



A Public Agency

EXECUTIVE DIRECTOR'S REPORT

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Date: April 27, 2017 Board of Directors Meeting
Subject: Executive Director's Report

The following projects and initiatives highlight staff efforts during the past month:

1. **Administration & Finance:**

A. **2016 Bond Covenant Ratios Met -Good News:**

On April 4th, the SBWMA Finance Committee reviewed Maze & Associates' 2016 SBWMA Financial performance audit results as presented by the City of San Carlos' Administrative Services Department. Their findings identified that the Agency has exceeded two important financial performance measures— 1. the Agency's Revenue to Expense ratio and 2. its Revenue to Debt Service ratio--that are required by our bond rating agencies. These results are a key consideration each year as the Agency determines the gate rates at Shoreway to remain in compliance. There is no recommendation to adjust the gate rates at this time.

B. **FY 17-18 Budget Development --Draft review today: Action in May:**

The proposed FY 17-18 budget will be presented today on an informational first reading basis. Staff presented a five-year capital projects schedule at the March Board meeting and at the April 4th Finance meeting. Notable highlights include: Projected Total Revenues of \$47M; Projected Total Expenses: of \$43M; Net Operating Income of \$ 3M; Net Op, Income After Depreciation: (\$172k).

As in the past, the proposed budget will be modified accordingly and presented at the May 25 Board meeting as an action item.

2. **Collection and Recycling Program Support and Compliance:**

A. **Franchise Agreement Negotiations Committee (FAX)—Recommendations Are Ready for Board Review:**

After an exhaustive effort during the past five months, the FAX Committee's Findings and Recommendations Final Report will be presented at today's meeting by myself and our leader negotiator, Bob Hilton from HF&H Consultants. Recology has also been invited to share their perspectives during the end of the presentation to allow their team an opportunity to fairly state their case and directly field any Board questions on this topic.

There is agreement on the substantive majority of most, but not all, deal points. The FAX Committee recognizes that the two parties may simply need to acknowledge that fundamental differences may dictate that we just move forward. The Fax Committee seeks Board direction today on these items so that we may proceed. These items will be addressed during today's presentation.

At Board direction, a summary-level presentation of the notable deal points was presented to the SBWMA TAC and FAX in a joint meeting on April 13th. The response was engaged and supportive,

with a clear need to understand more of the details. As a result, a ½ day workshop was recommended and will, therefore, be held for member agency staff and interested parties (now confirmed for May 3rd) with a highly-detailed review of proposed finances, key operational factors and contract language modifications. A second ½ day workshop will be held specifically for Member Agency legal staff.

Upon completion of today's presentation and with strong FAC Committee guidance, **the SBWMA negotiation team will conduct a series public presentations of the FAX Committee's Findings and Recommendations highlights to each of our 12 member agency's elected bodies, and to our 12 member agency city/county/district managers.** Feedback from these meetings will be aggregated and be reported back to the Board at its May meeting.

A redlined draft copy of the Model Franchise Agreement is also attached to this agenda packet for your review. Please note that this draft represents the FAX Committee final language recommendations to the Board, it will require a final legal scrubbing before the May Board meeting.

Staff wishes to express our strongest appreciation to the FAX Committee members for their astute procedural and financial leadership throughout this process, as well as to the entire SBWMA negotiation team (HF&H Consultants; Jean Savaree; SCS Engineers; SBWMA Staff) and, of course, the Recology negotiation team (Mario Puccinelli; Mike Kelly; Carl Mennie; Tammy Del Bene; Jeanette Haskell; and Bryce Giddens). Each of these folks conducted themselves with high-levels of professional integrity at all times, and each demonstrated a genuine collaborative mentality and a welcome good faith spirit throughout the discussion. Staff is particularly grateful for the FAX Committee's leadership and guidance throughout this process. Here's our planned remaining schedule:

- April 27th: **SBWMA Board Meeting:** Extended Meeting—Informational item
- May 2,3 or 4: **Member Agency Staff Workshop:** Detailed review of deal points
- May 11: **Member Agency City Manager's Meeting**
- May 1st-22nd: **Member Agency City Council Meetings (12)**
- May 11: **SBWMA City/County/District Managers Briefing**
- May 25: **SBWMA Board Meeting:** Action Item
- June 22: **SBWMA Board Meeting:** Action Item (Fallback date, if necessary) *

***PART ONE OF FRANCHISE AGREEMENT RENEWAL PROCESS CONCLUDES:**

With *SBWMA Board acceptance* of FAX Committee's Findings and Recommendations Report.

