



A Public Agency

EXECUTIVE DIRECTOR'S REPORT

STAFF REPORT

To: SBWMA Board Members
From: Joe La Mariana, Executive Director
Date: March 23, 2017 Board of Directors Meeting
Subject: Executive Director's Report

The following projects and initiatives highlight staff efforts during the past month:

1. **Administration & Finance:**

A. **Financial Tracking & Collection Systems Audits** *(in progress):*

R3 Consultants has begun work on the two audits that provide the Agency Board and Staff with a critical review of these core components of our two major operations contracts. These reports serve as an autonomous review which helps us all independently assess our large-scale operations from an important fiduciary perspective. The R3 Consultant's two findings and recommendations reports are anticipated to be presented at the May Board meeting.

B. **FY-17-18 Executive Director Goals** *(Over-Arching Approach)*

In collaboration with the Executive Committee, these goals were developed to maintain budget, program and operational integrity at a senior level. These goals will be discussed during today's agenda item 5B.

C. **FY 17-18 Budget Development** *(Draft in April; Action in May):*

The April Board meeting's primary focus will be regarding the Franchise Agreement negotiations outcome. Therefore, Staff will briefly provide its draft budget report at the beginning of the April Board meeting as an information item. Board member comments will be solicited by May 12th and they will be incorporated into a comprehensive Budget presentation as an action item at the May Board meeting.

A Capital Projects preview will be provided during today's agenda item 7A.

D. **SBWMA Administration Office—Limited Tenant Improvements:**

The Agency has occupied this space since 2003 and it is due for a refresh. Staff is preparing a plan for limited site improvements that includes new paint, sensible layout modifications and some ergonomic office furniture. A project budget is anticipated to be well-below Board approval levels and it will be proposed with the FY17-18 budget.

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

A. **Franchise Agreement Negotiations Committee (FAX)** *---We're in the Final Stretch:*

We have made good progress on the negotiations, meeting no less than weekly. The two sides are working effectively to understand each other's perspectives and needs and to try to constructively respond to them. We are focused on the last two compensation/financial risk-sharing areas and hope to come to resolution quickly. We have made excellent progress on the non-financial terms contained in the agreement and are completing our second complete draft of the agreement, with relatively few open

items. Of course, as we proceed closer to the conclusion of negotiations, the issues that remain are more difficult to reach agreement. While we do not anticipate a delay at this point, it may require more time than originally anticipated to reach agreement. If so, we will immediately inform the FAX Committee and the Board. In any event, we will not delay this process in a manner that would preclude the SBWMA Board from exercising its alternatives to a sole source negotiation.

Here are several important updates:

- As of this writing, significant conditional agreement* has been reached on many contractual elements, including the revised “amended and restated” Franchise Agreement language, numerous program enhancements and many core financial considerations and projections. NOTE: approximately 90% of the current language remains unchanged.

* Subject to final approvals by the SBWMA Board and Recology’s Corporate Offices.

- On March 8th, the Recology Team was invited to present their firm’s position to the FAX committee. This presentation was well-received and a spirited Q + A session followed.
- A comprehensive two-tiered operational cost peer review has been completed. The findings from both highly-respected, independent technical consultants were presented to the FAX on March 8th.
- Remaining key calendar dates scheduled for SBWM Member Agency/Stakeholder review of FAX Committee’s Final Findings and Recommendations include:
 - April 4th: **SBWMA Finance Committee**—high-level review
 - April 13th: **Joint TAC/FAX Committee**-comprehensive review
 - April 27th: **SBWMA Board Meeting** (Extended Meeting—Informational item)
 - May 11: **Member Agency City Manager’s Meeting**
 - May 1st-22nd: **Member Agency City Council Meetings (11)**
 - May 25: **SBWMA Board Meeting** (Action Item)
 - June 22: **SBWMA Board Meeting** (Action Item--Fallback date, if necessary)*

***PART ONE OF FRANCHISE AGREEMENT RENEWAL PROCESS CONCLUDES:**

With *SBWMA Board acceptance* of FAX Committee’s Findings and Recommendations Report.

