall attend in person unless remote participation is permitted by law.

TO ADDRESS THE COMMITTEE IN PERSON

Masking is not required but according to the California Department of Public Health guidelines, people at higher risk for severe illness should consider masking. To help maintain public health and safety, we respectively request that people NOT attend in-person if they are experiencing symptoms associated with COVID-19 or are otherwise ill and likely contagious (e.g., respiratory illnesses).

To address the Committee on any item – whether on the posted agenda or not – please fill out a Request to Speak Form and submit it to the Board Clerk. Speakers are not required to submit their name or address.

REMOTE PARTICIPATION

Members of the public may participate in public Agency meetings by logging into the Zoom:
https://us02web.zoom.us/j/85032445126?pwd=QWR4eDBRSGE1c3hSWjdxWDduL0RHZz09

Written public comments for the record may be submitted in advance by 11:00 a.m. on the meeting date by email to: rethinker@rethinkwaste.org and will be made part of the written record but will not be read verbally at the meeting. Written public comments submitted by email should adhere to the following: 1) Clearly indicate the Agenda Item No. or specify "Public" in the Subject Line for items not on the agenda and 2) Include the submitter's full name. You may also use the raise hand feature on Zoom to enter a verbal public comment.

***Pursuant to Ralph M. Brown Act, government code section 54953, all votes shall be by roll call if any members of the board of directors are participating by teleconference and/or video conference.**

AGENDA

1. **Call to Order/Roll Call**

2. **Public Comment**
   Persons wishing to address the Board on matters NOT on the posted agenda may do so. Each speaker is limited to three minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting. If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time. ***Speakers may also submit comments via email prior to the meeting by sending those comments to rethinker@rethinkwaste.org. .***

3. **Executive Director's Report (*Verbal Update*)** **p. 3**

4. **Approval of 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 Board, 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 the Minutes from the January 10, 2023, Finance Committee Meeting **ACTION p. 7**

5. **Update and Discussion on Property Insurance Options** **p. 5**

6. **Update and Discussion on Recology San Mateo Senate Bill (SB) 1383 Cost Proposal** **p. 21**

7. **Committee Member Comments**

8. **Adjourn**

EXECUTIVE DIRECTOR'S UPDATE

Agenda Item 3 is a verbal report only at the 03/28/2023 SBWMA Finance Committee Meeting

Agenda Item 3

A Public Agency

CONSENT CALENDAR

Agenda Item 4

DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
Tuesday, January 10, 2023 12:00PM
Via Zoom Tele or Video Conference

Call To Order: 12:04PM

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, Joanne Nghiem, Cyndi Urman, Jean Savaree,
Others Present: John O'Neill, Jared Beck, Drew Public Attendee

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.

There was serious flooding over the weekend at Shoreway. The loading tunnel is the low point on the property, it has flooded in the past, but on New Year's Eve there was 20 feet of water in the tunnel. He thanked the City of Belmont for loaning the agency a high-powered pump, to remove the water from the tunnels and get the facility back up and running by January.
He noted that this storm has highlighted the vulnerability of the site, and he wanted to have a discussion with the City of Belmont and San Carlos to talk about the flooding and discuss resurfacing the road.
Staff is completing the first phase of any future master plan, which is the site optimization study. The high concept drafts will be discussed at the January Board meeting. Should the board see the value in modifying the

site, this committee would need to talk in conceptual terms about financing options, and eventually go back to the Board with plans for a Master Plan process. The process would likely mean an additional Finance Committee meeting this spring.
Board Member Brownrigg has expressed interest in adding a third elected official to the Finance Committee, so there will be an item on the January Board agenda to add an additional Finance Committee member from the Board of Directors.

Member Benton commented that his role was meant to have been an interim role on this committee, and he was ready to step off the committee.

Member Royce asked if there were abnormal costs that needed to be picked up because of the flooding.

Executive Director La Mariana noted that the Recology administrative building did sustain damage on the first floor. Reconstruction costs are additional costs outside the budget that will be incurred, but the costs are currently unknown, and this committee and the board will have a conversation regarding emergency funding once the full scope of the repairs are complete.

Member Mendenhall commented that staff should take care to take pictures of the damage and record all of the repair costs. Right now the City of San Carlos is in the data gathering stage which will then go to the County to get consolidated information across agencies to submit to CalOES which will then go FEMA. The amount of funding is unknown at this time, but information should be out in the next few weeks.

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 the Minutes from the October 18, 2022, Finance Committee Meeting

Motion/Second: Royse/Benton
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. Draft for Finance Committee Review: Resolution Approving the SBWMA Investment Policy for 2023

Staff Mangini gave an overview of the staff report and highlighted the changes recommended for the 2023 edits.

Member Mendenhall asked that the government code for reporting time of 30 days versus 45 days in policy be confirmed. Her understanding was the government code still says 30.

Staff Mangini noted that there was a senate bill that passed in September and according to PFM as of January 1, 2023 it is 45 days, but he would double check it.

Member Benton asked if Local Government Investment Funds listed in paragraph 9 are different from Local Agency Investment Funds that the Agency has been investing in for many years.

Staff Mangini answered that this would be an additional option which may have higher yielding returns.

