



CONSENT CALENDAR



DRAFT MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE BOARD OF DIRECTORS
November 20, 2014 – 2:00 p.m.
San Carlos Library Conference Room A/B**

Call to Order: 2:00PM

1. Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton		X	Menlo Park	X	
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	

2. Public Comment

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two 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.

Vice Chair Dehn announced the Chair Widmer had a death in the family and sends holiday greetings and regrets that he couldn't attend.

3. Executive Director's Report

Executive Director McCarthy noted the change in agenda format, and that Board meetings would start with the Executive Director going over any notable highlights. As part of that he announced that on November 11th he received a letter from South Bay Recycling requesting consent to assignment of the Operations Agreement. He noted that this means Recology is in the process of purchasing Community Recycling which is one of the two partners in SBR. He noted that correspondence has been sent to SBR with some legal and operational questions, and that this item deserves serious consideration by the Board, but given the timing of receiving the letter, and not having feedback yet from SBR, he didn't feel it would be ready for a full discussion at this Board meeting, but that Recology has requested this be completed by the first of the year, so we will be sending dates out to the Board to try to schedule a special Board meeting in December.

Member Benton asked for a review of the corporate structure of SBR.

Counsel Lanzone answered that SBR is a California LLC. In their Operations Agreement, they have two equal voting managers - Community Recycling has a 60% ownership interest, and Potential Industries has 40%. Recology is acquiring Community. He summarized that Recology would have 60% ownership of the LLC, but 50% management of the LLC.

Member Olbert commented that he was nervous about discussing an item not on the agenda.

Counsel Lanzone noted that the Executive Committee thought there would be a little discussion, but not much, and that there would be an email going out to request available dates for a Special Board Meeting in December.

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. Adopt the October 23, 2014 BOD Meeting Minutes
- B. Approval of 2015 Board Meeting Calendar
- C. Approval of Quarterly Investment Report as of 9/30/14

Member Bronitsky made a motion to approve the consent calendar.

Member Stone seconded the motion.

Voice Vote: All in Favor

5. Administration and Finance:

- A. Consideration of Approval of 2015 Merit Increase Pool for Unrepresented Employees

Executive Director McCarthy noted that Board approval of the merit increase pool was discussed in closed session at the last Board meeting. He added that the resolution is to adopt a merit increase pool that is 3% of wages, and that the total would be \$26,775, which is a little bit lower than the number in the staff report.

Member Stone made a motion to approve Resolution 2014-27

Member Benton seconded the motion.

Voice Vote: All in favor

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton				X	Menlo Park	X			
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			

B. Consideration of Approval of Change to Technical Advisory Committee Meeting Frequency

Counsel Lanzone summarized the staff report noting that when the TAC was established it was presented to the Board that the TAC would meet on an as needed basis, the Board at that time decided that it wanted the TAC to meet on a regularly scheduled basis. He noted that over the last year, the TAC has been effectively meeting on an as needed basis because limited items have been referred to them from the Executive Committee. So this Resolution is before you to change the meeting frequency to an as needed basis.

Executive Director McCarthy added that there is still an open discussion on what is the goal of the TAC, and that sometime after the first of the year there will be a special meeting to discuss the issue of what role should the TAC play; this resolution is just to change the meeting frequency to as needed.

Member Olbert questioned why the change was being proposed now, and suggested waiting until the in depth discussion.

Counsel Lanzone noted that it's just a convenience as the staff keeps having to send cancellation notices.

Member Olbert noted that he spoke with his TAC member, and his TAC member didn't recall being asked if the meeting frequency should be changed. He also noted that his TAC member thought it was odd that the TAC was not convened with the rate applications were received, and that is one of the things he would like to see the TAC tasked with, and that it's important to keep the staff technical experts involved early on. He noted that he wasn't in support of this change, and that next year he would be trying to persuade the Board to continue to have the TAC meet regularly.

Member Stone noted that he also spoke with his TAC member who is somewhat ambivalent about this, but noted that he echoes some of Member Olbert's concerns. He is concerned about continuity of institutional knowledge if these meetings aren't being held on a regular basis. He also questioned how as needed is determined.

Counsel Lanzone noted that as needed would be determined by the Board or the Executive Director as it says in the resolution.

Member Stone noted that he was supportive of waiting on the decision and then make that decision along with the broader discussion.

Member Abrica agreed that putting the decision off until the in depth discussion would be best, and asked that the Board determine a specific goal for the TAC, because he didn't want to see the issue become a point of contention when it doesn't need to be.

Vice Chair Dehn noted that the discussion would be different.

Member Benton commented that he would like to see the discussion be a part of the regular meeting, and not a special meeting.

Executive Director McCarthy noted that he felt it would be a lengthy discussion, and was worried about getting everything on a regular Board meeting agenda done in the allotted time.

Vice Chair Dehn concluded that the TAC discussion would be brought back to a regular Board meeting, after January.

6. Collection and Recycling Program Support and Compliance:

A. Progress Report on Long Range Plan

Executive Director McCarthy gave an update on long range planning activities, noting that the November 6th Workshop was part of phase 2 of the Long Range Plan which was an inventory of all of the existing programs. He noted that phase 3 would be beginning in November, and noted that the staff report included an emerging list of program ideas and service changes that staff would be taking a closer look at. He noted that staff would continue to give the Board regular updates as the Long Range plan moves along and the draft plan will be before the Board in March.

Member Benton asked if there was a big problem with recyclables being put into the black carts.

Executive Director McCarthy answered that in the residential sector there isn't much recoverable material in the black cart, but in the commercial sector there is more. He noted that a disposable ban is a policy tool that has been used by other JPAs in the Bay area, where they prohibit the disposal of yard waste. He also added that it's not enforced at the cart level, it's at the disposal site.

Member Aguirre now present.

Member Olbert asked Kevin to expand on what he means by mandatory recycling under policy options.

Executive Director McCarthy answered that in San Francisco and Alameda County the governing body has adopted an ordinance mandating participation in recycling or composting. He noted that this is 180 degrees different from anything this JPA has ever done, but he thought the long range plan should give the Board a range of options on what other agencies are doing.

Member Olbert noted that he thought from a policy standpoint what could be done to increase commercial diversion was missing from the plan.

Executive Director McCarthy noted that at meetings with Recology the topic has come up and noted that staff is looking at both policy and operations options. He also noted that Recology will be coming back to staff with information on whether they can expand the programs they have.

Member Olbert noted that he would like to see commercial diversion as a specific bullet point in the long range plan, and thought there should be options about visioning what the JPA would like done versus what could be done.

Executive Director McCarthy explained that he was explaining the process for coming to the diversion outcomes Member Olbert was referring to.

Vice Chair Dehn asked that the Executive Director specifically highlight commercial diversion throughout the process of the long range plan.

Executive Director McCarthy answered yes, and noted that it absolutely is a fundamental part of the Long Range Plan.

Member Olbert noted that he was intrigued by the idea of piloting an every other week garbage collection, because he thought the state law required weekly pick up.

Staff Feldman answered that there is a health and safety code that mandates that putrescible waste needs to be picked up weekly. He noted that the thinking behind every other week garbage collection, is that most of what is considered putrescible is in the green cart. He also added that staff tried to put a pilot program for every other week garbage collection in San Carlos a couple years ago, and the County said no to the pilot program, one of the primary reasons was no solution for disposable diapers. He noted that other agencies around the country have successfully come up with solutions, and as part of the Long Range Plan staff would like to move forward with an every other week pilot program on a small scale to see if it's feasible or not.

Member Olbert noted that the challenge for him, was that you can't guarantee that the black can wouldn't have putrescible waste, and so therefore it would need to be picked up every week.

Staff Feldman noted that by providing households the opportunity of food scrap collection every other week, whether they put their cans out or not meets the requirements of the health and safety code.

Member Olbert noted that San Carlos explored doing this as a way of decreasing rates, but were told that we couldn't do that.

Executive Director McCarthy acknowledged that the challenge is that the rate model is built around the black can, so member agencies are going to have to figure out how to shift costs on to the blue and the green carts to keep their revenue intact, and he thought this would be a bigger challenge than getting the department of environmental health to say yes.

Member Carlton commented that she was skeptical and not a fan of every other week garbage collection.

Member Aguirre noted that on the other hand when Redwood City went to every week recycling collection people didn't like that change and there were a lot of complaints especially about cost, and not needing every week.

B. Discussion on Scopes of Work for Auditing Recology and SBR Agreements

Staff Moran gave background information on the staff report and noted that in June the Board asked if any reductions could be made to the scope of the audits. He reminded the Board that each year there are two separate but complimentary audits on the self-reported information from both contractors, and that the audits are a critical component of managing the two contracts, and that it is the JPAs fiduciary responsibility to conduct annual audits as protection for the rate payers. He also noted that the financial audit this year which reviewed 2013 cost approximately \$61,000, and the report audit cost about \$55,000, the total cost of the audits has a rate impact of 0.012% on the total collection rate revenue. He also noted

that each year of the contract the cost and scope of the audit has been reduced, but cautioned the Board to not to emphasize the cost of the audit, but to look at value to the rate payers.

Vice Chair Dehn requested the Board give direction on the scope of the audits so that staff could implement any changes before the audit scopes go out in March.

Member Olbert asked if route hours are directly audited.

Staff Moran answered that there is a separate audit of the cost allocation process that was just completed for this year that does audit route hours.

Vice Chair Dehn wondered if that tied into the question that has been posed to Recology to see if more detailed route information can be gathered regularly rather than just in the four week period of time of the audit.

Staff Moran stated not at this time, because a response hasn't been received from Recology yet regarding automated data collection, and until that happens the audit scope for the cost allocation can't be revised.

Mario Puccinelli commented that Recology has made progress with RouteWare, the onboard computer system in the collection fleet, and they can now enter a range of dates a month at a time and then manually compile each month into a year's worth of data. He added that it is much more streamlined, but that there still is a manual component.

Executive Director McCarthy asked if Recology would be prepared to come to the January Board meeting and talk further about this, so that the Board can weigh in before the next route assessment which is scheduled for the spring so it's coming up soon.

Mario Puccinelli said yes.

Member Benton commented that he supports Staff Moran's last comment, and that he didn't want to short cut the value of an audit, and didn't want to see things that ought to be audited annually short cut.

