DRAFT MINUTES OF THE
STANDING FINANCE AND ADMINISTRATION COMMITTEE MEETING
OF THE CENTRAL CONTRA COSTA SOLID WASTE AUTHORITY
HELD ON OCTOBER 1, 2009

The meeting of the Finance and Administration Committee of the Central Contra Costa Solid Waste Authority (CCCSWA) convened at 22 Orinda Way, Orinda City Hall, Orinda, County of Contra Costa, State of California, on October 1, 2009. Committee Chair Andersen called the meeting to order at 8:04 A.M.

1. ROLL CALL

PRESENT: Committee Members:
Candace Andersen, Chair
Mike Anderson
Gary Skrel
Victoria Smith
Dave Trotter (arrived at 8:11)
Gayle Uilkema (arrived at 8:08)

Staff members present: Mr. Paul Morsen, Executive Director; Janna McKay, Executive Assistant/Secretary to the Board; Janelle Cameron, Executive Assistant/Business & Accounting Operations; Bart Carr, Waste Prevention and Recycling Manager. Kenton L. Alm, CCCSWA Counsel, was also present.

2. ADOPTION OF AGENDA

MOTION by Committee Member Smith to approve adoption of the Agenda. SECOND by Committee Member Anderson.

MOTION PASSED unanimously.

3. PUBLIC COMMENT

No comments.

4. CONSENT CALENDAR

a. CONSIDER APPROVING MINUTES OF THE FINANCE AND ADMINISTRATION COMMITTEE MEETING ON APRIL 14, 2009*

MOTION by Committee Member Skrel to approve 4.a. SECOND by Committee Member Smith.

Committee Chair Andersen abstained.

MOTION PASSED unanimously.

5. ADMINISTRATIVE AND FINANCIAL MATTERS*

a. CONSIDER PURCHASING 1111 CIVIC DRIVE, SUITE 275, WALNUT CREEK

Mr. Morsen gave a brief background of the office units being sold as condominiums at 1111 Civic Drive where the Authority resides and how asking prices have came down since the initial $1M price for the CCCSWA offices was offered. He introduced Mr. Michael Sharapata of Jones Lang La Salle, the Authority's broker, to give a brief presentation regarding the possibilities, advantages and disadvantages of purchasing versus leasing. Mr. Morsen stated that if the Committee is interested in pursuing the purchase option, staff will continue working with the broker.

Michael Sharapata approached the Committee and started by asking Committee Members to **look at the current lease agreement information that was included in their packet.

Mr. Sharapata started by letting the Committee know that the Authority had a sublease that was expiring on September 30, 2009 and were paying $2.50 per sq. ft. He assisted the Authority with looking at other office sites and ultimately they were able to get the property owner to agree to a significant rent reduction to allow them to stay in their current location. Earlier, the property owner's interest was only to sell the offices as condominiums, so it wasn't until the very end when he reconsidered and decided to lease it to the Authority at a very attractive price.

The lease agreement is a five-year obligation, which runs from October 2009 to December 2014, and the total rent obligation would be $362,236 all-inclusive. Under a hypothetical purchase option he noted, that number would be $119,013, so the net savings to purchase would be approximately $3891 per month.

He went over the advantages of owning: 1) reduced monthly costs, 2) no rent increases, 3) potential asset appreciation, 4) personal stake in the project – Condominium Association to discuss matters, 5) no property owner – you are the property owner, and 6) potential tax advantages. Mr. Sharapata asked the Authority to review with their accountant the specific tax implications because currently the property owner is paying approximately $2.50 sq. ft. per year on taxes on that building. He stated if the Authority is exempt from those taxes – it would be a further savings that he has already factored into the price.

He then went over the disadvantages to owning: 1) ties up capital – the biggest disadvantage, 2) less expansion/contraction flexibility, 3) limited control over the building – it is a Condominium Association, 4) maybe difficult to sub-lease, and 5) management issues become the buyer's responsibility.

Mr. Sharapata stated the first year the net operating income to the property owner is $41,541. Originally, the owner wanted $1.4M for the suite, but now Mr. Sharapata is suggesting a range of value today is probably more in the $346K to $519K range. He wanted to open up the idea to the Committee and stated if you take $500K and the $500 a month in interest and transfer the money onto a real estate asset, it reduces the expense obligation by $3900 a month.

