



SBWMA Technical Advisory Committee (TAC) Meeting

THURSDAY, September 13, 2018 at 2:00 p.m.

San Carlos Library
Conference Room A/B
610 Elm Street, San Carlos, CA 94070

AGENDA

1. Roll Call

2. Public Comment

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

Each speaker is limited to 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.

3. Executive Director's Report – Update on Franchise Agreement Extensions and Amendment One Discussions

4. Approval of Consent Calendar:

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

A. Approval of the July 12, 2018 TAC Meeting Minutes

5. 2019 Compensation Applications Review

A. Review of the SBWMA Final Report Reviewing the 2019 Recology San Mateo County Compensation Application

B. Review of the SBWMA Final Report Reviewing the 2019 South Bay Recycling Compensation Application

6. Discussion on Anticipated Future System Costs

A. Franchise Agreement Extension Transaction

B. Capital MRF Enhancements

C. Organics to Energy Pilot

D. Disposal Costs 2020 and Beyond

E. SB 1383: Short-Lived Climate Pollutants (SLCP): Organic Waste Methane Emissions Reductions

7. Future TAC Agenda Items

8. TAC Member Comments

9. Adjourn

MEMBER AGENCIES

ATHERTON * BELMONT * BURLINGAME * EAST PALO ALTO * FOSTER CITY * HILLSBOROUGH * MENLO PARK * REDWOOD CITY
* SAN CARLOS * SAN MATEO * COUNTY OF SAN MATEO * WEST BAY SANITARY DISTRICT



CONSENT CALENDAR



DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
 SPECIAL MEETING OF THE TECHNICAL ADVISORY COMMITTEE
 July 14, 2018 – 2:00PM.
 San Carlos Library Conference Room A

Call to Order: 2:10PM

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 Members Alexandria Skoch attended representing Menlo Park, and Gordon Tong attended representing County of 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. Executive Director's Report

Executive Director La Mariana announced that the next TAC meeting is scheduled for September 13, which is the day that the SBWMA issues the Final Report reviewing Recology's 2019 Compensation Application, and suggested moving the meeting to a week later so that there would be time for the TAC members to review it and then discuss it at the meeting.

General feedback from the TAC was to leave the meeting on the 13th.

Regarding the compensation application: there are generally no surprises as this is the 9th year of a 10 year contract with one exception being the commodity market issue and how that plays out in the Agency cost structure. There is a continued slide in pricing.

During the summer months and into fall staff will be working on Amendment One discussions, Zero Landfill Committee meetings, and the two Long Range Plan pilot programs. Next fiscal year staff will be updating the Long Range Plan as it has been 5 years since it was passed.

The Public Education team is currently working on the battery re-launch on September 3, and a Recycle Right campaign.

Executive La Mariana congratulated Madison Guzman on her recent promotion to Environmental Education Coordinator.

He also noted that the entire SBWMA Staff will be attending the state wide CRRA Conference on July 27.

4. Approval of Consent Calendar

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

A. Approval of Minutes from the March 8, 2018 TAC Meeting

Motion/Second: Cooke/Tong

Voice Vote: all in favor

5. Legislative and Regulatory Update –

Debra Kaufman, DKC Consulting Legislative Consultant

Legislative Consultant Debra Kaufman noted that there are 26 bills that the Agency is tracking and engaged in. Of those 26, 13 remain alive and 7 are a higher priority. She listed the 7 bills the SBWMA is tracking. She then noted that most of the bills are in appropriations, and that August 31 is the last day for the house or senate to pass the bills onto the governor. She then listed the bills the SBWMA is tracking.

6. Discussion of CalRecycle Priorities and Updates

Ken Yee, CalRecycle Environmental Program Manager Local Assistance and Market Development (LAMD) Bay Area Section

Marshalle Graham, CalRecycle Senior Environmental Scientist, LAMD North Section

Marshalle Graham of Cal Recycle gave a Power Point Presentation on SB1383. She noted that the bill's two main goals are to reduce short lived climate pollutants (methane) and to provide food to the six million Californians who are food insecure. She noted that it is very different from AB939 in its approach, in that there is no adjustment for population growth; mandates on diversion percentages are not allowed on individuals - rather it is the whole state; and success is not solely based on tons diverted from the landfill. She explained the bill and the programmatic elements.

Executive Director La Mariana noted that he thought it was important to bring this information to the TAC to work together on implementation and the bill's impacts to SBWMA Programs.

The TAC discussed concerns around residential food recovery, including liability, reporting and the burden that would be placed on jurisdictions. Marshalle Graham noted that food would not be repurposed at the residential level, but a jurisdiction would have an agreement with a business in the jurisdiction for edible food recovery, she also noted that the good Samaritan law was updated which will protect those donating food. Ken Yee noted that

the intent is not to put jurisdictions in the business of food recovery, but to make the connections between business who can offer food and organizations who could use it.

The TAC discussed the need for a study group around enforcement of the bill. Executive Director La Mariana summarized that the SBWMA has and will continue to be very involved in implementation. The SBWMA will get a work session together to work with the county on alignment, and focusing on the Agency's core competency in solid waste.

Ken Yee listed other bills and Cal Recycle incentive programs, grants and loans. He noted that if there are projects around infrastructure development to bring them to the table for consideration. He also noted that the AB939 team is currently preparing their 2 and 4 year review write ups, and asked the TAC members to get any information that may have been missed to Cal Recycle for inclusion into the reports.