7. Shoreway Operations and Contract Management:

A. Consideration of Approval of Additional Third Party Tons into Shoreway Environmental Center MRF

Executive Director McCarthy noted that the reason for this agenda item was in anticipation of the City of Daly City making a decision about their next franchised hauler, and they did vote last night four to one to keep their incumbent Allied Waste, and the details of that proposal doesn't currently involve tons coming to Shoreway, so at this point the opportunity to get those tons has been lost and no action is required.

8. Informational Items Only (no action required)

- A. 2015 Finance and Rate Setting Calendar
- B. Check Register for October 2014
- C. Potential Future Board Agenda Items

9. Board Member Comments

10. Adjourn 2:51PM



DRAFT MINUTES

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
SPECIAL MEETING OF THE BOARD OF DIRECTORS
December 17, 2014 – 2:00 p.m.
San Carlos Library Conference Room A/B**

Call to Order: 2:05PM

1. Roll Call

Agency	Present	Absent	Agency	Present	Absent
Atherton	X		Menlo Park	X	
Belmont	X		Redwood City	X	
Burlingame	X (via phone)		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

Alternate Member Art Kiesel represented Foster City

Alternate Member Rosanne Foust Represented Redwood City

2. Public Comment

Persons wishing to address the Board on matters NOT on the posted agenda may do so.

Each speaker is limited to two 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.

None

3. Shoreway Operations and Contract Management:

A. Resolution Approving Consent to Assignment of Majority Interest in South Bay Recycling, LLC to Recology, Inc.

Executive Director McCarthy explained that SBR has requested consent to assignment of the Operations Agreement and that staff has negotiated some conditions for approval to ensure that the financial value the SBWMA receives from having chosen SBR in the procurement process remains. He noted that there were a series of letters to Recology and responses back from Recology attached to the staff report, and he went over the list of conditions of approval.

Member Carlton asked if the partnership with the paper mills in China was the partnership being referred to.

Executive Director McCarthy clarified that SBR is an LLC and the partners in the LLC are Community Recycling and Potential Industries, and that was the partnership he was referring to. He noted that the conversation was around making sure that Potential remained a part of the LLC partnership, and clarified that Potential Industries owns two Paper Mills in China, and there will be no change in their relationship with SBR.

Member Olbert asked how any potential savings would flow back to the JPA.

Executive Director McCarthy answered if any savings were identified they would come back as credits on SBR's monthly invoices or done through the annual compensation process.

Member Benton commented that the Board made the strategic decision to separate the MRF operation from the hauling operation and wondered if Recology was gaining any advantage in the future contract negotiations by doing this. He noted that he had a phone conversation with Executive Director McCarthy prior to the Board meeting, and said that he was relieved to hear that Recology buying the 60% ownership of SBR was only a small part of a much larger strategic move for Recology in Southern California.

Member Olbert asked what happens if the assignment is not approved.

Counsel Lanzone answered that as far as this contract is concerned it requires the approval of the Board for the merger to move forward. Community would still be bound under the contract and their interest would not be assigned to Recology. If the merger went forward without the approval of the Board SBR would be in default of the contract, and all of the consequences associated with contract default would be initiated.

Member Foust asked some clarifying questions around SBR's cost proposal, and if this purchase helped SBR get out of a bad financial situation. She also wondered if the assignment wasn't approved, would SBR be able to get the job done.

Chair Widmer asked Recology to respond.

George McGrath, COO of Recology, thanked the Board for their time and explained that Recology has always wanted to get back into the market place in Southern California, and the City of Los Angeles issued a request for proposals to franchise all of the City of LA's commercial businesses and multifamily businesses. He noted that Recology worked with Community Recycling on a partnership to submit a proposal in Los Angeles, but what ended up transacting was Recology purchasing the assets of Community Recycling. He added that it was never in Recology's strategic plan to own SBR, that they have no intention of changing the LLC, and they plan to keep Potential Industries as the lead, as they are marketing experts in the United States, and they would not want to touch that model.

Executive Director McCarthy added that in looking at the table in the staff report, the first half of the table are the originally submitted numbers in which SBR was nearly 27% less than Allied, in the second half of the table the SBR number is only 17.4% less than Allied. He noted that \$1.2M was added back into the

proposal at the request of staff, but operationally their proposal was chosen because they were able to offer significant payload gains, and that is where all the cost savings are. He added that staff wasn't concerned that SBR gave a low ball number. He also noted that in the four years SBR has been operating the MRF they've performed well.

Chair Widmer added that additionally SBR has been using County labor, and that relationship will continue, but condition of approval number 8 is that SBR has been asked to develop a second source because an alternate source of labor gives the JPA more options.

Member Carlton expressed concern that SBR was the lowest bidder and Recology was the second highest and that presented a red flag. She would like to feel more comfortable that at the end of the three year period the price isn't going to go up significantly to more closely match Recology's proposal price.

Chair Widmer clarified that the three year period is an extension at the end of the contract ending in 2020, so it's 2023 before a different price structure could go into effect.

Member Kiesel expressed similar concerns and wondered how valid the originally proposed \$12.8 SBR number versus \$17.5 Allied number was, and who would pick up the \$5M difference if there was a difference.

Executive Director McCarthy responded that there is a very collaborative relationship with SBR, and that ongoing monthly operating reports are received from SBR. He noted that SBR has met every assumption because of the custom specification trailers that achieve much higher payloads, and the efficient MRF. He added that SBR has actually met higher payloads than they assumed in the proposal, noting that they just built a better mousetrap.

Member Kiesel, using the same analogy, asked if with the assignment, the mousetrap would be the same, similar or better.

Executive Director McCarthy answered that it's similar, and added that if Recology were to bid on this today, they'd have a better number than they did in 2008. When they bid, they weren't running a highly automated MRF, and now they have that experience in Seattle.

Member Benton asked for clarification on whether Executive Director McCarthy was referring to Potential Industries or Community Recycling.

Executive Director McCarthy answered that the JPA deals with one entity - SBR; and that Potential Industries and Community Recycling formed this LLC to bid on the operations. He noted however, if there is a question about the trucks Community Recycling gets the call, and if there is a question about the MRF it's Potential Industries that gets the call.

Member Benton noted that Recology has expressed the importance of Potential in the relationship, but that it appeared to him Potential was the minority holder, and he wanted to be comfortable that Recology wasn't going to take over.

Counsel Lanzone noted that in the operating agreement for the LLC its 50-50 equal management of the operation, the majority owner can only override the minority owner in some very limited situations.

Chair Widmer commented that he met with Dan Domonoske from Potential Industries and George McGrath from Recology today, and expressed concerns to them about the labor for the MRF, and continuance with the County program. He noted that he thought some savings projection should have been part of this consent to assignment.

Member Olbert commented that generally speaking in an acquisition situation things will either get better or get worse, and he wondered what would happen if they're not as efficient under the new agreement.

Executive Director McCarthy answered that the LLC has almost no way to come back and ask for additional compensation unless there is a change in the law.

Counsel Lanzone noted that SBR and the JPA are in a contract that is good until 2020; there is nothing in the contract that can change because of this consent to assignment whether they do better or worse.

Chair Widmer expressed concern that if SBR is obligated to be in a position where they are losing money, issues won't get fixed as quickly.

Member Olbert conversely noted that post the consent to assignment the JPA would be in a stronger position, because Recology would want to keep a positive image.

Lillian Clark asked if the consent to assignment would affect incentives and disincentives with one company reporting.

Executive Director McCarthy answered no, that nothing would change there would still be two entities, and that the Member Agencies would still get reports from both companies.

Dan Domonoske, Vice President of Potential Industries, thanked that Board for their time, and stated that Potential Industries is not going anywhere, he assured that they will continue to deliver the services in the MRF that they have for the last 4 years. He commented on the analogy of the mousetrap, noting that the mousetrap wasn't going anywhere, and nobody was taking it over, and what this JPA has is the best mousetrap in the country. He noted that the trucks which Community Recycling designed are staying here, and carry between 25-26 tons without going over 80,000 gross vehicle weight which ensure continued high payloads going forward. He added that Potential Industries came up with the MRF design that is exceeding expectations. As a result of those two things SBR is exceeding performance projections. He noted that SBR is not in a financially difficult condition, and as far as cost, the JPA is getting a pretty good deal based on the contract which notes specific CPI indexes, so if the 3 year extension option is executed there will be no surprises in costs for the next 9 years.

George McGrath thanked the Board as well and commented on the concerns of the Board Members. He noted that Recology protects its brand, and that Recology has come a long way in being nationally recognized for programs and services that they provide, so anything that would tarnish that brand would be dealt with very quickly and swiftly, and we would carry that relationship to SBR as needed. He commented in terms of the financial structure that Recology is governed by the charter which is 50-50 management of the operations. He also noted that the business model of the trucks is important to their success not only in this service area, but would also like to adopt it as part of Recology's niche in the market place. He noted that Recology is more than willing to fulfill the obligations that are attached to the resolution, and that he anticipated having a Finance Manger on board by May 1st. He noted that

Recology looks forward to continuing the relationship and commented that the SBWMA gains significant leverage in talking about extensions and how to control costs going forward with this assignment.

Member Foust thanked Dan and George for their comments, and commented that if they had spoken first, it would have framed more clearly for her what the Board was being asked to approve.

Member Benton clarified that the 3 year extension for SBR doesn't exist in the Recology contract.

Executive Director McCarthy stated that that was correct, and in the year 2017 each Member Agency has to decide whether to extend their Franchise Agreement or not with Recology.

Member Carlton wondered if the union negotiations were still ongoing, and if the consent to assignment would have any effect on the union negotiations.

Executive Director McCarthy answered that SBR is still in negotiations on a transfer station contract, but the hope is that it wouldn't affect the negotiations.

Member Olbert made a motion to approve Resolution 2014-28

Member Stone seconded the motion

Roll Call Vote: 9-0-0-3

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton	X				Menlo Park	X			
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

4. Board Member Comments

5. Adjourn 3:07PM



STAFF REPORT

To: SBWMA Board Members
From: Marshall Moran, Finance Manager
Date: January 22, 2015 Board of Directors Meeting
Subject: Resolution Accepting the FY1314 Annual Financial Statements

Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2015-01 attached hereto authorizing the following action:

Accept the South Bayside Waste Management Authority's audited Annual Financial Statements (see **Exhibit A to the Resolution**) for the fiscal year ending June 30, 2014 as prepared by the SBWMA's audit firm, Lance Soll & Lunghard, LLP.