Part TWO OF FRANCHISE AGREEMENT RENEWAL PROCESS CONCLUDES:

With *individual member agency negotiations* with Recology—Amended/Restated Franchise Agreement Approval Process (anticipated to occur during June-December 31, 2016):

- B. Earth Day Celebration Comes Early to the Shoreway Environmental Learning Center—April 8th Event:** Soggy smiles were the order of the day! The early morning rain couldn't keep several hundred visitors away from visiting the Shoreway Environmental Center's Earth Day celebration to experience the environmentally-themed booths, interactive educational exhibits and many trash-to-art awards (both individual and by classroom) that were offered to our community, and included exhibits by the County's Office of Sustainability, the Peninsula Clean Energy program, and others. Tours of the Shoreway transfer station and MRF added a unique portal for our guests into the many accomplishments (and challenges!) of running one of the largest solid waste facilities in Northern California. Faustina Matuta, Madison Guzman, SBR staff, and Recology's Zero Waste teams deserve special acknowledgement for their extraordinary commitment to our nationally recognized, year-round public education programs, and particularly for their help with producing this event. NOTE: This year's early date was selected in

consideration of the Easter and Passover holidays, the Progress Seminar and several unavoidable other commitments.

3. **Shoreway Operations and Contract Management-LED Rebate, Commodity Values, Fire Update:**

A. **General Operations:**

- On March 24th, a rebate check for \$18,296.51 was received from the San Mateo County's Energy Watch program for the installation of a high-energy efficiency, LED lighting project recently completed at Shoreway.
- **Fiber commodity values in export markets took a steep and unexpected drop during the first few weeks of April.** This adjustment appears to be related to new, tightening of quality standards for in-bound recyclable materials sent to China, informally known as the Green Fence. As a result, Staff is working closely with SBR's management and commodity agents to take immediate counter measures to adjust the mix of materials to yield the highest commodity value available in the marketplace. Two important related notes: 1. Staff has factored this change into our proposed FY 17-18 budget as shown in agenda item XXX in this packet and 2. The SBWMA MRF's material recovery standards have always represented the high-end of industry standards.

B. **Fire Recovery and MRF Production Update—Fire Insurance Shopping, Preemptive Planning Continues:**

- On March 19, Hanover Insurance Company advised Staff it would not renew its fire insurance policy beyond June 30, 2017. Staff anticipated this action and had already been working closely with the Agency's Insurance broker, Risk Strategies, to seek alternative coverage. Bid requests were sent out to 28 insurance companies and responses are starting to come in. This topic was discussed with great interest at the April 4th Finance Committee meeting. Due to the fires, it is anticipated that next year's fire insurance premium's will increase significantly. Staff has factored this into the Agency's proposed FY 17-18 budget (also included in this packet). Risk Strategies, CEO John O'Neill, will present bid results and his recommendations at the May 25th Board meeting.
- Staff continues its extensive research and evaluation of fire mitigation system options for future use in the Shoreway transfer station and the MRF. A nationally-recognized MRF facility expert has been retained to provide a national best practice perspective on this effort and Staff has engaged other industry colleagues and national leaders in the quest to properly address this most important issue. One critical component of this work is to develop an alternative program to handle and redirect Lithium Ion batteries from either of these facilities to further mitigate fire risk to the property. A significant public outreach campaign will be an integral part of this program. Staff will provide interim updates at the May and June Board meetings on this initiative. A comprehensive recommendation is anticipated at the September Board meeting.
- Conveyor equipment replacement work relating to the September 11th fire in the Shoreway transfer station will be underway shortly and is expected to be completed by June

