



DRAFT MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
 MEETING OF THE TECHNICAL ADVISORY COMMITTEE &
 FRANCHISE AGREEMENT EXTENSION COMMITTEE
 April 13, 2017 – 1:00 p.m.
 San Carlos Library Conference Room A/B

Call to Order: 2:01PM

1. Roll Call

| Agency | Present | Absent | Agency | Present | Absent |
|----------------|---------|--------|----------------------------|---------|--------|
| Atherton | | X | Menlo Park | | X |
| Belmont | X | | Redwood City | X | |
| Burlingame | | X | San Carlos | X | |
| East Palo Alto | X | | San Mateo | X | |
| Foster City | X | | County of San Mateo | X | |
| Hillsborough | X | | West Bay Sanitary District | | X |

FAX Committee Members Present: Melissa Stevenson Diaz, Vice Chair, Afshin Oskoui, Brenda Olwin, and Larry Patterson

2. Public Comment

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

Each speaker is limited to two minutes. If there are more than five individuals wishing to speak during public comment, the Chairman will draw five speaker cards from those submitted to speak during this time. The balance of the Public Comment speakers will be called upon at the end of the Board Meeting.

If the item you are speaking on is not listed on the agenda, please be advised that the Board may briefly respond to statements made or questions posed as allowed under The Brown Act (Government Code Section 54954.2). The Board's general policy is to refer items to staff for attention, or have a matter placed on a future Board agenda for a more comprehensive action or report and formal public discussion and input at that time.

None

3. Approval of Consent Calendar:

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

A. Approval of the January 5, 2017 TAC/FAX Meeting Minutes

Member Gibbons made a motion to approve the minutes
 Member Walter seconded the motion
 Voice Vote: All in favor

4. Presentation of Franchise Agreement Extension (FAX) Committee Findings on Recology Franchise Agreement Extension Negotiations

A. SBWMA Staff: Background, Goals, Timing, and Public Decision Making Considerations

Chair Oskoui welcomed the TAC and FAX members to the meeting. He noted that staff, Recology and consultants have been working hard, and are looking forward to a robust discussion today.

Chair Oskoui and Executive Director La Mariana asked that questions be held until the end of the presentation.

Executive Director La Mariana gave a power point presentation, it included introductions of the team that worked on the negotiations, the project background, goals, timeline and the public decision making process. He encouraged TAC and staff members to look at the staff report going into the April Board packet to prepare their staff report for their individual member agency.

Bob Hilton of HF&H Consultants then gave a Power Point presentation of the deal points. He noted that there is not a final deal yet, and this would be a current status presentation that summarizes where we are. He then noted that some items were of concern to all the Member Agencies like mixed use that were prioritized for negotiation in the Model Agreement, and some items which were Member Agency specific that will be negotiated after the Model agreement is adopted. He then listed the topics of conversation including:

- Mixed use
- Public Education particularly for commercial customers with the new regulations.
- Compensation
- Collection Vehicles
- Reporting
- Contract Management

He noted that there was a lot of satisfaction with Recology and the quality and the scope of the programs. He added that Recology has stated that they are not achieving the level of profit that they had anticipated when they bid on the contract, and may be operating at loss by the end of the current contract term, so Recology has some real financial concerns. He then listed what Recology wanted during the negotiations:

- A compensation true up during the current term of the agreement to their current costs of operations
- A change to the compensation adjustment process that would be based on actual costs and not index based
- Changes to Attachment Q fees
- Changes to the bulky item collection and abandoned waste to make sure they don't exceed their costs in those areas
- Retain the revenues from customer billings, currently the Member Agency keeps that revenue, Recology thought that as growth occurred they would be compensated by keep the revenue
- Reduce the number of performance standards and liquidated damages, and put a cap on them
- Reduce the reporting requirements

Bob Hilton then shared the results of negotiations for the Model Agreement.

- No changes to core services
- Capping Bulky Item collections to 150 per day (currently 120 provided), and then a meet and confer if delay service or provide additional resources to Recology to increase the number of collections.
- Capping abandoned waste collection at 30 per day and then meet and confer similar to bulky item collection
- "Mixed Use Building" Services, the residents would receive the residential services the same as a multifamily development, and the commercial accounts would receive commercial services
- Streamlined reporting to make it more efficient
- Liquidated Damages agreed to let Recology appeal to a Member Agency if their performance standard wasn't achieved because of an extraordinary circumstance
- Diversion Level Performance Incentives/Disincentives based on a diversion level for the prior 5 Years, and limited at \$100,000 annually
- Quarterly contamination audits have been eliminated
- The Member Agencies, the SBWMA and Recology would put together a public education and recycling technical assistance 3-year plan to manage changing circumstances and regulations in the service area
- Annual allocation adjustment process eliminated