Summary

The purpose of the financial statements is to present a summary of the financial position of the Authority for the fiscal year. These reports have been reviewed by the Board Adhoc Audit Subcommittee which recommends approval. The final step in the formal process of preparing these financial statements is to transmit them to the Board for its acceptance.

Analysis

The financial statements of the SBWMA for fiscal year ending June 30, 2014, have been prepared by the City of San Carlos Administrative Services Department and examined by the independent auditing firm of Lance Soll & Lunghard, LLP and SBWMA staff. It is the **unqualified opinion** of the audit firm that the financial statements present fairly the financial position of the SBWMA as of June 30, 2014, and that the financial statements were prepared in conformity with generally accepted accounting principles. No exceptions or qualifications were found.

Financial Condition Highlights

As shown in Table 1 of the Audit report, total net assets increased \$0.6 million to \$22.4 million. The unrestricted net assets (Unrestricted Reserves) decreased slightly by \$0.7 million to \$14.1 million at June 30, 2014 (see Table 1 and 3 in Audit report). Operating Income increased by \$860,000 offset by capital expenditures of \$420,000 and other minor balance sheet changes. Unrestricted net assets are used to fund the Board designated reserves as shown in Table 3 of the Audit report.

General Operating Results

The operating results for FY1314 and FY1213 are as follows:

	FY2014	FY2013	Variance
			Better / (Worse)
Operating Revenues	\$42,137,600	\$41,358,400	\$779,200
Operating Expense	\$35,369,900	\$35,311,100	(\$58,800)
Depreciation Expense	\$3,276,600	\$3,227,300	(\$49,300)
Operating Income <Loss>	\$3,491,100	\$2,820,000	\$671,100
Interest Expense	(\$2,936,000)	(\$3,124,700)	\$188,700
Net Asset Change	\$555,100	(\$304,700)	\$859,800
<i>per Table 2 in Audit Report</i>			

Long-Term Debt

At the end of the current fiscal year, the SBWMA had bond debt outstanding of \$51,419,700 after the sale of the 2009 revenue bonds for Master Plan improvements and the defeasance of the 2000 bonds.

Outstanding Debt Activities

	<u>FY2014</u>	<u>FY2013</u>
Revenue Bonds 2009A	\$51,420,000	\$52,405,000
Revenue Bonds 2009B	\$ 0	\$ 3,000,000

The 2009B bonds to Burlingame were paid off in full in August 2013.

Payment of principal on the 2009A bonds began on September 1, 2013. Additional information on the SBWMA's long-term debt can be found in the notes (5) to the accompanying financial statements.

Note: Early redemption of bonds cannot start until after September 1, 2019 per the bond indenture.

Fiscal Impact

There is no financial impact associated with the adoption of this Resolution.

Attachments:

Resolution 2015-01 Accepting the Authority's FY1314 Financial Statements

Exhibit A – FY1314 Annual Financial Statements



RESOLUTION NO. 2015-01
**RESOLUTION OF THE SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY BOARD OF DIRECTORS
ACCEPTING THE FISCAL YEAR 2013-2014 ANNUAL FINANCIAL STATEMENTS**

WHEREAS, the South Bayside Waste Management Authority contracted with the audit firm of Lance Soll & Lunghard, LLP to conduct an audit of the Agency's financial records in accordance with Governmental Accounting Standards Board (GASB) Statement 34; and

WHEREAS, the financial statements for the fiscal year ending June 30, 2014 as prepared by said firm have been completed and are attached as **Exhibit A**; and

WHEREAS, it is recommended that the Board accept the financial statements.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the Annual Financial Report as prepared by Lance Soll & Lunghard, LLP for the fiscal year ending June 30, 2014.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 22rd day of January, 2015, by the following vote:

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

I HEREBY CERTIFY that the foregoing Resolution No. 2015-01 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 22, 2015.

ATTEST:

Bill Widmer, Chairperson of SBWMA

Cyndi Urman, Board Secretary

**SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY**

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2014

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2014

SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 2014

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	8
Statement of Revenues, Expenses and Changes In Net Position	9
Statement of Cash Flows	10
Notes to Basic Financial Statements.....	11

INDEPENDENT AUDITORS' REPORT

To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

Report on Financial Statements

We have audited the accompanying financial statements of the South Bayside Waste Management Authority (the "Authority") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To Members of the Board of Directors of the
South Bayside Waste Management Authority
San Carlos, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2014, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Brea, California
December 15, 2014

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Management's Discussion and Analysis

June 30, 2014

The Management's Discussion and Analysis (MD&A) section presents an overview and analysis of the financial performance of the South Bayside Waste Management Authority (SBWMA) for the fiscal year (FY) ended June 30, 2014. It should be read in conjunction with the audited financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The SBWMA's financial statements include:

Statement of Net Position presents information on the SBWMA's assets and liabilities as of year-end, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position presents the results of the SBWMA's operations over the course of the fiscal year and information as to how the net position changed during the year. These statements can be used as an indicator of the extent to which the Authority has successfully recovered its costs through user fees and other charges.

Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, capital, non-capital, and investing activities. The statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and exclude non-cash accounting measures of depreciation or amortization of assets.

Notes to Financial Statements provide information that is essential to a full understanding of the financial statements that is not displayed on the face of the financial statements.

FINANCIAL ANALYSIS

The following table summarizes the Authority's changes in net position from last year to this year.

Table 1
Comparative Net Position
June 30, 2014 and 2013

	<u>FY 2014</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 25,112,407	\$ 24,299,730	\$ 812,677	3.3%
Capital assets, net of depreciation	55,393,521	58,344,825	(2,951,304)	-5.1%
Total assets	<u>80,505,928</u>	<u>82,644,555</u>	<u>(2,138,627)</u>	<u>-2.6%</u>
Long-term debt outstanding	51,419,747	55,577,247	(4,157,500)	-7.5%
Other liabilities	6,732,640	5,268,778	1,463,862	27.8%
Total liabilities	<u>58,152,387</u>	<u>60,846,025</u>	<u>(2,693,638)</u>	<u>-4.4%</u>
Net position:				
Net investment in capital assets	8,222,650	7,010,937	1,211,713	17.3%
Unrestricted	14,130,891	14,787,593	(656,702)	-4.4%
Total net position	<u>\$ 22,353,541</u>	<u>\$ 21,798,530</u>	<u>\$ 555,011</u>	<u>2.5%</u>

Net Position

The total net position increased by \$0.5 million or 3% from the prior fiscal year. The net increase of \$0.5 million is the result of a \$1.2 million increase in net investment in capital assets, which is offset by a \$0.7 million decrease in unrestricted net position.

The total liabilities decreased by \$2.7 million or 4%. The decrease of \$4.2 million or 7% in long-term debt is primarily due to the \$3.0 million payoff of the 2009B bonds. These changes are explained further in the “*Long-term Debt*” section below. The increase of \$1.5 million or 28% in other liabilities is related to the timing of payments for the Shoreway operations.

The largest portion of the Authority’s assets is its investment in net capital assets totaling \$55.4 million. These assets that comprise of land, construction-in-progress, buildings, equipment and infrastructure less accumulated depreciation are primarily located at the Shoreway Environmental Center. The actual year-over-year comparison of the capital assets, net of accumulated depreciation, shows a decrease of \$3.0 million or 5% due of an increase in accumulated depreciation. These changes are explained further in the “*Capital Assets*” section below.

The net investment in capital assets is \$8.2 million as of June 30, 2014. It represents the Authority’s investment in infrastructure and other capital assets, net of amounts borrowed to finance that investment. It should be noted that these funds are not available for spending because capital assets cannot be used to liquidate these liabilities. Therefore, the resources needed to repay this debt must be provided from other sources. Unrestricted net position totaling \$14.1 million represents the part of net position that can be used to finance operations.

Results of Operations

The following table summarizes the Authority's revenues, expenses, and changes in net position.

Table 2
Comparative Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>FY 2014</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Charges for services	\$ 31,701,909	\$ 31,135,507	\$ 566,402	1.8%
Commodity revenue	9,503,894	9,547,841	(43,947)	-0.5%
Other operating revenues	768,003	615,793	152,210	24.7%
Investment Income	163,752	59,234	104,518	176.4%
Total Revenues	<u>42,137,558</u>	<u>41,358,375</u>	<u>\$ 779,183</u>	<u>1.9%</u>
Expenses				
Operating expenses	38,646,518	38,538,402	108,116	0.3%
Interest expense	2,936,029	3,124,738	(188,709)	-6.0%
Total Expenses	<u>41,582,547</u>	<u>41,663,140</u>	<u>(80,593)</u>	<u>-0.2%</u>
Increase (decrease) in net position	555,011	(304,765)	859,776	282.1%
Beginning net position	21,798,530	23,504,173	(1,705,643)	-7.3%
Restatements	-	(1,400,878)	1,400,878	100.0%
Beginning net position, restated	<u>21,798,530</u>	<u>22,103,295</u>	<u>(304,765)</u>	<u>-1.4%</u>
Ending net position	<u>\$ 22,353,541</u>	<u>\$ 21,798,530</u>	<u>\$ 555,011</u>	<u>2.5%</u>

While the Statement of Net Position (Table 1) shows the change in financial position, the Statement of Activities (Table 2 above) provides answers as to the nature and sources of the changes.

The operating results of the Authority for the current fiscal year were \$6.6 million, 12% better than the prior year. The operating results are the revenues from charges for services, commodity revenues, and other operating revenues less the expenses from the Shoreway operations, SBWMA administration expenses and franchise fees.

Charges for services, also known as tipping fee revenue, increased by \$0.6 million or 2%, from \$31.1 million in FY13 to \$31.7 million in FY14 due largely to an increase in public solid waste volume and a 2% tip fee increase. Public revenue is the revenue generated from non-franchised waste that is delivered to the Shoreway facility, while franchise revenue is from solid waste and organics materials collected by Recology San Mateo County from customers of SBWMA's member agencies and delivered to the Shoreway facility. The Other operating revenues increased by 25%, mainly due to an increase in the processing of third-party recyclables, which the Authority actively solicited, to help offset the fixed costs at the Shoreway facility.

The primary component of Operating expense is related to the Shoreway operations that constitute about 80% of non-discretionary, contractually obligated costs incurred to pay the Shoreway operator, and disposal and processing expense. The Shoreway operations expense was less in the current year as compared to the prior year since the prior year costs included the final payments that were made to the previous Shoreway operator of Republic Services/Allied Waste. Interest expense decreased by 6% as a result of interest savings generated due to the early payoff of 2009B bonds.

