



# CONSENT CALENDAR



**DRAFT MINUTES**

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY  
MEETING OF THE BOARD OF DIRECTORS  
November 17, 2016 – 2:00 p.m.  
San Carlos Library Conference Room A/B**

Call To Order: 2:03PM

**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	

Alternate Member Emily Beach Attended Representing Burlingame

Alternate Member Diane Papan Attended Representing San Mateo

**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. Adjourn to Closed Session** – Pursuant to Government Code Section Govt. Code Sec. 54956.9  
Conference with Labor Negotiator: Unrepresented employees- (All employees).

Call To Order: 2:16

**4. 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	

## 5. Additional Public Comment

None

## 6. Executive Director's Report

Executive Director La Mariana welcomed everyone to the Thanksgiving edition Board Meeting. He highlighted some items in his report. First, the bond covenant: He noted that the bond covenant ratios are being met, and that staff met with the City of San Carlos accounting department to discuss ways to stay within those ratios. Second, he introduced Madison Guzman, RethinkWaste's new Environmental Education Associate, and he gave some background information about her. Third, he noted that the contractor compensation process is winding down, and that most member agencies had a small or no rate impact for 2017. Fourth, he noted that Waste Management Curbside did not accept the terms the Board required of being able to opt out with 60 days notice from the Household Hazardous Waste (HHW) contract. So, that program will end on December 31, 2016, and a post card will go out notifying residents of the change, and later in the meeting other HHW program options will be discussed. Fifth, he noted that the Franchise Agreement Extension (FAX) committee has had their first meeting, and two preliminary meetings with Recology to determine likely key discussion points for the next term of the contract. Sixth, he gave an update that it looks like fire restoration will be complete and the facility will be operational in January, and the laid off workers can come back to work sooner than anticipated. He also noted that so far we've received \$2.5M in reimbursements and have had \$2.2M in expenses. Seventh, he also noted that as of November 1, the County has enacted a living wage ordinance, and there will be a discussion later in the meeting on how that will affect SBR's rate scale. Eighth, he noted that staff is in negotiations with Zanker Road for C&D material processing contract, and so far the numbers are pretty high, and staff will keep the Board updated as negotiations progress.

Member Widmer commented that the Executive Director reports are a great executive briefing, and are better than what was received previously and he thanked Executive Director La Mariana.

## 7. Approval of Consent Calendar

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Board, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion.*

- A. Approval of Minutes from the October 27, 2016 Board of Directors Meeting
- B. Consideration of Approval of 2017 Merit Pool for Unrepresented Employees
- C. Approval of SBWMA 2017 Board Meeting Calendar
- D. Approval of Shoreway Environmental Center MRF Equipment Capital Projects
- E. Approval of Code of Conduct for Franchise Agreement Extension Decisions
- F. Approval of Quarterly Investment Report for First Quarter 2017

Member Widmer requested item 7E

Member Rutherford removed 7A

Member Papan removed 7F

Member Aguirre made a motion to approve consent items B through D

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			

Member Papan asked about item 7F, questioning why there was a \$4M loss this quarter.

Executive Director La Mariana said a very large part of the loss is a timing consideration, there was a bond payment, and a bond interest payment during that period, and because of the timing of the quarters, there was a positive variance last quarter, so it's a timing true up.

Member Rutherford noted that she would abstain from item 7A.

Counsel Savaree noted that Member Widmer was concerned about the time period being approved for item 7E. She noted that the Board was being asked to consider two codes of conduct - one for the staff and officers, and one for the contractor, and that they mirror the codes of conduct that were in place when the original Franchise Agreements were being negotiated. She noted that the way that they were drafted Ex Parte contacts would be prohibited throughout the entire year of 2017, and there was a concern that the negotiations might be complete before that. So, the suggested revision is that Ex Parte contacts be prohibited until the contract extension conversion is completed. She also noted that there was a second concern that the code of conduct prohibited all Ex Parte contacts, and that was to the board as a Board member might run into the contractor at a social engagement or on the street, as the intent was it was only supposed to apply to the meet and confer process. She handed out a proposed revised code of conduct with those changes for the Board's consideration.

