



A Public Agency

EXECUTIVE DIRECTOR'S REPORT

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Date: March 22, 2018 Board of Directors Meeting
Subject: Executive Director's Report

The following projects and initiatives highlight staff efforts since the last Board meeting:

1. Administration & Finance:

A. FY 18/19 Budget Development & Approval Process-Update

Per our Executive Committee meeting on March 14th, Staff will implement the following timeline in the development and approval of the Agency's FY18/19 Operating Budget, Capital Expense Forecast, and Reserves Balance Projections:

April 10: Finance Committee: DRAFT FY18/19 Budget review
April 26: BOD Meeting: DRAFT FY18/19 Budget review (action item)..
May 24: BOD Study Session: 5-Year CIP w/emphasis on MRF/Food Waste to Energy Pilot Project
June 28: BOD Meeting: FINAL FY18/19 Budget*

*Interim Senior Finance Manager is out of Country from 4/20-5/26.

B. Senior Finance Manager (SFM) Recruitment-Recruitment broadens

The Agency posted the vacant SFM recruitment posting on numerous government, solid waste industry, business job boards, as well as numerous public publications. No applications were received with solid waste industry or JPA experience, although several candidates have some intriguing work experience. With Executive Committee engagement, the search will expand to include the services of a recruitment agency. At this writing, selection of the specific firm is eminent, but not yet final. Our target for having a seated SFM candidate has been revised from late May to July.

C. Senior Finance Manager (SFM) Coverage Assignment/Future Assistance-We're in Very Good Hands:

The Agency's retired SFM, Marshall Moran, has been providing SFM coverage since late January. Mr. Moran's current and projected scope of work, and the associated net costs, are described in today's agenda item 6A. Staff recommends the retention of Mr. Moran's professional services to also include managing Recology's 2019 Contractor's Compensation Adjustment Application process and training of a new SFM.

D. Technical Advisory Committee (TAC) Meeting-Update

The TAC met on March 8th and reviewed a number of important agency-related issues, including:

- The extreme disruption in the international commodity markets
- The proposed SBWMA 2018 Legislative and Regulatory Platform
- The Agency's proposed organics material processing pilot with East Bay MUD
- Compology pilot update (*Operations Technology Evaluation*)

- In-schools pilot update (*Long Range Plan*)
- Public Spaces recycling pilot update (*Long Range Plan*)

E. **SBWMA's Proposed 2018 Legislative and Regulatory Platform—Leg/Reg Expert Retained by Agency**
 The Agency's proposed new 2018 Leg and Regulatory Platform is presented for Board consideration in today's Board packet in agenda item #4D. Once adopted, the platform will allow Staff and partners to fully leverage our agency and solid waste industry partners in the development and implementation of legislation and regulations that affect our agency's site, facilities, programs, and member agency environmental goals. Board support will also allow maximum engagement by our local assembly and state senate leadership on issues that matter most to our programs.

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

A. **Franchise Agreement Negotiations—Six Member Agencies Complete; Six to go!!**

Staff continues to support the remaining six-member agency's efforts to fully execute their individual restated and modified Franchise Agreements with Recology. The City of Redwood City, Menlo Park, Belmont, and East Palo Alto are anticipated to be completed by the SBWMA Board's April meeting. The historical status of the approvals is shown in **Attachment 1**.

B. **Lithium-Ion Battery Recommendations-Recology's Recommendations at April or May BOD Meeting:**

Per Board direction at the January meeting, Staff continues to work closely with Recology to refine their recommendations for collection program modifications (and their costs) for Board consideration. Due to the anticipated focus at today's meeting on the extreme commodity market decline, the Executive Committee directed Staff to move this item to the April or May Board meeting. In the meantime, Staff continues to educate residents about proper disposal of household batteries, including the launch of a new webpage: RethinkWaste.org/batteries

3. **Shoreway Operations and Contract Management-*China's New Policy = Rapid Market Collapse***

A. **Commodity Market Update-Bad News for Most of SBWMA Recovered Materials (Fibers and Post-Consumer Plastics)**

On March 1st, the Chinese government fully implemented its *Green Sword* national policy that was first announced in late 2017. As previously reported, China's *Green Sword* policy has involved an unexpectedly extreme pivot on industry standards that have existed for the past 20+ years. The action has resulted in strict new material standards that most, if not all, American recycling facilities cannot currently meet. **This action has effectively barred the materials that our plant is designed and engineered to produce. This situation has, in fact, thrust America's recycling materials industry into a volatile and unpredictable period.** As we all absorb this news, it is also important to understand that there has been no change in California laws requiring the diversion of these materials, nor have there been any signals from our primary regulatory agency, CalRecycle, of any such action. Here are several highlights (or lowlights?) of the emerging situation:

- Staff, SBR, and our materials brokers have conducted numerous operational tests of alternative procedures to dramatically improve the quality and mix of our program's recovered materials since this situation was first brought to our attention at *The 19th National Congress of the Communist Party* which concluded on October 24, 2017. Despite the extraordinary efforts by Staff and the SBR team, no option resulted in materials that conform to China's *Green Sword* standards.
- At strong Staff direction, SBR's material broker team aggressively sought out new markets for SBWMA's recovered materials. As a result, our materials have now been re-routed to fiber mills in India and Indochina. Although we're still accepting 3-7 plastics, we have yet to find a market for these materials so they are currently being disposed of. Much of the US recycling industry has followed suit and there is now a glut of

material in these newly emerging markets. This has resulted in these buyers 1) demanding cleaner material (although not to the *Chinese Green Sword* standard) and paying very little or nothing to receive the materials. It's good old supply and demand capitalism at work.