Reserves

Table 3 below reflects the amount of reserves that have been designated by the Board in the fiscal years 2014 and 2013.

Table 3
Unrestricted Reserves Balances

	<u>FY 2014</u>	<u>FY 2013</u>
Rate Stabilization Reserve	\$ 3,021,726	\$ 3,032,613
Emergency Reserve	3,021,726	3,032,613
Equipment Replacement	1,130,726	823,757
2009 A Bond Repayment	1,004,167	958,333
2009 B Note Repayment	-	3,000,000
Undesignated	<u>5,952,546</u>	<u>3,940,277</u>
Total Unrestricted Reserves	<u>\$ 14,130,891</u>	<u>\$ 14,787,593</u>

In 2002, the SBWMA Board established a reserve policy to set aside certain portions of unrestricted net position for specific uses in order to protect the short and long-term financial operation of the Authority. In May 2013 the Board revised the Cash Reserve Policy to accomplish the goal of more clearly defining the Reserve accounts. It maintains the two current reserve accounts - Rate Stabilization Reserve and Equipment Replacement Reserve, and replaced the existing Operating Reserve with an Emergency Reserve Account. The Emergency Reserve is to address unexpected and sudden capital needs or significant one-time increases in Shoreway operating expenses associated with “damage by natural disasters, acts of war or terrorism, or other community emergency scenarios that are not covered by existing insurance policies”. The new Policy also changed the priority order of the accounts so the Rate Stabilization Reserve is first in priority followed by the Emergency Reserve. The Rate Stabilization Reserve & Emergency Reserve is calculated as 10% of Operating expenses, excluding depreciation, Buyback and Household Hazardous Waste payments.

Capital Assets

The following table summarizes changes in the Authority’s capital assets.

Table 4
Capital Assets, Net of Depreciation
Years Ended June 30, 2014 and 2013

	<u>FY 2014</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 14,000,000	\$ 14,000,000	\$ -	-
Buildings and system	34,507,581	34,105,819	401,762	1.2%
Machinery and equipment	22,549,837	22,531,170	18,667	0.1%
Construction in progress	6,029	101,177	(95,148)	-94.0%
Total Accumulated depreciation	<u>(15,669,926)</u>	<u>(12,393,341)</u>	<u>(3,276,585)</u>	<u>26.4%</u>
Total Net Capital Assets	<u>\$ 55,393,521</u>	<u>\$ 58,344,825</u>	<u>\$ (2,951,304)</u>	<u>-5.1%</u>

The net capital assets decreased by \$2.9 million or 5% from \$58.3 million in FY13 to \$55.4 million in FY14. This decrease is primarily due to the annual \$3.3 million increase in

accumulated depreciation. The \$0.1 million decrease in Construction in Progress relates to the transfer of assets to Buildings and system, on completion of work. The other additions to the Buildings & system relate to fire suppression upgrades at the Materials Recovery Facility, site signage, Transfer Station and Shoreway Administration building improvements.

Additional information on the capital assets can be found in Note (4) of the financial statements.

Long-term Debt

At the end of the current fiscal year, the Authority has \$51.4 million total debt outstanding.

Table 5
Outstanding Debt, Net of Amortized Costs
June 30, 2014 and 2013

	<u>FY 2014</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
2009A Revenue Bond	\$ 51,255,000	\$ 52,405,000	\$ (1,150,000)	-2.2%
2009B Revenue Bond	-	3,000,000	(3,000,000)	-100.0%
Net Premium 2009A	164,747	172,247	(7,500)	-4.4%
Total	<u>\$ 51,419,747</u>	<u>\$ 55,577,247</u>	<u>\$ (4,157,500)</u>	<u>-7.5%</u>

Long-term debt consisted of the Revenue Bonds Series 2009A and 2009B that were issued to finance the construction and renovation of a solid waste materials recovery facility and transfer station as well as related equipment. In the June 27, 2013 board meeting, the Board adopted a resolution approving early redemption of the Solid Waste Enterprise Revenue Bonds Series 2009B bonds. This was paid in full on August 15, 2013, one year before it was due. The balance of long-term debt decreased due to the payment of principal of the 2009A bond.

Additional information on the Authority's long-term debt can be found in Note (5) to the accompanying financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our member agencies, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the revenues and expenses in the course of doing business. If you have questions about this report or need additional financial information, contact the Executive Director, South Bayside Waste Management Authority, 610 Elm Street, San Carlos, California 94070.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Current Assets:

Cash and investments for operations	\$	14,942,598
Accounts receivable		3,886,231
Interest receivable		9,996
Prepaid items		15,723

Total Current Assets 18,854,548

Noncurrent Assets:

Cash and cash equivalents with fiscal agent		6,257,859
Capital assets		
Land		14,000,000
Construction in progress		6,029
Building		34,507,581
Equipment		22,549,837
Less: Accumulated depreciation		(15,669,926)
Net capital assets		<u>55,393,521</u>

Total Noncurrent Assets 61,651,380

Total Assets 80,505,928

LIABILITIES

Current Liabilities:

Accounts payable		4,326,816
Accrued liabilities		174,621
Interest payable		971,871
Current portion of compensated absences		13,654
Long-term debt, due in one year		1,205,000

Total Current Liabilities 6,691,962

Noncurrent Liabilities:

Accrued liabilities		1,239,826
Compensated absences due in more than one year		5,852
Long-term debt, due in more than one year		50,214,747

Total Noncurrent Liabilities 51,460,425

Total Liabilities 58,152,387

NET POSITION

Net Position:

Net investment in capital assets		8,222,650
Unrestricted		14,130,891

Total Net Position \$ 22,353,541

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

OPERATING REVENUES:

Charges for services	\$ 31,701,909
Commodity revenue	9,503,894
Other	768,003

Total Operating Revenues 41,973,806

OPERATING EXPENSES:

Shoreway operations	31,470,156
SBWMA program administration	2,392,659
Franchise fee - transfer station	1,507,118
Depreciation	3,276,585

Total Operating Expenses 38,646,518

Operating Income (Loss) 3,327,288

NONOPERATING REVENUES (EXPENSES):

Investment income	163,752
Interest expense	<u>(2,936,029)</u>

Net Nonoperating Revenue (Expense) (2,772,277)

Change in Net Position 555,011

NET POSITION AT BEGINNING OF YEAR 21,798,530

NET POSITION AT END OF YEAR \$ 22,353,541

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 41,804,520
Payments to suppliers	<u>(33,828,708)</u>
Net Cash Flows from Operating Activities	<u>7,975,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) decrease in cash and investments with fiscal agent	(34,017)
Interest received	<u>164,392</u>
Net Cash Flows from Investing Activities	<u>130,375</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset acquisition and construction	(325,281)
Principal paid on long-term debt	(4,150,000)
Interest paid	<u>(3,012,696)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(7,487,977)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>618,210</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>14,324,388</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 14,942,598</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (loss)	<u>\$ 3,327,288</u>
Adjustments to reconcile operating income net cash provided (used) by operating activities:	
Depreciation and amortization	3,276,585
Change in assets and liabilities	
(Increase) decrease in accounts receivables	(169,286)
(Increase) decrease in prepaid expenses	8,196
Increase (decrease) in accounts payable	1,589,854
Increase (decrease) in accrued liabilities	(55,311)
Increase (decrease) in accrued compensated absences	<u>(1,514)</u>
Total Adjustments	<u>4,648,524</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,975,812</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization related to long-term debt	<u>\$ 7,500</u>

See Independent Auditors' Report and Notes to Basic Financial Statements

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies

a. Organization

The South Bayside Waste Management Authority (the Authority) is a joint powers authority formed on October 13, 1999 for the purpose of joint ownership, financing and administration of the Facilities, currently the Shoreway Environmental Center in San Carlos; and the planning, administration management, review, monitoring, enforcement and reporting of solid waste, recyclable material and plant material collection activities within Authority's service area.

Members of the Authority currently include the towns of Atherton and Hillsborough, and the cities of Belmont, Burlingame, East Palo Alto, Foster City, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitation District and the County of San Mateo.

The Authority is controlled by a twelve member board consisting of one representative from each member. None of the member entities exercise specific control over the budgeting and financing of the Authority's activities beyond their representation on the board. Accounting services are provided by the City of San Carlos.

Based on the franchise agreements with each member agency and Recology effective January 1, 2011, the Authority collects service fees from Recology for the processing and disposal of collected materials. The facility operator, South Bay Recycling, also collects fees from public customers which are remitted to the Authority. South Bay Recycling is paid by the Authority to operate the facility and transport materials to disposal and processing facilities on a per ton basis pursuant to the Operations Agreement. The compensation to both contractors is adjusted annually based primarily on various CPI indices. The Authority also directly pays for disposal and processing of solid waste and organics materials to vendors such as BFI/Republic, Recology Grover, Zanker Road, and Bio-Fuel Systems.

b. Enterprise Fund Accounting

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and the sale of commodities.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its balance sheet, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred. Enterprise fund equity includes retained earnings and contributed capital.

c. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is used.

d. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Expenditures which materially increase the value or life of capital assets are capitalized and depreciated over the remaining useful life of the asset. The Authority's policy is to capitalize all assets with costs exceeding the \$10,000 threshold and a useful life of more than one year.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method; meaning the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned the useful lives of capital assets by type as listed below:

Building	10 - 40 years
Improvements	5 - 20 years
Equipment	5 - 15 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

e. Compensated Absences

Compensated absences comprise unpaid vacation which is accrued as earned. All employees who hold full-time regular positions are entitled to 15 working days' vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds 5 years. Maximum accumulation of vacation is two years' vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The liability for compensated absences is determined annually.

f. Retirement and Deferred Compensation Plans

The Authority offers its employees a retirement plan created in accordance with Internal Revenue Code Section 401a. The employer contribution to the 401a is 10% plus a match up to 2% of the employee contribution.