Chair Widmer asked for clarification on the definition of meet and confer.

Counsel Savaree noted that she viewed that as until a contract extension is brought back to this Board for approval.

Chair Widmer noted that he was concerned that if the contract that was brought to the Board in mid-2017 didn't meet the needs of his jurisdiction that it might be too late for his jurisdiction to go through their own process.

Counsel Savaree noted that the Executive Director plans to have a potential uniform franchise agreement to the Board by April.

Member Benton made a motion to approve items 7A, 7E and 7F

Member Aguirre 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		7A		San Mateo	X			
Foster City				X	County of San Mateo				X
Hillsborough	X				West Bay Sanitary Dist.	X			

## 8. Administration and Finance

### A. Staff Update on Bond Covenant Impacts with Tip Fee Increases

Executive Director La Mariana noted that the SBWMA is currently within the Bond Covenant ratio breakeven of 1.4, and the debt coverage ratio of 1.93, which is a very comfortable and secure position, and that the staff report gives further detail.

Member Benton asked what numbers go into the computation to figure out break even.

Staff Fakira answered that break even is determined by dividing net income by the total operating expenses, and debt coverage is determined by net revenue divided by the total debt commitments.

## 9. Collection and Recycling Program Support and Compliance

### A. Staff Update on Household Hazardous Waste Program Options and Presentation by Larry Sweetser, Sweetser and Associates, (Principal)

Executive Director La Mariana introduced Larry Sweetser, an industry expert in the field of Hazardous Waste, who has been retained to identify the SBWMA's best options to handle Household Hazardous Waste (HHW).

Larry Sweetser gave a Power Point presentation on HHW program options.

Executive Director La Mariana reiterated that the door to door HHW collection program is no longer an option.

Member Benton asked for clarification that they didn't accept the Board counter proposal, but does that mean they aren't willing to accept a contract at all.

Executive Director La Mariana answered that WM Curbside was not willing to accept the terms that the Board had given direction at the October meeting, they are not willing to negotiate the pricing, nor are they willing to offer an extension. So it was a take the terms and pricing "as is" or leave it.

Member Widmer commented that he would like to see the addresses of where things can be dropped off, and he wanted to follow up on the possibility of WM Curbside still picking from the residents, but then dropping off at either Shoreway or a County facility that is closer.

Larry Sweetser noted that there is still an opportunity to do that, but it would be a whole new discussion not the current contract.

Executive Director La Mariana noted that there was a conceptual discussion around putting a HHW collection shed at Shoreway, not the other County facilities, but there were some barriers to doing it, so it was a discussion for the future.

Member Dehn noted that Executive Director La Mariana mentioned in his Executive Director's report that WM Curbside would be reaching out to the Board Members individually, and she asked if they wanted to negotiate contracts individually or come back with a future contract as a group.

Executive Director La Mariana noted that they are attempting to retain as many of the Member Agencies as possible under individual contracts.

Member Beach asked if there are other HHW door to door providers that could be more competitive.

Larry Sweetser answered that it is one of the options laid out in his presentation, and there are a few other companies that offer the service, but it is very expensive, and he noted that HHW is an expensive endeavor in general, as it usually costs more to get rid of it than it does to buy it.

Member Beach noted that it seemed like there was an option, but perhaps not an optimistic option.

Larry Sweetser noted that about 2/3 of the door to door programs in California service only seniors and disabled life line services. So that might be an option for making the services cheaper.

Member Hurt asked what the next step is after HHW is dropped off or collected.

Larry Sweetser answered that it depends on the material, there are a number of different vendors collecting different types of materials, and they come and pick it up from the drop off facility.

Member Hurt noted that even though the WM Curbside program is a Cadillac program, in the end maybe the savings is in car trips.