7. Staff Update on CalRecycle Electronic Annual Reports –

- a. **Nanette Hansel** (via phone), Ascent Environmental Senior Environmental Planner

Nanette Hansel reported that the Cal Recycle Electronic Annual reports are due August 1, and jurisdictional review will be next week. She noted that all jurisdictions have met their target. She also noted that there is one change to the reports this year on AB1594.

There were no questions.

8. SBWMA Contracting Partner Updates

- a. Recology

Mike Kelly of Recology noted that Recology is focused on reporting, with the compensation application deadline in the middle of June means that the May monthly report is due at the end of June and the June monthly report is due tomorrow, so there are many reports due this summer.

- b. SBR – Commodity Market Update

Dwight Herring of SBR noted that there has been no change in plastics markets. Fiber markets have stabilized but there are too many tons for non-China markets. Currently the market is other South East Asia markets.

Executive Director La Mariana acknowledged SBR for all of their effort in dealing the changes in commodity markets.

9. TAC Member Comments

Member Gordon Tong announced that the next County wide meeting would be August 8, and he invited all TAC members to attend.

10. Adjourn 3:36PM



2019 COMPENSATION APPLICATIONS REVIEW

STAFF REPORT

To: SBWMA TAC Members
From: Joe La Mariana
John Mangini, Senior Finance Manager
HFH Consultants
Date: September 13, 2018 TAC Meeting
Subject: Review of the SBWMA Final Report Reviewing the 2019 Recology San Mateo County Compensation Application

Recommendation

This staff update is for discussion purposes only and no action is requested of TAC.

Analysis

The SBWMA Draft Report Reviewing the 2019 Recology Compensation Application issued to the TAC and Board on August 10, 2018 addresses Recology's compensation due for 2019 and the Total Revenue Requirement. The Member Agencies are obligated to set rates to generate revenue to match the 2019 Total Revenue Requirement. Any shortfall in net revenue to Recology may result in an interest payment to Recology in the subsequent rate year (e.g., 2018 final surplus or shortfall is determined in 2019 and included in 2020 revenue requirement).

NOTE: Interest only applies if Member Agencies fail to set rates to match the total annual revenue requirement.

The Member Agencies were requested to submit comments on the Draft Report back to the SBWMA by August 24. The Draft Report will be revised based on the feedback received from the Member Agencies and the Final Report will be issued to the Board on September 20, 2018, for the Board's consideration at the September 27, 2018 Board of Director's meeting.

SBWMA Review of 2019 Recology Compensation Application

The results of implementing the cost adjustment methodology prescribed in the Member Agency's Franchise Agreements for Solid Waste, Recyclable Materials and Organic Materials Collection Service (Agreements) with Recology to determine the Rate Year Nine (i.e., 2019) compensation results in Total 2019 Contractor's Compensation of \$57,969,175, which is an increase of \$1,062,323 (1.9% increase from prior year) due primarily to the following:

- Index-based Annual Cost of Operations increase of 2.6% over prior year.
- A scheduled reduction in Interest Expense that is 37% lower than prior year.
- Decreased payment to Recology of diversion-based Performance Incentive/Disincentives.

Recology's 2019 compensation is compared to 2018 in **Table 1** below.

Table 1

Total Contractor's Compensation	Recology Compensation			
	2018 Cost	2019 Cost	Change	%
Base Compensation	\$56,793,053	\$57,890,585	\$ 1,097,532	1.9%
Incentives / Disincentives	\$113,799	\$78,590	\$ (35,208)	30.9%
Total Contractor's Compensation	\$56,906,852	\$57,969,175	\$ 1,062,323	1.9%

The results of the adjustment process are detailed by expense category in Table 3 of the Draft Report.

As discussed in detail in Section 3.A of the Draft Report, Recology's 2019 compensation includes several cost or revenue adjustments such as including the prior year's under or over payments to/from Recology. These include:

- Performance Incentive/Disincentive payments (and additional Liquidated Damages) for 2017
- 2017 Revenue Reconciliation shortfall (net of refund or payment and plus interest) of (\$1,105,467)

The 2017 Revenue Reconciliation balances owed to/from Recology are a true-up of what was paid to Recology versus what was owed and the resulting interest payment for any shortfall. This is not due to any change in Recology compensation but rather due to more or less revenue generated to pay the approved compensation.

Member Agency Questions and Changes from August 10, 2018 SBWMA Draft Report (i.e., Table 8) to September 20, 2018 SBWMA Final Report

The following changes have been made to Table 8 (Exhibit A):

- Burlingame advised that the Agency Fee Calculation may not be correct. A slight formula error was found and corrected, resulting in a \$20K increase in 2019 Agency Fees across all Member Agencies. The impact of the correction can be found in **Table 2** below. The 2018 Agency fees were also corrected, resulting in a \$19K increase across all Member Agencies. The corrections have a tenth of a percentage point impact to Burlingame, East Palo Alto and San Carlos on line **(F.3)**.
- Corrected the surplus/shortfall percentage on line **(B.3)** which does not impact the Total Rate Adjustment Percentage on line **(F.3)**.
- There were no further questions or comments from Member Agencies.