The Authority also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457b. Pursuant to the IRC subsection (g), all amounts of compensation deferred under the deferred compensation plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the Plan. Deferred compensation funds are not subject to the claims of the Authority's

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

general creditors; consequently, the assets and related liabilities of the plan are not included within the Authority's financial statements.

g. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Note 2: Cash and Investments

The Authority pools cash from all sources except cash and investments held by fiscal agents so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Authority's name and places the Authority ahead of general creditors of the institution. The Authority Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

The Authority invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Authority employs the Trust Department of a bank as the custodian of certain Authority managed investments, regardless of their form.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

b. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)

Statement of Net Position		
Cash and investments for operations	\$	14,942,598
Cash and investments with fiscal agent		6,257,859
Total Cash and Investments	\$	21,200,457

Cash and investments for operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

c. Investment Authorized by the California Government Code and the Authority's Investment Policy

The Authority's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy when the Authority's Investment Policy is more restrictive.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$40,000,000 per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	40,000,000 per account	N/A
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

- (A) 5% of outstanding paper of issuing corporation
- (B) 5% of the portfolio in one corporation

d. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority resolutions, bond indentures or State statutes. The

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)

table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Direct obligations of the Department of the Treasury of the United States	None
Obligations issued or guaranteed by FMHA, FHA, General Services Administration, GNMA, U.S. Maritime Administration, HUD, and backed by the full faith and credit of the United States of America	None
Direct obligations of FHLB, FHLMC, FNMA, REFCORP, Farm Credit Enterprise, Federal Agriculture Mortgage Association, Tennessee Valley Authority	None
Money Market Fund	AA
U.S. dollar denominated Certificates of Deposit, savings accounts, deposit accounts	None
Investment agreements, including GIC's forward purchase agreements and reserve fund put agreements	None
Commercial Paper	A-1
General obligations of States or municipalities	AAA
Bankers acceptances	A-1+
Medium Term Notes	AAA
State of California Local Agency Investment Fund	None
San Mateo County Investment Pool	None

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

Investment Type	12 Months or less	1 to 3 years	Total
San Mateo County Investment Pool	\$ 2,289,490	\$ -	\$ 2,289,490
California Local Agency Investment Fund	12,595,347	-	12,595,347
Cash and Cash Equivalents with Fiscal Agent:			
Money Market Fund	4,769,859	-	4,769,859
Certificates of Deposit	-	1,488,000	1,488,000
Total Investments	<u>\$ 19,654,696</u>	<u>\$ 1,488,000</u>	21,142,696
Total Cash in Bank and Cash on Hand			<u>57,761</u>
Total Cash and Investments			<u><u>\$ 21,200,457</u></u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)

Local Agency Investment Fund

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations.

San Mateo County Investment Fund

The Authority is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The Authority reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The Authority reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Investments in California Local Agency Investment Fund and San Mateo County Investment Pool are not rated and therefore no rating is shown.

Presented below is the actual rating as of June 30, 2014, for each investment type as provided by Moody's ratings:

Investment Type	AAA	Not rated	Total
Cash and Cash Equivalents with Fiscal Agent:			
Money Market Fund	\$ 4,769,859	\$ -	\$ 4,769,859
Certificates of Deposit	-	1,488,000	1,488,000
San Mateo County Investment Pool	-	2,289,490	2,289,490
California Local Agency Investment Fund	-	12,595,347	12,595,347
Total Investments	\$ 4,769,859	\$ 16,372,837	21,142,696
Total Cash in Bank and Cash on Hand			57,761
Total Cash and Investments			\$ 21,200,457

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: Cash and Investments (Continued)

g. Concentration of Credit Risk

The Authority's investment policy contains certain limitations on the amount that can be invested in any one issuer. In certain categories, these limitations surpass those required by California Government Code Sections 53600 et seq. Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Entity-wide investments. There were no such investments at June 30, 2014.

Note 3: Capital Assets and Facilities Operations

Pursuant to a sales agreement with Republic Services, Inc., the Authority purchased land, and buildings and personal property amounting to \$14 million and \$5.228 million, respectively. These facilities comprise the Shoreway Environmental Center in San Carlos. The Authority signed an agreement to lease back the facilities to Republic Services, Inc. to operate them. This agreement expired on December 31, 2006 and the Authority had extended the agreement until December 31, 2010. The Authority signed a new agreement effective January 1, 2011 with South Bay Recycling to operate the facility. For the year ended June 30, 2014, the Authority paid \$16,359,877 to South Bay Recycling to operate the Facility.

Note 4: Capital Assets

Changes in capital assets were as follows for fiscal ended June 30, 2014:

	Balance July 1, 2013	Transfers	Additions	Retirements	Balance June 30, 2014
Capital assets not depreciated:					
Land	\$ 14,000,000	\$ -	\$ -	\$ -	\$ 14,000,000
Construction in Progress	101,177	(101,177)	6,029	-	6,029
Total non-depreciable assets	<u>14,101,177</u>	<u>(101,177)</u>	<u>6,029</u>	<u>-</u>	<u>14,006,029</u>
Capital assets being depreciated:					
Buildings	34,105,819	101,177	300,585	-	34,507,581
Equipment	22,531,170	-	18,667	-	22,549,837
Total depreciable assets	<u>56,636,989</u>	<u>101,177</u>	<u>319,252</u>	<u>-</u>	<u>57,057,418</u>
Less accumulated depreciation:					
Buildings	(6,480,044)	-	(1,385,472)	-	(7,865,516)
Equipment	(5,913,297)	-	(1,891,113)	-	(7,804,410)
Total accumulated depreciation	<u>(12,393,341)</u>	<u>-</u>	<u>(3,276,585)</u>	<u>-</u>	<u>(15,669,926)</u>
Net depreciable assets	<u>44,243,648</u>	<u>101,177</u>	<u>(2,957,333)</u>	<u>-</u>	<u>41,387,492</u>
Capital assets, net	<u>\$ 58,344,825</u>	<u>\$ -</u>	<u>\$ (2,951,304)</u>	<u>\$ -</u>	<u>\$ 55,393,521</u>

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 5: Revenue Bonds

The Authority's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due within one year
2009A Solid Waste System Revenue Bonds	\$ 52,405,000	\$ -	\$ (1,150,000)	\$ 51,255,000	\$ 1,205,000
2009B Solid Waste System Revenue Bonds	3,000,000	-	(3,000,000)	-	-
	<u>\$ 55,405,000</u>	<u>\$ -</u>	<u>\$ (4,150,000)</u>	51,255,000	<u>\$ 1,205,000</u>
				Add: Unamortized premiums/discounts	164,747
				Net Long-Term Debt	<u>\$ 51,419,747</u>

a. Solid Waste Enterprise Revenue Bonds Series 2009A

On September 2, 2009, the Authority issued \$53,500,000 of *Solid Waste Enterprise Revenue Bonds Series 2009A*. The 2009A Bonds were issued to pay for the construction and renovation of a solid waste materials recovery facility and transfer station and related equipment, to fund a Reserve Fund, to fund capitalized interest, and to fund certain working capital and pay other costs, including issuance costs.

The series 2009A bonds are solely payable from and secured by the net revenues and debt service reserve fund held by the Authority's trustee, as defined under the bond indenture. Net Revenues means, for any period, all of the revenues during such period less all of the maintenance and operation costs during such period. Revenues mean all gross income and revenue received or receivable by the Authority.

Principal payments are payable annually on September 1, commencing September 1, 2012. The bond bears interest at 3.5%-6.0% which is payable semi-annually on September 1 and March 1, commencing on March 1, 2010.

b. Solid Waste Enterprise Revenue Bonds Series 2009B

On September 2, 2009, the Authority also issued \$3,000,000 of taxable *Solid Waste Enterprise Revenue Bonds Series 2009B*.

The series 2009B bonds are solely payable from and secured by the subordinate net revenues, as defined under the bond indenture. Subordinate net revenues means, for any period, net revenues during such period remaining after payment of all amounts required to be paid pursuant to the senior lien obligations or a senior lien indenture during such period, in an amount that is equal to debt service on the bonds and any subordinate parity obligations.

These bonds were fully redeemed as of June 30, 2014.

c. Revenue Pledge

The bonds are secured by a pledge of the Authority's Net Revenue as defined under the bond indenture. For the 2009A bonds, the pledge of future net revenue ends upon repayment of the 2009A bonds in the amount of \$51.3 million in remaining debt service

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 5: Revenue Bonds (Continued)

on the bonds which is scheduled to occur in fiscal year 2037.

According to the Rate Covenant in the 2009A Bond Indenture, the Authority will maintain a Net Revenue to Debt Service coverage ratio of 1.40. As of the Calendar Year 2013, the Net Revenues to Debt Service Coverage ratio was 1.55.

d. Debt Service Requirements

Annual debt service requirements on the bonds are shown below with specified repayment terms:

For the Year Ending June 30	Principal	Interest	Total
2015	\$ 1,205,000	\$ 2,885,488	\$ 4,090,488
2016	1,270,000	2,833,138	4,103,138
2017	1,310,000	2,784,713	4,094,713
2018	1,365,000	2,729,506	4,094,506
2019	1,420,000	2,665,000	4,085,000
2020-2024	8,280,000	12,811,125	21,091,125
2025-2029	10,815,000	10,716,013	21,531,013
2030-2034	14,570,000	7,261,438	21,831,438
2035-2037	11,020,000	3,451,500	14,471,500
Total	<u>\$ 51,255,000</u>	<u>\$ 48,137,921</u>	<u>\$ 99,392,921</u>

Note 6: Insurance

The Authority purchases commercial insurance policies to protect itself from claims arising from the following types of losses:

Type of Coverage	Coverage Limits
General Aggregate Limit	\$ 2,000,000
Products-Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury Limit	1,000,000
Each Occurrence	1,000,000
Damage to Rented Premises Limit	300,000
Medical Expense Limit (Any one person)	25,000
Hired & Non-Owned Auto Limit	1,000,000
Pollution Legal Liability	1,000,000
Self-Insured Retention (SIR)	\$10,000 SIR
Environmental Impact Liability	per Incident

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 7: Pollution Remediation

Since 2000, the Authority has been the property owner of 333 Shoreway Road in San Carlos, a property which has ground water contamination. However, the County regulator has identified the site operator and former property owner, Allied Waste (Allied), as the responsible party.

There has been an ongoing project to treat ground water contamination for at least six years that Allied, as the responsible party, had been paying for. The contamination predates the ownership of the property by the Authority in 2000. Several sites have been treated except for one site under the building which remains contaminated and awaits treatment pending approval of the treatment method by the County. The project for this treatment and subsequent site monitoring remains outstanding as of June 30, 2014. This project to treat the contaminated site is in the preliminary stage. Final cost is unknown but estimated to not exceed \$1,500,000 over the next ten years, ending in fiscal year 2020.