Motion/Second: Benton/Mendenhall (once verified on the government code reporting time)
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**

6. Green Bond Status Report and Finance Committee Input on Potential Green Bond Eligible Projects

Staff Mangini noted that this item is a report out for the group and gave an overview of the staff report and explained the 2 tables in the staff report.

Executive Director La Mariana noted that with the change in operating contractor in 2024, staff would like the new contractor to have input into the design and implementation of MRF Phase II upgrades. Staff anticipates those costs being between $6-8M, and the funds for those upgrades would come from a portion of these remaining bond funds.

This item was a report out for the committee on the status and there was no further discussion.

7. Follow up from September SBWMA Board Meeting Action Item: Finance Committee Investment Fund Discussion

Staff Mangini noted that this is at the request of Member Brownrigg for the Finance Committee to discuss expanding the list of eligible investments and changing the criteria to allow more flexibility in interest rates to yield higher returns.

Member Benton asked if September and December investments had any substantial differences than the June report included in the packet. He noted that the Lehman collapse has caused a cloud that's been hanging over the County Pool for many years.

Staff Mangini noted he would look up the September and December numbers and see if there was significant change.

Member Mendenhall commented that the primary purpose of this investment fund has always been the safety principle. When the Lehman Brothers fiasco happened, money was moved away from the County, because the County was a little more aggressive than LAIF. The Board and this finance committee can make a decision to become more aggressive in investing, but her opinion was that the safety of public funds was more important than chasing returns.

Member Benton didn't disagree, but with the County having a slightly higher return than LAIF at the moment, he thought it was worth discussing.

Staff Mangini noted that the return for both the County Pool and LAIF had been going back and forth as to which one was giving a better return.

The Committee gave direction to staff to take no action at this time.

8. Review of Agency Specific Financial Models and Recommendation for Creating a Captive Insurance Plan

Staff Mangini gave a brief overview of the staff report and noted that staff continues to look into creating a captive insurance plan to counter the rising costs of insurance premiums. He introduced John O'Neill and Jared Beck from the Agency's insurance broker's Risk Strategies.

John O'Neill noting that formulating a Captive is a long-term vision to make sure there is availability of insurance going forward and not being reliant on fickle markets. He added in this particular industry it's becoming more and more difficult to build the appropriate layers of coverage and predict and stabilize costs.

Staff Mangini added that this committee discussed creating a Captive at a past meeting and had asked Jared to come back with pro forma modeling, so this presentation will focus on Agency specific models.

Jared Beck gave a presentation reminding the committee of Captive Insurance basics as well as 5-year pro forma modeling. In addition, the presentation included extending that 5- year modeling to project out from not just building insurance as an asset, but also when the Agency would see relief on the premiums.

Member Royse asked for a basic refresher from the last discussion, noting that there is a period of time where the Agency is taking on more risk until the fund is built up and the risk becomes more manageable. He asked where the breaking point is.

Jared Beck answered yes, The Agency would front the captive in the first years, so if there was a full limit loss in the first years of creating the captive the Agency would have to eat that, but if the Agency has had five years of success and built up a surplus over time, then loss is a lot easier to absorb. He pointed out that in their 10-year pro forma example the Agency can get to a point where you decide not to invest in the reinsurance because a loss isn't as much of a shock to the system.

Member Royse noted that the example looked like 3-4 years of high risk, and at that point investing the Captive would likely pay off.

Jared Beck answered that the risk never goes away, you would be building an insurance asset and slowly over time taking on additional risk.

Member Benton asked for clarification, in 2022 the insurance premium was $2.1M with a $1.5M deductible. With the captive creation the premium would be $856K. So would this reduce operating expense by the difference between $2.1M and $856K.

Jared answered not necessarily because this scenario just looks funding for the $1.5M deductible, using the Captive to provide insurance for the deductible. So that doesn't reduce the costs per se, that just formalizes the funding of the deductible from the self-insurance fund.

Staff Mangini added further clarification. In this scenario the Agency would be able to reduce the $2.1M premium by the reinsurance program fee. We would be moving money from our reserves account into the Captive account to build an insurance asset over time. In this scenario the Agency would save a couple $100K a year by taking on an additional $1M in risk in the excess layer in addition to the deductible, and managing risk. If that happens for a few years in a row without significant claims, then the asset gets built over time by funding that top line deductible reimbursement. This Captive will either get funded out of reserves or come out of Agency profitability.

Member Benton asked Jared to explain the risks if there was a catastrophic event in years one or two of creating the captive.

Jared Beck answered that the insurance coverage would stay the same, and the Captive would pay the losses instead of the reserves or self-insurance funds. The excess policy would stay the same, but now when the excess premium is paid, and there are no losses the premium stays with the carrier. He thought the rates to the rate payers would be level in the early years of the Captive because you still need to pay the premiums, if the Agency keeps collecting the excess coverage in the early years, then in 5 to 10 years those savings will materialize, and be passed back to the rate payers.

Member Benton asked what kind of reinsurance the agency would have when the $5M excess layer is retired.

Jared Beck answered that after 5 years the Agency would graduate from the 80/20 model and would gain reinsurance for 50% of the excess.

