

BOARD OF DIRECTORS

CARRIE THEIS
Chair

JASON CAMPBELL
Vice Chair

GARY BALES
LEO LASKA
JANE PARKER
BRUCE DELGADO
DENNIS ALLION
JERRY BLACKWELDER
DAN ALBERT



TIMOTHY S. FLANAGAN
General Manager

GUY PETRABORG, P.E., G.E.
Director of Engineering & Compliance

PETER SKINNER
Director of Finance & Administration

TIM BROWNELL
Director of Operations

ZOE SHOATS
Director of Communications

ROBERT WELLINGTON
Legal Counsel

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Home of the Last Chance Mercantile

FINANCE COMMITTEE MEETING AGENDA

Wednesday, December 2, 2020

9:00 a.m.

Bales Boardroom

14201 Del Monte Blvd., Monterey County, CA

Please Note: Meeting will be held virtually via zoom compliant with Governor Newsom's executive Order N-29-20 which allows local legislative bodies to hold public meetings via teleconference and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to observe and address the local legislative body to avoid public gatherings, and which suspended all contrary provisions of the Brown Act. To join the zoom webinar, click on this link: <https://us02web.zoom.us/j/85004378382> copy/paste the link into your browser, or type the link into your browser. If your computer does not have audio, you will also need to join the meeting via phone. To participate via phone, please call: 1-669-900-9128; Meeting ID: **850 0437 8382**
Public Comments: if you are unable to participate via telephone or virtually, you may also submit your comments by e-mailing them to igonzales@mrwmd.org with one of the following subject lines "Public Comment Item #" (insert the item number relevant to your comment) or "Public Comment - Non Agenda Item". Comments must be received by 4:00 p.m. on Tuesday, December 1, 2020. All submitted comments will be provided to the Committee and may be read into the record or compiled as part of the record. Public comment will also be accepted during the meeting.

CALL TO ORDER

ROLL CALL AND ESTABLISHMENT OF QUORUM

PUBLIC COMMUNICATIONS

Anyone wishing to address the Committee on matters *not* appearing on the Agenda may do so now. *Please limit comments to a maximum of three (3) minutes.* The public may comment on any other matter listed on the agenda at the time the matter is being considered by the Board.

ITEMS FOR COMMITTEE CONSIDERATION, DISCUSSION AND ACTION

1. Review Final District Audit for Fiscal Year 2019/20.
2. CARB/MBARD Landfill Inspections Update
3. Materials Recovery Facility Upgrade
4. Keith Day Lease Agreement Update
5. General Manager Communications

ADJOURNMENT

NEXT MEETING DATE: Wednesday, January 6, 2020 9:00 a.m.

+



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: November 25, 2020
TO: Finance Committee
FROM: General Manager
SUBJECT: Finance Committee Meeting of December 2, 2020

1. **Review Final District Audit for Fiscal Year 2019/20**. The Annual Financial Report for the recently concluded fiscal year is enclosed. Once again, the Accounting team has received a clean audit with no qualified opinion. This is, I believe, the 20th straight audit without a qualified opinion. Staff proposes to present the final version of this report to the full Board for approval at the December meeting.

Recommendation: Support Board Approval of Final Report.

2. **CARB/MBARD Landfill Inspections Update**

Please refer to the enclosed information from Guy Petraborg. Staff is working on a revision of roles and responsibilities around the LFG collection system. This revision will better align operational duties and functions around the landfill management staff and keep engineering and compliance responsible for tabulating and interpreting the data collected from the landfill management staff. Oversight of our LFG contractors in the field will be under the landfill management staff. Staff expects to complete our revision of roles and responsibilities in the response plan to the NOV expected to be received from MBARD.

Recommendation: Information Only.

3. **Materials Recovery Facility Upgrade**

Please refer to the enclosed memo from Tim Brownell, Director of Operations. Staff has performed a great job in integrating the systems changes and new equipment from BHS into our existing system. Tim Brownell and David Saucedo have worked very hard with the supervisors and the line leads to make the adjustments to the sorting lines to make the system operate more efficiently and yield higher revenue. The capital requested has been put to very good use and our projected payback period has been reduce substantially. This has been a very successful system integration.

Recommendation: Information Only.

4. Update Keith Day Lease Agreement

Please refer to the enclosed memo from Guy Petraborg, Director of Engineering and Compliance. This is the culmination of an extended review of the best approach to the long-term management of organics at the District. Keith Day Co (DBA Gabilan Ag Services) has been a very good private partner for the District over the past decade. This will provide the District and KDC with the security of a long-term agreement along with the rate stability a longer term agreement also provides.

