



A Public Agency

NEW BUSINESS



STAFF REPORT

To: SBWMA Board Members
From: Robert J. Lanzone, General Counsel
Date: January 23, 2014 Board of Directors Meeting
Subject: Election of Board Officers for 2014

Recommendation

The Board is required to annually elect a Board Chair and Vice Chair per Article 8 of the JPA Agreement.

Background

Staff recommends the following process for the Board to follow in electing a Chair and Vice Chair for calendar year 2014:

1. Chair calls for nominations for the position of Chair (nominations do not require a second).
2. Motion is adopted to close nominations.
3. Board votes on nominations in the order in which the nominations were made until a Chair is elected.
4. Sections 8.5 and 10.8 of the JPA Agreement require the successful vote to be by 2/3 of the Directors present.
5. The new Chair takes the gavel and assumes the office and calls for nominations for Vice Chair and the same procedure is followed for electing the Vice Chair.

An interim Board Chair, Bill Widmer, and Vice Chair, Fran Dehn, were elected at the November 21, 2013 Board meeting given that the prior Board Chair and Vice Chair were termed out from their elected offices and were no longer eligible to serve as SBWMA Board Members.

Fiscal Impact

None.

Attachments:

None.



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Marshall Moran, Finance Manager
Date: January 23, 2014 Board Meeting
Subject: Mid-Year Review of FY1314 Annual Operating Budget

Recommendation

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors. Staff is presenting a draft mid-year budget document for consideration and review with any changes from the Board to be incorporated into a revised and final staff report for the February 27, 2014 Board meeting.

A similar mid-year budget report was presented to and reviewed by the TAC Committee on January 13th. Staff has incorporated suggested text changes to the staff report, but the TAC did not recommend any changes to the budget figures.

At this point in time, staff is not expected to ask for an increase in the FY1314 adopted program budget (excludes Shoreway operations). We are pleased to report that the current projection is in total \$25,000 under the approved program budget. Although individual line items may be over or under the adopted budget, the total is below the adopted budget and therefore no additional Board approval is needed. Staff is also not expecting to ask for any increases in capital spending as projected spending is less than the adopted level.

The attached budget document also includes our Shoreway operating expenses which are largely non-discretionary expenses (e.g., SBR operator compensation, disposal and processing expense and franchise fee payments to the City of San Carlos). Most of our operational revenue and costs are variable to tonnage delivered to the Shoreway facility and therefore largely move in the same direction (e.g., higher tons mean higher revenue and higher expenses and vice versa). Commodity prices are the biggest unpredictable factor and can have the biggest impact on our budget.

Analysis

Staff has conducted a thorough analysis of year-to-date revenues and expenditures. As originally budgeted and based on the projections detailed below, staff is not expecting any required Board action for revenue transfers from reserves to meet bond covenant requirements.

Several attachments have been prepared to provide the Board with key budget and related information as follows:

- **Attachment A** contains budget worksheets providing line item detail for all projected revenues and expenditures. Projected cash reserve balances and capital spending are also provided in the budget worksheets.
- **Attachment B** provides a series of worksheets on the programmatic detail, including key projects and work activities within each budget line item. SBWMA staff resources are also broken out by program areas within our budget.

- **Attachment C** provides a series of tables with critical information used to develop mid-year projections for revenue and Shoreway operations with comparisons to the adopted budget.
- **Attachment D** contains the current organizational chart.

Financial Summary

Total Net Income is projected at \$2,706,571 which is \$149,579 less than budgeted (0.4% of revenue). As explained further under the “fiscal impact” section of this staff report, higher projected revenues are slightly below higher projected expenses.

Table 1

FY1314 NET INCOME			
<u>Revenues</u>	<u>FY1314 Adopted Budget</u>	<u>FY1314 Year End Projections</u>	<u>Variance</u>
Total Revenues	\$41,579,200	\$42,071,600	\$492,400
Total Expenditures	\$38,723,050	\$39,365,029	\$641,979
Net Income:	\$2,856,150	\$2,706,571	(\$149,579)

Revenues

Total operating revenues for FY 2014 are projected to be \$492,400 (1.2%) higher than our FY 2014 budget. Higher tipping fee revenue of \$0.47 million (1.4%) is a result of higher public revenue of \$0.97 million (17.4%) partially offset by lower franchise revenue of \$0.5 million (-1.9%). As shown in **Table 2** below, franchise tonnage is projected to be 2,912 tons lower (-1.0%) than budgeted (lower solid waste and higher organics). Tip fees were also reduced for calendar 2014 from what was budgeted which impacts the last half of the budget year. Lower tonnage reduces revenue by \$268,000 and lower average rates reduce revenue by \$241,000.

Table 2

TIP FEE REVENUE	FY1314 Adopted Budget	FY1314 Mid- Year Projections	Adopted vs Mid-Year Budget	%
Franchise				
Tons	285,837	282,925	-2,912	-1.0%
Wtd Avg. Tip Fee	\$ 92.84	\$ 92.00	\$ (0.84)	-0.9%
Franchise Revenue	\$ 26,536,840	\$ 26,027,745	\$ (509,095)	-1.9%
Revenue Impact:	Volume	Price	Total	
Tonnage Change	-2,912	\$ 92.00	\$ (267,900)	52.6%
Price Change	285,837	\$ (0.84)	\$ (241,195)	47.4%
Total Change			\$ (509,095)	100.0%

As shown in the **Table 3** on the following page, public yards are projected to be 25,419 yards higher (14.5%) than budgeted (higher solid waste and slightly higher green waste). The weighted average public Tip fee is \$0.80 higher than budgeted. Higher volume increases revenue by \$834,000 and higher average rates increase revenue by \$141,000. Some of the higher public solid waste yards is due to the removal of roofing materials from public C&D yards and reclassified as public solid waste; the roofing materials are disposed of.

Table 3

TIP FEE REVENUE	FY1314 Adopted Budget	FY1314 Mid- Year Projections	Adopted vs Mid-Year Budget	%
Public				
Yards	175,224	200,643	25,419	14.5%
Wtd Avg. Tip Fee	\$ 32.03	\$ 32.83	\$ 0.80	2.5%
Public Revenue	\$ 5,611,560	\$ 6,586,867	\$ 975,308	17.4%
Revenue Impact:	Volume	Price	Total	
Tonnage Change	25,419	\$ 32.83	\$ 834,482	85.6%
Price Change	175,224	\$ 0.80	\$ 140,826	14.4%
Total Change			\$ 975,308	100.0%

Attachment C, Tables 1-3 provide further details on revenue, tonnage, and yardage trends.

Commodity revenues are forecast to be slightly lower than budgeted with a mid-year projection of \$10,581,300 vs. an adopted budget of \$10,813,200; a negative variance of \$231,900 or 2.1%. Actual MRF tonnage is higher than expected producing an increase in commodity revenue of approximately \$231,000 but lower commodity prices more than offset this increase. Further detail on pricing trends and shipped tons by commodity type can be found in Attachment C, Tables 4-5b. Commodity pricing has remained relatively stable over the past year.

Expenditures

The SBWMA program expense budget, exclusive of Shoreway operations and HHW collection services, is projected at \$24,821 better than budget. Notable variances within the program (category) areas of the budget include:

- **Administrative expenses** (*adopted budget of \$1,639,850 vs. mid-year projection of \$1,710,029; negative variance of \$70,179 or 4.3%*)
 - Board counsel expenses \$52,000 higher than budgeted due to unbudgeted legal expenses associated with labor issues and a contract dispute with Zanker Road, our construction and demolition debris processor.
 - D&O insurance expenses \$20,283 higher than budgeted due to a higher than assumed premium of \$7,134 and \$13,149 to meet the policy deductible related to settlement of an employee complaint.
- **Contract Compliance and Support expenses** (*adopted budget of \$300,600 vs. mid-year projection of \$248,600; positive variance of \$52,000 or 17.3%*)
 - Rate review expenses \$23,000 below budget as additional budgeted outside support should not be needed.
 - Quarterly load contamination sampling \$25,000 below budget.
- **AB 939 and AB 341 Compliance** (*adopted budget of \$858,500 vs. mid-year projection of \$815,500; positive variance of \$43,000 or 5%*)
 - Climate change reporting expenses \$8,000 higher due to one-time expenses associated with Climate Registry reporting for the SBR operations.
 - Commercial recycling technical assistance expenses \$20,000 lower due to lower than expected costs for waste characterization work.
 - Other savings from budget cuts in various line items.

Shoreway operations expenses are in total \$666,800 higher (1.9%) than the budgeted amount of \$35,427,100 (largely offset by higher revenue). Notable variances with the Shoreway operations portion of the budget include:

- Higher Shoreway operating expenses of \$536,400 in payments to SBR, the facility operator; \$342,900 due to higher tonnage and \$193,500 from different compensation rates and mix of materials than was originally budgeted in June 2013. SBR's actual 2014 compensation rates were approved in September 2013 by the Board. (See Attachment C, Tables 6a & 6b for detail).
- Disposal and processing expenses from higher tonnage was largely offset by lower 2014 rates paid to the vendors than was assumed in June 2013. (See Attachment C, Table 7 for detail).

- Approximately \$60,000 in unanticipated Shoreway facility maintenance projects in the first six months of the fiscal year has resulted in a revised facility cost expense budget of \$160,000 vs. the adopted budget amount of \$100,000. These unanticipated projects include a repair to site paving (concrete repair) near the maintenance facility, replacement of electrical wiring to truck shop, and replacement of damaged plumbing within the employee break room in the MRF building.
- \$22,200 in higher franchise fee payments to the City of San Carlos due to higher than expected tonnage and tip fee revenue into the Shoreway facility.

Capital Spending

Projected capital spending of \$465,000 is \$105,000 less than the adopted budget amount of \$570,000. This lower amount is due in large part to various facility maintenance projects that were originally expected to be capital projects but were not treated as such per our capital spending policy. Please see **Attachment A** for a worksheet on our capital projects.

Reserve Balances

Table 4 below captures the reserve balance projections for FY 2014 compared to the approved budget reserve balance. The Undesignated Reserve balance is projected to be \$2.5 million higher than budgeted mainly due to one-time items or highly variable factors such as commodity revenue. The FY2013 ending reserve balance was \$2.7 million higher than expected which affects the beginning balance for FY2014. This higher beginning balance is due to higher commodity revenue, timing of spending on the Master Plan capital project, and lower SBWMA program expenses as summarized in **Table 5**. Lower operating income of \$0.2 million in FY2014 and changes in capital spending in FY2014 reduced the ending FY2014 reserve balance variance to \$2.5 million shown in **Table 4**.

Staff believes the higher than budgeted undesignated reserve balance warrants further review of potential options for how these funds may be spent or not, but staff is not currently recommending any specific policy options. It would be prudent to first see whether actual FY1314 budget results come in close to the mid-year projections before making any decisions on use of the undesignated funds. Certainly a continuation of current budget trends might suggest consideration for no tipping fee adjustments for calendar year 2015.

Table 4

GENERAL RESERVE BALANCES	APPROVED BUDGET FY 2014	MID-YEAR BUDGET FY 2014	VARIANCE
	New Policy		
UNRESTRICTED:			
RATE STABILIZATON (10% of expense)	\$ 3,822,605	\$ 3,886,803	\$ 64,198
EMERGENCY RESERVE (10% of total expense)	\$ 3,822,605	\$ 3,886,803	\$ 64,198
EQUIPMENT REPLACEMENT (ANNUAL)	\$ 1,130,726	\$ 1,130,726	\$ -
UNDESIGNATED	\$ 426,571	\$ 2,930,166	\$ 2,503,595
TOTAL UNRESTRICTED GENERAL RESERVES	\$ 9,202,507	\$ 11,834,498	\$ 2,631,990
COMMITTED:			
BOND PRINCIPAL PAYMENT FUND	\$ 1,004,167	\$ 1,004,167	\$ -
TOTAL GENERAL RESERVES	\$ 10,206,674	\$ 12,838,664	\$ 2,631,990

Table 5

HIGHER FY2013 RESERVE BALANCE VS PROJECTION

1. FY13 Higher Operating Income

Higher Commodity Revenue	\$ 1,016,141	<i>higher prices and tons</i>
Lower disposal expense	\$ 208,586	
Lower SBWMA Program Expenses	\$ 494,015	
Miscellaneous	\$ 9,337	

FY13 Higher Operating Income \$ 1,728,079

2. Spending on Mater Plan Project (timing) \$ 918,405

3. Miscellaneous \$ 70,585

TOTAL FY2013 RESERVE VARIANCE **\$ 2,717,068**

Table 5 notes: Further explanations of the variances are:

- Higher commodity revenue – higher tons and higher prices (our projection had only five months of actual data).
- Lower disposal expense – 1.5% of total disposal expense; lower tons and slight mix change.
- Lower SBWMA program expense – lower total Administrative expense (\$30k); lower rate review expense (\$41k) – budgeted funds for agency support not needed; lower collection services franchise administration (\$80k) due to a delayed audit; lower quarterly load contamination (\$23k); lower recycling diversion program support (\$30k); lower commercial recycling technical assistance (\$112k) primarily due to a project moved to FY1314; lower multi-family outreach (\$71k) primarily due to a project moved to FY1314; lower residential outreach (\$41k) and lower HHW collection – timing of Burlingame start date (\$32k).
- Master Plan capital project spending – this was a one-time benefit caused by the timing of spending on the \$47 million Master Plan capital project. This project is now completed so this timing issue will not reoccur.