Executive Director La Mariana noted that the quality of the program is not in question regarding the current program. The discussion was around price, and what is perceived as low participation rate of about 5%. He noted there was a general sense among the Board to maximize the existing County's program because each ratepayer in the county that disposes waste at Ox Mountain landfill is already paying into that program.

Larry Sweetser noted that residents don't generate HHW on a daily or weekly basis like they do with recycling, so it's hard to measure participation in these programs. He then continued his presentation on HHW options.

Member Widmer asked what lifeline services are.

Larry Sweetser answered that it is a door to door program only for senior and disabled residents, it's a program offered to a limited group of people who don't have access to a car.

Executive Director La Mariana asked Waymond Wong from the County of San Mateo to speak about a pilot lifeline program in Millbrae.

Waymond Wong noted that the pilot program does not currently exist, they are still doing research on vehicles, and what is needed to get that program up and running.

Member Aguirre commented that the County seemed like a good option economically. She asked what the willingness is on the part of the County to partner with the SBWMA, and what are the benefits, cost savings, and things that would be a deterrent to partnering with the County for HHW programs.

Executive Director La Mariana answered that he is pleased with the spirit of the cooperation on the County in the discussions thus far, they have an existing program, with an existing funding source that all of our Member Agencies are already contributing to, and all of our discussions have been very collaborative.

Waymond Wong noted that the County's priority is to service all residents in the county, and will work with the SBWMA on ways to maximize those services.

Member Dehn asked if they would consider the lifeline pilot in the SBWMA service area. Waymond Wong noted that he could discuss that with Joe.

Chair Grassilli asked how you discern whether a resident needs the lifeline services or not.

Larry Sweetser noted that the program in Richmond is taken on an honor system basis..

Member Benton asked what percentage of HHW is captured in some form of program, and not going into landfill.

Larry Sweetser answered that we only know how much is collected, not how much is out there, so it's hard to tell, but despite all the programs, there is still Hazardous Waste being found in the garbage.

Chair Grassilli asked the Board what direction they want staff to pursue regarding HHW.

Member Beach recommended expanded advertising to create awareness and support the County's HHW program.

Member Benton commented that he'd like to see the County be the backbone of the program, but the local drop off events need to be well advertised as well.

Member Papan suggested the annual event being on the same day every year.

Member Widmer commented that Recology picks up batteries, so maybe batteries should be taken off the postcard, and he asked each Member Agency to put the list on their websites of alternate drop off locations.

Executive Director La Mariana commented that the document is on the SBWMA website.

Member Benton commented that there wasn't enough information on the post card about where to go now that the HHW program is ending.

Executive Director La Mariana noted that the address is not published because it leads to abandoned waste at their facility; the address is given at the time of the appointment.

Member Widmer reiterated that he'd still like to get more information about what can be done at Shoreway going forward.

Member Benton noted that some items are already taken at Shoreway, what do we need to do to enhance that program with more HHW options.

Member Rutherford commented that in the staff report it says that the Tower Road facility doesn't have sufficient space to handle the material, how will that be dealt with.

Waymond Wong answered that at the Tower Road facility, they can plan for increased drop offs by scheduling more frequent pickups of the HHW that is dropped off. He also noted that there is a temporary collection day in January in Redwood City as well as the Tower Road appointment system.

Larry Sweetser clarified that the staff report was referring to the Door to Door program taking items to Tower Road and that was what the County didn't have capacity for, but they can still do the individual resident appointment system.

Member Dehn commented that Recology's call center needs to be aware of this, and even though it's not a Recology program, Recology will receive calls, so they will need a script.