Table 2

2019 Agency Fee Correction (Table 8)					
Member Agency	Original	Corrected	Variance		
Atherton(net)	\$304,130	\$304,475	\$345		
Belmont (gross)	\$1,760,650	\$1,760,650	\$0		
Burlingame (net)	\$1,807,087	\$1,816,041	\$8,954		
East Palo Alto (1) (net)	\$679,510	\$682,507	\$2,997		
Foster City (net)	\$377,054	\$377,305	\$251		
Hillsborough (net)	\$277,105	\$277,105	\$0		
Menlo Park (Gross)	\$2,088,370	\$2,088,370	\$0		
N. Fair Oaks (net)	\$135,088	\$135,088	\$0		
Redwood City (Gross)	\$2,620,447	\$2,620,447	\$0		
San Carlos (Net)	\$1,137,625	\$1,140,852	\$3,227		
San Mateo (1)(net)	\$3,535,662	\$3,539,893	\$4,230		
West Bay Sanitary (net)	\$92,828	\$92,828	\$0		
SM County (net)	\$158,233	\$158,233	\$0		
Total	\$14,973,790	\$14,993,796	\$20,006		

Rate Setting and Approval Process

This SBWMA Draft (and Final) Report and recommendation is to determine the compensation owed to Recology for collection services in 2019. This Report also provides Table 8 (**Exhibit A**) which establishes the final Revenue Requirement that will be used as the basis for recommending the 2019 rate adjustments. The Revenue Requirement includes compensation to Recology for solid waste, recyclables and organic materials collection and Pass-Through costs, which include Agency fees, and disposal and processing costs at the Shoreway Environmental Center.

Article 11 of the Franchise Agreements states the following:

- Each Member Agency is obligated to set rates as necessary to generate annual gross revenues billed by Recology equal to the approved compensation amount plus all approved pass-through costs.
- If an Agency sets a rate that is below the approved recommendation contained in the Final Report, or if an Agency delays imposing a rate increase effective January 1, 2019, and net revenues billed by Recology in 2019 are less than needed to cover the approved total contractor's compensation delineated in the Final Report, the Agency will be obligated to pay interest to Recology on the difference.

Background

In 2005, the SBWMA and its Member Agencies initiated a five and a half year collection services contractor selection process that resulted in Recology and the Member Agencies executing Franchise Agreements ("Agreements") for Collection Services. Eleven of the twelve SBWMA Member Agency Agreements have the same methodology used to calculate the compensation paid to Recology. One Member Agency (i.e., City of Belmont) used a different compensation methodology; however, use of this different methodology has no bearing on the costs or services provided to the other 11 Member Agencies. Inclusion of the City of Belmont in the cost calculations with the other 11 Member Agencies is necessary in order to accurately implement the cost allocation process prescribed in the Agreements.

The compensation adjustment methodology provisions in the Member Agency Agreements are contained in Article 11, Attachment K and Attachment N. Article 11 provides an overview of the methodology and describes the process by which aspects of the compensation adjustment process shall be implemented.

Note: In this staff report and all attachments, the term "cost" and "compensation" are intended to have the same meaning. The term "cost" is not intended to mean Recology's true operating cost which is unknown, but rather what the company is paid to perform the services.

Fiscal Impact

Variance Analysis

Rate revenue from the total SBWMA Member Agencies is calculated to require a weighted average increase of 7.0% (**Exhibit A**, Table 8, row C.3) for 2019 rates to cover the Total Revenue Requirement for the Recology cost, pass through costs, and the prior year's revenue reconciliation surplus/shortfall (**Exhibit A**, Table 8, row B.1 and B.2). Tables comparing 2019 costs to 2018 costs and showing the components of the 2019 rate adjustments by Member Agency are included in the Draft Report as Appendix D – Member Agency Variance Analysis of Total Collection Cost and Rate Impact.

Total Collection Rate Adjustment

The total rate adjustment is provided in the Draft (and Final) Report in **Table 8 (Exhibit A)**. This table presents the Total Collection Rate Adjustment from all sources that impact rates by Member Agency, as follows:

- **Section A** - This section provides the estimated 2019 Collection Revenue using 2018 rates (**A.1**), the 2019 Total Recology Compensation (**A.2**) and Pass-Through Expenses (**A.6**) used to determine the 2019 Revenue Requirement (**A.7**), the estimated 2019 Surplus/Shortfall balance with Recology (**A.8**), Agency Fees on shortfalls (**A.9**), and the Rate Adjustment Percentage (**A.10**). *The overall SBWMA rate adjustment is a 5.9% increase; however, each Member Agency has a different adjustment percentage.*
- **Section B** – This section provides the results of the 2017 Recology Revenue Reconciliation surplus/shortfall that must be added to the 2019 rate adjustment. *The overall SBWMA rate adjustment is a 0.1% increase; however, but each Member Agency has a different adjustment percentage.*
- **Section C** – This section provides the 2019 Required Rate Adjustment which is the sum of sections A and B. **The overall SBWMA rate adjustment is positive 7.0%; however the rate adjustment percentage varies between the Member Agencies.**
- **Section D** – This section provides the "2018 estimated surplus/(shortfall)" balance with Recology (**D.1**), including the adjusted 2016 surplus/shortfall (**D.2**) and the associated Agency Fees on any net estimated shortfall (**D.4**). The 2018 Revenue Reconciliation will be finalized in 2019, similar to how the 2017 Revenue Reconciliation was finalized in 2018.
- **Section E** – This section includes an adjustment for Belmont's unique agreement with Recology. The refunds received from Recology as a result of a surplus or shortfalls paid out to Recology were netted against the surplus or shortfall of the agency impacted. (Please note that **Exhibit B** attached to this staff report provides the refunds from Recology for surpluses and the payments to Recology for shortfalls for 2014, 2015, 2016, 2017 and 2018.)