Member Benton asked how much purchased insurance we do have today. And under the Captive at year 5, would there still be $65 worth of purchased insurance.

Jared answered $65M in just property insurance and business interruption, and yes with the captive there would still be $65M in coverage, but in addition to the $1.5M deductible there would be $2.5M into the excess. So, at that point there would be $3.5M in primary retention, and $65M in total limits.

Member Benton asked if there has been a year that we've had a loss over the deductible other than 2016.

John Mangini answered no.

Member Mendenhall wondered how realistic this 2% loss ratio is, she thought that was pretty low, and incidents were more than $17,000 per year. She recommended changing the model to increase those loss ratios because the Agency will still have to insurance premiums of $2.2M, it's just that the surplus would fund an alternative method to fund deductibles.

John O'Neill agreed and commented that the Captives are really for best in class clients, and despite the two fires in 2016, the Agency runs a tight ship and has invested heavily in loss control. And if the Agency continues to invest in loss control you should see better loss outcomes. But if the insurance markets are not giving you breaks based on the investments you are making, he thought long term a Captive made sense.

Member Royce commented that he didn't think there was really any choice. If we do nothing then we're governed by the markets. This allows the agency to take control and try to minimize costs. That being said he thought this had the potential to be an additional cost in the first 3 to 5 years. If we have no losses in that 3-5 year period then there is built up equity that gives a longer term benefit.

Executive Director La Mariana noted that not only has the loss history affected premiums, but the insurance industry has had a lot of catastrophic events, like floods and wildfires that have affected premiums. Does that play into this discussion, and will a Captive give the Agency more control and shielding from those sorts of events.

Jared Beck and John O'Neil agreed and noted that the property insurance is in a state of shock right now and suggested that all the investments the Agency has made in safety could potentially mean that the Agency is subsidizing other properties that are tougher risk.

Staff Mangini summarized that based on the model in the presentation the agency would be funding \$2.5M to start a Captive, and then each year the top line deductible reimbursement premium will come from the Agency. He asked if the \$655K comes out of the \$2.5M or if it is additional funding for each subsequent year.

Jared Beck answered yes, you would fund both each year. This model illustrates the agency funding premium to cover the \$1.5M retention. There is somewhat of a savings on the premium and the Agency would take that savings and put it into the Captive.

Staff Mangini commented that if the Finance Committee chooses this kind of funding model that would be the outflow of money for the Agency, so he wanted to make sure that was clear.

Member Royse asked if the \$655K would be funded from reserves, and if so, what was the current reserve balance.

Staff Mangini noted that the reserve is currently right about \$5.8M, and if not taking out of reserves the only other option is through rate increases. He did note that the emergency reserve is there for catastrophic events that aren't covered by the current property insurance policy, so this would obviously expand the risk, but the reserve is specifically for this, so maybe moving to a captive over time makes sense, but it would reduce the emergency reserve and the self-insurance reserve. It would be moving the money from one controlled asset to another controlled asset and using the money specifically for insurance claim incidents. The other impact would return on investment from the investment portfolio, because reserve balances are in the investment portfolio.

Member Benton asked what the \$2.5M would do to the overall reserves.

Staff Mangini answered the self-insurance fund and the emergency reserve fund together are about \$6.4M.

Member Mendenhall commented that she thought the emergency reserve needed to be kept at a certain percentage of expenses.

Staff Mangini answered that the emergency reserve is up to 10% of the expenses of the budget, he didn't know if the Captive could be considered as part of the reserves.

Member Mendenhall asked if the Agency took the money from the two reserves to fund the captive would that cause the emergency reserve to go below the 10%.

Staff Mangini noted that the policy is up to 10%, so there isn't a 10% threshold. It's currently at 9%.

Rebecca wanted to make sure the Board understood what the percentage would go down to if they decided to fund the Captive, because they would have adopted a certain percentage when they adopted the budget. She added that she would be more comfortable creating a Captive out of the reserves, but it needs to be made clear to the Board. The other option is to look at what the Captive would like if not funded as high as this model, it would take a lot longer to get to the numbers the Agency is trying to get to, but it would become its own entity over time and more money could be put in at any time.

Member Royse agreed but noted that he was concerned that the insurance rates would go up faster than the rate of funding the captive and the sooner we can manage risk the better, but it will take the reserve balance down 3 to 3.5%.

Member Benton thought more conservative loss assumptions were needed, because if something bad happens the board is going to have to explain to the rate payers their insurance decisions, and even if it slows the captive down, the priority has to be protecting the rate payers.

Executive Director La Mariana asked the Committee if they were comfortable with proceeding with a recommendation to the Board to move forward with approval of the work plan to create a Captive.

Member Benton commented that he would like to see an alternative model to the assumptions presented today, that would represent a worst case scenario that would demonstrate creating a Captive wouldn't crater the whole agency.

Member Royse added in addition to looking at all of the adverse scenarios he'd like to see a presentation of pros and cons that clarify the additional risks and costs that the Agency will absorb by creating a Captive. The benefits and risks need to be made clear.

Member Mendenhall reiterated also included the impacts to reserves based on the dollar amount of the funding be included in the report to the Board.

Member Benton that fundamentally what the board needs to understand. One, what is the impact to the rate payers while the Captive is getting fully funded. And two, what risk is being added by insuring this way. And he thought the presentation to the full board needed to be simplified.

