

MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE BOARD OF DIRECTORS &
STUDY SESSION BOARD OF DIRECTORS AND FINANCE COMMITTEE
October 26, 2023– 2:00 p.m.
San Mateo County Transit District Office, 1250 San Carlos, CA 94070

Call to Order: 2:00 PM

1. Call to Order/Roll Call

Agency	Present	Absent	Agency	Present	Absent
Belmont	X		Redwood City	X	
Burlingame		X	San Carlos	X	
East Palo Alto	X		San Mateo	X	
Foster City	X		County of San Mateo		X
Hillsborough	X		West Bay Sanitary District	X	
Menlo Park		X			

2. Public Comment (Closed Session)

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.**

None

3. Executive Director's Report

Executive Director La Mariana welcomed everyone to the meeting and gave the following updates.

- On Saturday, the Environmental Education team hosted Rethink Recycling Day at Shoreway, and awards were given out to students in grades 3 to 8 who participated in the annual poster contest. He thanked Board Members Adam Loraine and Al Royle for attending the event and helping present the awards. He thanked the staff members who worked hard to make the event happen. He also thanked the Recology Zero Waste Team and SBR for their support at the event.
- The transition to SBI continues to go smoothly. He noted that that SBI senior managers Chris Valbusa and Dwight Herring both had regrettable but unmovable conflicts for today's meeting, otherwise they would have been here. SBI held their first employee transition orientation on Saturday, Executive Director La Mariana and Staff Gans were invited to attend and speak and answer questions.
- As a result of the Board accepting of the SCS Engineers' Final Site Optimization study at the September Board meeting, Staff is now in contract with KNN Municipal Finance to discuss financing of what he hopes will lead to a formal site master planning process in mid/late 2024 .
- The agency is currently in the final steps of the escrow process for the purchase of the new office space

location, it should close in one to two weeks. And, we expect to have a final sign off on the space design tomorrow, and the construction bid package will be on the November Board meeting agenda for consideration/approval.

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 September 28, 2023, Board of Directors Meeting

Motion/Second: Froomin/Romero

Voice Vote: All in favor 8-0-0-3

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Belmont	X				Redwood City	X			
Burlingame				X	San Carlos	X			
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			
Menlo Park				X					

5. Administration and Finance

A. Resolution appointing Committee Members to fill vacancies on RethinkWaste committees.

Executive Director La Mariana gave an overview of the staff report.

Chair Aguirre thanked the new committee members for stepping up.

Motion/Second: Royse/Rak

Roll Call Vote: All in favor 8-0-0-3

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Belmont	X				Redwood City	X			
Burlingame				X	San Carlos	X			
East Palo Alto	X				San Mateo	X			
Foster City	X				County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			
Menlo Park				X					

6. Adjourn to Study Session 2:12PM

1. Call to Order/Roll Call

Board Members

Agency	Present	Absent	Agency	Present	Absent
Belmont	X		Redwood City	X	
Burlingame	X(3:03PM)		San Carlos	X	
East Palo Alto	X		San Mateo	X	
Foster City	X		County of San Mateo		X
Hillsborough	X		West Bay Sanitary District	X	
Menlo Park		X			

Finance Committee Members

Agency	Present	Absent
Michael Brownrigg	X(3:03PM)	
Jon Froomin	X	
Al Royse	X	
Grace Castaneda	X	
Rebecca Mendenhall		X

2. Public Comment

Pursuant to Government Code Section 54954.3(a), members of the public wishing to address the Board 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 Board Chair or Clerk of the Board will call on members of the public to comment.

None

3. Board/Finance Committee STUDY SESSION

- A. Review and Provide Comment on the Audited Financial Statements for the period ending December 31, 2022

Executive Director La Mariana noted that staff noticed some items in the audit that staff would like to spend more time on before presenting to the board, so they are recommending tabling until January 2024, after Finance Committee review.

- B. Review the Use of Reserves for the 2024 Rates

Staff Mangini noted that this item was intended for Finance Committee review to understand the financial impacts the action the board took to use reserves to buy down rates will have going forward. He noted that he has consulted with KNN on this matter, because by using the reserves to buy down rates, it sets the budget up to not meet bond covenants, but KNN has advised that it's allowable to pull from reserves into income to allow for meeting the bond covenants. So, the intent of this staff report is just to advise the board of the financial impacts of the use of the reserves, and to note that its staff recommendation to devise a plan to replenish the reserves going into the 2025 budget.