- **Section F** – This section provides the “Cumulative Revenue Requirement” of \$109,084,553 (F.1) and the cumulative surplus/shortfall of (\$4,645,824) (F.2). **The overall SBWMA recommended rate adjustment is on line (F.3). Each Member Agency is obligated to set rates to generate its respective revenue needed as denoted in Section F per the MOU between Recology and SBWMA. Agencies that set rates lower than delineated in Section F and experience a shortfall in revenue are liable for future interest charges from Recology.**

Attachments:

Attachment A – Table 8 (from September 20, 2018 SBWMA Final Report Reviewing the 2019 Recology San Mateo County Compensation Application).

Attachment B – Member Agency Refunds from Recology for Surpluses and Payments to Recology for Shortfalls

Attachment C – SBWMA Draft Report Reviewing Recology 2019 Compensation Application available online only at www.rethinkwaste.org

SBWMA								
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY								
as of 09/20/2018			2019 Rate Year					
	Total	Atherton	Belmont	Burlingame	East Palo Alto	Foster City	Hillsborough	Menlo Park
A. 2019 RATE YEAR								
2019 Collection Revenue @ 2018 Rates	\$ 104,396,040	\$ 2,932,808	\$ 6,696,778	\$ 10,950,361	\$ 5,002,199	\$ 5,776,820	\$ 3,030,638	\$ 12,126,880
	\$ -							
A.1 2019 Collection Revenue @ 2018 Rates	\$104,396,040	\$2,932,808	\$6,696,778	\$10,950,361	\$5,002,199	\$5,776,820	\$3,030,638	\$12,126,880
A.2 Total Recology Compensation	\$57,969,175	\$1,424,499	\$3,614,257	\$5,746,003	\$2,461,288	\$3,595,489	\$1,977,912	\$5,919,965
A.3 Pass-Through Costs								
A.4 Disposal & Processing Fees	\$37,083,146	\$1,351,080	\$1,790,353	\$4,215,214	\$2,070,666	\$2,102,173	\$1,046,776	\$4,421,624
A.5 Agency Franchise Fees	\$14,993,796	\$304,475	\$1,760,650	\$1,816,041	\$682,507	\$377,305	\$277,105	\$2,088,370
A.6 Total Pass-Through Costs	\$52,076,941	\$1,655,556	\$3,551,003	\$6,031,256	\$2,753,174	\$2,479,479	\$1,323,881	\$6,509,995
A.7 2019 Revenue Requirement	\$110,046,116	\$3,080,055	\$7,165,260	\$11,777,258	\$5,214,462	\$6,074,967	\$3,301,792	\$12,429,960
A.8 2019 Surplus/(Shortfall) estimated	(\$5,650,076)	(\$147,247)	(\$468,482)	(\$826,898)	(\$212,263)	(\$298,147)	(\$271,154)	(\$303,080)
A.9 Agency Fees on A.8 Shortfall	(\$519,622)	(\$14,725)		(\$115,766)	(\$20,267)	(\$14,907)	(\$27,115)	(\$41,219)
A.10 Rate Adjustment Percentage (Associated with 2019 estimated Surplus/Shortfall)	5.9%	5.5%		8.6%	4.6%	5.4%	9.8%	2.8%
<i>See Appendix D - Rate Variance Analysis for detail.</i>								
B. 2017 Final Surplus/(Shortfall)								
					2.2%			
B.1 Surplus/(Shortfall) 2017 FINAL (incl. Interest)	(\$1,105,467)	\$177,245	(\$1,654,671)		(\$101,548)	\$41,260	\$480,114	(\$97,201)
B.2 Agency Fees on B.1 Shortfall	(\$58,494)				(\$9,696)			(\$13,219)
B.3 Rate Adjustment Percentage (Associated with 2017 Final Surplus/Shortfall)	1.1%	-6.0%			2.2%	-0.7%	-15.8%	0.9%
C. 2019 REQUIRED REVENUE ADJUSTMENT								
	(\$7,333,660)							
C.1 Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$111,729,700	\$2,917,535	\$8,819,931	\$11,893,024	\$5,345,972	\$6,048,614	\$2,848,794	\$12,581,599
C.2 Subtotal Surplus/(Shortfall) (A.1 - C.1)	(\$7,333,660)	\$15,273	(\$2,123,153)	(\$942,663)	(\$343,773)	(\$271,794)	\$181,845	(\$454,720)
C.3 Rate Adjustment Percentage (C.2 / A.1)	7.0%	-0.5%		8.6%	6.9%	4.7%	-6.0%	3.7%
D. 2018 Estimated Surplus/(Shortfall)								
D.1 Surplus/(Shortfall), 2018 estimated	(\$228,900)	\$71,315	(\$263,452)	(\$330,080)	\$171,029	\$92,534	(\$119,220)	\$447,182
D.2 Surplus/(Shortfall) 2016 FINAL (incl. Interest)	(\$164,920)		(\$722,423)		(\$117,933)	\$19,279	\$591,910	(\$362,495)
D.3 Net Estimated 2018 Surplus/Shortfall	(\$393,820)	\$71,315	(\$985,875)	(\$330,080)	\$53,096	\$111,813	\$472,690	\$84,687
D.4 Agency Fees on D.3 Estimated Shortfall	(\$70,062)			(\$46,211)				
D.5 Rate Adjustment Percentage (Associated with 2018 Estimated Surplus/Shortfall)	0.4%	-2.4%	14.7%	3.4%	-1.1%	-1.9%	-15.6%	-0.7%
E. Adjustments								
E.1 Miscellaneous Adjustment/Payment	(\$3,109,028)		(\$3,109,028)					
F. TOTAL RATE IMPACT								
F.1 Cumulative Revenue Requirement (C.1-D.3+E.1)	\$109,084,553	\$2,846,220	\$6,696,778	\$12,269,315	\$5,292,876	\$5,936,801	\$2,376,104	\$12,496,912
F.2 Total Surplus/(Shortfall) (A.1 - F.1)	(\$4,688,513)	\$86,588	\$0	(\$1,318,955)	(\$290,677)	(\$159,981)	\$654,534	(\$370,032)
F.3 Total Rate Adjustment Percentage (F.2 / A.1)	4.5%	-3.0%	0.0%	12.0%	5.8%	2.8%	-21.6%	3.1%