Mr. Morsen added that he talked to the Receiver and he explained to Mr. Morsen that it would be about five to six months before they would be ready to sell the property because he has to do the tenant improvements with a couple suites, including the Authority's. He explained to the Committee that no decision has to be made today. He noted that if the Committee is interested in this, then Authority staff would start working on researching and putting together some data to present to the full Board.

Mr. Sharapata opened it up to the Committee for Q&A.

Committee Member Smith asked about the $119K and if it includes utilities.

Mr. Sharapata stated that it does. The price presented is an all-inclusive number, which is a return to the investor, so the investor anticipates $250K in income. He did note that the tax savings is built into the $119K, based on the Authority being a public agency and not being obligated to pay property taxes.

Committee Member Smith asked Kent Alm, Legal Counsel, if he knows if the Authority has to pay property taxes.

Kent Alm responded that he would need to look at it more closely and determine whether it is being used for a governmental purpose or nongovernmental purpose.

Committee Member Smith asked what is the monthly costs obligation associated to the owner.

Mr. Sharapata responded it includes the common area, janitorial expenses, utilities (PG&E), and capital reserves for the building, so anything associated with the building operation. It is about $1.00 per sq. ft., per month, which is roughly $2500 a month.

Committee Member Smith asked if it that will change over time?

Mr. Sharapata responded that they do change over time, which is impacted by inflation, but whether you lease or purchase that impact is the same. When you sign a lease you get a base year for your operating expense, which includes everything the first year, and for example, after that first year your janitorial expenses go from a $1.00 per sq. ft. up to $2.00 per sq. ft. – that $1.00 sq. ft. is covered under your rent, but you would be responsible for the additional $1.00 per sq. ft. increase.

Mr. Morsen added that we have a five-year lease beginning October 1, 2009, and the Authority is a reliable, long-term customer, so an investor might be more eager to purchase their suite versus a vacant suite that they would have to fix up and model and then market to somebody. Investors are thinking that they are secure for at least five years and then the investment will go higher after five years, and they can sell it at the end of the term. Mr. Sharapata agreed.

Committee Member Smith asked so you are talking about an investor buying the suite and the Authority remaining as tenants.

Mr. Sharapata responded that is correct.

Committee Member Smith then asked if we became an owner in the building and the building does not sell all of the suites, what happens to the people who do own and the monthly maintenance.

Mr. Sharapata responded that there are some issues associated with that and informed the Committee that there is over 50% occupied in the building and it is in Receivership, so they will be selling the suites for what it's worth and having tenants leasing and trying to fill up over the next year or so. He did state that it is similar to a residential condominium; when someone doesn't pay their fees, then you have to cover the costs and down the line there maybe reserve issues where the reserve budget isn't as high as it needs to be and something breaks and now you have to go back to the Association and get money to fix the problem. It is a shared responsibility which could work out but will take some time. Mr. Sharapata noted that there is a reserve currently in place that the owners are paying into. He informed the Committee that the building has been completely renovated – they redid all of the common areas, put in a new HVAC unit, and a new roof so those are the biggest issues that have been taken care of.

Committee Member Trotter asked with your analysis of the net market savings to purchase, it is assuming that the Authority pays in full with cash.

Mr. Sharapata responded yes.

Committee Member Trotter then commented there is no cost of capital.

Mr. Sharapata responded correct. He stated that is where the public agency comes in.

Mr. Morsen added that the Authority invests their money in the Local Agency Investment Fund (LAIF) and asked Janelle Cameron what is the percent that the Authority invest. She responded 1.2 percent.

Mr. Sharapata explained if you take that 1.2 percent which is about $100K and if you get a 10 percent return and reduce your expenses accordingly, on the 10 percent cap, you would only pay $415K and you would have to way what you're making in the bank versus what you would be paying on your lease. He stated whether that makes sense and once again it goes back to the advantages and disadvantages.

Committee Member Trotter asked if the Authority ran any numbers on financials and purchasing of the suite.