**B. Resolution Approving Contract for Financial Review Support and Negotiation Services to support Franchise Agreement Extension Negotiation Process**

Executive Director La Mariana introduced the item, and noted that he discussed the progress of the negotiation process in his Executive Director's report. In deciding on a lead negotiator, and financial consultant, a RFQ was distributed to two well well-known and respected organizations; HF&H, and R3. He noted that staff and the Franchise Agreement Extension (FAX) Committee recommend HF&H as the lead negotiator, and financial consultant, based on their experience with multi-jurisdictional agencies, and their highly structured approach to the process.

Member Dehn made a motion to approve Resolution 2016-44

Member Aguirre 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			

**10. Shoreway Operations and Contract Management**

**A. Resolution Approving Construction and Demolition MOU with Zanker Road**

Staff Gans noted that staff is requesting the approval of an MOU with Zanker Road to extend the current agreement for one month. He noted that staff is encountering a situation with Zanker where rates are increasing 25%. He noted that Zanker is the only close by option for C&D processing and there are not a lot of options. Because of that Zanker is dictating the terms. He added that staff will be trying to get a more favorable outcome, but will be back to the Board in January with a proposed rate.

Chair Grassilli asked for confirmation that this MOU would extend the current agreement until February 28.

Staff Gans answered yes.

Member Benton made a motion to approve the one month MOU with Zanker.

Member Hurt 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			
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**B. Staff Update on Fire Restoration Progress**

Staff Gans noted that the total restoration process is expected to cost approximately \$9M. He also noted that the equipment repair has been accelerated, and the repairs to the equipment should be completed by December so the equipment can be started in January, the building repair work will extend into March, but the facility will be running while the building work is being completed.

Chair Grassilli noted that all expenses (less the deductible) are being covered by insurance.

**C. Resolution Approving Shoreway Environmental Center Site Restoration Services' Contracts Let Under Purchasing Policy**

Staff Gans noted that this is a routine item to approve the expenditures let under the purchasing policy for fire damage repair and he had nothing to add other than the staff report.

Member Widmer made a motion to approve the expenses.

Member Rutherford 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			

**D. Resolution approving VRS Contract with South Bay Recycling**

Staff Gans introduced the item, and noted that the County Vocational Rehabilitation Services (VRS) program provides the sort labor at the MRF for SBR. He noted that this is a request authorizing the Executive Director to amend the SBR compensation to include the newly enacted County of San Mateo living wage ordinance for the VRS workers. He noted that on November 1, the County passed a living wage ordinance for all workers at \$14/hour on November 1, and the \$15/hour on July 1, 2017. He noted that SBR is requesting that the SBWMA reimburse them for the cost difference between what they're currently paying the workers, and what the living wage ordinance requires they get paid. He added that if approved the SBWMA would increase the per ton processing fee which includes all the costs of operations, from \$85.38 to \$89.73 per ton, and the annualized cost impact would be approximately \$321,000 per year. The net impact of the SBWMA's compliance with this ordinance through the end of FY16-17 is approximately \$134,000.

Member Aguirre commented that this is a priority to her, and she wants to figure out a way to make the budget work to make it happen. She thought the SBWMA needed to a leader in this area.

Member Widmer commented that SBR is under a fixed price contract, and this should be SBR's cost, and noted that this doesn't qualify as one of the items in the contract that would allow SBR to ask for an adjustment in compensation. He concluded that he supports the Living Wage Ordinance, but objects to asking the rate payers to pay for something that they are not obligated to pay.

Member Benton asked for confirmation if SBR is required to pay the \$14 per hour as of November 1<sup>st</sup>. He also asked what rights under the contract does SBR have to approach the SBWMA for relief from this increase.

Member Widmer had a copy of the contract, which stated a change in scope of services which is directed by the authority. But he noted that this is not a change in scope.

Staff Gans added that under that there is a section about change in law.

Member Widmer noted that the contract states if there is a change in law that requires a change in operation.

Member Benton asked if the increase in wage law fell under a change in operation.

Counsel Savaree answered no, because it doesn't create a change in service. She also noted that it is the burden of the contractor to demonstrate entitlement to increased compensation.