Table 8

SBWMA						
TOTAL COLLECTION RATE ADJUSTMENT BY MEMBER AGENCY						
as of 09/20/2018			2019 Rate Year			
	North Fair Oaks	Redwood City	San Carlos	San Mateo	West Bay	Unincorporated County - Total
A. 2019 RATE YEAR						
2019 Collection Revenue @ 2018 Rates	\$ 2,796,813	\$ 18,872,161	\$ 8,442,323	\$ 22,848,741	\$ 1,620,927	\$ 3,298,590
Additional Agency Funds						
A.1 2019 Collection Revenue @ 2018 Rates	\$2,796,813	\$18,872,161	\$8,442,323	\$22,848,741	\$1,620,927	\$3,298,590
A.2 Total Recology Compensation	\$1,686,263	\$10,445,524	\$5,163,310	\$12,732,046	\$1,020,981	\$2,181,637
A.3 Pass-Through Costs						
A.4 Disposal & Processing Fees	\$1,065,594	\$7,043,582	\$2,622,168	\$7,750,318	\$537,474	\$1,066,123
A.5 Agency Franchise Fees	\$135,088	\$2,620,447	\$1,140,852	\$3,539,893	\$92,828	\$158,233
A.6 Total Pass-Through Costs	\$1,200,682	\$9,664,029	\$3,763,020	\$11,290,210	\$630,303	\$1,224,356
A.7 2019 Revenue Requirement	\$2,886,945	\$20,109,553	\$8,926,331	\$24,022,257	\$1,651,283	\$3,405,993
A.8 2019 Surplus/(Shortfall) estimated	(\$90,132)	(\$1,237,392)	(\$484,007)	(\$1,173,516)	(\$30,356)	(\$107,403)
A.9 Agency Fees on A.8 Shortfall	(\$4,507)	(\$168,904)	(\$58,081)	(\$46,941)	(\$1,821)	(\$5,370)
A.10 Rate Adjustment Percentage (Associated with 2018 estimated Surplus/Shortfall)	3.4%	7.5%	6.4%	5.3%	2.0%	3.4%
<i>See Appendix D - Rate Variance Analysis for detail.</i>						
B. 2017 Final Surplus/(Shortfall)						
B.1 Surplus/(Shortfall) 2017 FINAL (incl. Interest)	(\$9,174)	(\$221,233)	\$11,948	(\$123,050)	\$54,284	\$336,559
B.2 Agency Fees on B.1 Shortfall	(\$459)	(\$30,198)		(\$4,922)		
B.3 Rate Adjustment Percentage (Associated with 2017 Final Surplus/Shortfall)	0.3%	1.3%	-0.1%	0.6%	-3.3%	-10.2%
C. 2019 REQUIRED REVENUE ADJUSTMENT						
C.1 Cumulative Revenue Requirement (A.7-A.9-B.1-B.2)	\$2,901,084	\$20,529,888	\$8,972,464	\$24,197,169	\$1,598,821	\$3,074,804
C.2 Subtotal Surplus/(Shortfall) (A.1 - C.1)	(\$104,271)	(\$1,657,727)	(\$530,140)	(\$1,348,428)	\$22,107	\$223,786
C.3 Rate Adjustment Percentage (C.2 / A.1)	3.7%	8.8%	6.3%	5.9%	-1.4%	-6.8%
D. 2018 Estimated Surplus/(Shortfall)						
D.1 Surplus/(Shortfall), 2018 estimated	\$19,187	(\$185,244)	(\$146,859)	(\$76,197)	\$75,988	\$14,918
D.2 Surplus/(Shortfall) 2016 FINAL (incl. Interest)	\$76,139	\$88,282	\$476,458	(\$165,971)	(\$14,679)	(\$33,487)
D.3 Net Estimated 2018 Surplus/Shortfall	\$95,326	(\$96,962)	\$329,599	(\$242,168)	\$61,309	(\$18,569)
D.4 Agency Fees on D.3 Estimated Shortfall		(\$13,235)		(\$9,687)		(\$928)
D.5 Rate Adjustment Percentage (Associated with 2018 Estimated Surplus/Shortfall)	-3.4%	0.6%	-3.9%	1.1%	-3.8%	0.6%
E. Adjustments						
E.1 Miscellaneous Adjustment/Payment						
F. TOTAL RATE IMPACT						
F.1 Cumulative Revenue Requirement (C.1-D.3+E.1)	\$2,805,759	\$20,640,085	\$8,642,865	\$24,449,024	\$1,537,512	\$3,094,301
F.2 Total Surplus/(Shortfall) (A1 - F1)	(\$8,945)	(\$1,767,924)	(\$200,541)	(\$1,600,284)	\$83,415	\$204,289
F.3 Total Rate Adjustment Percentage (F.2 / A.1)	0.3%	9.4%	2.4%	7.0%	-5.1%	-6.2%