Member Royse recommended that there be some connectivity in setting up a plan to replenish the reserves, that it be proportional to the amount of rate reduction received by each member agency so it's equitable among the member agencies.

- C. Presentation of the DRAFT FY2024 Operating Budget and Five-Year Capital Improvement Plan Projections

Staff Mangini gave a PowerPoint presentation reviewing the draft 2024 budget. He noted that because the rate stabilization reserve is being used to buy down tip fees the revenue projection is not enough to fulfill the bond covenant requirements, but that can be accomplished by pulling money from reserves. He then noted the costs driving the 2024 budget. The budget includes disposal and insurance price bumps based on current market conditions. Insurance is now actually \$3.1M. Disposal is increasing because of both market indexes and a projected increase in material volume. Other cost factors driving the budget are the new SBI operations at 52% increase and some important capital expenditures planned for the Shoreway facility in 2024. On the revenue

side of the budget, he noted that with the new SBI contract there is no commodity market revenue share, so the agency will retain 100% of that revenue, and interest income is projected to be a little stronger based on current market conditions.

Executive Director called out the SBI negotiated commodity market share. Noting that, in the spirit of full disclosure, the agency receiving 100% of the commodity market share was a negotiated point during the contract negotiations. SBI felt strongly about having reimbursement for known expenses and they were ultimately willing to concede commodity revenue share and the agency gets 100% of the commodity revenue. They were ultimately willing to trade off the unknowns of the marketplace for reimbursement for known expenses.

Staff Mangini continued his presentation noting volume projections for 2024.

Member Romero asked regarding volume projections, which line item would have to go up significantly in order to actually be able to use the organics-to-energy (O2E) systems at this point.

Staff Mangini noted that the SBWMA food waste line item was about 24,000 in-bound tons before the pandemic, and that difference is much needed tonnage to have the O2E system running.

Member Romero commented that based on tipping fees it seems that fees for solid waste are the lowest tipping fees, which seems counterintuitive to behavior change, based on economic benefit, but if the externality of the carbon benefit was added on top of that number the solid waste cost number would be the highest number.

Staff Mangini noted that the Finance Committee can review this item, but based on the business operating model, it does cost more to move the organic material. Staff Mangini also noted that public solid waste charged by the yard has a lower tip fee than other material charged by the yard and that most of the public volume received is charged by the yard.

Executive Director La Mariana added that from a public perception point of view recycling has a cost recovery component to it, so therefore it should be cheaper. But the reality is, that it is not cheaper. Regarding the O2E processing with the lower volumes running that process has become more expensive on a cost per ton basis, and it's no longer comparable to the costs of shipping it out to processing locations. So staff is trying to get back to a place where it's a viable alternative and follow the direction that the board gave. With the launch of SBI being a really big lift, this has fallen down the priority list, but once SBI is settled staff plans to work out the costs, which are not included in the operating agreement, and we project to reactive this program in the spring of 2024.

Member Froomin asked if additional outreach has been done to reach out to other entities that might be able to bring food waste to the facility.

Executive Director La Mariana answered yes, we've reached out through the industry to various contacts, but it's a market driven decision, and currently the costs haven't penciled out for them to bring it to our facility versus another facility. We will continue to reach out to try and increase the food waste tonnage for this project.

Member Dehn asked when we expect to see the impacts of the SB 1383 regulations particularly with multi-family properties, and who is setting goals for the multi-family properties as far as tonnage.

Executive Director La Mariana answered the costs of SB 1383 are affecting the budget we are looking at today, so the effects are here. In terms of goals, it is a joint effort between RethinkWaste staff and Recology.

Member Loriane noted that on the member agency side through the prop 218 notice there is a strong need to

couple the costs with the service provided. He asked if that was also the case on the RethinkWaste side, or how that may be different.

Executive Director La Mariana answered the member agencies are bound by laws passed in the late 90s that indicate that you have to a proportional cost recovery by line item of business. So, there is very little room for discretion and there needs to be a connection between the cost and the rate charged.