Member Benton commented that he would like to be cautious about authorizing an increase, because there is a legal binding contract. He thinks it's SBR's obligation to come to the Board and make a case for why they should get this increase.

Staff Gans noted that the contract between SBR and VRS ends at the end of 2016, and they have indicated that they will not renew the program at the current wage rate, and if they don't renew the program, SBR will have to find workers to do that work, and the cost will likely much higher than the 2% threshold.

Member Benton commented SBR is making a business decision, and they have the right to terminate the VRS contract and seek labor elsewhere but whatever the economic implication of their business decision is, it's theirs, and not the SBWMA.

Member Papan asked for clarification on the exact language in the contract and noted that if SBR can't do the same work for the same price wouldn't that be a change in operation, and there has been a change in the law that affects their budget.

Member Widmer commented that they have a CPI adjustment, and when the federal minimum wage went up they never petitioned.

Counsel Savaree suggested hearing from SBR.

Member Benton noted that he thought as point of process SBR should point out to the Board the reasons that they are requesting the change in compensation.

Dan Domonoske Vice President of SBR commented that at the direction of the Board he was the one who reached out to the VRS program at the beginning of their contract, and was instrumental in reinstating the relationship. He noted that when the California minimum wage went up SBR approached the SBWMA, and we were in the process of pursuing an adjustment but the increase fell just short of the 2% threshold required to request the adjustment, and that is why a request has not been made before. Based on the change in County law, we have no choice but to comply with the new pay scale, and from a practical perspective it's only right and appropriate to have SBR's compensation adjusted on a pass through basis. He also added that the RFP process was designed to competitively bid a lowest cost operator to maintain cost control. SBR continues to do

that, and the fact that the County has changed regulations doesn't give us any position but to request the pass through.

Member Benton asked if it's the interpretation of the contract that gives SBR a legal reason to ask for the pass through.

Dan Domonoske noted that it was his understanding that the 2% threshold, along with the change in law gives them the right to ask for the increase in compensation.

Executive Director La Mariana noted the differences of this decision versus previous conversations the Board has had on this topic in the past. One, there has been a change in law. If the Board were to approve a living wage ordinance adjustment, it would not trigger the two percent clause. The nuance to this discussion is that if the Board doesn't approve their request, SBR would have to go find an alternative labor source, and there is a strong opinion that the alternate labor source would trigger the 2% threshold.

Member Benton wondered why SBR wouldn't just take the hit, and continue to use VRS.

Dwight Herring General Manager of SBR noted that VRS has given them 120 days notice that if SBR couldn't meet the living wage ordinance they would exit the program. If VRS is no longer a labor source option, SBR would need to use temporary staffing, and by contract SBR would need to come back to the Board and get permission to do that, and at some point in time those would become collective bargaining unit jobs, and those costs become exponentially higher.

Member Benton commented that VRS remains a competitive program even with the living wage ordinance, and the Board is being asked to compensate SBR for the increase in wage due to the living wage ordinance to avoid higher costs in the future, but there is no legal reason for the SBWMA to amend the compensation, and even without the SBWMA amending the compensation VRS might still be the most viable option for SBR. He noted that he was concerned about deviating from a signed contract.

Member Dehn asked what the Board action was at the time when SBR increased the wages when the second shift of workers was brought on.

Dwight Herring answered that there was no change in compensation at that time, and VRS required that increase in order to provide the workers.

Member Papan commented that there is a legal side and practical side, and she understood the desire to do the legally right thing by the Board and the rate payers, but the practical side of the matter may be more harmful in the long run.

Chair Grassilli commented that as he remembered this Board encouraged SBR to use VRS, and this could bring an end to that agreement.

Member Benton commented that whomever VRS hires they are going to have to pay the living wage.

Chair Grassilli countered that without looking at the dollars it could be any labor source, but the original direction of the Board was to use VRS workers.

Member Rutherford noted that some of her clients are VRS clients as well, and she wondered if there would be a conflict of interest if she voted on this item.