Table 8

Member Agency	Refunds from Recology to Member Agencies						Payments from Member Agencies to Recology						
	Rate Year						Rate Year						
	2014	2015	2016	2017	2018	Total	2013	2014	2015	2016	2017	2018	Total
Atherton	(\$895,936)	(\$279,189)	(\$340,737)			(\$1,515,862)							
Belmont													
Burlingame	(\$1,223,751)					(\$1,223,751)			\$5,222	\$177,230	\$127,920		\$310,372
East Palo Alto													
Foster City													
Hillsborough													
Menlo Park							\$160,011	\$176,439	\$23,550				\$199,989
North Fair Oaks													
Redwood City	(\$1,294,907)					(\$1,294,907)							
San Carlos													
San Mateo													
West Bay Sanitary District	(\$32,545)	(\$35,586)				(\$68,131)							
County Unincorporated													
Total	(\$3,447,139)	(\$314,775)	(\$340,737)	\$0	\$0	(\$4,102,651)	\$160,011	\$176,439	\$28,772	\$177,230	\$127,920	\$0	\$333,922



Agenda Item 5B

The staff report for TAC Agenda item 5B is the draft staff report for agenda item 10A at the September 27, 2018 Board of Directors meeting

STAFF REPORT

To: SBWMA Board Members
 From: John Mangini, Senior Finance Manager
 Hilary Gans, Sr. Operations & Contracts Manager
 Date: September 27, 2018 SBWMA Board of Directors Meeting
 Subject: Resolution Approving 2019 South Bay Recycling Compensation Application

Recommendation

Staff recommends the Board approve of Resolution 2017-32 attached hereto authorizing the following action:

- Approval of 2019 South Bay Recycling (SBR) Compensation Application. **Exhibit A** contains the SBWMA Final Report - Review of 2018 South Bay Recycling Compensation Application for Board consideration.

Summary

The SBWMA has reviewed the SBR 2019 Compensation Application and SBR has modified the application as necessary to address comments and concerns. Staff has verified that the Compensation Application is complete and meets the requirements of the Facility Operations Agreement. The Total Compensation for SBR in 2019 is recommended to be \$19,382,160 which is \$525,858 (2.8%) higher than in 2018.

Analysis

Total Compensation for SBR in 2018 is recommended to be \$19,382,160 which is \$525,858 (2.8%) higher than in 2018. Notable variances include: 1) an increase in non-CBA Labor (VRS) of 5.4% effecting the MRF service element, 2) a scheduled reduction in Interest Expense that is 37.9% lower than prior year and 3) a 31.5% increase in the fuel index. **Table 1** provides a summary of the specific dollar amounts of the major elements impacting the increase from SBR's 2018 compensation.

SOUTH BAY RECYCLING	2018		Adjustment	2019	
	Total Cost	Fee/Ton	%	Total Cost	Fee/Ton
Operating Cost					
Transfer Station	\$ 4,710,260	\$ 13.17	2.9%	\$ 4,844,789	\$ 13.54
Recyclable Materials Processing, net of Residue	\$ 6,599,377	\$ 89.15	3.3%	\$ 6,817,455	\$ 92.10
Transportation (<i>cost/ton-mile</i>)	\$ 6,625,111	\$ 1.09	3.2%	\$ 6,834,758	\$ 1.13
<i>Transport (cost/ton)</i>	-	\$ 18.52	3.2%	-	\$ 19.11
Total Operating Cost	\$ 17,934,748		3.1%	\$ 18,497,002	
Contractor Pass-Through Costs					
Total Interest	\$ 96,827		-37.9%	\$ 60,158	
Buyback Payments	\$ 825,000		0.0%	\$ 825,000	
Total Contractor Pass-Through Cost	\$ 921,827		-4.0%	\$ 885,158	
Total Compensation	\$ 18,856,575		2.8%	\$ 19,382,160	

(Note: the total costs shown in the above table are for illustration purposes and that the actual payment to SBR is based on the approved payment per ton times the **actual** number of tons received at the Shoreway facility).

Background

Each year, the SBR Compensation Application is brought forward to the TAC and Board simultaneously with the Recology San Mateo County (RSMC) report.

On July 5, 2018 SBR submitted a 2019 Compensation Application to the SBWMA as required under the Shoreway Operations Agreement (Article 7.12 prescribes the process by which this application is reviewed and the company's compensation is approved). The SBWMA staff reviewed the SBR 2019 Compensation Application for completeness, accuracy and consistency and issued a SBWMA Draft Report Review of 2019 South Bay Recycling Compensation Application on August 15th. The SBWMA staff requested that Member Agencies provide input on the Draft Report by August 24th. No comments were received Member Agencies and no changes were made to the Compensation Application.