Staff Mangini continued his presentation moving on the reserves. He was looking for some direction on funding the insurance reserves in 2024 with the exception of the rate stabilization fund, which is being used in 2024, so won't be replenished until 2025, but the underground storage tank project, the regular capital expenses on the capital budget, and the debt principle are starting to eat into our overall reserves.

Member Castaneda asked if the emergency reserve set at 7.5% is the policy.

Staff Mangini answered that the policy says that it's up to 10% of operating expenses.

Member Castaneda asked for clarification if the amount stays the same even though the policy is a percentage of expenses.

Staff Mangini answered that this is the direction he was seeking feedback from the committee on, noting that if it does stay at 7.5% the reserve would be \$5.4M so he wanted to know if the committee was comfortable with the reserve at that level.

Member Castaneda asked what the policy is for the rate stabilization fund is, and with the usage of the fund to buy down the tips fees does the remaining \$2.8M meet the policy.

Staff Mangini answered yes, because the policy states up to 10% so it can be anywhere for 0 to 10% of expenses.

Executive Director La Mariana gave an overview of each of the reserves, their balances and reserve totals over the last few years.

Member Froomin asked for clarification regarding the self-insurance account cap of \$300,000.

Staff Mangini answered that there is a policy on how much we can add to it each year, but not a cap on the total amount. The policy is up to 20% of the current insurance deductible each year.

Member Froomin asked for further clarification on the one-time expenses in the reserves from \$2 to \$5M reducing the reserves. He asked if that trend would continue into 2025.

Staff Mangini noted that it depends on the actions the board takes in terms of tipping fees and replenishing the reserves. He noted that this is the question he is trying to tackle as we head into 2025.

Member Froomin noted that at his council, they look at projections on a 5-year basis, to help decision makers by seeing how different decisions affect each other in the long term. He thought just looking at the last two years was too narrow of a window to see trends, he asked if the Agency stays the course, is there a way to figure out where we are going to go financially.

Staff Mangini noted that staff has commissioned a contract with KNN Municipal Finance to give us some direction on financing of potential future Shoreway projects, but also to help with financial planning.

Executive Director La Mariana noted that the capital projects page in the packet (101) is trying to get at Member Froomin's question by projecting projects long term.

Member Royse commented that the reserve balances in 2024 are the year ending balances, so in the next year nothing will be added to the self-insurance reserve. Noting that insurance is an area with increasing risk exposure, so even though there is a Catch 22 of diluting the benefit of taking from the rate stabilization to reduce tip fees if there is a decision made to add to the self-insurance reserve, but he is worried about the insurance reserve.

Staff Mangini answered this is an area where he wanted direction from the Finance Committee.

Member Loraine asked if it would be possible to use some of the uncommitted reserve to further fund the self-insurance reserve.

Staff Mangini noted that if additional funds were to be allocated to the self-insurance reserve it would most likely come from the capital reserve.

Member Romero commented that the agency is running a deficit in 2024, so if we move money from one reserve to another it's just that, there is no other additional sources for funding, so he didn't think it made sense to move any funds at this time.

Member Royse shared a concern about each reserve account being accurate for internal planning purposes, so even though we can have the ability to move reserves at any time there is a benefit to having each account accurately reflect the future needs. He then asked how much would be moved from reserves to cover the bond covenant amount.

Staff Mangini answered that since \$2.4 M was taken from reserves to reduce tip fees it's likely that a certain amount will need to be moved from the rate stabilization reserve to balance the financial statements to show coverage, but that amount will depend on the results of the year.

Member Castaneda noted that the use of the rate stabilization fund to keep the tip fees lower this year, is a double-edged sword, because next year the tip fees will have to catch up and there won't be a rate stabilization reserve to draw from.

Member Aguirre agreed and noted that when fees are raised to catch up it can cause sticker shock so it's important to find a balance especially with inflation all types of fees are increasing, and letting people when the time comes for the larger increase that you were helping them out in prior years.

Member Royse pointed out that this year is a one-time bubble with the change in contract in the Shoreway facility operator, after this the contract will go to mostly CPI increase. So, using the reserves is to smooth out this bubble.