Background

On June 27, 2013 the South Bayside Waste Management Authority (SBWMA) Board of Directors adopted the FY1314 Annual Operating Budget.

On February 26, 2009, the Board of Directors adopted budget policies related to transfer of funds within the SBWMA's operating budget and capital budget; and staffing authorization. Policy details on the transfer of funds are as follows:

Transfer of funds:

1. The Executive Director is authorized to approve all appropriation transfers within and between the four program areas.
2. Any appropriations in excess of the total expenditures (sum of all four programs areas) included in the adopted budget are subject to Board approval.
3. Any appropriations transfers between capital projects are subject to Board approval. The Executive Director can transfer funds within a specific capital project.

As a matter of background, the SBWMA program budget is organized in four program (category) areas:

- Administrative Expenses
- Contract Compliance & Support
- Recycling & AB 939 Compliance
- Collection Operations

The Collection Operations portion of the budget is for the door-to-door HHW collection program which is treated as a pass through expense which is 100% offset by revenues collected from the Member Agencies for the program. There is also a separate capital projects portion of the budget.

The transfer of funds (item 2) portion of our budget policy was amended on March 28, 2013 to read:

"Any appropriations, with the exception of pass through expenses that are 100% offset by revenue from the same source, in excess of the total expenditures (sum of all four programs areas) included in the adopted budget are subject to Board approval. In the case of pass through expenses, the Executive Director shall provide an update at a Board meeting notifying the Board of the planned expenditures."

Fiscal Impact

Staff is projecting net income of \$2,706,571 which is \$149,579 below our adopted budget net income of \$2,856,150 (see **Table 1** on page 2 of the staff report). This negative variance is 0.4% of total revenue and 5.2% below budgeted net income due primarily to the following factors:

- Higher total revenue of \$492,400 offset by slightly higher operating costs.
- Higher Shoreway operating expenses of \$536,400 in payments to SBR, the facility operator; \$342,900 due to higher tonnage and \$193,500 from different compensation rates and mix of materials than was originally budgeted in June 2013. SBR's actual compensation rates were approved in September 2013 by the Board.

Non-operating obligations (i.e., bond principal payment and capital expenditures) are not included in the operating income but would be paid out of operating income to arrive at Net Cash Flow. These obligations include: bond principal payment (\$1,150,000) and capital expenditures (\$465,000). Net Cash Flow after deducting these items for FY 2014 is \$1,091,571.

Tables 6-8 provide a breakout on projected FY1314 year-end revenues and expenditures (program budget and Shoreway operations).

Table 6

FY1314 REVENUES			
<u>Revenues</u>	<u>FY1314 Adopted Budget</u>	<u>FY1314 Year End Projections</u>	<u>Variance</u>
Tip Fee Revenues	\$32,148,400	\$32,614,600	\$466,200
Net Commodity Sales Revenues*	\$8,723,100	\$8,593,100	(\$130,000)
Interest Income	\$55,900	\$160,700	\$104,800
HHW and Other Revenue	\$651,800	\$703,200	\$51,400
Total Revenues:	\$41,579,200	\$42,071,600	\$492,400
*Gross commodity sales – 28% revenue share with SBR and buyback payments.			

Table 7

FY1314 EXPENDITURES			
<u>Expenditures</u>	<u>FY1314 Adopted Budget*</u>	<u>FY1314 Year End Projections</u>	<u>Variance</u>
Administrative Expenses	\$1,639,850	\$1,710,029	\$70,179
Contract Compliance & Support	\$300,600	\$248,600	(\$52,000)
Recycling & AB 939 Compliance	\$858,500	\$815,500	(\$43,000)
Collection Operations	\$497,000	\$497,000	\$0
Total SBWMA Expenses:	\$3,295,950	\$3,271,129	(\$24,821)
Shoreway Operations:	\$35,427,100	\$36,093,900	\$666,800
Total Expenses:	\$38,723,050	\$39,365,029	\$641,979

Table 8

FY1314 EXPENDITURE DETAIL FOR SHOREWAY OPERATIONS

<u>Expenditures</u>	<u>FY1314 Adopted Budget</u>	<u>FY1314 Year End Projections</u>	<u>Variance</u>
SBR Compensation*	\$16,274,400	\$16,810,800	\$536,400
Disposal and Processing*	\$14,238,500	\$14,283,800	\$45,300
Insurance Shoreway	\$204,200	\$208,100	\$3,900
Education Center	\$65,000	\$65,000	\$0
Debt Service Bond Interest	\$2,944,400	\$2,944,400	\$0
Other Operating Expenses	\$145,000	\$195,000	\$50,000
Taxes (Sewer)	\$24,700	\$33,700	\$9,000
Franchise Fee (San Carlos)**	\$1,530,900	\$1,553,100	\$22,200
Total Shoreway Operations:	\$35,427,100	\$36,093,900	\$666,800
* Expense projection based on estimated facility tonnage			
** Expense projection based on estimated gate revenue (tipping fees x estimated tons)			

- Attachments:**
- A – FY1314 Mid-Year Projections
 - B – Programmatic Detail (Staff Resources and Description of Key Projects and Work Activities)
 - C – Back-Up Financial and Operational Data
 - D – Organization Chart

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
RESERVE SUMMARY

FY2014 MID YEAR BUDGET

	ACTUAL FY 2013	APPROVED BUDGET FY 2014	MID-YEAR BUDGET FY 2014	VARIANCE
		New Policy		
UNRESTRICTED:				
OPERATING RESERVE (10% of total expense)				\$ -
RATE STABILIZATON (10% of expense)	\$ 3,716,244	\$ 3,822,605	\$ 3,886,803	\$ 64,198
EMERGENCY RESERVE (10% of total expense)	\$ 3,716,244	\$ 3,822,605	\$ 3,886,803	\$ 64,198
EQUIPMENT REPLACEMENT (ANNUAL) ¹	\$ 1,799,028	\$ 1,130,726	\$ 1,130,726	\$ -
UNDESIGNATED	\$ 1,678,825	\$ 426,571	\$ 2,930,166	\$ 2,503,595
TOTAL UNRESTRICTED GENERAL RESERVES	\$ 10,910,341	\$ 9,202,507	\$ 11,834,498	\$ 2,631,990
COMMITTED:				
MASTER PLAN INTERNAL CAPITAL SPENDING				
BOND PRINCIPAL PAYMENT FUND	\$ 958,333	\$ 1,004,167	\$ 1,004,167	\$ -
BURLINGAME BOND REPAYMENT FUND	\$ 2,918,919			\$ -
TOTAL GENERAL RESERVES	\$ 14,787,593	\$ 10,206,674	\$ 12,838,664	\$ 2,631,990
<i>proof</i>	\$ 14,787,593	\$ 10,206,674	\$ 12,838,664	
Other LT Projects (Fully Funded)				
SHOREWAY REMEDIATION PROJECT	\$ 1,289,283	\$ 1,209,283	\$ 1,209,283	
CASH FLOW TO TOTAL RESERVE BALANCE				
Beginning Balance 7/1	\$ 13,055,019	\$ 12,070,525	\$ 14,787,593	
add - Operating Income	\$ 3,128,370	\$ 2,856,150	\$ 2,706,571	
add - TBT Payment from Recology	\$ 59,519			
less - non-MP capital exp	\$ (157,432)	\$ (570,000)	\$ (465,000)	
less - internal spend on MP capital	\$ (280,900)		\$ (40,500)	
less - debt principal pmt	\$ (1,095,000)	\$ (1,150,000)	\$ (1,150,000)	
less - "B" bond redemption on 8/15/2013		\$ (3,000,000)	\$ (3,000,000)	
Prior Year Adjustments				
adjust to final audited Balance	\$ 78,017	\$ (1)		
Ending Balance 6/30	\$ 14,787,593	\$ 10,206,674	\$ 12,838,664	

Reserves Cash Flow

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**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
REVENUE SUMMARY**

FY 2014 MID YEAR BUDGET

	6/27/13				
REVENUE SUMMARY	ACTUAL FY 2013	APPROVED BUDGET FY 2014	YTD SPENT Dec 6, 2013	MID-YEAR PROJECTION FY 2013-2014	Variance to Approved Budget
ADMINISTRATIVE REVENUES					
409100 INVESTMENT INCOME	85,302	55,900	107,487	160,700	104,800
409101 INVESTMENT (GASB 31) MARKET VALUE ADJ	(26,706)				-
409200 INTEREST INCOME	632				-
TOTAL ADMINISTRATIVE	59,228	55,900	107,487	160,700	104,800
OPERATIONS					
480026 TIPPING FEES - Non Franchised	5,362,492	5,611,600	2,695,427	6,586,900	975,300
480027 TIPPING FEES - Franchised	25,773,015	26,536,800	10,933,605	26,027,700	(509,100)
480028 COMMODITY SALES	10,924,829	10,813,200	2,917,666	10,581,300	(231,900)
480029 COMMODITY REVENUE SHARE	(1,376,988)	(1,498,900)	(734,880)	(1,388,700)	110,200
522717 BUYBACK PAYMENTS	(606,159)	(591,200)	(218,005)	(599,500)	(8,300)
480025 E-SCRAP REVENUE	68,464	70,000	1,094	70,000	-
480033 MRF Host Fee - 3RD PARTY TONS	63,987	74,800	41,959	125,900	51,100
480031 HHW DOOR TO DOOR COLLECTION SERVICE	464,567	497,000	287,168	497,000	-
480032 PERFORMANCE INCENTIVE / DISINCENTIVE	8,056	10,000		10,000	-
480008 MISCELLANEOUS REVENUE	10,719		318	300	300
TOTAL OPERATIONS	40,692,982	41,523,300	15,924,352	41,910,900	387,600
TOTAL REVENUE	40,752,210	41,579,200	16,031,839	42,071,600	492,400
NET OPERATING INCOME / <LOSS>	3,128,370	2,856,150	3,329,482	2,706,571	(149,579)
% OF REVENUE	7.7%	6.9%		6.4%	-0.37%

REVENUES

1/16/2014
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**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
EXPENSE DETAIL BY PROGRAM**

FY 2014 PROPOSED BUDGET

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY						
		ACTUAL FY2013	APPROVED BUDGET FY 2014	YTD SPENT Dec 6, 2013	MID-YEAR PROJECTION FY 2013-2014	Variance to Approved Bud
EXPENDITURE SUMMARY						
ADMINISTRATIVE EXPENSES			<i>June 2013</i>			vs Approved Budget
520305	ADMINISTRATIVE STAFF	496,991	505,300	197,930	505,600	300
520306	AB 939 PROGRAM STAFF	658,878	672,900	308,379	677,300	4,400
520328	EMPLOYEE RECRUITMENT / HR SUPPORT	1,705	2,000	-	-	(2,000)
520337	PEO COST (HR & PR FEES)	18,469	19,000	10,124	19,000	-
520312	BOARD COUNSEL	84,155	70,000	82,592	122,000	52,000
520300	BOARD MEETINGS & RECORDINGS	4,468	7,150	5,640	7,150	-
520310	ACCOUNTING SERVICES (City of San Carlos)	125,083	128,500	64,018	128,500	-
520334	INFORMATION SYSTEMS	18,777	27,000	18,807	27,000	-
520338	WEBSITE	9,161	15,000	9,433	15,000	-
520301	ANNUAL FINANCIAL AUDIT	8,230	9,000	4,176	8,410	(590)
520701	D&O INSURANCE	24,792	23,500	30,634	43,783	20,283
520202	BANK FEES	7,623	7,500	1,996	7,500	-
520203	RENT	54,157	51,500	21,379	51,311	(189)
520204	PRINTING AND POSTAGE	143	150	-	150	-
520107	UTILITIES & PHONE	15,176	17,500	4,986	16,000	(1,500)
520905	OFFICE/TENANT IMPROVEMENTS	557	1,000	395	1,000	-
520201	OFFICE SUPPLIES	17,257	17,000	6,862	17,000	-
520215	OFFICE EQUIPMENT COSTS	24,929	25,500	9,966	25,500	-
520504	PUBLICATIONS & PUBLIC NOTICES	-	2,500	-	1,500	(1,000)
520501	PROFESSIONAL DUES & MEMBERSHIPS	2,210	2,100	1,550	2,100	-
520801	VEHICLE MILEAGE & TOLLS	-	250	-	125	(125)
520105	CELL PHONES	4,715	4,000	1,160	3,600	(400)
520503	CONFERENCE & MEETINGS	11,318	8,000	5,679	8,000	-
520502	TRAINING	787	6,500	1,210	5,500	(1,000)
520511	SPONSORSHIPS & DONATIONS	5,500	9,000	4,500	9,000	-
522706	COMPUTER PURCHASE	6,010	8,000	178	8,000	-
TOTAL ADMINISTRATIVE		\$ 1,601,091	\$ 1,639,850	\$ 791,596	\$ 1,710,029	\$ 70,179
CONTRACT COMPLIANCE AND SUPPORT RATES						
520307	RATE REVIEW	28,756	53,000	23,280	30,000	(23,000)
TOTAL RATE REVIEW		28,756	53,000	23,280	30,000	(23,000)