Part TWO OF FRANCHISE AGREEMENT RENEWAL PROCESS CONCLUDES:

With *individual member agency negotiations* with Recology—Amended/Restated Franchise Agreement Approval Process (currently anticipated to occur during the June-December 31, 2016 time period):

3. Shoreway Operations and Contract Management—Facility is at full Operation Levels:

A. General Operations:

- Although the MRF is currently in full operation. Thanks to a pause in our record-breaking rains, the facility has now resumed its normal production levels. Material quality has improved accordingly.
- Staff, SBR management and a wide variety of fire suppression experts continue to collaboratively evaluate industry best practices, as well as site-specific-equipment and technology for near-term implementation.

B. Fire Recovery and MRF Production Update—Vast Majority of Fire Losses Have Been Reimbursed:

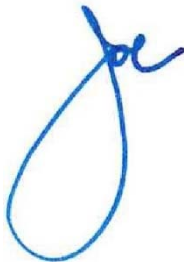
- Hanover Insurance Company's payment of \$1,279,275 (check #8169740) to settle the SBWMA's Business Interruption Insurance Claim was received on March, 14th (check #81691740). This amount covers 100% of the agency's non-facility and non-equipment losses from September 7, 2016 through January 9, 2017.
- As previously reported, all MRF processing equipment restoration, repair and replacement has been wholly reimbursed by Hanover Insurance Company—20 total claims invoices have been paid out through March 3rd, 2017 for a total of \$6,807,730.69 against total expenses of \$6,661,911.51. As a result, the Agency currently has a \$145,819.18 net positive balance in it Fire Recovery account. Several lagging invoices remain outstanding.
- Current building repair work is targeted for completion in May/June and is estimated to total \$170,302. Completion of this work will officially close the books on the entire fire restoration project.
- Minor equipment replacement work relating to the September 11th fire in the Shoreway transfer station will be addressed in today's agenda item 7B.

C. Budgeted FY16-17 Capital Improvement Projects--MRF:

In addition to the future CIPs that will be noted during today's agenda item 7A, staff will provide several additional CIP-related recommendations for the Shoreway site, they will be discussed in today's agenda item 7B. They are:

- Reject recent bids for two conveyor systems due to a need to break them into two separate bids to better met the agency's fire claims process and to meet our expectations for full and expeditious reimbursement, and
- The rebidding these two conveyor projects separately for the reasons cited above.