Recommendation: Recommend approval to the full Board

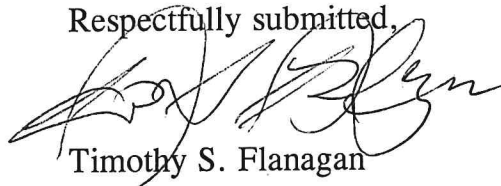
5. General Manager Comments.

- **Merced Proposal Submittal** As part of the Districts continued interest in business development, staff responded to an open RFP for the transportation and processing of recyclable materials from the Merced County Regional Waste Authority. Given the distance involved in transportation, and the fact there will most likely be local bidders, staff does not have a high expectation of success for the delivery of this material.
- **Covid 19 Update** As Monterey County has experienced an uptick in positive COVID-19 cases, so has the District. In total, the District has had six (6) cases of employees infected with COVID-19. We are also seeing an increase of employees needing to self-quarantine as a result of being in close contact with infected individuals outside of work. Staff has issued numerous reminders around the site and through our message boards about the importance of restricting travel and multi-family gatherings. Additional planning around “mission critical” areas such as the scales and LFG plant operations has also been identified and alternative work plans developed.
- **Monterey One Water (M1W) Electrical Connection** District staff and M1W staff have been meeting to develop the process for the transference of the project development from M1W to the District. District staff will be working on a financial model with M1W that will allow for the payment back to the District of the cost for development and financing over time. Staff hopes to have that ready for the Board by the January Board meeting.

ADJOURNMENT

NEXT MEETING DATE: January 6, 2021 at 9:00 a.m.

Respectfully submitted,



Timothy S. Flanagan



November 24, 2020

To the Board of Directors
Monterey Regional Waste Management District
Marina, California

We have audited the financial statements of Monterey Regional Waste Management District as of and for the year ended June 30, 2020, and have issued our report thereon dated November 24, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our letter dated July 27, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive estimates affecting the financial statements are management's estimate of the landfill closure and post closure costs, net pension liability (NPL), and total other post-employment benefits liability (TOL).

Estimates of the NPL and TOL are based on actuarial valuations prepared in accordance with the methods prescribed in the relevant authoritative accounting literature. Management's estimate of the landfill closure and post closure costs is based on an engineering study prepared per state law.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting District's financial statements relate to the debt to maturity schedules, NPL, and TOL. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The balances of the District's investments at June 30, 2020, are not adjusted to fair market value as required by the accounting standards. Instead, the investment balance is reported at book value, which is lower than the fair market value by \$91 thousand. The effect is a temporary timing difference until the interest income is recognized when paid to the District in a future fiscal year.

Governmental accounting standards require that condensed financial information of blended component units be presented in the notes to the financial statements. Instead, the District's financial statements report the financial position and results of operations of the Financing Authority as supplemental information.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated November 24, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have applied certain limited procedures to the schedule of changes in the net pension liability and related ratios, schedule of pension plan contributions, and schedule of changes in the District's total OPEB liability and related ratios which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the District and Monterey Regional Waste Management Authority combining statements which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This information is intended solely for the information and use of the board of commissioners and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the printed name of the firm.

San Mateo, California



**Annual Financial Report
JUNE 30, 2020 AND 2019**

**Monterey Regional Waste
Management District**

**MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS
JUNE 30, 2020**

	<u>Page</u>
BOARD OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Net Position	18
Statement of Cash Flows	20
Notes to Financial Statements	22
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the Net Pension Liability and Related Ratios	51
Schedule of Pension Plan Contributions	52
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	53
OTHER SUPPLEMENTARY INFORMATION	
Combining Schedule of Net Position	55
Combining Schedule of Revenues, Expenses and Changes in Net Position	57
Statement of Revenues, Expenses and Changes in Net Position - Actual to Budget	59

**MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT
ANNUAL FINANCIAL REPORT**

JUNE 30, 2020

BOARD OF DIRECTORS

**FOR THE YEAR ENDED
JUNE 30, 2020**

<u>Member</u>	<u>Office</u>	<u>Representing</u>	<u>Term Expires</u>
Carrie Theis	Chair	Carmel-By-The-Sea	December 2022
Jason Campbell	Vice-Chair	Seaside	December 2020
Bruce Delgado	Chair	Marina	December 2020
Gary Bales	Director	Pacific Grove	December 2022
Leo Laska	Director	Pebble Beach Community Services District	December 2023
Dan Albert	Director	Monterey	November 2022
Jane Parker	Director	Monterey County	December 2022
Dennis Allion	Director	Del Rey Oaks	December 2020
Jerry Blackwelder	Director	Sand City	December 2020
Timothy Flanagan	General Manager/ Secretary of the Board		



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Monterey Regional Waste Management District
Marina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Regional Waste Management District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the District is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Monterey Regional Waste Management District, as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the 2019 financial statements of the District, and we expressed an unmodified audit opinion on those financial statements in our report dated December 6, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of pension plan contributions, and schedule of changes in the district's total OPEB liability and related ratios on pages 4—14 and 51—53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining schedules and the budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules and the budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules and the budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



San Mateo, California
November 24, 2020

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED JUNE 30, 2020 and JUNE 30, 2019

This section of Monterey Regional Waste Management District's (District) annual financial report presents a discussion and analysis of the District's performance during the fiscal year that ended June 30, 2020. Please read it in conjunction with the District's financial statements, which follow this section.