Counsel Savaree advised Member Rutherford to recuse herself from the vote.

Member Dehn asked for clarification if this was a recommendation from staff not a request from SBR.

Staff Gans answered yes, it's a recommendation from staff.

Executive Director La Mariana added that the MRF will reopen in January, and staff would like to have this resolved so that SBR will know what the labor situation is prior to reopening.

Member Benton commented that if a motion were to come forward he would vote no, and he reiterated that he would prefer SBR to make a formal request and justify the adjustment.

Executive Director La Mariana added that with the plant being projected to open in January, there is a training component of the VRS workers to consider, the workers could come in for training at the end of December.

Member Benton made a motion that the Board asks SBR to make a formal request to the Board for relief given the living wage ordinance.

Member Dehn seconded the motion.

Member Hurt asked what the time line would be for Member Benton's request.

Staff Gans answered that the contract ends December 31, 2016, and if there is no successful negotiation between SBR and VRS then the VRS option goes away. So, the incentive is to wrap up the negotiation before the New Year. He also noted that SBR would not be able to make a presentation to the Board until the January Board meeting, so there are competing timelines. He also noted that SBR can make an application to the SBWMA, but they don't have grounds under the contract to do so because it doesn't reach the 2% threshold.

Member Dehn commented that Dan Domonoske stated that it did earlier.

Staff Gans noted that the increase in wage quantified is \$321,765, and the 2% is \$720,000, but if another group of workers were to come in it could go well beyond the 2%, and there may not be the opportunity to reel things back.

Member Beach commented that she agreed with Member Papan that there is a practical element, and also noted that there is an element of good faith, with a local law that went into effect. She noted that VRS is a good program, and she is concerned about the timing and that the work force might not be available from a practical standpoint. She also added that this Board represents the rate payers, and yes there is a letter of the law piece to this, but also a question of what would our constituents want us to do, how does this affect their rate paying and our budget. She concluded that she was leaning towards being inclined to authorize the Executive Director to authorize the adjustment.

Member Dehn commented that she is in favor of the VRS program, and thinks it has been very successful, but she was objecting to the way that this came forward to the Board based on the contract with SBR not to the VRS program.

Member Aguirre commented that she supported moving forward with authorizing the change in compensation especially due to the timeline.

Chair Grassilli noted that he agreed with Member Beach and Aguirre, but there was a motion on the floor, and called for any further comments on the motion.

Member Hurt commented that she supports the living wage ordinance and that time lines are really critical in this decision, and there are unintended consequences with pushing this down due to formality.

Member Beach asked for clarification of the motion on the table.

Member Benton and Member Dehn withdrew the motion.

Member Hurt made a motion to authorize the Executive Director to amend SBR's compensation to include the newly enacted County of San Mateo living wage ordinance with the VRS program.

Member Aguirre seconded the motion.

Roll Call Vote: 6-2-1-3

Member Rutherford recused herself from the vote

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			

Member Rutherford commented that the next time the contract needs to be reviewed it needs to come to the Board before the end of the year.

**11. Informational Items Only (no action required)**

- A. Update on Shoreway Environmental Education Programs
- B. Update on Multi-Family Organics Collection Pilot Program
- C. October 2017 Check Register
- D. Potential Future Board Agenda Items

**12. Board Member Comments**

Chair Grassilli adjourned the meeting wishing everyone a Happy Holiday season.

**13. Adjourn 4:00 PM**



## STAFF REPORT

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To: SBWMA Board Members  
From: Farouk Fakira, Finance Manager  
Date: January 26, 2017 Board of Directors Meeting  
Subject: Resolution Accepting the FY1516 Annual Financial Statements

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### Board Action

It is recommended that the SBWMA Board of Directors approve Resolution No. 2017-02 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, 2016 as prepared by the SBWMA's audit firm, Maze & Associates.