9. Discussion and Recommendation of 2023 Finance Committee Meeting Calendar

The Committee discussed Member Mendenhall's request to move the time of the meeting to 1PM.

The committee will meet at 1PM going forward.

10. Finance Committee Member Comments

11. Adjourn 2:08PM

A Public Agency

Update and Discussion on Property Insurance Options

Agenda Item 5

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STAFF REPORT

To:	**SBWMA Board Members**
From:	**John Mangini, Senior Finance Manager**
Date:	**March 28, 2023 Finance Committee Meeting**
Subject:	**Update and Discussion on Property Insurance Options**

Recommendation

This is a discussion item only. No action is necessary.

Summary

As you know this committee has been exploring a captive insurance plan to help reduce the cost of property insurance premiums. Recently another potential alternative has come to our attention that has the potential to save on premium costs. This has led Staff into conceptual discussions with Omnis Risk Insurance Brokers (Omnis) on a plan for an alternative property insurance strategy with the objective of maintaining the Agency's current level of coverage at a decrease in premium cost.

The objective is to secure a portion of coverage with one particular insurance company that can offer a lesser premium with the same coverage primarily due to the fact that South Bayside Industries (SBI) will be the Shoreway Operator on January 1, 2024. Additionally, Staff has been informed that Omnis' working relationship with this new potential insurer is an important factor for the insurer. The insurer has worked closely with South Bay Industries for a number of years and has a high degree of confidence in their professional facility operation and their risk mitigation techniques. Part of the plan includes reviewing our current facility and operations and likely adding more risk controls, while working to improve how the SBWMA is viewed by insurance companies.

It's important to note that the Agency's renewal date of July 1, 2023 does not align with SBI's commencement of Shoreway operation, which presents one obstacle with the plan which Staff and Omnis is looking to resolve.

Background

The Agency's historical insurance premiums are illustrated in **Table 1** below. The Agency has been able to secure property/fire insurance policy coverage since the MRF and Transfer Station fires in September 2016. In addition to these incidents, the insurance industry is experiencing increased risk in our class of business which has also resulted in higher premiums to secure coverage. Many carriers continue declining to quote on our class of business.

Staff presented Financial Models for Creating a Captive Insurance Plan to the Finance Committee at the October 2022 Finance Committee meeting where the Finance Committee recommended bringing the Plan forward to the Board for consideration.

In early 2023 Staff inquired with SBI about their property insurance coverage for like facilities. Through that conversation SBI shared their broker's (Omnis Risk Insurance Solutions) contact information. SBI was awarded the Shoreway Operations Contract at the November Board Meeting and will commence operations of Shoreway on January 1, 2024.

Table 1

	2016	2017	2018	2019	2020	2021	2022 Not to Exceed
Premium	$ 179,596	$ 766,682	$ 838,484	$ 954,916	$ 1,286,497	$ 1,691,625	$ 2,100,000
Increase		$ 587,086	$ 71,802	$ 116,432	$ 331,581	$ 405,128	$ 408,375
Deductible	*$ 5,000*	*$ 500,000*	*$ 500,000*	*$ 1,000,000*	*$ 1,500,000*	*$ 1,500,000*	*$ 1,500,000*
Period	*7/1/16 - 6/30/17*	*7/1/17 - 6/30/18*	*7/1/18 - 6/30/19*	*7/1/19 - 6/30/20*	*7/1/20 - 6/30/21*	*7/1/21 - 6/30/22*	*7/1/22 - 6/30/23*

Fiscal Impact

There is no immediate fiscal impact associated with this report.

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A Public Agency

Update and Discussion on Recology San Mateo Senate Bill (SB) 1383 Cost Proposal

Agenda Item 6

6

STAFF REPORT

To:	**SBWMA Finance Committee Members**
From:	**Tj Carter, Program Manager II, Recycling and Compliance**
Date:	**March 28, 2023 Finance Committee Meeting**
Subject:	**Update and Discussion on Recology San Mateo Senate Bill (SB) 1383 Cost Proposal**

Summary

This report is meant to provide the SBWMA Finance Committee with an informational update on a proposal from Recology San Mateo (Recology) to provide mandated SB 1383 services to SBWMA Member Agencies.

The SBWMA recently received a proposal from Recology to expand their scope of collection and related support services to assist SBWMA Member Agencies in complying with SB 1383. Over a year ago, the SBWMA and Recology began, and then suspended, discussions when it became clear that the parties were not aligned on mandated program goals and compliance implementation. As discussed below, the current proposal from Recology appears to be more aligned with the needs of the Member Agencies. As a result, this informational report is presented for Finance Committee discussion. The proposal has been presented to the SBWMA Technical Advisory Committee on March 9th. Staff anticipate bringing the proposal for review to the SBWMA Board of Directors (Board) on April 27th.

If the Board views the proposal favorably, SBWMA staff will request that the Board approve the integration of the proposed costs into the Compensation Application and direct Recology via Resolution to complete the services requested.

Recology provided its current proposal on February 17, 2023. The SBWMA, with assistance from HF&H Consultants, has conducted an internal analysis of the proposal. HF&H's analysis concludes the proposal from Recology is reasonable based on the scope of SB 1383 needs and costs incurred by similar agencies.