EXPENDITURES

1/16/2014

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
EXPENSE DETAIL BY PROGRAM**

FY 2014 PROPOSED BUDGET

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY					
	ACTUAL FY2013	APPROVED BUDGET FY 2014	YTD SPENT Dec 6, 2013	MID-YEAR PROJECTION FY 2013-2014	Variance to Approved Bud
EXPENDITURE SUMMARY					
CONSULTANT SUPPORT					
520308		30,000	-	30,000	-
520309	HCM01	43,231	10,522	68,600	1,000
520309	HCN01		-		-
520309	HCS02	50,028	10,348	95,000	(5,000)
520309	HCS03		-		-
520309	HSHOR		-		-
520329			-		-
520336		53,986	10,000	25,000	(25,000)
TOTAL CONSULTANT		147,245	30,870	218,600	(29,000)
TOTAL CONTRACT COMPLIANCE & SUPPORT		\$ 176,001	\$ 300,600	\$ 54,150	\$ 248,600
RECYCLING - AB939 AND AB 341 COMPLIANCE					
RECYCLING ADMINISTRATION					
520311		36,500	13,500	25,000	-
520341		2,976	3	5,000	-
520309	HDV01		-	55,000	(5,000)
520604		-	1,500	1,500	-
TOTAL RECYCLING ADMINISTRATION		39,476	13,503	86,500	(5,000)
LONG RANGE PLAN/DIVERSION PROGRAMS					
520340		31,231	-	80,000	-
520340	MPOTR	207	-	-	-
520344			-	-	-
TOTAL LONG RANGE PLAN/DIVERSION PROGRAMS		31,438	-	80,000	-
COMMERCIAL PROGRAMS					
520331		6,455	-	5,000	-
520342			-		-
520608		14,891	2,066	23,000	8,000
520604	COE01	58,262	33,996	120,000	(20,000)
520604	COE02		-	40,000	-
520604	CDRCY	4,314	-	10,000	-
520604	GREEN		-		-
520604	MF001	13,665	-	90,000	(10,000)
TOTAL COMMERCIAL PROGRAMS		97,587	36,062	288,000	(22,000)
RESIDENTIAL PROGRAMS					
520604	QNL01	12,551	1,155	10,000	-
520604	QNLPM	108,421	41,213	110,000	-
520604	RES01	89,129	15,949	160,000	(5,000)
520604	COMPS	1,719	-	1,000	-
520604	HHWUW	64,340	13,074	75,000	(10,000)
520335		3,741	-	4,000	(1,000)
520604	ECE01		1,000	1,000	-
TOTAL RESIDENTIAL PROGRAMS		279,901	71,391	361,000	(16,000)
TOTAL RECYCLING - AB939 AND AB 341 COMPLIANCE		\$ 448,402	\$ 120,956	\$ 815,500	\$ (43,000)
SUBTOTAL SBWMA PROGRAM BUDGET		\$ 2,225,494	\$ 2,798,950	\$ 2,774,129	\$ (24,821)

EXPENDITURES

1/16/2014

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
EXPENSE DETAIL BY PROGRAM

FY 2014 PROPOSED BUDGET

GENERAL OPERATING EXPENSES BY MAJOR CATEGORY						
	ACTUAL FY2013	APPROVED BUDGET FY 2014	YTD SPENT Dec 6, 2013	MID-YEAR PROJECTION FY 2013-2014	Variance to Approved Bud	
EXPENDITURE SUMMARY						
COLLECTION OPERATIONS						
522710	HHW DOOR TO DOOR COLLECTION SERVICES	461,401	497,000	122,712	497,000	-
522711	CURBSIDE HOUSEHOLD BATTERY RECYCLING SERVICES					-
TOTAL COLLECTION OPERATIONS		461,401	497,000	122,712	497,000	-
TOTAL SBWMA PROGRAM BUDGET		\$ 2,686,895	\$ 3,295,950	\$ 1,089,415	\$ 3,271,129	\$ (24,821)
SHOREWAY OPERATIONS						
522712	OPERATOR COMPENSATION - SBR	15,839,848	16,274,400	5,515,596	16,810,800	536,400
522713	DISPOSAL & PROCESSING COSTS	13,887,514	14,238,500	4,665,322	14,283,800	45,300
520710	INSURANCE SHOREWAY	191,634	204,200	129,030	208,100	3,900
522714	SHOREWAY FACILITY COST	140,401	100,000	100,680	160,000	60,000
522701	ALLIED WASTE BALANCING ACCOUNT	160,257	-	-	-	-
522718	EDUCATION CENTER OPERATIONS	52,286	65,000	15,900	65,000	-
522716	MAINTENANCE - OX MTN TIPPER	39,998	45,000	9,788	35,000	(10,000)
520901	SHOREWAY MRF EQUIPMENT MAINTENANCE > \$10k					-
520324	TAXES (SEWER)	22,402	24,700	16,270	33,700	9,000
SUBTOTAL SHOREWAY OPERATIONS		\$ 30,334,340	\$ 30,951,800	\$ 10,452,586	\$ 31,596,400	\$ 644,600
SHOREWAY OTHER						
521104	DEBT SERVICE BOND INTEREST	3,124,738	2,944,400	513,852	2,944,400	-
521117	AMORTIZATION OF BOND ISSUANCE		-		-	-
522702	FRANCHISE FEE	1,477,867	1,530,900	646,504	1,553,100	22,200
SUBTOTAL SHOREWAY OTHER		\$ 4,602,605	\$ 4,475,300	\$ 1,160,356	\$ 4,497,500	\$ 22,200
TOTAL SHOREWAY OPERATING EXPENSE		\$ 34,936,945	\$ 35,427,100	\$ 11,612,942	\$ 36,093,900	\$ 666,800
TOTAL OPERATING EXPENSES (SBWMA Program + Shoreway Operations)		\$ 37,623,840	\$ 38,723,050	\$ 12,702,357	\$ 39,365,029	\$ 641,979

EXPENDITURES

1/16/2014

**SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
CAPITAL BUDGET**

FY 2014 MID-YEAR BUDGET

CAPITAL PROJECTS				
PROJECT DESCRIPTION	ACTUAL FY 2013	BUDGET FY 2014	MID YEAR ACTUAL YTD 12/6/13	MID YEAR PROJECTION FY2014
570300 MISCELLANEOUS				
570300 SF005 TS FLOOR REPAIR				
570300 SF023 TUNNEL DRIVEWAY PAVING AND SCALE				
570300 SF026 TRUCK SHOP-REPLACE 2 AIR COMPRESSORS				
570300 SF028 TRUCK WASH BUILDING--ROOF REPAIR				
570300 SF031 FRONTAGE LANDSCAPING				
570300 SF032 ADMIN BLDG IMPROVE/REPAIRS				
570300 SF039 MAINTENANCE BUILDING RELAMPING				
570300 SF041 SBR MAINTENANCE BAY				
570300 SF042 MRF Equipment repair budget	33,092	-	8,290	
570300 SF043 Solar engineering, install				
570300 SF044 Tipping floor resurfacing		150,000	0	150,000
570300 SF045 Site paving repairs and restriping	8,300			
570300 SF046 Outside lighting construction				
570300 SF047 Site Signage		40,000	0	40,000
570300 SF048 New K-Rail at TS				
570300 SF049 Truck shop building maintenance		25,000	0	20,000
570300 SF050 TS building maintenance	31,829	25,000	0	20,000
570300 SF051 MRF building maintenance		25,000	23,766	25,000
570300 SF052 Admin building maintenance	12,515	40,000	22,540	40,000
570300 SF053 Site maintenance	40,000	25,000	0	25,000
570300 SF054 Onsite parking development				
570300 SF055 Fire suppression		140,000	10,566	60,000
570300 SF056 Repairs to landfill tipper		80,000	0	70,000
570300 SF057 Recycled Water Supply Connection				
570300 SF058 Truck Wash System Replacement	19,540			
570300 SF059 Facility Capital Repair Projects	12,156			
570300 SF060 Education Center Exhibits		20,000	0	15,000
SUBTOTAL CAPITAL PROJECTS	157,432	570,000	65,162	465,000

CAPITAL

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RethinkWaste FY1314 Adopted Program Budget

ADMINISTRATION

FY1314 Budget: \$1,639,850.

SBWMA Staff: Kevin McCarthy, Executive Director; Marshall Moran, Finance Manager; and Cyndi Urman, Board Secretary/Office Manager.

Description: Provides for overall administrative operations of the agency, including: personnel administration, budget development, financial projections, expense payment processing, fiscal management, Board of Directors administration, customer service, risk management, records retention, and information technology. Budget for these functions is captured under “Administrative Expenses.”

FY1314 Key Projects/Activities

Budget Development

- Prepare the FY1415 budget for Board review and approval.
- Review the FY1314 budget to identify budget variances and plan for a mid-year adjustment if needed.
- Review existing tipping fees and develop recommended 2014 tipping fee adjustments.

Accounting and Fiscal Management

- Develop a recommendation for Board consideration on how to use unspent Shoreway remediation project Settlement funds.
- Complete FY1213 audit and 2013 calendar year financial statements for bond reporting.
- Develop a recommendation for Board consideration on how to use unspent Shoreway masterplan funds.
- Finalize a revised cash reserve policy per Board direction.
- Maximize use of competitive bidding for technical consulting services for scopes of work exceeding \$50,000.
- Meet bond covenants and reporting requirements as specified in the Indenture to ensure compliance including the two debt coverage ratios.
- Monitor SBR’s monthly reporting of tonnage and review their monthly invoice for accuracy and tie all payments to source data.
- Manage monthly cash transfers to/from SBR for commodity revenue, public revenue, and payments for operations as required.
- Manage monthly billing to and payment from Recology for disposal at Shoreway as prescribed in the agreements.
- Ensure all procedures are followed and receipts and payments are supported by proper documentation and made on timely basis such that cash flow is optimized.
- Review the Quarterly Investment Report to the Board prepared by the City of San Carlos.

Board of Directors Administration

- Deliver Board Packets to the Board of Directors accurately and on time.
- Maintain the Board of Directors webpage to ensure accurate and up to date information is readily available.
- Launch an updated website with a Board Member portal feature to house information of interest.
- Maintain accurate and up-to-date records for the SBWMA, including Board meeting minutes, resolutions, ordinances and contracts.
- Update as necessary the Board of Directors JPA and Contracts Resources Binder.

Customer Service

- Provide high quality customer service to members of the public that call the SBWMA, Board Member inquiries and staff needs.

Risk Management and Other Functions

- Renew general insurance policies.
- Manage to compliance with record retention and other Board adopted policies.

RethinkWaste FY1314 Adopted Program Budget

CONTRACT COMPLIANCE AND SUPPORT

SBWMA Staff: Cliff Feldman, Recycling Programs Manager; Marshall Moran, Finance Manager; Monica Devincenzi, Recycling Outreach and Sustainability Manager; and Hilary Gans, Facility Operations and Contracts Manager.

Description: Staff services provided in this area includes:

- Continued oversight and contract administration support for the twelve collection services franchise agreements with Recology San Mateo County (Recology), including follow-up work on audit findings and financial auditing.
- Continued oversight of the South Bay Recycling (SBR) Shoreway operations (**see “Shoreway Operations” budget worksheet**).
- Management of the annual rate review process, including review of the 2014 RSMC and SBR compensation applications, and completion of final rate reports (Recology, SBR and consolidated report) for 2014. Initiate audit work and review of operational data for 2015 compensation applications.