Mr. Sharapata responded that he has not but could be done very easily.

Committee Member Trotter asked what is the tax advantage for a nonprofit agency.

Mr. Sharapata responded that he has asked Mr. Morsen to confirm with the accountant, but the assumptions in taxes in this area are generally one percent in special assessments (property taxes).

Committee Member Trotter stated that one disadvantage that he sees is flexibility. What happens when programs change and you need the additional space to house more staff?

Mr. Morsen responded under their current lease there will be some remodeling completed which will accommodate one more employee and agreed that the flexibility part is a disadvantage. However, if it came down to it where we need additional staff in the future, they would have to sublease their unit and look for other space.

Committee Member Anderson added if they in fact had to sell because the Authority grew and needed more space, they would be at a great advantage because the market would be higher and they would recapture their investment based on the purchase price.

Committee Chair Andersen asked Mr. Sharapata how confident was he in getting it as low as $1.50 a sq. ft.

Mr. Sharapata responded that he is 50/50 confident and doesn't believe that it will every go over $2.50 a sq. ft.

A discussion ensued with the Committee Members and the advantages and disadvantages of purchasing the office unit.

Mr. Morsen asked the Committee if they were interested in staff pursuing this opportunity in the next four or five months and if so, staff would work with Mr. Sharapata on analyzing the costs and look further into the advantages and disadvantages of ownership.

Committee Members agreed.

> MOTION by Committee Chair Andersen to recommend to the full Board the idea of developing an Adhoc Committee to follow this matter and it was decided Board Member Trotter and Chair Rainey would sit on the committee which would need to go to the full Board for approval. SECOND by Committee Member Smith.
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> MOTION PASSED unanimously.

b. <u>PRESENTATION BY ROBERT HILTON OF HF&H CONSULTANTS REGARDING SOLID WASTE SERVICE RATES INCREASES FOR RATE YEAR SIX</u>*

Receive, review and consider report from HF&H Consultants and make recommendation to be considered by the full Board.

Mr. Morsen began with stating this is the kick-off rate setting meeting for RY6 beginning in March 2010.

Mr. Morsen introduced Mr. Mr. Simonson of HF&H Consultants to present the information to the Committee.

Mr. Simonson handed out his PowerPoint slides (see attached slides) and stated that they were only preliminary numbers and reminded the Committee that they will be working with each member agency as they have done in the past, sometime in late October, beginning of November with the finalization of rate setting in January 2010.

He went through the presentation outline: 1) Preliminary RY6 revenue requirement for Authority wide, 2) Reserve balances, 3) Diversion Incentive Fund: Settlement payments, 4) Preliminary RY6 surplus/shortfall by Member Agency, 5) Rate comparison, 6) Other rate-setting issues, and 7) Next steps.

He went through line by line of the RY6 Preliminary Revenue Requirement for RY6. Some things he pointed out were: 1) the revenue requirement for RY6 is flat. It is about a $45K decrease for the franchisees compensation, and overall it is just $7K over the revenue requirement for RY5, 2) on line 1 and 2, the difference between Allied Waste Services and Valley Waste Management's costs is because Allied has a fixed interest rate while VWM has a variable rate and it has been decreasing over the last year, so they are seeing more of a reduction in their true expenses, and 3) the preliminary total for RY6 revenue requirement is $40,021,608.

For reserve balances, he stated that each of the Member Agencies has their own separate reserves, so he provided the chart as of September 30, 2009. He noted the ending balance through September 2008 was approximately $2.5M and each member's account was shown on the slide and the transactions that occurred over the year. Mr. Simonson went through each transaction and the total showed each Member Agency's account balances with the overall total balance of $5M.

Mr. Morsen added there is still the $375K that is not listed here but the Board decided to set it aside and requested it to be brought up at the next Finance Committee meeting in the spring when the Authority does their annual budget and then be brought to the full Board for decision.

Mr. Simonson stated that the DIF settlement payment agreement in RY4 was to be distributed during RY5, with a total of $875K and the $500K that just has been distributed, and the $375K is still being held based on the Board's decisions as Mr. Morsen mentioned. He stated with the settlement agreement on an ongoing basis, there are potential distributions that were settled at the end of the RY5, and now these payments will be made in RY6. He noted that recycling commodities revenues decreased quite a bit last October 2008, but now they are slowly climbing, so there may be a potential distribution of the DIF, but it will not be discussed until the March budget occurs.