Recology's proposal contains two components of expanded services to meet the mandated work identified for SB1383 compliance:

1. **Non-Operational Support Staff:** Recology proposes to hire three new permanent full-time positions---two (2) Waste Zero Specialists and One (1) Sustainability Coordinator (a data/reporting specialist).

   Recology proposes to add two Waste Zero Specialists to their existing team of six (plus a team manager) to handle significantly increased commercial account outreach and education, program waiver inspections, route review preparation, reporting requirements and SB 1383 data analysis. It should be noted that these two positions previously existed until they were deactivated in 2018 by mutual agreement between SBWMA and Recology. If approved by the Board of Directors, Recology plans to fill these positions by late 2023.

2. **Expanded Collection Operations:** Recology also proposes to add up to five new front-load routes YE 2024 to address the mandated expansion of collection of source-separated organic materials at businesses and multi-family dwelling properties. Recology estimates about $249,000 per route for additional labor in added annual costs to for each new route to service 5,900 commercial and multifamily accounts in the SBWMA service area targeted to begin organics collection as a result of this mandated program. The fully loaded annual costs per route is currently approximately $432,000. These additional route costs are to be compensated through the existing Franchise Agreement's Service Level Adjustment (SLA) methodology outlined in Attachment K beginning in the 2024 Contractor's Compensation Application process which commences on June 2023.

Analysis

SB 1383 requires all generators (single-family, commercial, and multi-family) to subscribe to the 3-container system to separate Landfill, Targeted Recyclables, and Organic/Compost Materials into the black, blue, and green carts respectively. There are still limited allowances for alternative compliance through back-haul, self-haul, and waivers, though most generators will rely on collection services provided by Recology for compliance.

As of February 2023, the SBWMA and Recology have identified roughly 2,000 residential accounts and 5,900 commercial and multi-family accounts that still need either recycling or compost service or, in some cases, both. Anticipated additional lifts and increased tonnages of diverted material has led Recology to propose an expansion of their operations with more drivers, trucks, operational support, and customer service personnel. In support of their proposal Recology noted that in 2022 alone, SB 1383 compliance required, 2,043 new organics lifts at 1,705 stops. This increase required 2 new drivers. Recology anticipates that it may need to add a total of 7 (including the existing two) new drivers over the next three years as the compost collection services grows both in terms of number of new lifts and amount of material collected. These costs are defined in the Franchise Agreement in Attachment K and will follow the standard Compensation Application process.

In addition to the required new collection services to all residents and businesses, Member Agencies are required to implement new or expand many current waste programs to meet SB 1383 requirements for outreach and education, edible food recovery, organic waste procurement, recordkeeping, contamination monitoring, and reporting.

Partner organizations in the SBWMA service area have already begun working collaboratively to satisfy SB 1383.These partners include Member Agencies, San Mateo County Office of Sustainability, South Bay Recycling and Recology. All Member Agencies signed a Memorandum of Understanding (MOU) to establish an Edible Food Recovery program on their behalf with the County's Office of Sustainability. Additionally, all Member Agencies signed a separate MOU with the SBWMA to support SB 1383 implementation of outreach and education, procurement planning assistance, reporting, recordkeeping, organic waste capacity planning, complaints and waiver management, and model tool development.

In 2021, the SBWMA was unable to reach consensus with Recology on cost estimates for a proposal to include expanded SB 1383-mandated services. With approval from the SBWMA Board of Directors, a Request for Proposal (RFP) was issued to solicit a contractor to provide these expanded, SB 1383-mandated services. As a result of the RFP, SBWMA retained SCS Engineers to provide the expanded 1383 mandated services listed below for 2022 through 2023 for a not-to-exceed amount of $685,000:

1. **Outreach and Education Technical Assistance**

- Perform outreach to the remaining ~7,500 businesses and multi-family dwellings that had not yet subscribed to recycling and/or organics services during FY’s 2022-2023 in order to arrange for these properties to subscribe to the service, to determine needed service levels, and to support those generators with compliance.
- Generate reports documenting outreach efforts and status of generator compliance including names of customers, dates of outreach or site visits, and copies of outreach materials distributed.

2. **Organics Collection Waiver Management**
   - Assist RethinkWaste with waivers that can be granted to multi-family dwellings and commercial generators under SB 1383 for each of the 11 Member Agencies.
   - Upload data into the Recyclist Program Tracker.

3. **Contamination Monitoring Route Reviews**
   - Conduct contamination monitoring in each Member Agency service area through annual inspections of randomly selected generator containers on each hauler route for solid waste, recyclable materials, and organic material.
   - Educate customers that were identified to have contamination during the contamination monitoring study on proper sorting of materials and consequences for future contamination in a manner consistent with SB 1383 regulations.
   - Maintain records and provide monthly reports to RethinkWaste on contamination monitoring efforts pursuant to the reporting requirements of SB 1383 regulations.
   - Prepare the annual contamination monitoring report to CalRecycle on behalf of each Member Agency.

With the contract with SCS Engineers set to expire in December 2023, the SBWMA and Recology re-engaged in discussions about the long-term needs of Member Agencies to meet SB 1383 requirements for 2024 and beyond.