FY1314 Key Projects/Activities

Contract Administration

- Support Member Agencies with implementing administrative changes to their franchise agreements.
- Review 2013 Annual Report from Recology.
- Hire contractor to conduct audit of Collection Services and Facility Operations Reports, Tonnage Data and Customer Service Systems. Implement 2012 audit findings as appropriate.
- Hire contractor to conduct audit of Financial Systems of both contractors to verify financial risks to SBWMA. Implement 2012 audit findings as appropriate.
- Prepare 2014 Annual Public Education Plan for franchised collection services and related outreach support, including management of all collateral development and support for tailoring collateral for Member Agencies as appropriate.
- Complete two quarterly load contamination monitoring events.
- Provide prompt response to questions/issues/complaints that are raised by Member Agencies regarding their franchise agreements.
- Manage and set agenda, with input from Recology and Member Agencies, for a standing contractor coordination meeting.
- Develop a Member Agency snapshot report for 2013 and make presentations to Member Agency governing bodies upon request.

Rate Review, Analysis and Projections

- Complete final rate reports (Recology, SBR and consolidated report) for 2014 rate year.
- Continue to support Recology with making changes or improvements to the Compensation Application Report.
- Analyze the very detailed cost adjustments in the Compensation Applications from Recology and SBR. Verify they follow prescribed contractual requirements and approved compensation methodology. Detailed review of any Recology special issues.
- Prepare financial analysis for projected revenue and total collection costs, residual cost impact from prior year, and include pass-through costs (disposal and agency fees) to determine Total Rate Adjustment for each Member Agency.

RethinkWaste FY1314 Adopted Program Budget

- Prepare a variance analysis of 2014 total collection cost vs. 2013 cost by detailed cost categories by agency to aid in understanding collection cost changes.
- Provide ongoing rate analysis support and projections of 2013 rate impacts associated with changes to any assumptions.
- Update 5-year collection cost projection by agency for collection cost components: Recology cost, disposal expense and agency fees.
- Support Member Agencies with analysis of rate issues and attended rate hearings or rate related meetings as requested.
- Review Recology's Revenue Reconciliation Report, develop outside audit of financial risks including SBR's payments to SBWMA.
- Evaluate fixing cost allocations for future rate years to simplify the compensation adjustment process and provide greater rate predictability.

Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
Contract Compliance and Support – Consultant Support		\$300,600	\$248,600
Rate Review and Support	<ul style="list-style-type: none"> • Rate analysis and support for Member Agencies, including outside support for accounting temp. 	\$53,000	\$30,000
Facility Improvement Oversight	<ul style="list-style-type: none"> • The current two organics processing contracts expire at the end of 2014 so funds are budgeted to review options, including the potential management of an RFP process (\$15,000). • SBWMA currently does not have a Disaster Management Plan related to its Shoreway facility operations so a preliminary plan will be developed (\$15,000). 	\$30,000	\$30,000
Contract Management Support	<ul style="list-style-type: none"> • Conduct annual Financial Audit of Recology. This audit reviews the distribution of franchise and other fees to Member Agencies, annual revenue reconciliation and other aspects of financial related reporting. 	\$67,600	\$68,600
Collection Services Franchise Administration	<ul style="list-style-type: none"> • SBWMA is required per the franchise agreements to support the Member Agencies with contract compliance issues, including monitoring, and auditing if needed, the companies reporting, systems and customer service functions and ensuring compliance with any previous audit findings and recommendations (\$80,000); and, conducting periodic “dummy” calls to test customer service data self-reported by the company which pertains to calculation of performance incentives/disincentives and liquidated damages (\$20,000). 	\$100,000	\$95,000
Quarterly Contamination Monitoring	<ul style="list-style-type: none"> • The quarterly contamination monitoring will now be done twice per year per the package of negotiated cost savings measures implemented by both Recology and the SBWMA and currently being considered for adoption by the Member Agencies per Board resolution (\$50,000). 	\$50,000	\$25,000
Contract Negotiations/Legal Review	<ul style="list-style-type: none"> • Legal research and support in drafting contract amendments. 	\$0	\$0

RethinkWaste FY1314 Adopted Program Budget

RECYCLING OUTREACH AND PROGRAMS – AB 939 AND AB 341 COMPLIANCE

SBWMA Staff: Cliff Feldman, Recycling Programs Manager; and Monica Devincenzi, Recycling Outreach and Sustainability Manager.

Description: Staff services provided in this area to ensure compliance with state-mandated waste reduction, recycling and reporting requirements per the California Integrated Waste Management Act of 1989 (Assembly Bill (AB) 939) and the more recent legislation pertaining to mandatory commercial recycling (AB 341) include:

- Development and implementation of public education and outreach strategies to promote residential and commercial waste reduction and recycling collection programs and services.
- Oversight of any Recology San Mateo County services under the 12 collection services franchise agreements with the Member Agencies.
- Submission of State-required Annual Reports on behalf of ten participating Member Agencies.

FY1314 Key Projects/Activities

- Implement an SBWMA-wide regulation/ordinance to issue Non-Exclusive Franchises to commercial recycling haulers and develop the outreach strategy to begin collecting diversion data that is currently unavailable.
- Assist the cities of San Carlos and San Mateo with development and implementation of an anti-scavenging ordinance.
- Evaluate a pilot code enforcement effort to support Member Agency's with enforcement of their anti-scavenging ordinances.
- Manage the Systems and Reports Audit of Recology's 2013 performance and compliance.
- Implement convenient Agency-wide mobile app for residential and commercial customer use to request services, get additional program information and other related items.
- Develop, submit and manage the 2014 Annual Public Education Plan in coordination with Recology and the Ad Hoc Public Education Subcommittee, including an evaluation of the most cost-effective ongoing outreach activities and tools.
- Implement a model multi-family diversion program in coordination with Recology, including recommendations for the most cost effective ongoing outreach strategies. Will also include a program evaluation through conducting targeted waste characterization analysis of MFD accounts.
- Conduct targeted waste characterization analysis of commercial accounts to evaluate the effectiveness of the commercial recycling outreach program and make any recommendations as appropriate.
- Develop, implement and manage ongoing AB 341 outreach activities, including brochures, inserts and letters of non-compliance for Member Agency and Recology use; and presentations.
- Expand residential home diversion calculator program to increase residential diversion and participation, including continuing to perform direct research of residential customers carts set-out curbside to provide data needed for home diversion calculator project.
- Continue to develop outreach strategies to increase participation and customer knowledge of the Door-to-Door HHW Collection program for participating agencies.
- Continue to develop outreach strategies to increase participation and customer knowledge of CartSMART and BizSMART services, including tailoring programs to meet specific community needs.
- Submit 2012 Annual Reports to CalRecycle on behalf of ten Member Agencies.

RethinkWaste FY1314 Adopted Program Budget

- Provide outreach and other support to Member Agencies for Compost Giveaways and Shred/E-Scrap Recycling Events.
- Promote residential collection services through three *rethinker* newsletters, five bill inserts and 10 presentations at community groups, organizations and events in collaboration with Recology.
- Prepare a three-year trend analysis of Recology's operations and collection services provided to the Member Agencies.
- Prepare an updated staff report to the Board on future diversion opportunities.

Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
Recycling Outreach and Programs – AB 939 and AB 341 Compliance		\$858,500	\$815,500
CIWMB (CalRecycle) Annual Report	<ul style="list-style-type: none"> • SBWMA annually provides the necessary research and data compilation to draft and submit the State mandated Electronic Annual Reports for ten Member Agencies to comply with the requirements of AB 939 (\$25,000). 	\$25,000	\$25,000
SBWMA Annual Report	<ul style="list-style-type: none"> • Staff prepares an annual report that has been well received in prior years by various stakeholders. This annual report provides a snapshot of the key metrics and milestones for the prior year. This budget expense covers design and production costs of this report (\$5,000). 	\$5,000	\$5,000
Diversion Program Support	<ul style="list-style-type: none"> • Provide consultant(s) support to Staff as needed with developing, designing and producing various outreach materials for diversion programs (\$30,000). • Develop model Anti-Scavenging Programs in two Member Agencies that have previously expressed an interest in developing an ordinance: San Mateo and San Carlos. This work entails stakeholder engagement and evaluation of a related pilot Code Enforcement Program per prior direction from the Board (\$30,000). 	\$60,000	\$55,000
Event Giveaways	<ul style="list-style-type: none"> • Promote the various programs and services at Member Agency community events, primarily held in the spring and summer, and include educational and promotional items as giveaways (\$1,500). 	\$1,500	\$1,500
Long Range Plan Alternatives	<ul style="list-style-type: none"> • Staff is undertaking Long Range Planning Activities to assist the Member Agencies with exploring and scoping policies and programs to achieve higher levels of diversion (\$50,000). A specific project will entail developing a model public spaces recycling program through testing different approaches to ensure the public is provided an opportunity to recycle at parks and other public spaces (\$30,000). 	\$80,000	\$80,000
Large Event/Venue Consulting	<ul style="list-style-type: none"> • Due to event organizers preferring carts for events in lieu of ClearStream Containers, the two RethinkWastes' Venue and Events trailers are rarely used. Staff is considering repurposing one trailer for collection of niche items (e.g., books) at events; update Venue and Events brochure; program tracking (\$5,000). 	\$5,000	\$5,000
Large Event/Venue Recycling Services	<ul style="list-style-type: none"> • Use of trailers limited compared to prior years – expense not anticipated (\$0). 	\$0	\$0

RethinkWaste FY1314 Adopted Program Budget

Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
Climate Change Reporting and Policy Options	<ul style="list-style-type: none"> As part of our environmental stewardship, Staff reports GHG emissions for the offices at the San Carlos Library, and is assisting with SBR's annual reporting framework, both through The Climate Registry (\$15,000). 	\$15,000	\$23,000
Commercial Recycling Technical Assistance	<ul style="list-style-type: none"> Staff is working on a project to develop and implement a Non- Exclusive Franchise Permit System for Recycling Haulers, which will include stakeholder engagement and public outreach component to stakeholders, including chambers, grocery stores, recycler companies, and the Member Agencies (\$50,000). Conduct targeted Commercial/MFD waste characterization studies to compile data specific to these sectors needed to design cost effective future policies and programs to increase diversion (\$55,000). To comply with the AB 341 mandatory commercial recycling mandate, staff is charged with outreach and education to the commercial/MFD sector and directly making presentations and hosting workshops at Multi-Family Dwelling HOA's and Chambers of Commerce (\$10,000). Funds are budgeted to measure the effectiveness of various outreach materials and strategies and to conduct the annual Business Awards Program (\$25,000). 	\$140,000	\$120,000
Purchase Commercial/MFD Containers for Recology	<ul style="list-style-type: none"> SBWMA is required per the Franchise Agreements with Recology to purchase various products to facilitate diversion at commercial and multi-family dwelling customers. Specifically, this expense will cover the annual purchase of Slim Jims, desk-side recycling containers and Buddy Bags that the company will distribute to businesses and multi- family customers throughout the SBWMA service area (\$60,000). {This expense was previously budgeted in the Commercial Recycling Assistance and MFD Outreach line items, but is now broken out separately.} 	\$40,000	\$40,000
C&D Recycling Program	<ul style="list-style-type: none"> Assist permit counter staff at the Member Agencies with improving the cost effectiveness and administration of their C&D ordinance(s) and additionally assisting with the transition to adopting an industry sponsored facility diversion certification standard (\$10,000). 	\$10,000	\$10,000
Green Business Program	<ul style="list-style-type: none"> Assist Member Agencies with certifications per Board direction (\$0). 	\$0	\$0