In fiscal year 2010, the Authority and the on-site contractor, Republic Services (formerly Allied Waste and BFI) signed a settlement and release agreement. As part of the agreement, Republic Services paid the Authority \$1,500,000 as the estimated cost of remediation project. Remediation cost estimate was negotiated with Allied per methods approved by County regulators based on input from environmental engineers on remaining cost of work. There was no known additional cost as of June 30, 2014. As of June 30, 2014, the Authority had recorded \$1,239,826 of accrued liabilities.

Note 8: Net Position

Designations

The Authority has designated \$8,178,345 of the unrestricted net position for several reserves which include: \$3,021,726 for rate stabilization, \$3,021,726 for emergency reserve, \$1,130,726 for equipment replacement, \$1,004,167 for the payment of 2009A bonds. These designations may be modified, amended or removed by Authority Board action.

Note 9: Commitments and Contingent Liabilities

Litigation

SBWMA is subject to litigation arising in the normal course of business. In the opinion of legal counsel there is no pending litigation, which is likely to have a material adverse effect on the financial position of SBWMA.

Construction Commitments

There are no significant construction commitments as of June 30, 2014.



STAFF REPORT

To: SBWMA Board Members
From: Marshall Moran, Finance Manager
Date: January 22, 2015 Board of Director's Meeting
Subject: Resolution Approving Revised SBWMA Investment Policy for 2015

Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2015-03 attached hereto authorizing the adoption of the Investment Policy for 2015. See **Exhibit A** to the Resolution for the actual 2015 Investment Policy.

Summary

As stated in the Investment Policy, the Investment Policy shall be adopted by resolution of the Board on an annual basis. It was last approved by the Board in September 2013. It has been reviewed by the Board adhoc Audit Sub-Committee (comprised of Board Members Bill Widmer, Michael Brownrigg and Jay Benton) which recommends approval. The minor changes to the policy that have been recommended are shown in the attached redline version (see **Exhibit B**).

The subcommittee did recommend a change in the investment mix to increase the County Fund to 30% to 50% while keeping the state LAIF Fund at 50% to 70%. This new mix also conforms to the Investment Policy.

Analysis

On August 24, 2000, the Board approved utilization of the City of San Carlos' Investment Policy for the SBWMA Investment Policy. This decision was based on the Authority's need to have policies in place. The Board has approved annual revisions. The attached SBWMA Investment Policy (see **Exhibit A**) is fully compliant with California Code and is the similar to the policy that is used by the City of San Carlos who serves as the Financial Agent for the Authority. City staff has also reviewed this proposed policy. The primary objective of the Investment Policy is safety of principal, while meeting the cash flow needs of the JPA, through prudent investment of unexpended cash.

The Audit Committee also reviewed the mix of investments between the County Pool and the state LAIF fund. Since the Lehman Brothers loss in 2009, only about 15% of funds have been invested in the County Pool. Since this fund has a slightly higher return than the state LAIF fund, we are losing some income. While there is always the risk/reward trade off, the Audit Sub-Committee agreed to increase the County Fund to 30% to 50% while keeping the state LAIF Fund at 50% to 70%. This new mix also conforms to the Investment Policy. As shown in the table on the next page, this change will generate approximately \$16,000 more income annually at current interest rates. The impact will probably increase if interest rates rise as expected. This change to practice, not to policy, is brought forward for Board discussion in case there are any concerns about it.

CURRENT	Actual	Mix %	Interest %	Interest \$
County Pool	\$ 2,293,000	15%	0.64%	\$ 14,675
LAIF	\$ 13,448,000	85%	0.24%	\$ 32,275
TOTAL	\$ 15,741,000	100%		\$ 46,950
	<i>9/30/2014</i>			<i>annual</i>
NEW	Estimate	Mix %	Interest %	Interest \$
County Pool	\$ 6,296,400	40%	0.64%	\$ 40,297
LAIF	\$ 9,444,600	60%	0.24%	\$ 22,667
TOTAL	\$ 15,741,000	100%		\$ 62,964
	<i>9/30/2014</i>			<i>annual</i>
INCREASED INTEREST ANNUAL INCOME				\$ 16,014
INCREASE %				34%

The Audit Sub-Committee also recommended that staff evaluate an option for more active management of the investment funds, including an option for hiring an investment advisor. Staff will be pursuing development of an RFP for investment advisor services and will report back to the Board on this by the end of the current fiscal year.

Fiscal Impact

There is no fiscal impact associated with approving the attached revised Investment Policy.

Attachments:

Resolution 2015-03

Exhibit A – Investment Policy

Exhibit B – Redline version of Investment Policy showing changes (only change is calendar year)



RESOLUTION NO. 2015-03

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING A REVISED INVESTMENT POLICY FOR 2015

WHEREAS, the South Bayside Waste Management Authority (SBWMA) and the City of San Carlos has reviewed and revised the current Investment Policy;

WHEREAS, the Board's adhoc Audit Sub-Committee has also reviewed the Policy and supports the recommended changes;

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the 2015 SBWMA Investment Policy document as shown in Exhibits A and B.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the this 22nd day of January, 2015, by the following vote:

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

I HEREBY CERTIFY that the foregoing Resolution No. 2015-03 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 22, 2015.

ATTEST:

Bill Widmer, Chairperson of SBWMA

Cynthia Urman, Board Secretary

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY INVESTMENT POLICY

January 2015

POLICY

The investment of the funds of the South Bayside Waste Management Authority (SBWMA) is directed to the goals of safety, liquidity and yield. This Investment Policy incorporates the policies defined by the certified investment policy standards recommended by the Association of Public Treasurers. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the South Bayside Waste Management Authority is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The SBWMA's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the SBWMA the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

SCOPE

The investment policy applies to all financial assets of the South Bayside Waste Management Authority as accounted for in the Annual Financial Statements. Policy statements outlined in this document focus on the SBWMA's pooled funds and debt-related funds held by the trustee/ fiscal agent.

PRUDENCE

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

It is the SBWMA's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Administrative Services Director of the City of San Carlos (City) and other individuals assigned, as approved by the SBWMA Executive Director and SBWMA Finance Manager to

manage the SBWMA investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

OBJECTIVES

Safety of Principal

Safety of principal is the foremost objective of the South Bayside Waste Management Authority. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The SBWMA shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the SBWMA's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the SBWMA's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

Liquidity

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the SBWMA's investment portfolio will remain sufficiently liquid to enable the SBWMA to meet all reasonably anticipated operating requirements.

MATURITY MATRIX

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should be invested in the following maturity sectors:

Maturity Range	Suggested Percentage
1 day to 7 days	10 to 50%
7 days to 180	10 to 30%
180 days to 360 days	10 to 30%
1 year to 2 years	10 to 20%
2 years to 3 years	0 to 20%
3 years to 4 years	0 to 20%
4 years to 5 years	0 to 20%
Over 5 years	Board Authorization Required *

* One exception does exist regarding the investment of bond reserve funds. If in the opinion of the City Administrative Services Director, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

PERFORMANCE EVALUATION

Investment performance is monitored and evaluated by the Investment Advisory Committee, whose membership is outlined in the following section. Investment performance statistics and activity reports are generated on a quarterly basis for presentation to the Investment Advisory Committee and to the SBWMA Board of Directors. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Investment Advisory Committee and to the SBWMA Board of Directors for Board consideration at a public meeting.

The SBWMA's investment portfolio is designed to at least attain a market average rate of return through economic cycles. The market average rate of return is defined as average return on the Local Agency Investment Fund (assuming the State does not adversely affect LAIF's returns due to budget constraints).

DELEGATION OF AUTHORITY

The Joint Powers Authority Agreement of the South Bayside Waste Management Authority and the authority granted by SBWMA Board assign the responsibility of investing unexpended cash to the City's Administrative Services Director. Daily management responsibility of the investment program may be delegated to the City's Financial Services Manager, who shall establish procedures for the operation consistent with this investment policy.

INVESTMENT COMMITTEE

An investment committee consisting of the City of San Carlos Treasurer, City Manager, and Administrative Services Director shall be established to provide general oversight and direction concerning the policy related to management of the SBWMA's investment pool. The Financial Services Manager shall not be a member of the committee but shall serve in a staff and advisory capacity. The committee shall review and approve quarterly investment reports prepared by the Finance Department and reviewed by the Financial Services Manager or meet as necessary to discuss changes to the report or the investment strategy. The Investment Committee serving as the legislative body of the Investment Policy will have the quarterly reports for their review within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally the City's Administrative Services Director and the Financial Services Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the SBWMA shall be held in safekeeping by a third party bank trust department, acting as agent for the SBWMA under the terms of a custody agreement. All trades executed by a dealer will settle delivery versus payment (DVP) through the SBWMA's safekeeping agent.

Securities held custody for the SBWMA shall be monitored by the City's Administrative Services Director to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City's Administrative Services Director in written form and included in the quarterly reporting to the Investment Committee and the SBWMA Board of Directors.

INTERNAL CONTROL

Separation of functions between the City's Administrative Services Director or Financial Services Manager and/or the Senior Accountant is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the City's Administrative Services Director, executed by the Administrative Services Director or Financial Services Manager and confirmed by the Senior Accountant. All wire transfers initiated by the Administrative Services Director or Financial Services Manager must be reconfirmed by the appropriate financial institution by the Senior Accountant. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Senior Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the Agency's cash and investments that have a material impact on the financial statements. The Administrative Services Director and/or Investment Committee shall review and assure compliance with investment process and procedures.

REPORTING

The City's Administrative Services Director shall review and render quarterly reports to the Investment Advisory Committee and to the Board of Directors which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. The quarterly reports will be submitted to the Investment Committee within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code. Once approved by the Investment Committee, the quarterly reports shall be placed on the Board of Director's meeting agenda for its review and approval no later than 60 days after the quarter ends.

QUALIFIED BROKER/DEALERS

The SBWMA shall transact business only with banks, savings and loans, and with broker/dealers. The broker/dealers should be primary or regional dealers. The City's Administrative Services Director will make exceptions only upon written authorization. Investment staff shall investigate dealers wishing to do business with the SBWMA to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the SBWMA's needs.

The Administrative Services Director or Financial Services Manager shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the SBWMA. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the SBWMA's investment policies and intends to sell the SBWMA only appropriate investments authorized by this investment policy.