The SBWMA staff, with assistance from HF&H Consultants, have conducted an internal analysis of Recology’s current proposal. With the increase in the number of new compost/organics accounts required by SB 1383, the proposal by Recology for two new Waste Zero Specialists would fall within the average accounts per outreach staff of similar agencies. This new staff in addition to the current outreach staff would equate to a commercial customer to outreach staff ratio of roughly 1,250 to 1, currently it stands at over 1,600 to 1. This is a slightly higher and more efficient account per outreach staff ratio than other jurisdictions that HF&H compared this proposal to, with the average for other jurisdictions being under 1,000 accounts per outreach staff. The benchmarking analysis performed shows that the additional staff should be helpful in attaining the desired outcome of increased organics service and meeting SB 1383 requirements, while remaining efficient from a staffing and cost perspective.

As noted above, Recology proposes three (3) additional employees to conduct support and administrative work. Given the increase in collection services, new outreach and education, and reporting requirements for commercial and multi-family generators it appears that there is a renewed need for these positions. They include:

1. One Sustainability Coordinator to assist with data entry/gathering, route review preparation, reporting requirements, waiver processing, and SB 1383 data analysis.

2. Two Waste Zero Specialists to provide outreach & education, conduct route reviews & waiver inspections, and recruit new participants in organics service.

The SBWMA anticipates ensuring that the proposed staff would be hired, as approved, and at the proposed compensation rates, and will consider claw-back provisions, should the need for these positions deteriorate over time.

Background

September 2016, SB 1383 (Lara, Chapter 395, Statutes of 2016) established statewide methane emissions reduction targets in an effort to reduce emissions of short-lived climate pollutants in various sectors of California's economy. It includes statewide goals to reduce the disposal of organic waste and recover edible food for human consumption. To accomplish these statewide goals, SB 1383 regulations were developed, which were approved on November 3rd 2020, and include prescriptive requirements for jurisdictions related to recycling and organics collection, inspection, and enforcement policies and programs and edible food recovery. The SBWMA and its Member Agencies need to comply with nearly all SB 1383 requirements by January 1, 2022 with the significant exception that enforcement actions do not need to commence until January 1, 2024.

More information regarding SB 1383 can be found online at www.calrecycle.ca.gov/organics/slcp/.

Fiscal Impact

This is an information only report.

Attachments:

Attachment A – Letter from HF&H RE: Recology SB 1383 Proposal Analysis

Attachment B - Recology SB 1383 Cost Proposal

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MEMORANDUM

To:	Joe LaMariana, Executive Director – South Bayside Waste Management Authority
From:	Rick Simonson, Senior Vice President – HF&H Consultants
	Dave Hilton, Senior Project Manager – HF&H Consultants
Copy to:	Evan Boyd, General Manager – Recology San Mateo
Date:	March 21, 2023
Subject:	Review of Recology's Rate Adjustment Application for FY 2023-2024

At your request, we have reviewed the application for a Draft SB 1383 Scope of Services Modifications (Application) submitted by Recology San Mateo (Recology), for the South Bayside Waste Management Authority (SBWMA). Based on our review of the Application, we recommend proceeding with amendment negotiations based on Recology's proposed cost adjustments.

Scope of Work

We performed the following procedures as part of our review:

- Reviewed the provided cost proposal for the associated positions requested in the Application.
- Verified all payroll information and union agreements supported the proposed employee costs.
- Verified the accuracy of calculations in Recology's Application.
- Reviewed the current and proposed number of outreach employees compared to customers to verify additional staff is warranted based on the proposed scope of services modifications.

Findings

Recology's Application requested one "sustainability coordinator" to assist with data entry/gathering, route review preparation, reporting requirements, waiver processing, and SB 1383 data analysis; and two "waste zero specialists" to provide outreach and education, conduct route reviews and waiver inspections, and recruit new participants in organics service. After our review of the Application, HF&H has determined the addition and cost of these roles are appropriate, as a result of the following:

- Recology is requesting two "waste zero specialists" to perform outreach for the estimated 5,900 accounts without organics service, or 2,950 accounts each (before anticipation of any service waivers). The current outreach staff to customer ratio is just over 1,600 to 1. This new staff in addition to the current outreach staff would equate to a customer to outreach staff ratio of roughly 1,250 to 1. This is a slightly higher and more efficient account per outreach staff ratio than other jurisdictions that HF&H compared this proposal to, with the average for other jurisdictions being under 1,000 accounts per outreach staff.

- Recology additionally requested one "Sustainability Coordinator" to assist with data/reporting requirements. This role is requested as the reporting requirements for SB 1383 far exceed the reporting needed based on the current agreement. The request for additional support in this role is consistent with similar requests in other jurisdictions in the State for compliance with SB 1383 data and reporting requirements.
- The costs for the roles requested in the Application and described above are supported by the union agreements and other payroll information for similar roles.

This indicates that the request does appear reasonable in terms of both the need and cost for the roles. We believe that while this is a new effort that appears to warrant additional staff, this may only be a short term issue and once these accounts are signed up and online for service the level of effort for outreach should decrease. For this reason we believe that the roles should be monitored and re-evaluated for their necessity over time.