RethinkWaste FY1314 Adopted Program Budget

Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
Multi-Family Outreach	<ul style="list-style-type: none"> • SBWMA is required per the Franchise Agreements with Recology to provide outreach materials in the form of the toolkit. Staff will be developing a model MFD outreach program, including updating the existing Toolkit and adding supplemental outreach materials. The actual budget is contingent on whether new pieces (e.g., magnets, door hangers, etc.) are used initially on a smaller scale or rolled out service area-wide (\$65,000). • Promote subscriptions to Recology MFD batteries/cell phones collection service through targeted outreach pieces and strategies (\$10,000). • Funds are budgeted to measure the effectiveness of various outreach materials and strategies and to conduct the annual Multi-Family Awards Program (\$25,000). 	\$100,000	\$90,000
Rethinker Newsletter Design/Set-up	<ul style="list-style-type: none"> • SBWMA is required per the Franchise Agreements with Recology to develop the <i>rethinker</i> newsletter for SFD and MFD residents. Previously this was a quarterly newsletter, however, per the Board approved FY13 budget, it is now published 3 times per year. Development of the newsletter content and layout (\$10,000). 	\$10,000	\$10,000
Rethinker Newsletter Printing/Mailing	<ul style="list-style-type: none"> • SBWMA is required per the Franchise Agreements with Recology to develop and issue the <i>rethinker</i> newsletter to SFD and MFD residents. Previously this was a quarterly newsletter, however, per the Board approved FY13 budget, it is now published 3 times per year. This is for printing and mailing of the 3 issues (\$110,000). Staff will continue to promote sign-ups for electronic version to reduce costs. 	\$110,000	\$110,000
Residential Outreach Programs	<ul style="list-style-type: none"> • SBWMA is responsible for all outreach and education efforts, including ongoing outreach support/maintenance for existing programs through brochures, posters, flyers and new opportunities such as signs on Recology collection vehicles, and addressing niche issues including illegal dumping, storm water trash, anti-scavenging (\$32,000). • RethinkWaste website and social media (FB, Twitter, You Tube) outreach, includes maintenance and updates to keep current and relevant (\$35,000). • Development of an online Home Diversion Calculator to promote and recognize households with high diversion (\$15,000 promotion, incentives, maintenance of calculator – 2 cart weighing events (\$25,000). • Development of a third-party Mobile Phone App, which will cover costs for one-time set-up fee and annual fee for RethinkWaste and all Member Agencies, will make it more convenient for tech-savvy customers to have access to program information and make service requests/report issues (\$33,000). • SBWMA would like to provide support for Member Agencies’ reusable bag ordinances, including purchase of reusable bags for giveaways (\$10,000). • Measure the effectiveness of various outreach materials and strategies (\$15,000). 	\$165,000	\$160,000

RethinkWaste FY1314 Adopted Program Budget

Compost Giveaway	<ul style="list-style-type: none"> SBWMA is responsible for assisting Member Agencies with promotion of Compost Giveaway events (\$1,000). 	\$1,000	\$1,000
Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
HHW Door-to-Door Collection Outreach	<ul style="list-style-type: none"> Continue ongoing public education activities promoting this program to residences and also commence a “rolling” public education/marketing campaign to further promote these services to participating Member Agencies. Public education directly drives participation in this program as awareness of this service still remains relatively low across the participating Member Agencies. Promotional activities will include direct mail, outdoor and print advertising, and promotion at community events starting July 1, 2013 through June 30, 2014 (\$75,000). Additionally, staff is discussing with the company the possibility of providing the service to Member Agency facilities and small businesses and if the program can be negotiated in a cost effective manner staff will promote this to the targeted generators (\$10,000). 	\$85,000	\$75,000
Curbside Household Battery Outreach	<ul style="list-style-type: none"> Continue to promote recycling of household batteries, one of the programs identified in the 2012 Customer Satisfaction Survey as needing additional awareness (\$5,000). 	\$5,000	\$4,000
Electronics Collection Events	<ul style="list-style-type: none"> SBWMA is responsible for assisting Member Agencies with promotion of the E-scrap and shred events (\$1,000). 	\$1,000	\$1,000
SBWMA Program Budget (exclusive of Administrative Expenses)		\$1,159,100	\$1,064,100

RethinkWaste FY1314 Adopted Program Budget

COLLECTION OPERATIONS

SBWMA Staff: Cliff Feldman, Recycling Programs Manager; and Monica Devincenzi, Recycling Outreach and Sustainability Manager

Description: Staff services provided in this area is to ensure compliance with state-mandated Universal Waste recycling and disposal regulations through administration of the Door-to-Door Household Hazardous Waste (HHW) collection services with WM Curbside Inc. and oversight of the household batteries and cell phone collection services provided by Recology.

FY1314 Key Projects/Activities *(outreach projects listed below are included in the Recycling – AB 939 and AB 341 Compliance category of our SBWMA program budget)*

- Implement additional public education and outreach to the currently participating ten Member Agencies to increase collection of HHW through the Door-to-Door HHW collection program.
- Provide program roll-out public education and outreach to any Member Agency that begins participating in the program.
- Commence discussions with management at WM Curbside Inc. to expand the HHW collection services to Conditionally Exempt Small Quantity Generators (CESQG) which is the regulatory definition of commercial generators that meet certain criteria. These customers include small businesses and potentially Member Agency facilities such as corporation yards.
- Conduct a pilot project with South Bay Recycling at Shoreway to begin segregating select battery chemistries (from batteries collected through Recology’s curbside recycling program) in an effort to sell rechargeable batteries and reduce recycling/disposal expense.
- Continue and expand public education and outreach to increase participation in Recology’s recycling collection services with specific emphasis on increasing the collection of cell phones and batteries from the Multi-Family Dwelling sector which includes approximately 4,400 customers and 41,000 residential living units.
- Prepare a multi-year trend of WM Curbside’s Door-To-Door HHW collection services to the Member Agencies.
- Prepare an updated staff report to the Board on future HHW and Universal Waste recycling and disposal opportunities.

<u>Budget Expense Category</u>	<u>Description of Program</u>	<u>FY14 Adopted</u>	<u>FY14 Mid-Year Projection</u>
Collection Operations		\$497,000	\$497,000
HHW Door To Door Collection Services	<ul style="list-style-type: none"> • Disposal and processing expenses paid by RethinkWaste to WM Curbside Inc. for operating the Door to Door Collection Services for 10 Member Agencies (Redwood City and Atherton don’t participate). 	\$497,000	\$497,000
Curbside Household Battery Recycling Services	<ul style="list-style-type: none"> • Expense paid by Shoreway facility operator, SBR, and included in Shoreway Disposal and Processing Costs line item. 	\$0	\$0

RethinkWaste FY1314 Adopted Budget Items for Shoreway Operations

SBWMA Staff: Hilary Gans, Facility Operations and Contracts Manager; Marshall Moran, Finance Manager; Faustina Mututa, Environmental Education Coordinator; and Heather Co, Environmental Education Associate.

Description: This includes SBWMA staff directed activities regarding Shoreway operations including: oversight of SBR operations, including contract compliance and review and payment of SBR invoices; Shoreway facility capital repairs and maintenance; education center operations, exclusive of staff wages and benefits which are included in the Administration portion of the SBWMA program budget; management of disposal and processing contracts, including review and payment of invoices; facility insurance; and billing Recology for tons delivered to Shoreway.

FY1314 Key Projects/Activities

- Continued operational oversight and contract compliance of MRF, transfer station, and transportation operations performed by SBR.
- Ongoing management of Shoreway Facility capital and maintenance projects.
- Ongoing management of third party recycling and disposal contracts for solid waste, organics, and C&D.
- Manage Shoreway's ongoing ground water remediation and testing project (budget of \$1.5 M) toward the goal of receiving San Mateo County closure approval in 2013.
- Manage a procurement process for the expiring organics processing contracts for residential and commercial organics.
- Conduct the Shoreway school and public tours program, including developing new partnership opportunities to support the program.
- Completion of the outdoor environmental education area near the Transfer Station
- Installation of an exhibit highlighting the LEED and green features of the Shoreway facility and other enhancements as needed.
- Completion of conceptual designs for a Transfer Station processing system to recover organics materials and other recyclables.
- Continue to identify and pursue new third party tonnage opportunities, including evaluating a sales position for SBR.
- Completion of a performance audit and financial benefit of the Shoreway solar power project that provides enough electricity to self-power the MRF and processing of recyclables.
- Analysis of upgrade options and cost to the Shoreway underground fuel storage tanks and supply system.
- Complete a Disaster and Emergency Management Plan for the Shoreway operations.

RethinkWaste FY1314 Adopted Budget Items for Shoreway Operations

Budget Expense Category	Description of Program	FY14 Adopted	FY14 Mid-Year Projection
Shoreway Operations		\$30,951,800	\$31,596,400
Operator Compensation	<ul style="list-style-type: none"> Contractually required payments (per ton and/or per ton mile rates) by RethinkWaste to SBR to operate the MRF and Public Recycling Center, scale house and Transfer Station, and transport materials for disposal and processing. 	\$16,274,400	\$16,810,800
Disposal and Processing Costs	<ul style="list-style-type: none"> Tipping fees paid by RethinkWaste to third party vendors (under contract w/ RethinkWaste) for disposal (Republic Services Ox Mountain landfill), and processing (Zanker Road for C&D, Recology Grover for composting, and Republic Services Newby Island for composting). All such contracts include per ton rates subject to annual CPI adjustments. 	\$14,238,500	\$14,283,800
Insurance Shoreway	<ul style="list-style-type: none"> Annual insurance premiums paid by RethinkWaste for Shoreway property and liability insurance, excluding Director's and Officer's insurance which is shown in a line item under Administrative expense. 	\$204,200	\$208,100
Shoreway Facility Cost	<ul style="list-style-type: none"> Non capital related expenses to maintain the 16-acre Shoreway facility, including nearly 200,000 square feet of building space and \$20 million in equipment owned by RethinkWaste. 	\$100,000	\$160,000
Allied Waste Balancing Account	<ul style="list-style-type: none"> Payments owed to Allied Waste to close out compensation owed to them as the previous Shoreway facility operator. 	\$0	\$0
Education Center Operations	<ul style="list-style-type: none"> Non labor related expenses to manage Shoreway facility school and public visitor tour program. Includes \$20k for busing assistance within our service area, funds for Trash to Art Contest, annual Earth Day event, compost donations to schools, safety equipment and supplies, and outreach materials. 	\$65,000	\$65,000
Maintenance – Ox Mountain Tipper	<ul style="list-style-type: none"> Non capital related expenses associated with maintaining a hydraulic tipper (used to unload transfer trailers at the landfill). The tipper is owned by RethinkWaste, but operated by Republic at their Ox Mountain landfill. 	\$45,000	\$35,000
Taxes (sewer)	<ul style="list-style-type: none"> Sewer fees paid to the City of San Carlos. 	\$24,700	\$33,700
Shoreway Other		\$4,475,300	\$4,497,500
Debt Service Bond Interest	<ul style="list-style-type: none"> Annual interest payments on the 2009A Solid Waste Enterprise Revenue Bonds of \$53.5 million and the 2009B (taxable) bonds of \$3 million. 	\$2,944,400	\$2,944,400
Franchise Fee	<ul style="list-style-type: none"> 5% franchise fee paid by RethinkWaste to City of San Carlos for the Shoreway facility. The fee is collected on gate (tipping) fees, but not on commodity revenues. There is no floor or cap on the fees paid to City of San Carlos. 	\$1,530,900	\$1,553,100
TOTAL SHOREWAY OPERATING EXPENSE		\$35,427,100	\$36,093,900

Attachment C

Back-up Financial and Operational Data

This attachment provides additional supporting data for the 2014 Mid-Year Budget projections in the staff report.

OPERATING REVENUE

- Table 1** provides revenue, tonnage, yardage and weighted average tip fee data for 2014 Budget and Mid-Year Budget.

Table 1

TIP FEE REVENUE		2014 Approved Budget	2014 Mid-Year Budget	2014 Mid-Year vs Budget Variance	%
Franchise					
	Tons	285,837	282,925	-2,912	-1.0%
	Wtd Avg. Tip Fee	\$ 92.84	\$ 92.00	\$ (0.84)	-0.9%
	Franchise Revenue	\$ 26,536,840	\$ 26,027,745	-509,095	-1.9%
Public					
	Yards	175,224	200,643	25,419	14.5%
	Wtd Avg. Tip Fee	\$ 32.03	\$ 32.83	\$ 0.80	2.5%
	Public Revenue	\$ 5,611,560	\$ 6,586,867	975,308	17.4%
Total Tip Fee Revenue		\$ 32,148,400	\$ 32,614,613	\$ 466,213	1.5%

- Table 2a** provides historical and projected detail on inbound tonnage and yardage by material type to the Transfer Station (excludes recyclables tonnage to MRF).