Respectfully submitted,



Joe La Mariana
Executive Director

Attachment 1: Franchise Negotiations/Project Milestone Summary

Process Milestone	Date Completed	Comments
PROCESS SET-UP		
1. SBWMA FAX Committee Formation	SBWMA Board Mtg. April 2016	Authorized by Resolution #2016-21
2. SBWMA Staff Distributes RFQ <i>Soliciting lead negotiator and financial analytical services</i>	11/1/16	*Two highly-qualified responses from R3 Consultants and HF&H Consultants * Board selects HF&H (Resolution #2016-44)
3. SBWMA Negotiation Team Formation * HF&H Consultants, Lead Negotiator * RJP Proto, SW Industry Technical Expert * SCS Engineers, Staff augmentation * ADCL, Legal support	12/14/16	Professional Services Contracts are now completed for all team members.
4. Preliminary Meetings w/Recology	11/2/16 11/3/16	Excellent briefing with Recology team of key operational issues of high importance to them.
6. Recology Submits Franchise Agreement Redlines for proposed new term	11/30/16	* Redline completed at SBWMA request. * This doc provides an important starting point for our negotiation discussions.
10. Recology Cost Proposal /RFP	1/10/17	*Recology delivered comprehensive, 644-page response document. *HF&H Consultants currently reviewing submittal.
MEMBER AGENCY INPUT		
8. <u>Member Agency Input #1:</u> TO: Board Members; Alternates; City Managers	12/16/16	*Survey completed on 1/10/16. *All 12 Member Agencies responded. * 23 total responses. *Survey Goal: Secure input to shape SBWMA's key negotiation points.
9. <u>Member Agency Input #2:</u> TO: TAC + FAX members	1/5/17	* Joint TAC/FAX meeting was held on 1/5. * 35 attendees; 11 of 12 MAs attended. *Special Session goal: To solicit input from TAC/FAX members (senior-level member agency staff) to shape Agency's key negotiation points.
11. <u>Member Agency #3:</u> Future Growth Survey	Survey closed 2/1/17	Survey sent to Member Agency's senior Planners (through TAC members). Survey Goal: To identify growth factors through 2030 that may affect Recology's operations, productivity and costs.
NEGOTIATIONS PROCESS		
7. Negotiation Team Meetings <i>Joint Meetings w/SBWMA + Recology</i>	2016: 12/7 2017: 1/11; 1/23 2/2; 2/9 3/20	Frontline discussions on key language, costs and negotiation points.
5. FAX Ad Hoc Committee Meetings <i>Six Board-appointed FAX team members:</i> * Chair, Jim Porter, County of SM * Vice Chair, Melissa Stevenson-Diaz * Larry Patterson, San Mateo * Afshin Oskoui, Belmont (also TAC Chair) * Brenda Olwin, EPA * Heather Abrams, Menlo Park	2016: 11/10; 12/7 2017: 1/12; 1/24 2/6; 2/21 3/8; 3/28	SBWMA's Negotiation Team provides in-depth report backs of key discussion items to FAX for feedback and direction. NOTE: Recology presents to FAX on 3/8.

<p>SBWMA Finance Committee Review</p>	<p>2017: 4/4</p>	<p>SBWMA Team presents Finance Committee with FAX Committee recommendations at an executive summary-level. Focus will be on high-level financials, with comparisons of last year of current Franchise Agreement term (2020) and first year of (presumed) new term (2021). Additional discussion will include comparison of rates to local market.</p>
<p>SBWMA Technical Advisory Committee (TAC):</p> <p>NOTE: The SBWMA TAC is comprised of 12 senior representatives, including one from each SBWMA member agency. TAC members include: a City Manager, Public Works Directors/staff, Finance Directors and Environment Programs staff.</p>	<p>2017: 4/13</p>	<p>Per SBWMA Board direction—</p> <p>Comprehensive Review of FAX Committee Findings & Recommendations by TAC</p>
<p>SBWMA Board Consisting of 12 representatives from each member agency (elected officials)</p> <p>*****</p> <p>SBWMA Member Agency Elected Bodies</p> <p>*****</p> <p>SBWMA Board</p>	<p>2017: 4/27 5/25</p> <p>*****</p> <p>2017: 5/1-5/22</p> <p>*****</p>	<p>4/27: Informational Agenda Item— Comprehensive presentation of FAX Committee Report-Findings and Recommendations. Board questions/ comments will be noted and addressed in final FAX Report to be presented for SBWMA Board consideration on 5/25.</p> <p>*****</p> <p>PPT presentations to member agency city councils and SBWMA City/County Managers of FAX Report Findings and Recommendations.</p> <p>*****</p> <p>5/25: Action Item— FAX Committee Final Report-Findings and Recommendations presented to SBWMA Board for “adopt the FAX Report” consideration.</p> <p>6/22: Action Item (Fallback date)— FAX Committee Final Report-Findings and Recommendations re-presented to SBWMA Board, if necessary.</p> <p>Upon SBWMA Board’s adoption of FAX Final Report-Findings and Recommendation— Part One of process concludes.</p>

Red = New changes since last report.
Blue = Confirmed FAX work plan elements.