- Huge credit to SBR's material brokerage team, led by Dan Domonoske, for providing an early—and very LOUD—alert to these rapidly changing market conditions. This early warning allowed us to get ahead of the market. Mr. Domonoske will offer a situational assessment and can field questions at today's meeting.
- **During the past week, 17 containers of SBWMA fiber materials (or about 374 tons) of SBWMA fiber were rejected by Chinese customs agents. This material is now being shipped back to the Shoreway facility at agency expense which is estimated to be \$50-70k.** SBR brokers tracked this shipment (the first under the new standards) in real-time and were able to pull the containers for immediate reloading onto the outbound cargo ship. **Had this action not occurred immediately, the materials would have been impounded into a massive Chinese holding yard while incurring "storage" fees (estimated at an additional \$300k).** Full credit (again) to SBR's brokers for representing the Agency's best interests under unknown and extremely challenging circumstances.
- The financial impacts of this situation are also being painfully felt by SBR. Based on historical market trends/performance and per the terms of the operating agreement, the SBWMA's FY17/18 budget includes a planned revenue share reimbursement to SBR of \$1.1M. Current market conditions indicate that SBR's commodity revenue share is now in jeopardy.
- The commodity markets (and their associated revenue streams) for cans and bottles is domestic and is, therefore, unaffected by this situation (These materials represent about 28% of the total outbound tons handled at the MRF).
- Until we have a better understanding of these new markets, Staff and the Executive Committee are reluctant to make any immediate changes to the type and grades of materials accepted in our blue cart/bin program.
- To properly understand the economic scale of magnitude to our agency, I offer the following points:
 - Our Agency's total system operations costs are approximately \$100M.
 - Our Agency's FY17/18 Budget planned revenue for all commodities is \$10M, or 10% of the total.
 - The affected materials represent about 72% of this budgeted commodity revenue (or \$7.2M).
 - The unaffected materials represent about 28% of this budgeted commodity revenue (or \$2.8M).
 - SBR's performance-based revenue share (estimated at \$1.1M) is in jeopardy.
 - Staff will be presenting additional ways to dramatically improve the quality and mix of the product materials to the Board during the next few meetings that will include adding more labor (in the short term) and expanded sorting equipment CIP options (for the long-term). Agenda item 5B in today's packet addresses a SBR request for more labor.

Please be assured that Agency Staff and our partners are committed to mitigating financial and environmental compliance exposure during this unforeseeable market situation to fully represent the fiduciary interests of our member agencies and, of course, our ratepayers.

Respectfully submitted,



Joe La Mariana
Executive Director

Attachment 1 Franchise Agreement Execution Status by Member Agency: Elected Body Consideration Tracker		
SBWMA Member Agency	City Council Consideration Date	Status/Comments
City of San Mateo	November 6, 2017	Council approved: 5-0
Hillsborough	November 13, 2017	Council approved: 5-0
San Carlos	November 13, 2017	Council approved: 5-0
Foster City	November 20, 2017	Council approved: 5-0
Burlingame	January 16, 2018	Council approved: 5-0
West Bay Sanitary District	January 24, 2018	Board approved: 5-0
Menlo Park	April XX (TBD)	Exact date to be confirmed by TAC member Rebecca Lucky.
East Palo Alto	April 3, 2018 April 20, 2018	Study session w/Council per City Manager Carlos Martinez City Council consideration per City Manager Carlos Martinez
Belmont	April XX, 2018	To be agendized in April per TAC member Afshin Oskoui.
Redwood City	March 26, 2018	Agendized per TAC member Ramana Chinnakotla.
Atherton	TBD	Discussions remain in progress. Council consideration date yet unknown per TAC member George Rodericks.
County of San Mateo	TBD	Active Franchise Agreement language discussions continuing. Awaiting Board of Supervisors' target meeting date confirmation.

*Notes:

1. JPA Agreement states that each member agency's individual Franchise Agreement be fully executed by June 30, 2018.
2. Per the section 7.1.1 of the *"Second Amended and Restated Joint Exercise of Powers Agreement, South Bayside Waste Management Authority"* (aka *"JPA Governance Agreement"*) "two thirds of the members agencies (or 8 member agencies) are required to approve this Franchise Agreement for it to become ratified.