COLLATERAL REQUIREMENTS

Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

AUTHORIZED INVESTMENTS

Investment of SBWMA funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted to a percentage of the cost value of the portfolio in any single issuer name to a maximum of 5%. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five-year maximum maturity limitation is applicable unless further restricted by this policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 30% of the cost value of the portfolio.
4. Commercial paper ranked P1 by Moody's Investor Services or A1+ by Standard & Poor's, and issued by domestic corporations having assets in excess of \$500,000,000 and having an AA or better rating on its' long term debentures as provided by Moody's or Standard &

Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 5% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the cost value of the portfolio.

5. Negotiable Certificates of Deposit issued by nationally or state chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable.
6. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool, and San Mateo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when they are part of the list of authorized investments.
7. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.
8. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's or Standard & Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 5% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.
9. Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are prohibited from use in this portfolio. It is noted that special circumstances arise that necessitate the purchase of securities beyond the five-year limitation. On such occasions, requests must be approved by Board of Directors prior to purchase.
10. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the SBWMA may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the SBWMA's total pooled funds portfolio:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	Upon Demand	N/A	\$40 million per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	\$40 million per account	N/A
Treasury Bills	5 Years	N/A	100%	N/A
US Government Agency and Federal	5 Years	N/A	100%	N/A

Agency Securities				
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

DERIVATIVE INVESTMENTS

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The use of derivatives is prohibited under this policy.

LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the South Bayside Waste Management Authority's Investment Policy and supersede any and all previous applicable language.

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance in each fund at quarter end as a percentage of the entire pooled portfolio.

LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the SBWMA to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the SBWMA's best interest to sell or trade a security prior to maturity.

PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management. Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the SBWMA shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

Security Swaps. The SBWMA may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the SBWMA permanent investment file documents.

Competitive Bidding. It is the policy of the SBWMA to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

POLICY REVIEW

The South Bayside Waste Management Authority's investment policy shall be adopted by resolution of the Board on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Board for approval.

Glossary of Terms

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Annual Financial Report - The official annual financial report for the SBWMA. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Asked Price- The price a broker dealer offers to sell securities.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price- The price a broker dealer offers to purchase securities.

Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Bond Swap – Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

Book Entry Securities – Securities, such stocks held in “street name,” that are recorded in a customer’s account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. All the large New York City banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the “book-entry” custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

Bearer and Registered Bonds - In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in “book-entry” form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury’s new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker – In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

Certificate of Deposit- A deposit insured up to \$100,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$100,000) per account.

Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- Refers to the ability to rapidly convert an investment into cash.

Market Value- The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and payable.

New Issue- Term used when a security is originally "brought" to market.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Collection of securities held by an investor.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (SBWMA) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (SBWMA) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk- Degree of uncertainty of return on an asset.

Safekeeping- see custody.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Time Deposit – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY INVESTMENT POLICY

| ~~September~~January 2015~~3~~

POLICY

The investment of the funds of the South Bayside Waste Management Authority (SBWMA) is directed to the goals of safety, liquidity and yield. This Investment Policy incorporates the policies defined by the certified investment policy standards recommended by the Association of Public Treasurers. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the South Bayside Waste Management Authority is SAFETY OF PRINCIPAL. Investments shall be placed in those securities as outlined by type and maturity sector in this document. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The SBWMA's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the SBWMA the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

SCOPE

The investment policy applies to all financial assets of the South Bayside Waste Management Authority as accounted for in the Annual Financial Statements. Policy statements outlined in this document focus on the SBWMA's pooled funds and debt-related funds held by the trustee/ fiscal agent.

PRUDENCE

The standard to be used by investment officials shall be that of a "prudent investor" and shall be applied in the context of managing all aspects of the overall portfolio. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

It is the SBWMA's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized that in a well-diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Administrative Services Director of the City of San Carlos (City) and other individuals assigned, as approved by the SBWMA Executive Director and SBWMA Finance Manager to manage the SBWMA investment portfolio, acting within the intent and scope of the investment policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

OBJECTIVES

Safety of Principal

Safety of principal is the foremost objective of the South Bayside Waste Management Authority. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default or erosion of market value. The SBWMA shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the SBWMA's capital base and cash flow.

Market risk, defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the average maturity of the SBWMA's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

Liquidity

Historical cash flow trends are compared to current cash flow requirements on an ongoing basis in an effort to ensure that the SBWMA's investment portfolio will remain sufficiently liquid to enable the SBWMA to meet all reasonably anticipated operating requirements.

MATURITY MATRIX

Maturities of investments will be selected based on liquidity requirements to minimize interest rate risk and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. The weighted average maturity of the pooled portfolio should not exceed two years and the following percentages of the portfolio should be invested in the following maturity sectors:

Maturity Range	Suggested Percentage
1 day to 7 days	10 to 50%
7 days to 180	10 to 30%
180 days to 360 days	10 to 30%
1 year to 2 years	10 to 20%
2 years to 3 years	0 to 20%
3 years to 4 years	0 to 20%

4 years to 5 years	0 to 20%
Over 5 years	Board Authorization Required *

* One exception does exist regarding the investment of bond reserve funds. If in the opinion of the City Administrative Services Director, matching the segregated investment portfolio of the bond reserve fund with the maturity schedule of an individual bond issue is prudent given current economic analysis, the investment policy authorizes extending beyond the five year maturity limitation as outlined in this document.

PERFORMANCE EVALUATION

Investment performance is monitored and evaluated by the Investment Advisory Committee, whose membership is outlined in the following section. Investment performance statistics and activity reports are generated on a quarterly basis for presentation to the Investment Advisory Committee and to the SBWMA Board of Directors. Annually, a statement of investment policy, and any proposed changes to the policy, will be rendered to the Investment Advisory Committee and to the SBWMA Board of Directors for Board consideration at a public meeting.

The SBWMA's investment portfolio is designed to at least attain a market average rate of return through economic cycles. The market average rate of return is defined as average return on the Local Agency Investment Fund (assuming the State does not adversely affect LAIF's returns due to budget constraints).

DELEGATION OF AUTHORITY

The Joint Powers Authority Agreement of the South Bayside Waste Management Authority and the authority granted by SBWMA Board assign the responsibility of investing unexpended cash to the City's Administrative Services Director. Daily management responsibility of the investment program may be delegated to the City's Financial Services Manager, who shall establish procedures for the operation consistent with this investment policy.

INVESTMENT COMMITTEE

An investment committee consisting of the City of San Carlos Treasurer, City Manager, and Administrative Services Director shall be established to provide general oversight and direction concerning the policy related to management of the SBWMA's investment pool. The Financial Services Manager shall not be a member of the committee but shall serve in a staff and advisory capacity. The committee shall review and approve quarterly investment reports prepared by the Finance Department and reviewed by the Financial Services Manager or meet as necessary to discuss changes to the report or the investment strategy. The Investment Committee serving as the legislative body of the Investment Policy will have the quarterly reports for their review within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the California Government Code.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to

make impartial investment decisions. Additionally the City's Administrative Services Director and the Financial Services Manager are required to annually file applicable financial disclosures as required by the Fair Political Practices Commission (FPPC).

SAFEKEEPING OF SECURITIES

To protect against fraud or embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the SBWMA shall be held in safekeeping by a third party bank trust department, acting as agent for the SBWMA under the terms of a custody agreement. All trades executed by a dealer will settle delivery versus payment (DVP) through the SBWMA's safekeeping agent.

Securities held custody for the SBWMA shall be monitored by the City's Administrative Services Director to verify investment holdings.

All exceptions to this safekeeping policy must be approved by the City's Administrative Services Director in written form and included in the quarterly reporting to the Investment Committee and the SBWMA Board of Directors.

INTERNAL CONTROL

Separation of functions between the City's Administrative Services Director or Financial Services Manager and/or the Senior Accountant is designed to provide an ongoing internal review to prevent the potential for converting assets or concealing transactions.

Investment decisions are made by the City's Administrative Services Director, executed by the Administrative Services Director or Financial Services Manager and confirmed by the Senior Accountant. All wire transfers initiated by the Administrative Services Director or Financial Services Manager must be reconfirmed by the appropriate financial institution by the Senior Accountant. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by the Senior Accountant on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the Agency's cash and investments that have a material impact on the financial statements. The Administrative Services Director and/or Investment Committee shall review and assure compliance with investment process and procedures.

REPORTING

The City's Administrative Services Director shall review and render quarterly reports to the Investment Advisory Committee and to the Board of Directors which shall include the face amount of the cash investment, the classification of the investment, the name of the institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities. The quarterly reports will be submitted to the Investment Committee within thirty (30) days following the end of the quarter covered by the report as per Section 53646 (b)(1) of the

California Government Code. Once approved by the Investment Committee, the quarterly reports shall be placed on the Board of Director's meeting agenda for its review and approval no later than 60 days after the quarter ends.

QUALIFIED BROKER/DEALERS

The SBWMA shall transact business only with banks, savings and loans, and with broker/dealers. The broker/dealers should be primary or regional dealers. The City's Administrative Services Director will make exceptions only upon written authorization. Investment staff shall investigate dealers wishing to do business with the SBWMA to determine if they are adequately capitalized, have pending legal action against the firm or the individual broker and make markets in the securities appropriate to the SBWMA's needs.

The Administrative Services Director or Financial Services Manager shall annually send a copy of the current investment policy to all broker/dealers approved to do business with the SBWMA. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the SBWMA's investment policies and intends to sell the SBWMA only appropriate investments authorized by this investment policy.

COLLATERAL REQUIREMENTS

Collateral is required for investments in certificates of deposit. In order to reduce market risk, the collateral level will be at least 110% of market value of principal and accrued interest.

AUTHORIZED INVESTMENTS

Investment of SBWMA funds is governed by the California Government Code Sections 53600 et seq. Within the context of the limitations, the following investments are authorized, as further limited herein:

1. United States Treasury Bills, Bonds, and Notes or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
2. Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal National Mortgage Association (FNMA), the Student Loan Marketing Association (SLMA), and the Federal Home Loan Mortgage Corporation (FHLMC). There is no percentage limitation of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

Investments detailed in items 3 through 10 are further restricted to a percentage of the cost value of the portfolio in any single issuer name to a maximum of 5%. The total value invested in any one issuer shall not exceed 5% of the issuers net worth. Again, a five-year maximum maturity limitation is applicable unless further restricted by this policy.