Table 2a

(see notes on following page regarding SBWMA green waste and food waste and Public C&D)

Total TS Tonnage and Yardage			2011	2012	2013	2014	13 vs 12	14 vs 13
Franchise								
SBWMA Solid Waste	tons		197,601	182,194	181,239	175,298	-0.5%	-3.3%
SBWMA Green Waste	tons		71,046	82,750	95,560	103,238	15.5%	8.0%
SBWMA Food Waste	tons		14,347	13,735	5,134	555	-62.6%	-89.2%
SBWMA Dirt, Inert, C&D	tons		2,641	4,414	3,070	3,384	-30.5%	10.2%
SBWMA Wood	tons		0	73	112	113		
SBWMA Other, BI	tons		0	105	298	337		
sub-total Franchise			285,635	283,271	285,413	282,925	0.8%	-0.9%
Non-SBWMA Weighed Dirt	tons		2,233	3,192	4,014	4,940	25.8%	23.1%
Total Tons			287,868	286,462	289,427	287,865	1.0%	-0.5%
Public								
Public Solid Waste Yards	yards		47,721	31,667	45,244	70,683	42.9%	56.2%
Public Green Waste Yards	yards		41,875	45,215	58,612	62,987	29.6%	7.5%
Public C&D	yards		48,953	62,655	66,531	66,973	6.2%	0.7%
Total Yards			138,548	139,536	170,386	200,643	22.1%	17.8%

Table 2a notes: The “franchise food waste” category is largely being classified as “franchise green” waste starting in 2013 due to the commingling of food and organics in the shipment (transportation) of the materials to the 3rd party compost operations.

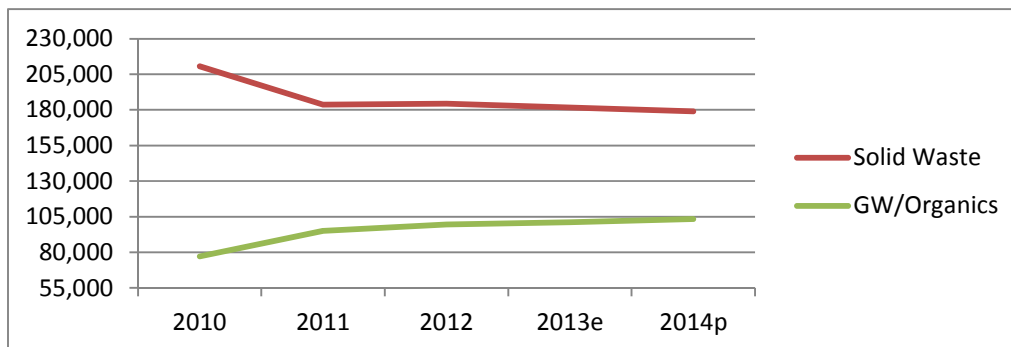
Due to a change by our 3rd party C&D processor, Zanker Road, in their material acceptance standards, the “public C&D” is presorted at Shoreway to remove roofing materials. The roofing materials are then disposed of resulting in fewer tons classified as C&D, but more tons as “public solid waste.”

Table 2b compares the 2014 Mid-Year volume projections to the budgeted assumptions.

Total TS Tonnage and Yardage		2014 Approved Budget	2014 Mid-Year Budget	2014 Mid-Year vs Budget Variance	%
Franchise					
SBWMA Solid Waste	tons	181,396	175,298	-6,098	-3.4%
SBWMA Green Waste	tons	100,721	103,238	2,517	2.5%
SBWMA Food Waste	tons	302	555	253	83.7%
SBWMA Dirt, Inert, C&D	tons	3,083	3,384	301	9.8%
SBWMA Wood	tons	124	113	-11	-9.1%
SBWMA Other, BI	tons	211	337	126	59.7%
sub-total Franchise		285,837	282,925	-2,912	-1.0%
Non-SBWMA Weighed Dirt	tons	3,756	4,940	1,184	31.5%
Total Tons		289,593	287,865	-1,728	-0.6%
Public					
Public Solid Waste Yards	yards	40,916	70,683	29,767	72.8%
Public Green Waste Yards	yards	58,986	62,987	4,001	6.8%
Public C&D	yards	75,322	66,973	-8,349	-11.1%
Total Yards		175,224	200,643	25,419	14.5%

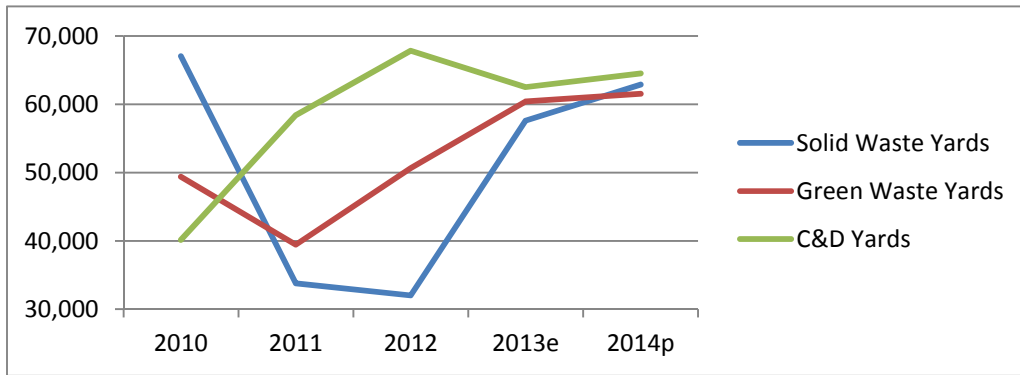
3. Tables 3a and 3b chart the change in volume from Table 2a.

Table 3a



Historical high and 2010 for solid waste: 334,644 tons in 1998. 208,767 tons in 2010.
Historical high and 2010 for organics: 100,694 (est.) in 2013. 77,251 tons in 2010.

Table 3b



**Recent highs: Public solid waste: 152,580 yards in 2007.
 Public green waste: 98,115 yards in 2007.**

4. **Table 4** provides supporting data on commodity revenue projections.

Table 4

COMMODITY REVENUE		2014 Budget	2014 Mid-Year	14B vs 14P	%
Tons		60,340	61,692	1,352	2.2%
Wtd Avg. Price		\$ 179.20	\$ 171.52	\$ (7.69)	-4.3%
Gross Revenue		\$ 10,813,172	\$ 10,581,344	-231,828	-2.1%
Revenue Share w/ SBR		(1,498,880)	(1,388,725)	110,155	-7.3%
Buyback Payments		(591,229)	(599,532)	-8,303	1.4%
Net Commodity Revenue		\$ 8,723,063	\$ 8,593,087	-129,976	-1.5%
Price / Volume Impact		Volume	Price	Total	
Tonnage Change		1,352	\$ 171.52	\$ 231,894	
Price Change		60,340	\$ (7.69)	\$ (463,721)	
Total Change				\$ (231,828)	

5. **Table 5a** provides a history of commodity prices per ton by quarter. The figures shown are the blended average price per ton for all commodities sold in a given quarter.

Table 5a

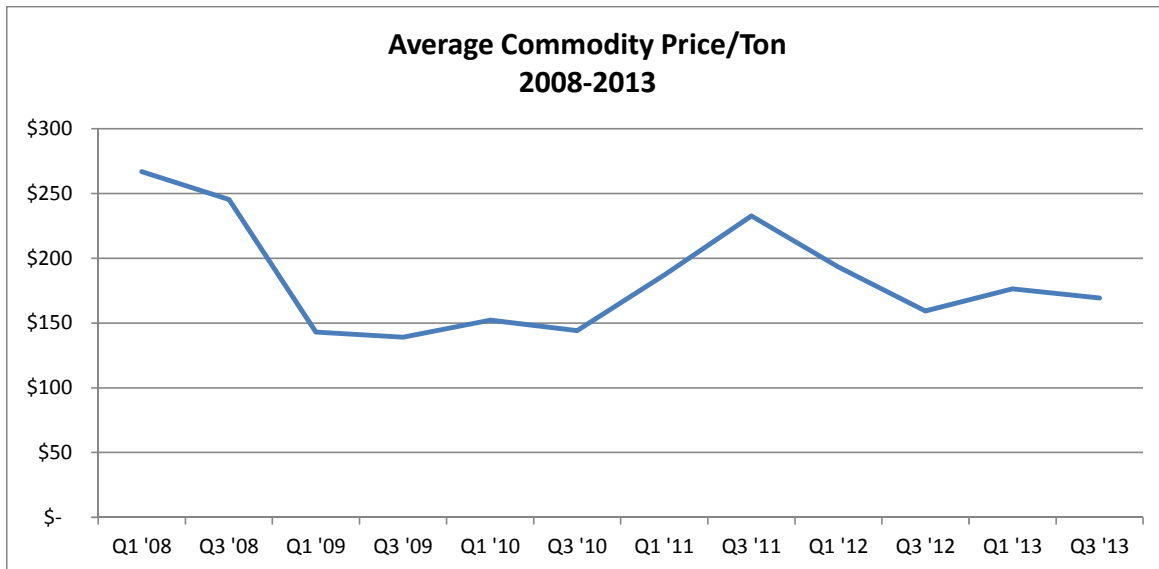


Table 5b shows the actual commodity revenue by commodity type as of September 2013 YTD (nine months).

Table 5b

Outbound Commodity Tons & Revenue						
Commodity	Tons	Price / Ton	Revenue	% Tons	% Revenue	
OCC (cardboard)	10,335	\$ 157	\$ 1,626,401	22.8%	20.9%	
ONP #8 (newspaper)	11,460	\$ 116	\$ 1,333,727	25.3%	17.1%	
Mixed Paper	11,219	\$ 105	\$ 1,178,718	24.7%	15.1%	
PET	954	\$ 1,568	\$ 1,495,424	2.1%	19.2%	
HDPE Natural	280	\$ 736	\$ 206,359	0.6%	2.6%	
HDPE Color	304	\$ 517	\$ 157,306	0.7%	2.0%	
Glass (Clean)	316	\$ 144	\$ 45,362	0.7%	0.6%	
Aluminum	158	\$ 4,436	\$ 702,248	0.3%	9.0%	
Glass (Mix)	8,735	\$ 96	\$ 839,941	19.3%	10.8%	
Tin	735	\$ 173	\$ 126,986	1.6%	1.6%	
Plastic 3-7	224	\$ 53	\$ 11,834	0.5%	0.2%	
Mixed Rigid Plastic	335	\$ 97	\$ 32,569	0.7%	0.4%	
Mixed Film Plastic	20	\$ 10	\$ 200	0.0%	0.0%	
Bi Metal	285	\$ 126	\$ 35,902	0.6%	0.5%	
Poly Prop. Plastic #5	17	\$ 40	\$ 678	0.0%	0.0%	
Total	45,376	\$ 172	\$ 7,793,657	100.0%	100.0%	
Total Fibers	33,013	\$ 125	\$ 4,138,847	72.8%	53.1%	
Total Containers	12,363	\$ 296	\$ 3,654,810	27.2%	46.9%	
Total	45,376	\$ 172	\$ 7,793,657	100.0%	100.0%	

OPERATING EXPENSES

6. Table 6a provides supporting data for SBR's operating expense.

Table 6a

SBR OPERATING EXPENSE				
a. Summary				
	2014 Budget	2014 Mid-Year	14B vs 14P	%
MRF	\$ 4,303,844	\$ 4,401,890	\$ 98,046	2.3%
Transfer Station	\$ 5,108,802	\$ 5,237,726	\$ 128,924	2.5%
Transportation	\$ 6,620,915	\$ 6,930,386	\$ 309,471	4.7%
Other	\$ 240,791	\$ 240,791	\$ -	0.0%
TOTAL SBR EXPENSE	\$ 16,274,352	\$ 16,810,794	\$ 536,442	3.3%
b. Detail				
	2014 Budget	2014 Mid-Year	14B vs 14P	%
MRF				
Tons, net	60,340	61,692	1,352	2.2%
Rate	\$ 71.33	\$ 71.35	\$ 0.03	0.0%
Expense	\$ 4,303,844	\$ 4,401,890	\$ 98,046	2.3%
Transfer Station				
Tons	357,281	364,666	7,385	2.1%
Rate	\$ 14.30	\$ 14.36	\$ 0.06	0.4%
Expense	\$ 5,108,802	\$ 5,237,726	\$ 128,924	2.5%
Transportation				
Tons	357,281	364,666	7,385	2.1%
Rate	\$ 18.53	\$ 19.00	\$ 0.47	2.6%
Expense	\$ 6,620,915	\$ 6,930,386	\$ 309,471	4.7%
Other				
Expense	\$ 240,791	\$ 240,791	\$ -	0.0%
TOTAL SBR EXPENSE	\$ 16,274,352	\$ 16,810,794	\$ 536,442	3.3%

Table 6b breaks out SBR's operating expense variance between volume and rate changes.