Mr. Simonson noted that if nothing was done to the rates, the reserve balances would range from a surplus of 6.3 percent to a shortfall of about 5.1 percent. The projected end of the year reserve balance for RY6 would have Walnut Creek, the County and Moraga would have a positive balance and Orinda would have a slight difference with Danville and Lafayette ending with a negative balance. If they project revenues at the current rate base for RY6, it would be $37.8M with a $2M shortfall. He stated that this shows you an idea if nothing happens at the end of RY6.

For RY5, it is trending and revenues are coming in less than anticipated. A chart was given to the members that reflected actuals through August 2009 which simply annualized a 6 month period of revenues coming in.
Slide 7 shows what was projected three years ago for RY6, which is not enough to achieve targeted reserves. Mr. Simonson summarized it by stating line five shows the rate increases for RY6, and line six shows you where your reserves fall if everything turned out in RY6, as projected. He noted that these are preliminary numbers and they will be coming back to the Board with more solid numbers and meeting with the individual Member Agencies in November to answer more specific questions regarding their city's rate increase.

On the rate-setting issue with rolling-out a residential food scrap program in Walnut Creek, they provided some costs and obligations. The contractual obligation is that Allied Waste Services (AWS) has to compost 50 percent of the green waste that is collected along the 680 Corridor, the other 50 percent can be used as ADC (alternative daily cover), so currently about 17,500 tons are obligated to be composted at $30.70 a ton, and the other half to ADC at Keller Canyon at $20.47 per ton. Right now, AWS already fills that requirement for additional costs for processing this material under the current contract. However, AWS is requesting an increase in their processing fee from $30.70 to $45.00 a ton, which is about a .6 percent impact on the rates, which comes out to be $200K a year and $102K for program expenses that have already been budgeted through the DIF. Mr. Simonson stated even though AWS is under a contractual obligation to be composting at $30.70 a ton, their costs are coming in much higher and that is why they are requesting an increase.

Mr. Tim Argenti, AWS, approached the Committee and stated that he recognizes that he is contractual obligated to the $30.70 a ton. He has evaluated the costs to process and with the green waste/food scraps; it is more expensive which is explained in the letter he sent to the Authority (attached). He also mentioned that there are other items in the contract that need to be addressed. He proposed $55.00 a ton for the transport and delivery to Newby Island for the food waste and he is willing to modify the contractual obligations, so that they compost a larger portion than 50 percent.

Mr. Morsen asked the Committee to consider the rate increase so all of the green waste/food scrap will be turned into compost. He noted it will be brought to the full Board in October for a decision.

Committee Member Skrel suggested looking at the contract and asked why limit it to 50 percent compost when they can go to 100 percent.

Mr. Hilton commented if the Board is going to entertain the idea, then HF&H can provide information on what other rates are for similar things and negotiate with Tim Argenti.

Committee Chair Andersen stated more importantly how it is going to affect the rate payers further than what has already been projected.

Mr. Simonson mentioned the second issue was the expansion of the food waste pilot program. The program began November 2008 and was anticipated to have about 80 or 90 accounts by March 2010, the beginning of RY6. Staff is currently looking at expanding the program to start-up in September 2010. The goal is to hold the 80-90 accounts until September 2010 and then wrapping up 10-12 accounts a month, with the goal of having about 240 accounts by December 2011 and that will be the full grown program.

Mr. Morsen explained that they originally hoped to roll-out the program in March 2010, but recently EBMUD decided to test the Morbark grinder for the next four weeks to make sure it is not jamming and running smoothly. If for some reason EBMUD decides they cannot use that grinder, then the Authority would have to revisit the permit, change the grinder, and additional work would have to be completed, so they felt it was necessary to start in September rather than March. The funding of the program from March through August 2010 would come out of the DIF, which has already been budgeted, but is requesting approval from the Committee. If it is decided to not continue the food waste program, the other alternative would be composting it and taking it to Newby Island.