Rate Setting and Approval Process

It is important to note that the approved compensation for SBR will be part of the 2019 Shoreway tip fees to be charged at the Shoreway facility. (The Shoreway tip fees are based on all the SBWMA operating costs that include SBR's compensation, off-site disposal and processing expense, fees paid to San Carlos, and SBWMA program budget, less commodity revenue). SBWMA operating cost, based on Shoreway tipping fees, are included as a pass-through expense in the calculation of each Member Agency's total Collection Revenue Requirement (shown as "Disposal and Processing Fees" the SBWMA Report Reviewing the 2019 Recology San Mateo County Compensation Application) for setting solid waste collection rates.

Fiscal Impact

The SBR 2019 Compensation Application indicates that the company's Total Compensation will increase by - \$525,858 or 2.8% over prior year (compared to last year's adjustment of 1.9%). Details of SBR compensation can be found in Exhibit A: SBWMA Report - Review of 2019 South Bay Recycling Compensation Application.

Attachments:

Resolution 2018-32

[Exhibit A - SBWMA Report - Review of 2019 South Bay Recycling Compensation Application available online only at www.rethinkwaste.org](http://www.rethinkwaste.org)

RESOLUTION NO. 2018-32
RESOLUTION OF THE SOUTH BAYSIDE WASTE
MANAGEMENT AUTHORITY BOARD OF DIRECTORS
APPROVING 2019 SOUTH BAY RECYCLING COMPENSATION APPLICATION

WHEREAS, The South Bayside Waste Management Authority (SBWMA) prepared and issued to the SBWMA Board of Director's on September 27, 2018 the SBWMA Draft Report on Review of 2019 South Bay Recycling (SBR) Compensation Application (Report); and

WHEREAS, SBWMA staff requested Board Member and Member Agency review of a Draft Report concurrent with review of the Draft Report on 2019 RSMC Compensation Application and requested comments, questions and concerns to be submitted by August 24, 2018; and

WHEREAS, SBWMA revised the Draft Report based on any comments received from Board Members and Member Agencies and additional information provided by SBR and issued the Final Report (**Exhibit A**) to the Board of Directors; and

WHEREAS, the Final Report recommends adjustments to SBR's compensation from its 2018 base costs to 2019.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves the SBWMA Final Report on Review of 2019 South Bay Recycling Compensation Application.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 27th day of September, 2018, 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. 2018-32 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on September 27, 2018.

 Charlie Bronitsky , Chairperson of SBWMA

ATTEST:

 Cyndi Urman, Board Secretary



DISCUSSION ON ANTICIPATED FUTURE SYSTEM COSTS

To: SBWMA TAC Members
From: Joe La Mariana, Executive Director
John Mangini, Sr. Finance Manager
Hilary Gans, Sr. Operations & Contracts Manager
Date: September 13, 2018 TAC Meeting
Subject: Estimated Cost Increases for Rate Years 2020 and 2021

Recommendation:

This staff report is for informational, future rate planning and discussion purposes only. No formal action is requested of the Technical Advisory Committee.

Summary

The SBWMA and the Member Agencies anticipate a number of system-wide cost adjustments that will affect the rate payers in Rate Years 2020 and 2021. The purpose of this document is to provide our member agency colleagues with high-level **estimates** of the potential rate impact(s) on the rate payers for each significant cost category change during this time period and to allow each Member Agency the chance to factor these adjustments into their individual rate review and rate setting process during Rate Years 2019, 2020, and 2021. As actual costs become known (i.e. disposal, organics processing, etc.) Table 1 (attached) will be updated and the Board and TAC will be promptly advised accordingly of the expected financial impacts.

Analysis

Due to a variety of impending contract expirations, market force changes and regulatory compliance requirements, it is anticipated that the SBWMA Member Agencies will experience increased costs that will occur leading up to rate year 2021. These changes include:

- The newly Restated and Amended Franchise Agreement with Recology (effective 1/1/21)
- Recology's service level adjustment in this new term (1/1/21)
- The agency's solid waste disposal (landfill) contract expiration (expires 12/31/19)
- The agency's second Organics processing contract with Recology's facility expiration (expires 12/31/20).
- The expiration of South Bay Recycling Contract (12/31/20). NOTE: The SBWMA can unilaterally extend this contract through 2023).

In addition, there several additional changes with significant cost implications that may occur as a result of market conditions or market response. These items include:

- Amendment 1 negotiations to build necessary new program capacity for Bulky Item Collection and Abandoned Waste Collection, as well as adopting new anti-litter collection procedures to comply with Member Agency's increasingly stringent compliance with their Municipal Regional Permit (MRP).
- Refunding the Agency's Series 2009 Bond to obtain more favorable interest rates.

- Anticipated capital investments to improve quality of MRF fiber commodities (market-driven) and compliance with new Organics diversion regulations

Table 1 (below) illustrates each of the cost increases with an estimated rate payer impact and an explanation of each cost category. All items on Table 1 are subject to comprehensive vetting by one, or more, of the following SBWMA Board-directed standing or ad hoc committees before being brought to the full Board for final consideration--Finance Committee; FAX Committee; Zero Landfill Committee. And items are subject to Board approval if not previously approved.