3. Bills of exchange or time drafts drawn on and accepted by commercial banks, otherwise known as banker's acceptances. Banker's acceptances purchased may not exceed 180 days to maturity or 30% of the cost value of the portfolio.
4. Commercial paper ranked P1 by Moody's Investor Services or A1+ by Standard & Poor's, and issued by domestic corporations having assets in excess of \$500,000,000 and having an AA or better rating on its' long term debentures as provided by Moody's or Standard & Poor's. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 5% of the outstanding paper of the issuing corporation. Purchases of commercial paper may not exceed 25% of the cost value of the portfolio.
5. Negotiable Certificates of Deposit issued by nationally or state chartered banks (FDIC insured institutions) or state or federal savings institutions. Purchases of negotiable certificates of deposit may not exceed 30% of total portfolio. A maturity limitation of five years is applicable.
6. Local Agency Investment Fund (LAIF) which is a State of California managed investment pool, and San Mateo County Investment pool, may be used up to the maximum permitted by California State Law. A review of the pool/fund is required when they are part of the list of authorized investments.
7. Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through banks or savings and loan associations. Since time deposits are not liquid, no more than 25% of the investment portfolio may be invested in this investment type.
8. Medium Term Corporate Notes, with a maximum maturity of five years may be purchased. Securities eligible for investment shall be rated AA or better by Moody's or Standard & Poor's rating services. Purchase of medium term notes may not exceed 30% of the market value of the portfolio and no more than 5% of the market value of the portfolio may be invested in notes issued by one corporation. Commercial paper holdings should also be included when calculating the 15% limitation.
9. Ineligible investments are those that are not described herein, including but not limited to, common stocks and long term (over five years in maturity) notes and bonds are prohibited from use in this portfolio. It is noted that special circumstances arise that necessitate the purchase of securities beyond the five-year limitation. On such occasions, requests must be approved by Board of Directors prior to purchase.
10. Various daily money market funds administered for or by trustees, paying agents and custodian banks contracted by the SBWMA may be purchased as allowed under State of California Government Code. Only funds holding U.S. Treasury or Government agency obligations can be utilized.

The following summary of maximum percentage limits, by instrument, is established for the SBWMA's total pooled funds portfolio:

Authorized Investment Type	Maximum	Minimum	Maximum in	Maximum
----------------------------	---------	---------	------------	---------

	Maturity	Credit Quality	Portfolio	Investment in One Issuer
Local Agency Investment Fund (LAIF)	Upon Demand	N/A	\$40 million per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	\$40 million per account	N/A
Treasury Bills	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	30%	(A), (B)
Commercial Paper	270 Days	AA	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	25%	(A), (B)
Medium Term Corporate Notes	5 Years	AA	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation
(B) 5% of the portfolio in one corporation

DERIVATIVE INVESTMENTS

Derivatives are investments whose value is "derived" from a benchmark or index. That benchmark can be almost any financial measure from interest rates to commodity and stock prices. The use of derivatives is prohibited under this policy.

LEGISLATIVE CHANGES

Any State of California legislative action that further restricts allowable maturities, investment type, or percentage allocations will be incorporated into the South Bayside Waste Management Authority's Investment Policy and supersede any and all previous applicable language.

INTEREST EARNINGS

All moneys earned and collected from investments authorized in this policy shall be allocated quarterly to various fund accounts based on the cash balance in each fund at quarter end as a percentage of the entire pooled portfolio.

LIMITING MARKET VALUE EROSION

The longer the maturity of securities, the greater their market price volatility. Therefore, it is the general policy of the SBWMA to limit the potential effects from erosion in market values by adhering to the following guidelines:

All immediate and anticipated liquidity requirements will be addressed prior to purchasing all investments.

Maturity dates for long-term investments will coincide with significant cash flow requirements where possible, to assist with short term cash requirements at maturity.

All long-term securities will be purchased with the intent to hold all investments to maturity under then prevailing economic conditions. However, economic or market conditions may change, making it in the SBWMA's best interest to sell or trade a security prior to maturity.

PORTFOLIO MANAGEMENT ACTIVITY

The investment program shall seek to augment returns consistent with the intent of this policy, identified risk limitations and prudent investment principals. These objectives will be achieved by use of the following strategies:

Active Portfolio Management. Through active fund and cash flow management, taking advantage of current economic and interest rate trends, the portfolio yield may be enhanced with limited and measurable increases in risk by extending the weighted maturity of the total portfolio.

Portfolio Maturity Management. When structuring the maturity composition of the portfolio, the SBWMA shall evaluate current and expected interest rate yields and necessary cash flow requirements. It is recognized that in normal market conditions longer maturities produce higher yields. However, the securities with longer maturities also experience greater price fluctuations when the level of interest rates change.

Security Swaps. The SBWMA may take advantage of security swap opportunities to improve the overall portfolio yield. A swap, which improves the portfolio yield, may be selected even if the transactions result in an accounting loss. Documentation for swaps will be included in the SBWMA permanent investment file documents.

Competitive Bidding. It is the policy of the SBWMA to require competitive bidding for investment transactions that are not classified as "new issue" securities. For the purchase of non-"new issue" securities and the sale of all securities at least three bidders must be contacted. Competitive bidding for security swaps is also suggested, however, it is understood that certain time constraints and broker portfolio limitations exist which would not accommodate the competitive bidding process. If a time or portfolio constraining condition exists, the pricing of the swap should be verified to current market conditions and documented for auditing purposes.

POLICY REVIEW

The South Bayside Waste Management Authority's investment policy shall be adopted by resolution of the Board on an annual basis. This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to Board for approval.

Glossary of Terms

Accrued Interest- Interest earned but not yet received.

Active Deposits- Funds which are immediately required for disbursement.

Amortization- An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period of time.

Annual Financial Report - The official annual financial report for the SBWMA. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with Generally Accepted Accounting Principals (GAAP).

Asked Price- The price a broker dealer offers to sell securities.

Basis Point- One basis point is one hundredth of one percent (.01).

Bid Price- The price a broker dealer offers to purchase securities.

Bond- A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Bond Swap – Selling one bond issue and buying another at the same time in order to create an advantage for the investor. Some benefits of swapping may include tax-deductible losses, increased yields, and an improved quality portfolio.

Book Entry Securities – Securities, such stocks held in “street name,” that are recorded in a customer’s account, but are not accompanied by a certificate. The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors’ concerns about the certificates themselves. All the large New York City banks, including those that handle the bulk of the transactions of the major government securities dealers, now clear most of their transactions with each other and with the Federal Reserve through the use of automated telecommunications and the “book-entry” custody system maintained by the Federal Reserve Bank of New York. These banks have deposited with the Federal Reserve Bank a major portion of their government and agency securities holdings, including securities held for the accounts of their customers or in a fiduciary capacity. Virtually all transfers for the account of the banks, as well as for the government securities dealers who are their clients, are now effected solely by bookkeeping entries. The system reduces the costs and risks of physical handling and speeds the completion of transactions.

Bearer and Registered Bonds - In the past, bearer and registered bonds were issued in paper form. Those still outstanding may be exchanged at any Federal Reserve Bank or branch for an equal amount of any authorized denomination of the same issue. Outstanding bearer bonds are interchangeable with registered bonds and bonds in “book-entry” form. That is, the latter exist as computer entries only and no paper securities are issued. New bearer and registered bonds are no longer being issued. Since August 1986, the Treasury’s new issues of marketable notes and bonds are available in book-entry form only. All Treasury bills and more than 90% of all other marketable securities are now in book-entry form. Book-entry obligations are transferable only pursuant to regulations prescribed by the Secretary of the Treasury.

Book Value- The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or accretion of discount.

Broker – In securities, the intermediary between a buyer and a seller of securities. The broker, who usually charges a commission, must be registered with the exchange in which he or she is trading, accounting for the name registered representative.

Certificate of Deposit- A deposit insured up to \$100,000 by the FDIC at a set rate for a specified period of time.

Collateral- Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Constant Maturity Treasury (CMT) - An average yield of a specific Treasury maturity sector for a specific time frame. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon- The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Analysis- A critical review and appraisal of the economic and financial conditions or of the ability to meet debt obligations.

Current Yield- The interest paid on an investment expressed as a percentage of the current price of the security.

Custody- A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP) - Delivery of securities with a simultaneous exchange of money for the securities.

Discount- The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Diversification- Dividing investment funds among a variety of securities offering independent returns and risk profiles.

Duration- The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serve as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow time line.

Fannie Mae- Trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Reserve System- The central bank of the U.S. that consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC) - Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$100,000) per account.

Fed Wire- A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

Freddie Mac- Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Ginnie Mae- Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the U.S. Government.

Inactive Deposits- Funds not immediately needed for disbursement.

Interest Rate- The annual yield earned on an investment, expressed as a percentage.

Investment Agreements- An agreement with a financial institution to borrow public funds subject to certain negotiated terms and conditions concerning collateral, liquidity and interest rates.

Liquidity- Refers to the ability to rapidly convert an investment into cash.

Market Value- The price at which a security is trading and could presumably be purchased or sold.

Maturity- The date upon which the principal or stated value of an investment becomes due and payable.

New Issue- Term used when a security is originally "brought" to market.

Perfected Delivery- Refers to an investment where the actual security or collateral is held by an independent third party representing the purchasing entity.

Portfolio- Collection of securities held by an investor.

Primary Dealer- A group of government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Purchase Date- The date in which a security is purchased for settlement on that or a later date.

Rate of Return- The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO) - A transaction where the seller (bank) agrees to buy back from the buyer (SBWMA) the securities at an agreed upon price after a stated period of time.

Reverse Repurchase Agreement (REVERSE REPO) - A transaction where the seller (SBWMA) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Risk- Degree of uncertainty of return on an asset.

Safekeeping- see custody.

Sallie Mae- Trade name for the Student Loan Marketing Association (SLMA), a U.S. sponsored corporation.

Secondary Market- A market made for the purchase and sale of outstanding issues following the initial distribution.

Settlement Date- The date on which a trade is cleared by delivery of securities against funds.

Time Deposit – A deposit in an interest-paying account that requires the money to remain on account for a specific length of time. While withdrawals can generally be made from a passbook account at any time, other time deposits, such as certificates of deposit, are penalized for early withdrawal.

Treasury Bills- U.S. Treasury Bills which are short-term, direct obligations of the U.S. Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

U.S. Government Agencies- Instruments issued by various US Government Agencies most of which are secured only by the credit worthiness of the particular agency.

Yield- The rate of annual income return on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Maturity- The rate of income return on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield Curve- The yield on bonds, notes or bills of the same type and credit risk at a specific date for maturities up to thirty years.