Table 6b

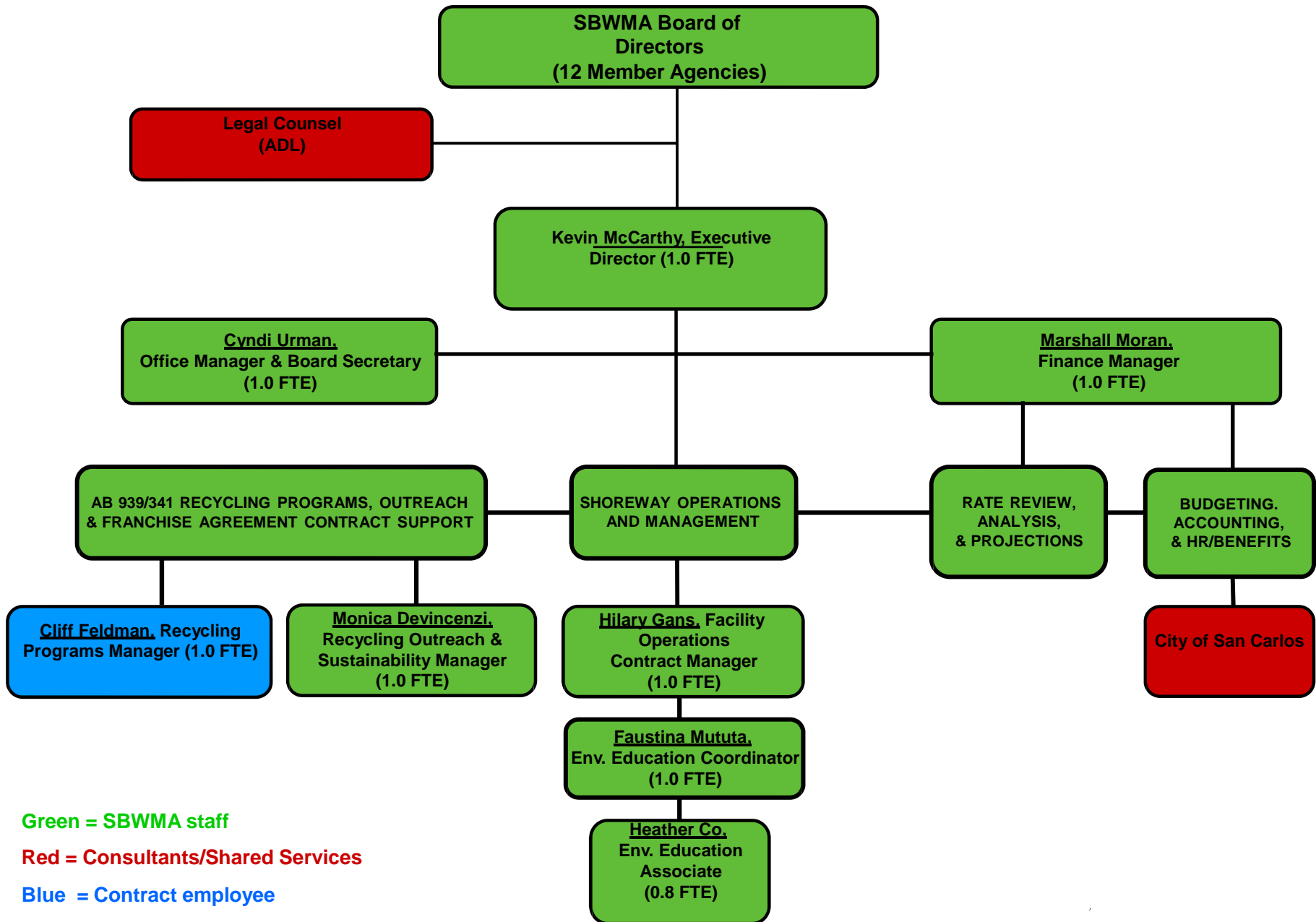
SBR Price / Volume	Volume	Price	Total	%
MRF				
Revenue Impact:				
Tonnage Change	1,352	\$ 71.35	\$ 96,469	98.4%
Rate Change	60,340	\$ 0.03	\$ 1,577	1.6%
Total Change			\$ 98,046	100.0%
Transfer Station				
Revenue Impact:				
Tonnage Change	7,385	\$ 14.36	\$ 106,077	82.3%
Rate Change	357,281	\$ 0.06	\$ 22,847	17.7%
Total Change			\$ 128,924	100.0%
Transportation				
Revenue Impact:				
Tonnage Change	7,385	\$ 19.00	\$ 140,358	45.4%
Rate Change	357,281	\$ 0.47	\$ 169,114	54.6%
Total Change			\$ 309,471	100.0%
SUMMARY				
Revenue Impact:				
Tonnage Change			\$ 342,904	63.9%
Rate Change			\$ 193,538	36.1%
Total Change			\$ 536,442	100.0%

7. **Table 7** provides supporting data for the disposal and processing expense.

Table 7

DISPOSAL & PROCESSING EXPENSE					
		FY 2014 Bud	FY 2014 Mid-Yr	14B vs 14P	%
Summary					
	TS Tons	357,281	364,666	7,385	2.1%
	Wtd Avg. Rate	\$ 39.85	\$ 39.17	\$ (0.68)	-1.7%
	Disposal Expense	\$ 14,238,468	\$ 14,283,775	45,307	0.3%
Detail - 2014 Mid-Year		Tons	Rate	Expense	
	Ox Mountain MSW	206,090	\$ 38.74	\$ 7,983,645	
	Ox Mountain Aggregates	1,248	\$ 25.25	\$ 31,514	
	Organics	121,106	\$ 37.01	\$ 4,482,570	
	Food	274	\$ 60.17	\$ 16,478	
	C&D	35,949	\$ 49.56	\$ 1,781,579	
	Other			\$ (12,010)	
	TOTAL - 2014	364,666	\$ 39.17	\$ 14,283,775	

SBWMA Organization Chart (January 2014)





STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Cliff Feldman, Recycling Programs Manager
Marshall Moran, Finance Manager
Date: January 23, 2014 Board of Directors Meeting
Subject: Discussion on Cost Allocation Methodology in Member Agency Franchise Agreements with Recology San Mateo County

Background

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors.

At the September 26, 2013 Board meeting, Staff made a powerpoint presentation to the Board which in part explained how Recology's adjusted annual compensation is allocated amongst the Member Agencies per a prescribed methodology (*see Article 11 and Attachment K, Section 6 of the Franchise Agreement*). **Attachment A** provides a summary of the Recology cost allocation process. The actual results (i.e., cost allocation percentages) for rate year 2014 and a summary of operating statistics by Member Agency can be found in **Attachment B**.

This staff report explains why we have a cost allocation process within the compensation adjustment methodology, provides a summary on how the cost allocation process works, and what are the implications of changing the cost allocation process to fix the cost allocators (i.e., operating statistics). It is important to note that in the context of this discussion the word "cost" means Recology's Board approved compensation and not their actual operating costs. Under the previous franchise agreements with Republic Services (previously named Allied Waste and BFI) "cost" meant actual operating costs as Republic was compensated under a cost-plus compensation adjustment methodology.

Summary of Cost Allocation Approach

The Recology cost allocation methodology is similar to that used historically by BFI/Allied Waste/Republic Services, the service provider prior to Recology commencing collection services on January 1, 2011. This approach was put in place decades ago to allow for the equitable allocation of operational costs among the Member Agencies given that the franchised collection services were delivered across a multi-jurisdictional service area.

In contrast, no such allocation process would be needed if each Member Agency had its franchised collection services provider's operations confined solely to its jurisdictional boundaries; this would mean separate and distinct collection routes for each Member Agency with no overlap across jurisdictions. Confining collection routes within jurisdictional boundaries is not conducive to ensure the economy of scale cost savings and efficiencies gained by having one franchised contractor provide service across the entire SBWMA service area. By and large, smaller agencies, like most of our Member Agencies, have a greater financial benefit from sharing one contractor than larger agencies since that contractor can provide efficiencies not gained in servicing one small agency.

Both the current and past cost allocation approaches rely on the use of operating statistics collected during a defined period of time (e.g., mid-April to mid-May) in each Member Agency. The collection of this data (i.e.,

operating statistics) is referred to in the Franchise Agreements with Recology as the Annual Route Assessment (section 7.12) and includes the following data points:

1. Annual route labor hours
2. Annual route hours
3. Number of containers in service
4. Number of customer accounts serviced

During the staff presentation at the September 26, 2013 Board meeting a policy question was raised regarding the need to continue allocating costs each year to the Member Agencies based on new operating statistics collected that year or whether sufficient data has already been collected to establish a fixed allocation percentage by Member Agency. The Board directed staff to agendize a future discussion on continuing with the current cost allocation methodology vs. a potential change of fixing the cost allocation factors.

It should be noted that any change to the compensation methodology prescribed in the Recology Franchise Agreement(s) would be subject to approval by each of the 12 Member Agencies. If not all Member Agencies adopt a change then it will cause problems with how costs are allocated amongst the Member Agencies.

Why Allocate Costs Annually?

While the services provided by Recology are nearly uniform across the Member Agencies, the cost to provide these services vary by Member Agency based on topography, housing density, number and type of commercial businesses, traffic patterns, customer subscription levels, etc. For these reasons and because Recology's truck routes cross agency boundaries, the company's compensation for providing collection services is allocated to the individual Member Agencies based on operating statistics. Recology's operational demands in delivering such services vary from year to year by Member Agency based on any changes in the number of residential and commercial customer accounts, bin and cart size, and frequency of service. In limited cases, individual Member Agencies may impact Recology's operations if they direct a change in routing or hours of operations to provide collection services in portions of their community (e.g., a given route). Therefore, collection cost is allocated each year to reflect the current level of service and cost to perform the service, as measured primarily by labor hours, in each jurisdiction.

How Recology's Compensation Relates to Member Agency Rate Revenue

An important and related piece of the Recology Franchise Agreement(s) compensation methodology is related to how rate revenue (i.e., from solid waste rates billed to residents and businesses) is treated. Member Agencies essentially retain the upside benefit and take the downside risk of annual gross revenues billed as it relates to what Recology is owed for compensation. If revenues go up more than projected and this results in a surplus in revenue, then the Member Agency benefits; however, the opposite is true when revenues are below projections and don't cover the total compensation owed to Recology.

Why was the above approach taken in the Franchise Agreement(s)? This was done to try and align the cost of services provided with the revenue billed for providing the services. This approach is premised on the fact that if a Member Agency's allocated costs increase from one year to the next, it's due to a higher level of operational effort by Recology (i.e., more accounts to service, more labor hours worked, etc.), when compared to other Member Agencies. Therefore, this higher level of operational effort is documented when compiling the company's annual operating statistics for each agency. A higher level of effort would typically be associated with more accounts or higher service levels which translate to increased billed revenue. Therefore, this approach is designed to match revenues with costs by having the Member Agencies accrue the benefit of surplus revenue billed to customers for higher than projected service levels.

Implications for Changing the Recology Cost Allocation Methodology

Below is a list of implications that may result from changing the Recology cost allocation methodology from the current method to one where the operating statistics are fixed (i.e., as a percent by each Member Agency) for some period of time (e.g., for the balance of the Franchise Agreement(s) term). Recology's adjusted annual compensation would still be allocated across the Member Agencies, but will be based on predetermined operating statistics and not the use of real-time data collected over a 4-week period each year. No assumptions have been made by staff as to how to arrive at the fixed numbers (i.e., accounts, route labor hours, route hours and containers in service) to fix the cost allocation percent as whatever approach is considered would require further discussion and a consensus of the Member Agencies.

Potential Benefits with Fixed Allocations

1. Improved rate predictability.
2. Member Agencies experiencing greater than CPI growth in operating statistics (e.g., # of accounts, lifts, pulls, and route hours) will not be allocated their proportional share of higher costs.
3. Some minor cost savings (i.e., approximately \$10-15,000/year) for the SBWMA since the cost allocation results will not have to be audited each year.
4. Significant savings from Recology due to the company not having to conduct the arduous and time consuming tasks associated with the Annual Route Assessment (if this requirement to document and compile operational data is waived).
5. Additional savings from Recology related to the minor additional work of preparing the cost allocation figures for each Member Agency (and including them in the company's annual Compensation Adjustment Application).

Potential Issues with Fixed Allocations

1. Member Agencies with less than CPI growth in operating statistics will be subsidizing Member Agencies with higher than CPI growth in operating statistics. The allocation of costs will no longer accurately reflect the actual level of effort by Recology in each Member Agency.
2. There may be a potentially significant cost adjustment at the start of the next contract or at the extension of the current contract with Recology if the actual operating statistics are significantly different at that time.
3. Discontinuing the Annual Route Assessment would eliminate the Member Agencies ready access to actual operational data which Recology is currently required to provide annually (i.e., annual route hours, annual labor hours, lifts/pulls of carts/bins by each individual Member Agency). It is important to note that having this operational data will be critical in benchmarking Recology's actual operations in each individual Member Agency as part of analyzing a proposal for a future contract extension.
4. Agreement on the actual new methodology, not just the concept, by all Member Agencies may be difficult.