Respectfully submitted,



Joe La Mariana
Executive Director

Attachment 1: Franchise Negotiations/Project Milestone Summary

Process Milestone	Date Completed	Comments
PROCESS SET-UP		
1. SBWMA FAX Committee Formation	SBWMA Board Mtg. April 2016	Authorized by Resolution #2016-21
2. SBWMA Staff Distributes RFQ <i>Soliciting lead negotiator and financial analytical services</i>	11/1/16	*Two highly-qualified responses from R3 Consultants and HF&H Consultants * Board selects HF&H (Resolution #2016-44)
3. SBWMA Negotiation Team Formation * HF&H Consultants, Lead Negotiator * RJP Proto, SW Industry Technical Expert * SCS Engineers, Staff augmentation * ADCL, Legal support	12/14/16	Professional Services Contracts are now completed for all team members.
4. Preliminary Meetings w/Recology	11/2/16 11/3/16	Excellent briefing with Recology team of key operational issues of high importance to them.
6. Recology Submits Franchise Agreement Redlines for proposed new term	11/30/16	* Redline completed at SBWMA request. * This doc provides an important starting point for our negotiation discussions.
10. Recology Cost Proposal /RFP	1/10/17	*Recology delivered comprehensive, 644-page response document. *HF&H Consultants currently reviewing submittal.
MEMBER AGENCY INPUT		
8. <u>Member Agency Input #1:</u> TO: Board Members; Alternates; City Managers	12/16/16	*Survey completed on 1/10/16. *All 12 Member Agencies responded. * 23 total responses. *Survey Goal: Secure input to shape SBWMA's key negotiation points.
9. <u>Member Agency Input #2:</u> TO: TAC + FAX members	1/5/17	* Joint TAC/FAX meeting was held on 1/5. * 35 attendees; 11 of 12 MAs attended. *Special Session goal: To solicit input from TAC/FAX members (senior-level member agency staff) to shape Agency's key negotiation points.
11. <u>Member Agency #3:</u> Future Growth Survey	Survey closed 2/1/17	Survey sent to Member Agency's senior Planners (through TAC members). Survey Goal: To identify growth factors through 2030 that may affect Recology's operations, productivity and costs.
NEGOTIATIONS PROCESS		
7. Negotiation Team Meetings <i>Joint Meetings w/SBWMA + Recology</i>	2016: 12/7 2017: 1/11; 1/23 2/2; 2/9 3/20 4/4; 4/6; 4/17	Frontline discussions on key language, costs and negotiation points. Numerous conference calls and side meetings also occurred to address/resolve topic-specific items, research and cost analysis..
5. FAX Ad Hoc Committee Meetings <i>Six Board-appointed FAX team members:</i> * Chair, Jim Porter, County of SM * Vice Chair, Melissa Stevenson-Diaz * Larry Patterson, San Mateo * Afshin Oskoui, Belmont (also TAC Chair)	2016: 11/10; 12/7 2017: 1/12; 1/24 2/6; 2/21 3/8; 3/28 4/18	SBWMA's Negotiation Team provides in-depth report backs of key discussion items to FAX for feedback and direction. NOTE: Recology presented to FAX on 3/8.

<p>* Brenda Olwin, EPA * Heather Abrams, Menlo Park</p>		
<p>SBWMA Finance Committee Review</p>	<p>2017: Cancelled</p>	<p>Presentation cancelled.</p>
<p>SBWMA Technical Advisory Committee (TAC):</p> <p>NOTE: The SBWMA TAC is comprised of 12 senior representatives, including one from each SBWMA member agency. TAC members include: a City Manager, Public Works Directors/staff, Finance Directors and Environment Programs staff.</p>	<p>2017: 4/13</p>	<p>Per SBWMA Board direction—</p> <p>Executive-level presentation of FAX Committee Findings & Recommendations by SBWMA Executive Director and HF&H Consultants.</p> <p>SBWMA Negotiation Committee was advised to hold ½ day workshop for member agency staff and interested parties with a highly-detailed review of proposed finances, key operational factors and contract language modifications. Staff is working to confirm a workshop date for early May.</p> <p>NOTE: Recology presented to the joint TAC/FAX on 4/13.</p>
<p>SBWMA Board Consisting of 12 representatives from each member agency (elected officials)</p> <p>*****</p> <p>SBWMA Member Agency FAX Presentations to all Elected Bodies</p> <p>*****</p> <p>SBWMA Board</p>	<p>2017: <u>4/27</u> <u>5/25</u></p> <p>*****</p> <p>2017: <u>5/1-5/22</u></p> <p>*****</p>	<p><u>4/27: Informational Agenda Item-</u> Comprehensive presentation of FAX Committee Report-Findings and Recommendations. Board questions/ comments will be noted and addressed in final FAX Report to be presented for SBWMA Board consideration on 5/25.</p> <p>*****</p> <p>PPT presentations to member agency city councils, County Board of Supervisors, and SBWMA City/County/District Managers of FAX Report Findings and Recommendations are confirmed.</p> <p>*****</p> <p><u>5/25: Action Item—</u> FAX Committee Final Report-Findings and Recommendations presented to SBWMA Board for “adopt the FAX Report” consideration.</p> <p><u>6/22: Action Item (Fallback date)—</u> FAX Committee Final Report-Findings and Recommendations re-presented to SBWMA Board, if necessary.</p> <p>Upon SBWMA Board’s adoption of FAX Final Report-Findings and Recommendation— Part One of process concludes.</p>

Red = New changes since last report.
Blue = Confirmed FAX work plan elements.