Table 1

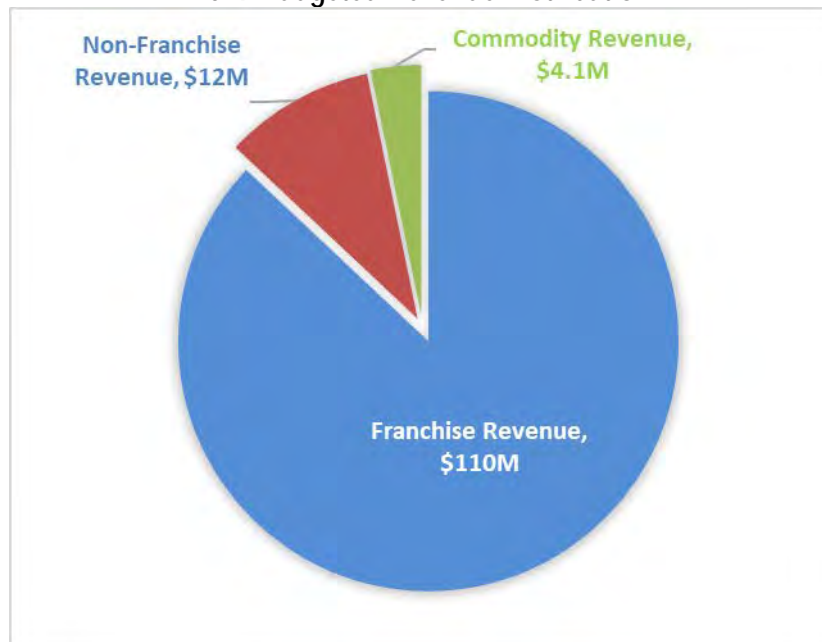
Estimated Rate Payer Impact from Rate Year 2019 to Rate Year 2021			
Cost Category	Estimated Rate Payer Impact	Why / Cause	Explanation
Primary Contracts			
Franchise Agreement (Recology)	6.5%	New Terms effective 1/1/21	Recology's base compensation is estimated to increase from \$58M in 2019 to \$59.2M in 2020 (2%). Recology's compensation for 2021 is \$64.2M (8.3% increase vs. 2020 estimate). Fuel cost is tied to the fuel index which is estimated to add an additional 1.5% in rate year 2021.
Franchise Agreement (Amendment 1)	1.0%	Capacity & Storm Water Regulations	Bulky Item and abandoned waste services are approaching the limit of 150 pickups per day. Potentially requiring the need for an additional route. Storm water compliance is included in the Amendment 1 discussions, which is likely to also increase costs.
Initial Service Level Adjustment (Rate Year 2021)	TBD	Franchise Agreement	Recology's base compensation is \$64.2M in rate year 2021. Additionally, the Contractor is entitled to a Service Level Compensation Adjustment in 2021 based on a three year rolling average of accounts for single family and lifts for commercial/multi-family. Change from period 2014,2015,2016 to period 2018,2019,2020. MA with significant commercial will see the largest impact.
South Bay Recycling	0.8%	Franchise Agreement	CPI based compensation adjustment
Market Factors			
Disposal and Processing	4.0%	Market	Solid waste disposal contract with Ox Mountain expires Dec 31, 2019. Solid waste disposal is estimated to increase through the RFP process. Organics processing contract with Blossom Valley (Recology) expires Dec 31, 2020. Organics processing is estimated to increase dramatically based on current markets.
Fiber Markets (worst case)	1.5%	Market	Mixed paper commodity revenue was budgeted at zero in FY 2019. In the event the mixed paper market completely crashed resulting in landfilling the material, estimated 1.5% increase to rate payers.
Finance Planning			
Bond Refunding	-7% If savings taken upfront and applied to rates	Economic	The Agency's Series 2009 bond is elidable for refunding on the first call date of September 1, 2019. Municipal advisors have estimated an \$8 million NPV savings from refunding the bond based on current interest rates. Savings could be taken upfront or realized over the 15 year remaining life of the bond. Savings may also be utilized to help fund capital needs.
Capital Projects	TBD	Market & Legislative	Legislative forces driving capital needs to meet environmental targets. Commodity market conditions driving capital investment. Capital investments will lower solid waste disposal and green waste processing costs.
Other			
Franchise Fees - CoSC	0.8%		Tip fee increases to cover the above cost increases have an impact on the franchise fees paid to the City of San Carlos.
Note: All items are subject to some level of review from one or more of the following Committees; Finance Committee, FAX Committee, Zero Landfill Committee. And all items are subject to Board approval if not previously approved.			

Background

There have been or will be significant changes in each of the agency's major contracts. Additionally, there have been new laws and unexpected seismic shifts in the global market place that all indicate that the system-wide cost basis for providing solid waste and recycling services for our 435,000 residents and 11,000 business and apartment buildings are shifting upwards. Please be assured that staff is working diligently with all program partners to minimize these costs. In doing so, staff has identified an undeniable upwards trend that must be clearly communicated to our member agency colleagues and community leaders so that they may plan accordingly and make fully informed decisions as these milestones occur.

Table 2 (below) illustrates the total 2019 budgeted revenue distribution.

**Table 2
2019 Budgeted Revenue Distribution**



Fiscal Impact

There is no specific budget fiscal impact associated with this report. This information is provided to assist in upcoming rate review and rate planning activities at the Member Agency level of our organization.

Attachments:

None-