Recology indicated in its Application that additional routes will be required to provide organics service to an expanding customer base. Recology noted that while an estimated seven total new drivers and routes may be required in the coming years (with two already operational), the cost associated with these routes are part of the existing franchise scope of work and will follow the existing compensation process outlined in Attachment K of the Agreement with the SBWMA. Therefore, Recology is not requesting a review for additional compensation outside of the Agreement for the new costs (and revenues) associated with these new routes.

Recommendation

After review of Recology's Application, we recommend the SBWMA approve the addition of one sustainability coordinator and two waste zero specialists at the proposed compensation rates. We suggest that these positions be monitored over time and potentially re-evaluated when vacancies occur to ensure they are still necessary.

Recology
San Mateo County
WASTE ZERO

Submitted via email

February 17, 2023

Joe LaMariana
Executive Director
South Bayside Waste Management Authority
610 Elm St., Suite 202
San Carlos, CA 94070

Re: Recology San Mateo County Proposal for SB 1383-Compliant Services

Dear Mr. LaMariana,

On behalf of the employee-owners at Recology San Mateo County (Recology), thank you for providing the *Draft SB 1383 Scope of Services Modifications* for our review. We are pleased to submit a cost proposal and additional information for SB 1383-compliant services to the South Bayside Waste Management Authority (SBWMA).

Cost Proposal

In this document, we would like to outline some of the assumptions used in our cost proposal. Based on the needs outlined in the *Draft SB 1383 Scope of Services Modifications*, Recology is submitting ***RSMC SB 1383 Projections Feb 2023***. This proposal includes three additional employees to conduct necessary support and administrative work. These positions would commence in October 2023:

- 1 Sustainability Coordinator, to assist with data entry/gathering, route review preparation, reporting requirements, waiver processing, and SB 1383 data analysis.
- 2 Waste Zero Specialists, to provide outreach & education, conduct route reviews & waiver inspections, and recruit new participants in organics service.

Draft SB 1383 Scope of Services Modifications

As may be recalled, in 2021 the SBMWA and Recology extensively negotiated the SB 1383 Scope of Work and reached agreement on virtually all items. We have revised the Scope of Work sent by the SBWMA this time around, along the lines of what was negotiated in 2021. Please see the enclosed ***Recology Comments - Draft SB 1383 Scope of Services Modifications***. This document will need to be further revised to include the necessary compensation adjustments, once they are agreed on.

O2E Route Cost Estimate

Separately, Recology has provided a cost estimate, titled ***O2E Route Cost Estimate***, for the estimated cost per route of commercial-only food waste route(s) that would collect feedstock specifically for the SBWMA's O2E processing equipment. Further discussions between Recology and the SBWMA are required to determine the feasibility of O2E specific route(s).

Additional field research is required to identify customers generating the most appropriate feedstock for the SBWMA's O2E system.

SB 1383 Implementation Assumptions

Since SB 1383 went into effect, Recology has worked to increase the number of customers subscribing to organics service. In calendar year 2022, Recology added 2,043 new organics lifts at 1,705 customer stops. These were supported by 2 new drivers.

The costs associated with adding these customers (such as drivers, operational support, and customer service) are part of the existing franchise scope of work and will follow the compensation process in Attachment K. We estimate that, over the course of the 3-year implementation period (2022 through the end of 2024), Recology will add a total of 7 new drivers as the organics customer base grows (including the 2 already added).

In order to estimate the additional customer lifts through the end of 2024, Recology:

- Identified a total of 5,900 commercial/multi-family accounts without organics service in the SBWMA area,
- Reduced this number by 25%, under the assumption that a quarter of customers would apply and qualify for a waiver (resulting in 4,425 remaining accounts that would need service),
- Used an assumed 1.22 lifts per stop (based on experiential data from current accounts), which resulted in 5,400 additional lifts over the next two years (through end of 2024).

In addition, Recology recognizes the efforts of the SBWMA's letter campaign to residential customers who do not yet have organics and/or recycling services. As the SBWMA is aware, there are approximately 2,000 residential accounts that do not currently have organics service; Recology is committed to helping onboard these customers to SB 1383-compliant services as they respond to the SBMWA's letter campaign.

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We appreciate our long-term partnership with the SBWMA and Member Agencies and look forward to discussing this with you in more detail. If you have questions or would like to set up a meeting, please reach out to me at EBoyd@Recology.com or 650.431.4600.