Fiscal Impact

A potential change to the cost allocation methodology to fix the operating statistics may not affect the total compensation paid to Recology, unless cost savings are passed on, but it would change the allocation of costs to each Member Agency as compared to using the current approach of applying new operating statistics each year.

Attachments:

Attachment A – Explanation of Recology Cost Allocation Process

Attachment B – Recology Cost Allocation – Total Cost Allocation Percentages and Summary of Operating Statistics by Member Agency

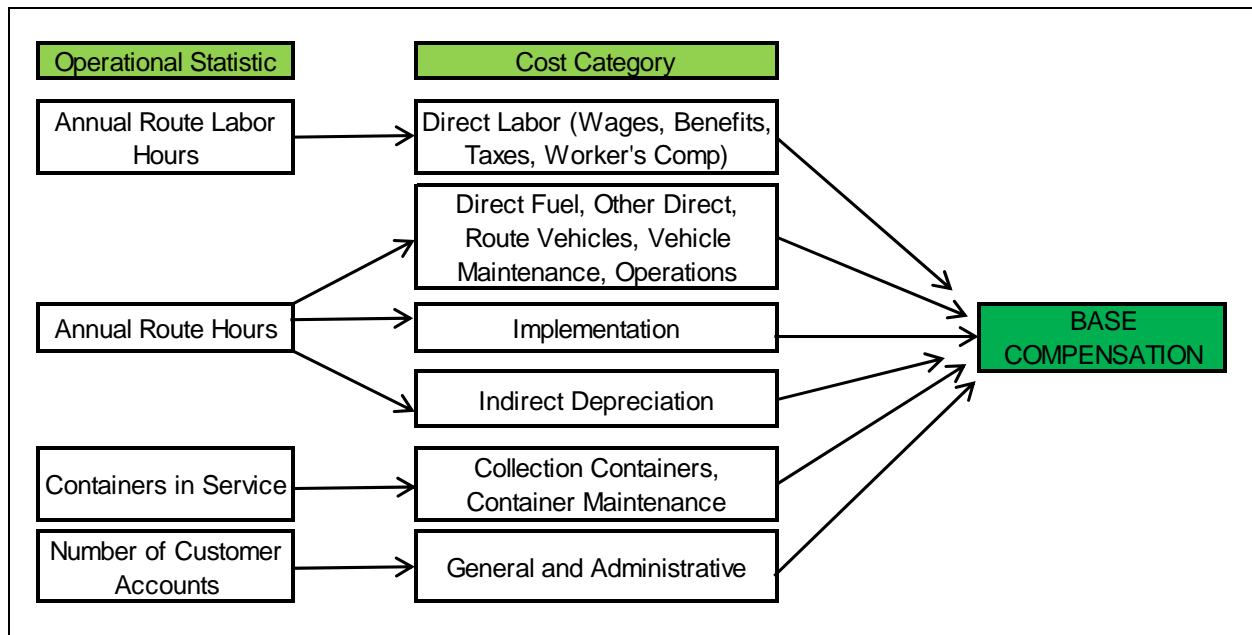
Explanation of Recology Cost Allocation Methodology

The process to allocate Recology’s cost equitably across all Member Agencies is prescribed in Article 11 and Attachment K of the Franchise Agreement(s). Recology’s nine cost categories (refer to **Table 1** for a list of the “cost categories”) are allocated based on the following four operational statistics for each of the 17 service sectors (e.g., Single-Family Garbage, Recycle and Compost; Commercial/MFD Garbage, Recycle and Compost, etc.) specific to each Member Agency:

- Annual route labor hours
- Annual route hours
- Number of containers in service
- Number of customer accounts serviced

Recology conducts its Annual Route Assessment over a four week period in April and May each year to determine the statistics that will be applied to each Member Agency. **Table 1** graphically illustrates which operational statistics are applied to allocate each of the cost categories.

Table 1



In an effort to illustrate how the cost allocation process is conducted, an example for the City of Menlo Park is provided as **Table 2** (this table was taken from Recology’s 2014 Application for Contractor’s Compensation Adjustment). The first section of this table outlines Menlo Park’s share of the four operating statistics (i.e., number of accounts, total route labor hours per year, route hours per year and total containers in service.) The second section shows how the allocation of these operational statistics is applied to the cost categories (i.e., direct labor, direct fuel, etc.).

It is important to note that this process is conducted for seventeen lines of business (e.g., Single-Family Garbage, Recycle and Compost; Commercial/MFD Garbage, Recycle and Compost, etc.) and **Table 2**, only represents the calculation for one service sector (i.e., Single-Family) in one line of business (i.e., Garbage collection service). **Table 3** provides a list of all seventeen lines of business.

Table 2

Example of Cost Allocation Calculation - 2014			
City of Menlo Park Allocated Cost for SFD, Solid Waste Line of Business			
			Statistics
1	# of Accounts - City		7,816
	# of Accounts - Total SBWMA		93,874
	% of Accounts - City		8.3%
2	Total Route Labor hours year - City		3,880
	Total Route Labor hours year - Total SBWMA		48,266
	% Total Route Labor hours year - City		8.0%
3	# of route hours/year - City		3,594
	# of route hours/year - Total SBWMA		44,057
	% Total Route Labor hours year - City		8.2%
4	Total Containers in Service - City		8,243
	Total Containers in Service - Total SBWMA		96,151
	% Total Containers in Service - City		8.6%
		a	b
			c
Service Sector: SFD	Line of Business		
	Solid Waste	Solid Waste	Solid Waste
	SBWMA Total	% to MP	MP Cost Allocation
Annual Cost of Operations			(a x b)
Direct Labor-Related Costs			
Wages for CBAs	\$3,165,552	8.0%	\$254,506
Benefits for CBAs	\$1,252,546	8.0%	\$100,703
Payroll Taxes	\$263,374	8.0%	\$21,175
Workers Compensation Insurance	\$278,820	8.0%	\$22,417
Total Direct Labor Related-Costs	\$4,960,292		\$398,801
Direct Fuel Costs	\$825,516	8.2%	\$67,345
Other Direct Costs	\$395,858	8.2%	\$32,294
Depreciation - Collection Vehicles	\$803,031	8.2%	\$65,511
Depreciation - Containers	\$428,963	8.6%	\$36,775
Depreciation for Collection Equipment	\$1,231,994		\$102,286
Allocated Indirect Costs			
General and Administrative	\$1,302,461	8.3%	\$108,444
Operations	\$322,771	8.2%	\$26,332
Vehicle Maintenance	\$553,656	8.2%	\$45,167
Container Maintenance	\$191,948	8.6%	\$16,456
Total Allocated Indirect Costs	\$2,370,836		\$196,398
Total Allocated Indirect Depreciation Costs (Form 9)	\$28,295	8.2%	\$2,308
Annual Implementation Cost Amortization (Form A)	\$40,497	8.2%	\$3,304
Total Annual Cost of Operations	\$9,853,289		\$802,736
Profit (from Operating Ratio below)	\$1,034,323		\$84,265
	90.5%	90.5%	90.5%
Total Costs before Pass-Through Cost	\$10,887,612		\$887,001
Contractor Pass-Through Costs			
Interest Expense	\$416,943	see note	\$34,617
Interest Expense on Implementation Cost	\$13,825	see note	\$1,128
Total Contractor Pass-Through Costs	\$430,768		\$35,744
BASE CONTRACTOR'S COMPENSATION - 2013	\$11,318,380		\$922,745
<i>Note: Interest Expense is allocated based on the % of each agency's depreciation expense to the total. Calculation is not shown above.</i>			

Table 3

<u>Attachment N Reference</u>	<u>Line of Business</u>	<u>Service Sector</u>
A	Solid Waste (1)	Single-Family Residential
B	Recyclable Materials (2)	
C	Organic Materials (3)	
D	Weekly Battery and Cell Phone Collection (4)	
E	Weekly Used Motor Oil and Filters (5)	
F	Twice Annual Bulky Item Collection (6)	
E	Cart and Bin Solid Waste (7)	Commercial/MFD
F	Cart and Bin Recyclable Materials (8)	
G	Cart and Bin Organic Materials (9)	
H	Drop Box Solid Waste (10)	
H	Drop Box Recyclable Materials (11)	
H	Drop Box Organic Materials (12)	
J	Twice Annual Bulky Item Collection (13)	
E	Solid Waste (14)	Agency Facility
G	Organic Materials (15)	
I	Public Litter and Recycling Cans (16)	
I	Venues and Events (17)	



RECOLOGY COST ALLOCATION – Total Cost Allocation Percentages and Summary of Operating Statistics by Member Agency

Total Contractor's Compensation is allocated each year based on the new statistics derived each year. Therefore, the percent of cost allocated to each Agency changes each year. **Table 1** below shows the total cost allocation percent by Agency in 2013 and 2014, the allocation percentage difference, the total cost percent change, and the total cost variance attributed to the change in cost allocation percent.

Table 1*

Percentage of Total Contractor's Compensation					
Total Cost Allocation					
	2013	2014	Difference %	Variance %	Difference \$
Atherton	2.45%	2.60%	0.15%	6.03%	\$ 84,967
Belmont	6.43%	6.33%	-0.10%	-1.59%	\$ (58,686)
Burlingame	9.72%	9.81%	0.08%	0.86%	\$ 48,129
East Palo Alto	4.05%	4.09%	0.03%	0.82%	\$ 19,153
Foster City	6.02%	6.27%	0.25%	4.23%	\$ 146,584
Hillsborough	4.11%	4.18%	0.07%	1.60%	\$ 37,902
Menlo Park	10.11%	10.00%	-0.11%	-1.09%	\$ (63,409)
North Fair Oaks	2.93%	2.93%	-0.01%	-0.27%	\$ (4,603)
Redwood City	17.93%	17.66%	-0.27%	-1.48%	\$ (152,954)
San Carlos	9.13%	9.00%	-0.14%	-1.51%	\$ (79,385)
San Mateo	21.58%	21.65%	0.07%	0.33%	\$ 40,519
West Bay Sanitary	1.87%	1.71%	-0.16%	-8.62%	\$ (92,852)
County of San Mateo	3.66%	3.78%	0.13%	3.55%	\$ 74,636
Totals	100%	100%	0.00%	N/A	\$ 0
Note: Dollar difference amounts in parentheses are a reduction in total cost allocation.					
Year 2013 and 2014 percentages are shown rounded to two decimal places.					

*Taken from Recology 2014 Application for Contractor's Compensation Adjustment

For each Agency, the year-over-year changes in the main operational statistics are shown in the Agency Snapshot Summary table and the associated cost adjustments are provided in detail in **Appendix 3** from Recology's 2014 Application for Contractor' Compensation Adjustment. On the following page is a sample worksheet from Appendix 3-1 for the Town of Atherton that summarizes the operating statistics used in rate years 2012, 2013 and 2014.

SBWMA - COLLECTION COMPENSATION APPLICATION REVIEW

Operating Statistics - Three Year Summary

Rate Year 2014

ATHERTON

Number of Accounts

Residential (SFD)	2,359	2,360	2,341	-19	-0.8%
Commercial & Multi Family	60	29	28	-1	-3.4%
Total	2,419	2,389	2,369	-20	-0.8%

Total Route Labor Hours

Residential (SFD)	7,803	6,157	6,600	443	7.2%
Commercial & Multi Family	783	459	492	33	7.3%
Member Agency Facility	63	47	86	40	84.7%
Total	8,649	6,663	7,179	516	7.7%

Total Route Hours

Residential (SFD)	6,795	5,716	5,927	211	3.7%
Commercial & Multi Family	555	334	378	43	13.0%
Member Agency Facility	50	31	58	26	84.2%
Total	7,400	6,082	6,362	281	4.6%

Total # of Solid Waste Containers

Residential (SFD)	2,556	2,556	2,532	-24	-0.9%
Commercial & Multi Family	16	16	14	-2	-12.5%
Member Agency Facility	12	12	11	-1	-8.3%
Total	2,584	2,584	2,557	-27	-1.0%

for complete list of containers for all services, see Appendix 1-4

Total Tonnage

	2012	2013	2014	Change	%
	actual	estimate	estimate		
Residential - solid waste	1,776			0	0.0%
Residential - organics	8,241			0	0.0%
Commercial & MFD - solid waste	467			0	0.0%
Commercial & MFD - green waste	256			0	0.0%
Member Agency Facility	230			0	0.0%
Total	10,970	0	0	0	0.0%