### 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, 2016, have been prepared by the City of San Carlos Administrative Services Department and examined by the independent auditing firm of Maze & Associates 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, 2016, 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 2 on page 5 of the Audit report, ending net position decreased \$2.6 million to \$18.8 million from \$21.5 million. That is due to the following:

1. Higher than actual FY1415 revenues of \$1,196.5 million are due to higher franchise revenue of \$.8 million due to favorable volumes of \$.5 million and higher tipping fees increase of \$.3 million due to 2.6% (\$2) increase in tipping fees in 2016;
2. Higher \$1.2 million in self haul revenue due to \$1.1 million in higher volume and \$.1 million due to favorable tipping fees increase of \$1 per cubic yard.
3. That was offset by a decrease of \$.840 million in commodity revenue due to a drop in blended rate (average recycling rate) (\$128.10 in FY 15/16 vs. \$146.72 in FY14/15) due to unfavorable market conditions.

All were more than offset by higher Shoreway operating expense of \$2.9 million. That is due to the following:

1. \$.830 million in SBR compensation mainly due to higher volumes.
2. Higher disposal expenses of \$1.68 million due to \$.739 million in higher rates and \$.958 million in higher volume.
3. Credit cards charges \$.269 million due to being charged for the first time by SBR.
4. Finally, \$.127 million in higher long term plan expenses as compared to prior year.

The unrestricted net assets (Unrestricted Reserves) decreased by \$1.5 million to \$13.8 million as of June 30, 2016 (see Table 1 and 3 in Audit report). Net position income decreased by \$1,737 million (see Table 2 in Audit report). 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 FY1516 and FY1415 are as follows:

	<u>FY2016</u>	<u>FY2015</u>	<u>Variance</u> Better / (Worse)
Total Revenues	\$43,914,950	\$42,718,433	\$1,196,517
Operating Expense	40,424,253	37,414,982	(\$3,009,271)
Depreciation Expense	3,308,421	3,337,059	\$28,638
Operating Income <Loss>	\$182,276	\$1,966,392	(\$1,784,116)
Interest Expense	(\$2,810,821)	(\$2,857,904)	\$47,083
Net Asset Change	<u>(\$2,628,545)</u>	<u>(\$891,512)</u>	<u>(\$1,737,033)</u>
<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 \$48,929,747.

**Outstanding Debt  
Activities**

	<u>FY2015</u>	<u>FY2014</u>
Revenue Bonds 2009A	\$48,929,747	\$50,207,247

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 2017-02. Accepting the Authority's FY1515 Financial Statements

Exhibits A – [SBWMA FY1516 Audited Annual Financial Statements \(Available online only at www.rethinkwaste.org\)](http://www.rethinkwaste.org)



## RESOLUTION NO. 2017-02

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS ACCEPTING THE FISCAL YEAR 2015-2016 ANNUAL FINANCIAL STATEMENTS

**WHEREAS**, the South Bayside Waste Management Authority contracted with the audit firm of Maze & Associates 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, 2016 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 Maze & Associates for the fiscal year ending June 30, 2016.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 26<sup>th</sup> day of January, 2017, 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. 2017-02 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 26, 2017.

ATTEST:

\_\_\_\_\_  
Bob Grassilli, Chairperson of SBWMA

\_\_\_\_\_  
Cyndi Urman, Board Secretary





## STAFF REPORT

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To: SBWMA Board Members  
From: Farouk Fakira, Finance Manager  
Date: January 26, 2017 Board of Director's Meeting  
Subject: Resolution Approving Revised SBWMA Investment Policy for 2017

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### Recommendation

It is recommended that the SBWMA Board of Directors approve Resolution No. 2017-03 attached hereto authorizing the adoption of the Investment Policy for 2017. See **Exhibit A** to the Resolution for the actual 2017 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 January 28 2016. It has been reviewed by the Board Adhoc Finance Sub-Committee (comprised of Board Members Bill Widmer, Michael Brownrigg, and Jay Benton. Committee member and Burlingame City Treasurer, Carol Augustine was not able to participate in this discussion due to a conflict) which recommends approval. The minor changes to the policy that have been recommended are shown in the attached redline version (see **Exhibit B**). It should be noted that the Finance Committee has expressed a strong interest in evaluating alternative, higher-performing investment options for a portion of the Agency's overall investment portfolio. This topic will be discussed further at upcoming Finance Committee meetings a a report back will be provided to the Board of any recommendations that emerge from this process.