Bob Hilton then listed changes to compensation:

- No "True Up" during Current Agreement term
- 2021 compensation reflects actual costs in 2016 projected forward, plus CPI and vehicle replacement, and Recology will be taking some risks
- Allocations will no longer be SBWMA wide, in 2021 each agency will be responsible for the CPI adjustment and growth in their own agency
- 2021 costs will be adjusted for changes in fuel price and changes in subscription level. Recology is taking the risk that the assumed increases in their 2021 number are right
- Agency retention of billings net of compensation and disposal/processing costs
- The only exhibit Q fee added is a relocation fee which requires Recology to provide a special truck that pulls a bin out to the street for service and then put the bin back when service is complete
- Vehicle Replacement Plan to meet and confer by 2023, to look at technology, policy and regulations before determining what kind of vehicles will replace the existing fleet
- There is a notable cost savings benefit to the Member Agencies by extending the term to 15 years.
- Provision for One Extension of Up to 5 Years
- Moving to Regional vs. Current National Indices which are more appropriate to costs here
- There is an adjustment in compensation for change in subscription level using 3 year rolling average to smooth out changes
- 5% cap on annual change in contractor's compensation,, and if the number gets to 10% of contractor's base compensation the parties will meet and confer on how the Member Agencies will make them whole
- Sharing 50/50 the increase in depreciation costs up to \$700,000, to cover the increase, with maximum exposure to the Agency capped at \$350,000. Recology bears all risk beyond \$701,000.
- In 2026 or 2027 the actual vehicle

- Adjustment will happen after vehicles are purchased

B. Financial Review by HF&H Consultants

Bob then reviewed the financial impact of the proposed model franchise agreement. He noted that it's very difficult to predict what the rate impact will be when this is still several years in the future, 2021. So, there are some assumptions in the projections. He also noted that the last year of the existing agreement doesn't have any depreciation in it, so some of the depreciation expense that will be incurred in 2021 was moved forward to 2020. He then explained the anticipated base contractor's compensation adjustments:

- 2.4% from 2019 – 2020
- *8.2% from 2020 – 2021
- Thereafter, CPI + growth = 5% CAP

**Negotiations are ongoing and since the TAC meeting this figure has been adjusted to 10.2%*

Bob then explained the anticipated revenue side:

- Total billed revenue will go up 3.3% from 2019 – 2020
- And total billed revenue will go up 6.9% from 2020 – 2021
- Subject to disposal/processing cost and Agency fee changes

He then noted that the specific rate impact will vary among Member Agencies, and many Member Agencies have rate stabilization funds. He added that Member Agencies may want to build up rates not in anticipation of the rate increase in 2021.

He noted that projection of costs by Recology has not been presented because agreement has not been reached yet, and it would be unfair to Recology to release the information publicly at this time, and then end up in a competitive proposal process and Recology's numbers were made public and the competitor's numbers were not.

He added that there are still issues to get through but he anticipates reaching agreement very soon. One area of concern is Recology's increase in G&A expenses. The FAX Committee and Staff doesn't want to be in a position where they're proposing something that they can't explain. Another thing still being worked through is a redline version of the agreement.

Bob concluded his portion of the presentation noting these benefits of the deal with Recology:

- A good deal, good programs and good service in the first contract with Recology
- Consistency w/all existing collection services
- No new service provider transition pitfalls
- Rate-setting stability/predictability
- Rates continue to be in-line w/Bay Area
- Continued cost savings from collection efficiencies
- Sharing of future inflation risk and labor negotiation risk by Recology
- Estimated \$2M saving in avoided RFP and contractor-transition costs
- Labor peace by continuing with known company/mgmt. team

He noted that the purpose of today was to get comments from the Member Agency and incorporate the feedback into the final agreement.

Executive Director La Mariana concluded the presentation by going over next steps:

- Final Negotiations with Recology
- Findings and Recommendations Report
 - Include TAC Feedback
 - Receive Feedback from FAX Committee
 - April Board Meeting – First Review
- Member Agency Meetings – Present Findings and Recommendations (May 2017)
- May Board Meeting – Final Approval
- Member Agency Negotiations – June to Dec. 2017

Chair Oskoui suggested a ½ day workshop for staff to get a more detailed review of the finances and redline agreement between the April and May Board meetings, and staff agreed.