Thank you,

Evan Boyd
General Manager
Recology San Mateo County

Enclosures: *RSMC SB 1383 Projections Feb 2023*
Recology Comments - Draft SB 1383 Scope of Services Modifications
O2E Route Cost Estimate

CONTRACTOR'S TOTAL COST PROJECTIONS

Annual Cost of Operations	2023	2024	2025
Direct Labor-Related Costs			
Wages for CBAs	-	-	-
Benefits for CBAs	-	-	-
Payroll Taxes	-	-	-
Workers Compensation Insurance	-	-	-
Total Direct Labor Related-Costs	-	-	-
Direct Fuel Costs	-	-	-
Other Direct Costs	-	-	-
Depreciation			
- Collection Vehicles	-	-	-
- Containers	-	-	-
Total Depreciation	-	-	-
Allocated Indirect Costs			
General and Administrative	95,797	397,553	411,988
Operations	-	-	-
Vehicle Maintenance	-	-	-
Container Maintenance	-	-	-
Total Allocated Indirect Costs	95,797	397,553	411,988
Total Allocated Indirect Depreciation Costs	-	-	-
Annual Implementation Cost Amortization	-	-	-
Total Annual Cost of Operations	**95,797**	**397,553**	**411,988**
Profit	**10,056**	**41,732**	**43,247**
Operating Ratio	90.5%	90.5%	90.5%
Total Operating Costs	**105,853**	**439,285**	**455,236**
Contractor Pass-Through Costs			
Interest Expense	-	-	-
Interest Expense on Implementation Cost	-	-	-
Contract Changes to Specific Agencies	-	-	-
Total Contractor Pass-Through Costs	**-**	**-**	**-**
BASE CONTRACTOR'S COMPENSATION	**105,853**	**439,285**	**455,236**
Other Adjustments			
Incentive / Disincentives	-	-	-
Total Other Adjustments	**-**	**-**	**-**

TOTAL CONTRACTOR'S COMPENSATION	**105,853**	**439,285**	**455,236**
Prior Year's Surplus/Shortfall to/from Recology			
Revenue Reconciliation (Surplus)/Shortfall	-	-	-
Interest on (Surplus)/Shortfall	-	-	-
Sub-Total	**-**	**-**	**-**
TOTAL BALANCE TO CONTRACTOR	**105,853**	**439,285**	**455,236**

Actual Rearload Route Data				
Mo	Stops	Lifts	Stops	Lifts
Jun-21	4,871	6,041		
Jul-21	4,967	6,186	96	145
Aug-21	4,939	6,193	(28)	7
Sep-21	5,086	6,359	147	166
Oct-21	5,182	6,471	96	112
Nov-21	5,247	6,543	65	72
Dec-21	5,279	6,573	32	30
Jan-22	5,444	6,795	165	222
Feb-22	5,517	6,886	73	91
Mar-22	5,585	6,979	68	93
Apr-22	5,630	7,042	45	63
May-22	5,869	7,321	239	279
Jun-22	6,065	7,551	196	230
Jul-22	6,157	7,657	92	106
Aug-22	6,489	8,020	332	363
Sep-22	6,675	8,260	186	240
Oct-22	6,774	8,399	99	139
Nov-22	6,856	8,467	82	68
Dec-22	6,923	8,538	67	71
Growth Rate	42.13%	41.33%	2,052	2,497

Actual Frontload Route Data					Combined REL&FEL Lifts
Mo	Stops	Lifts	Stops	Lifts	
Jun-21	1,346	1,421			
Jul-21	1,357	1,440	11	19	164
Aug-21	1,363	1,459	6	19	26
Sep-21	1,359	1,461	(4)	2	168
Oct-21	1,357	1,454	(2)	(7)	105
Nov-21	1,354	1,459	(3)	5	77
Dec-21	1,349	1,454	(5)	(5)	25
Jan-22	1,359	1,478	10	24	246
Feb-22	1,356	1,475	(3)	(3)	88
Mar-22	1,362	1,499	6	24	117
Apr-22	1,390	1,572	28	73	136
May-22	1,402	1,585	12	13	292
Jun-22	1,405	1,587	3	2	232
Jul-22	1,409	1,586	4	(1)	105
Aug-22	1,416	1,571	7	(15)	348
Sep-22	1,406	1,556	(10)	(15)	225
Oct-22	1,406	1,556	-	-	139
Nov-22	1,411	1,557	5	1	69
Dec-22	1,410	1,532	(1)	(25)	46
Growth Rate	4.68%	11.61%	64	111	

Just Growth since Jul 2021

	Stops	Lifts	
REL	2,052	2,497	96%
FEL	64	111	4%
Totals	**2,116**	**2,608**	
Lifts/Stop/Acct		1.2325	

Cumulative Growth Thru 12/31/22

	Stops	Lifts	
REL	6,923	8,538	85%
FEL	1,410	1,532	15%
Totals	**8,333**	**10,070**	
Lifts/Stop/Acct		1.2084	

1.22

Estimated Remaining New Lifts

Remaining Accts w/o Service	5,900
Less 25% Exemption	(1,475)
Expected New Accounts	4,425
Average Lifts Per Account	1.22
Total New Lifts	**5,399**

Month	Stops	Lifts	
Jan-23	75	90	
Feb-23	75	210	
Mar-23	125	180	
Apr-23	125	180	
May-23	150	180	
Jun-23	150	240	
Jul-23	150	240	
Aug-23	150	180	
Sep-23	150	180	
Oct-23	150	180	
Nov-23	125	210	
Dec-23	100	90	**2,160**
Jan-24	225	120	
Feb-24	250	270	
Mar-24	250	300	
Apr-24	250	300	
May-24	275	300	
Jun-24	275	330	
Jul-24	275	330	
Aug-24	250	300	
Sep-24	250	300	
Oct-24	250	300	
Nov-24	225	270	
Dec-24	200	120	**3,240**
Total	**4,500**	**5,400**	