Member Romero asked if the \$12M bond balance was a secondary buffer for the bond holders.

Staff Mangini answered the bond balance can only be used for projects that are considered green in nature. The majority of the bond funds were earmarked for improvements to the MRF to improve recycling.

Member Romero asked if any of the capital projects planned for 2024 would qualify as green projects.

Staff Mangini noted that the underground storage tank project does not because it's creating infrastructure for diesel. But staff is looking for projects that would qualify for that fund. However, the \$12M in the bond funds have been designated for MRF phase II and MRF phase III that will continue to maximize the recycling equipment to maximize commodity recovery.

Member Brownrigg noted regarding the bonds, that the agency refinanced old bonds and saved millions of dollars in payments by doing that. And the interest rate is locked in at 2% or 2.5%, so this is the cheapest money anyone will have for a decade. The board did that in part so to be able make investments so that our agency could be at the cutting edge of environmental technology. So, we shouldn't just sit on it. And while he agrees that investments in the MRF that improve recycling is a good way to use it, he thought the board should be thinking what novel approach can be taken because we have this this money, and it isn't going to come back. This is a onetime opportunity; we're not going to have a pool of capital sitting around for environmental tech investments in the future.

The Board then discussed the Capital Improvement Plan and went over the projects listed on page 101 of the packet.

Staff Gans presented the 5-year planning for Capital projects.

Member Froomin asked if clarification if the fund of unintended projects was the only one that was a bank of savings just in case, the rest were actual projects scheduled to take place. Staff answered yes. He then asked for clarification on the bailer replacement versus refurbishment projects over 2-years, was that worth it to refurbish it and then 2 years later replace it.

Staff Gans answered that the \$65,000 that is in the budget for this year and next year will only be spent once, we don't know if we can get that work done this year as planned, so the actual spend is likely to happen next year, and it makes more sense to spend that now rather than replace it early.

Member Froomin asked for clarification on who is responsible for the fuel or electricity when EVs happen.

Staff Gans answered that the Agency does it's baked into the cost of operations.

Member Rak asked for a reminder if all of the trucks with the SBI contract would be new trucks.

Staff Gans answered that all of the rolling stock, anything that can move on and off the site, is the responsibility of the contractor, and SBI will need all new trucks to run the operation as the new contractor.

The board then discussed EV infrastructure, and future purchases of rolling stock, as well as the issue of space and traffic flow on the site to meet these needs. Member Rak wondered if it might make sense to push out EV infrastructure given that the trucks are new. Staff Gans explained that the Recology trucks are separate from the SBI trucks, and the EV requirements from CARB will fall during the Recology contract and they will have to be converted. Member Brownrigg noted that battery technology is improving and continued to advocate for waiting to convert the fleet until the trade off from a traditional diesel collection truck would be one for one with an EV truck because currently the batteries are so big it will take one and a half trucks to complete a route that a single truck is completing now. The board thought it was worth looking at ways to postpone EV infrastructure, but at least look at how to set the money aside.

Member Loraine thought it would be helpful to have an audit looking forward towards projects on the site, as looks like we have audits looking back at the financials.

Member Royse noted that the original part of this conversation was the question, are the reserves adequate, and based on the conversation today, they are not adequate. So, then there are two things to look at, 1) what are the costs we need to look at for the next 5 years, and when do we think those expenses will hit. So that 2) we can avoid the big spike in one year or have a big spike every 3-years which he thought might be the case based on today's discussion.

Member Romero concurred that it would be helpful consultant to develop future costs impacts to have a better sense of impacts and understanding of where the reserve balances need to be.

Member Froomin commented that there is very little that this board has annual control over, the RethinkWaste budget is 6.1% of the overall budget, but in a year like this when there is a big rate increase, he thought the Board owed it to the rate payers to have a deeper dive and discussion on the agency operating budget, since those are the things we have a little more control over.

4. Board/Finance Committee Member Comments

Chair Aguirre noted that based on a concern from on of the board members, she has put together an ad-hoc working group to review the San Carlos Franchise fee. She noted that Board Members, Brownrigg, Royse and Froomin would be on the working group as well as herself as the Chair.

Next meeting November 16 at 12:30 PM at Canada College

5. Adjourn 3:49PM