C. Recology Presentation

Mario Puccinelli gave a Power Point presentation, he thanked the team that worked on the negotiations. He then gave background of the transition, and Recology's accomplishments. He highlighted Recology's commitment to the community and their volunteer work. He then concluded his presentation by noting the highlights of the amended Franchise Agreement:

- Rate Setting Stability and Predictability
 - Shared Inflation Risk on Vehicle Purchases
 - No Inflation Risk to MAs on CBA Wages & Benefits
- Simplified Rate Setting Process
 - Fixed Allocations
- Clear Performance Measures and Tracking
 - Collaborative Public Education and Technical Assistance Plans
- Long-Term Cost Projections
 - CPI Based Contract
 - Continued Cost Savings from Collection Efficiencies
- 15-Year Term
 - Extended use of Collection Vehicles
 - Lower Annual Depreciation Costs
- 5.9% Projected Increase in Operating Costs

D. Q&A Session

Member Ramirez asked if one month for the Board was enough to review.

Executive Director La Mariana answered that it is aggressive but doable, but in terms of timeline there needs to be 8 executed agreements by the end of 2017, so staff is continuing to move on that timeline.

Chair Oskoui reiterated that the workshop would be a good time to work through detail and get questions answered, to help Member Agency staff be involved in and get comfortable with the process, but the goal remains for SBWMA Board approval in the May/June time frame.

Executive Director La Mariana added that there also needs to be time for the individual Member Agencies to modify the agreement to fit their needs as necessary.

Member Tong noted that he was concerned that there wasn't enough public engagement in the decision making process.

Executive Director La Mariana noted that the public is as important part of the process. If this group wants to define something that will make the process better this is the time to do it. He added that staff is presenting a first reading to the Board in April which is a public meeting, then 12 individual Member Agency meetings, each of which are public meetings, then the individual Member Agencies will go have public meetings to execute their individual Franchise Agreements.

Chair Oskoui added that the May meetings are meant to go into each community and engage each body in the decision process and get that feedback.

Lillian Clark commented that she thought there should be one public meeting at night, with public notices in the paper.

FAX Member Patterson noted that he disagreed, and thinks this is not the time for a public meeting because the message would be services aren't changing, and the rates are unknown. He thought the individual Member Agencies would have future public meetings when rates change because that is what the public is going to care about, so it's a local issue.

Staff Gans echoed those statements noting that this a model agreement and not the final agreement, it's not intended to be one size fits all.

Member Daher suggested having a study session, so that all changes in the agreement are explicit to Member Agency staff.

Executive Director La Mariana asked if the detail addressed at the Board Meeting would address those issues.

Member Daher said yes, that would be fine.

FAX Member Paterson suggested that the ½ day workshop to look at Attachment Q, and the language is a good idea, and it will help staff assist our Board Members in their decision making process.

Executive Director La Mariana noted that a ½ day workshop would be added to the schedule.

Member Cooke asked when the financial numbers would public.

Bob Hilton noted that once it goes to the elected Board it will be public, since they are the once making the decision, and we and the SBWMA staff are working towards getting that information to the Board next Thursday.

FAX Member Patterson noted that it is important to define the workshop as a briefing on the results of the negotiation, not a negotiation of different language.

Lillian Clark noted that she was concerned about the cap of 150 bulky item collections per day, based on storm water requirements, and the new population of residents that don't have a vehicle to take to dispose of items.

Executive Director La Mariana answered that currently, the average bulky item collections appointments are at 120 per day. Recology is not far from maxing out. 150 collections per day is the tipping point for Recology that would require them to get an additional truck for bulky item collections and more crews, and more expense.

Mario Puccinelli added that in the original RFP the specs were 450 bulky item collections each week, so Recology proposed the cost for 450 per week. Now, the bulky item collections are at 750 each week, which means increased costs via labor and equipment so that is why the limit was set.

Lillian Clark asked if it would be possible to find out what the cost would be to provide a higher service. FAX Member Olwin added that if you look at the contract, that possibility is built in with the meet and confer if 150 is reached.

Mario Puccinelli said yes, if a specific Member Agency has that need and requirement, it is something that can be looked at and negotiated.

Lillian Clark added that the County is doing more outreach on the Bulky Item Collections in effort to decrease illegal dumping, and we're finding that folks don't have transportation to get the materials to where they need to go.

Member Daher added that more than one agency will want to look at the numbers of additional Bulky Item Collection, and we will want to know the numbers ahead of time.

Chair Oskoui added that to that point it's important the SBWMA staff is involved in your individual negotiations, so the SBWMA can determine if there are many agencies going in the same direction it might make sense to include it in the Model Agreement for all Agencies.

Member Daher added that self-hauling is less and less of an option for people so the need for Bulky Item Collection is going to be exploding further.

5. TAC/FAX Member Comments

Chair Oskoui concluding the meeting with Kudos to Staff and Recology who did the heaving lifting in the negotiations.

6. Adjourn 3:42PM