Committee Chair Andersen asked with the goal of 240 accounts, how wide spread is that.

Mr. Morsen replied that it would be in every community and explained the reasons why some food producer would not be able to participate. He stated it would be difficult to know how much tonnage they would get out of the restaurants, but they will have a better idea next year based on real experience.

The committee requested a list of restaurants that are participating in the food waste program.

Committee Member Uilkema questioned if that would mean less distribution to the County and Walnut Creek.

Mr. Morsen responded no because the DIF is their recyclables fund that is used for one time charges and new recycling programs.

Committee Member Andersen commented that they have already settled with the City of Walnut Creek and the County regarding the DIF distribution.

Mr. Simonson clarified to the Committee that once the operating expenses are over and above the $1M cap and the reserves are fully funded; then there are some monies that can be distributed to Walnut Creek and the County. He noted that 50 percent will be distributed to the County and Walnut Creek, and other 50 percent to the other Member Agencies, excluding Orinda. So it could potentially impact the settlement.

A discussion ensued with the Committee on the DIF settlement.

Mr. Morsen stated that because of the revenues improving, the settlement to the County and Walnut Creek is a high priority to him and it is very well possible to disperse the $375K that was put on hold for the Recycling Center.

Committee Member Anderson commented that it may bump out something that is lower priority within the million dollar cap and there still may be a distribution.

Janelle Cameron, Authority staff added that Mr. Simonson pointed out that the settlement would be if the DIF Reserve was fully funded and she stated that it is currently not. They budgeted for $773K of expenses for the DIF, with the $1M cap, and if they were to disperse the $375K and the additional $169K for the food waste program, it would exceed the cap amount.

Mr. Simonson stated with the expansion of the food waste pilot program and moving it from March start date to September means there is a six month period that needs to be funded and staff has put together a few rate increase scenarios:

- If funded by all customers; residential, roll-off, and commercial in every jurisdiction is about a .5 percent increase in the RY6 rates. He stated that this is only six months of the program, so do expect another increase for RY7 which will be a full year of funding of the program.

Mr. Hilton added in the full year program, it would be more than double because you're adding and serving additional accounts, so the base will be higher. He wanted to ensure the Committee knew that the .5 percent is not the amount they will be building into next year's rates, it will be much larger.

- If funded by commercial customers only in each of the jurisdictions, is would be about a1.1 percent increase.
- If funded by the commercial customers participating in the program, it would vary from jurisdiction to jurisdiction ranging from .5 percent in County, up to 1.6 percent in Moraga which is based on the number of restaurants served and your commercial base of revenue.

There was discussion amongst the Committee Members about the percentage differences each city would pay for commercial customers participating in the program.

Mr. Hilton stated that HF&H will do reconciliation at the end of the year to see where the customers actually were and allocate it on that basis.

Mr. Simonson added that there are always subsidizing costs by using the DIF, so that options is available.

Committee Member Anderson commented so these increases are not factored into the numbers for the food waste program.

Mr. Simonson responded correct.

Mr. Simonson went over the recommendations to the full Board: 1) expanding the food scrap collection program for Walnut Creek residence, 2) moving the expansion of the food waste program from March 1 to September 1, 2010 and ways to pay for it, and 3) AWS's request for an increase in their processing tip fee.

Mr. Simonson went through the next steps: 1) finalize hauler compensation and revenue projections, 2) present preliminary results to the board – October 29, 2010 (including finance committee recommendations), 3) meet individually with member agencies to develop rate adjustment strategies (not later than November 18, 2009), 4) present updated results to the board – December 10, 2009, and 5) present final results to the board and adopt RY6 rates – January 28, 2010.

6. COMMITTEE COMMUNICATIONS AND ANNOUNCEMENTS

Board Members Piepho and Uilkema will not be at the next BOD meeting in October and will be attending the LAFCO conference.

7. ADJOURNMENT

The meeting was adjourned at 9:53 a.m.

*Corresponding Agenda Report or Attachment was included in the Committee packet.

Respectfully submitted by:

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Janna McKay, Executive Assistant/
Secretary to the Board of the
Central Contra Costa Solid Waste Authority,
County of Contra Costa, State of California