### 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.

### Background

In January 2015 the Audit Committee reviewed the mix of investments between the County Pool and the state LAIF fund. 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 change was approved by the Board at the January 22, 2015 Board meeting.

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 released an RFP, which was sent to all companies that had responded to other similar RFPs released by other Member Agency, and only received one response. Staff decided to not pursue this recommendation further given the limited response and also inability to discern any financial value from this approach.

## Fiscal Impact

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

### Attachments:

Resolution 2017-03

Exhibit A – Investment Policy

Exhibit B – [Redline version of Investment Policy showing changes \(available online only at www.rethinkwaste.org\)](http://www.rethinkwaste.org)



## RESOLUTION NO. 2017-03

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING A REVISED INVESTMENT POLICY FOR 2017

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 2017 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 26<sup>th</sup> day of January, 2017, 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. 2017-03 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 26, 2017.

ATTEST:

\_\_\_\_\_  
Bob Grassilli, Chairperson of SBWMA

\_\_\_\_\_  
Cynthia Urman, Board Secretary

## **SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY INVESTMENT POLICY**

January 2017

### **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 to 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. If there are no Board of Director meetings within the 60-day period, the quarterly report shall be presented to the Board of Directors at the soonest possible meeting thereafter.

## **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 currently does not maintain a list of broker/dealers approved to do business with the City. When necessary, the City shall go through the Request for Proposal processes to select the broker/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 SBWMA's investment policy shall be made available on the Authority's website for broker/dealers' review.

## **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. 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, with the knowledge that the pool/fund may include some investments allowed by statute but not explicitly identified in this investment policy.
3. 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 4 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.



4. 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 40% of the cost value of the portfolio.
5. Commercial paper ranked the highest letter and number rating by a nationally recognized statistical rating organization (NRSRO), such as Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services, , and issued by domestic corporations having assets in excess of \$500,000,000 and having an A or better rating on its' long term debentures as provided by NRSRO. 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.
6. 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.
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 30% 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 A or better by an NRSRO. 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	Government Code	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
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Local Agency Investment Fund (LAIF)	16429.1	Upon Demand	N/A	50% to 70% of the investment portfolio, as approved by the SBWMA Board but no more than \$65 million permitted by LAIF	N/A
San Mateo County Investment Pool	53684	Upon Demand	N/A	30% to 50% of the investment portfolio, as approved by the SBWMA Board	N/A
Treasury Obligations (bills, notes & bonds)	53601(b)	5 Years	N/A	100%	N/A
US Government Agency and Federal Agency Securities	53601(f)	5 Years	N/A	100%	N/A
Bankers Acceptances	53601(g)	180 Days	N/A	40%	(A), (B)
Commercial Paper	53601(h)	270 Days	Highest letter and number rating by an NRSRO	25%	(A), (B)
Negotiable Certificates of Deposit	53601(i)	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit – Banks or Savings and Loans	53601.8	5 Years	N/A	30%	(A), (B)
Medium Term Corporate Notes	53601(k)	5 Years	A	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 Principles (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 \$250,000 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 \$250,000) 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.

Nationally Recognized Statistical Rating Organizations (NRSRO): A U.S. Securities & Exchange Commission registered agency that assesses the creditworthiness of an entity or specific security. NRSRO typically refers to Standard and Poor's Ratings Services, Fitch Ratings, Inc. or Moody's Investors Services.

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 Obligations- Debt obligations of the U.S. Government that are sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

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.