The District was formed in 1951 under the California Health and Safety Code. The primary purpose of the District is to dispose of solid waste in the Monterey Peninsula area. The District's role has expanded to include the recovery of recyclable materials in the waste stream (cardboard, newspaper, glass, wood waste, plastic, metals, concrete, asphalt, reusable building materials and resale items) and to receive non-hazardous liquid wastes. In addition, the District operates a landfill gas to electrical energy system, with capacity to generate about 5,000 kilowatts of continuous power. The District also accepts household hazardous waste.

The Monterey Regional Waste Management Authority (Authority) was formed pursuant to the provisions of the Government Code of the State of California and a Joint Powers Agreement (JPA), dated April 1, 1993, by and between the cities of Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Sand City and Seaside. During the fiscal year ending June 30, 1996, the Pebble Beach Community Services District also became a member of the Authority. During the fiscal year ending June 30, 2015, Monterey County also became a member of the Authority. The Authority was formed to assist in the financing of public capital improvements, such as the design, acquisition and construction of additions, betterments and improvements to the District's facilities.

Accounting principles generally accepted in the United States of America require that these financial statements present the District (the primary government) and its component units. The Authority is included in the District's financial statements because of its significant financial relationship to the District.

FINANCIAL HIGHLIGHTS

Fiscal year 2019-20

- Operating revenues increased by 5 percent to \$39.6 million and operating expenses increased by 9.8 percent to \$36.0 million.
- Capital outlay for buildings, equipment and infrastructure were \$11.2 million.
- Operating revenues were above budgeted revenues by \$3.1 million. Operating expenses were above budgeted amounts by \$2.4 million. Non-operating revenues and expenses were above the budgeted levels by \$2.0 million.

Fiscal year 2018-19

- Operating revenues increased by 28.2 percent to \$37.7 million and operating expenses increased by 15.4 percent to \$33.5 million.
- Capital expenditures for buildings, equipment and infrastructure were \$7.4 million.
- Operating revenues were above budgeted revenues by \$3.1 million. Operating expenses were above budgeted amounts by \$1.6 million. Non-operating revenues/expenses were unfavorable to budgeted levels by \$0.3 million.

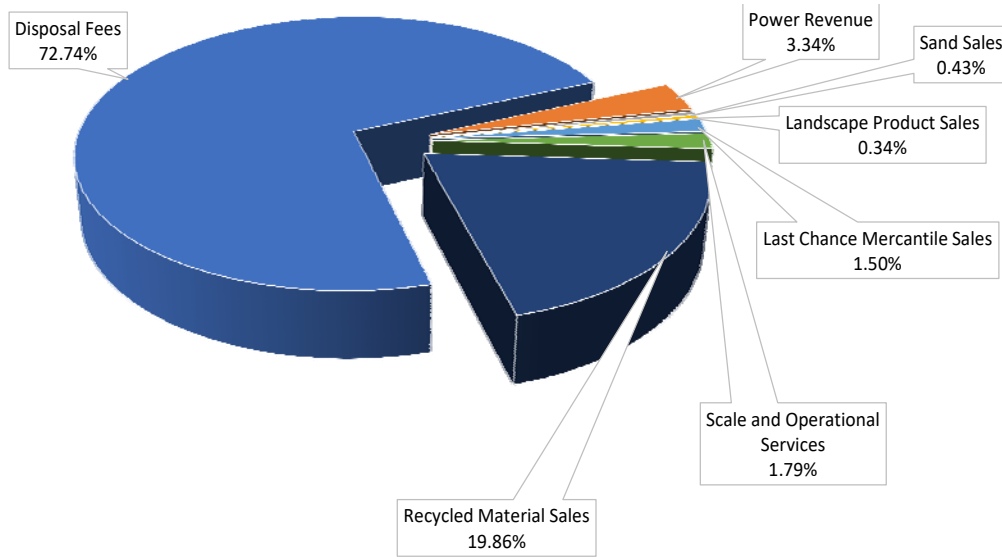
MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

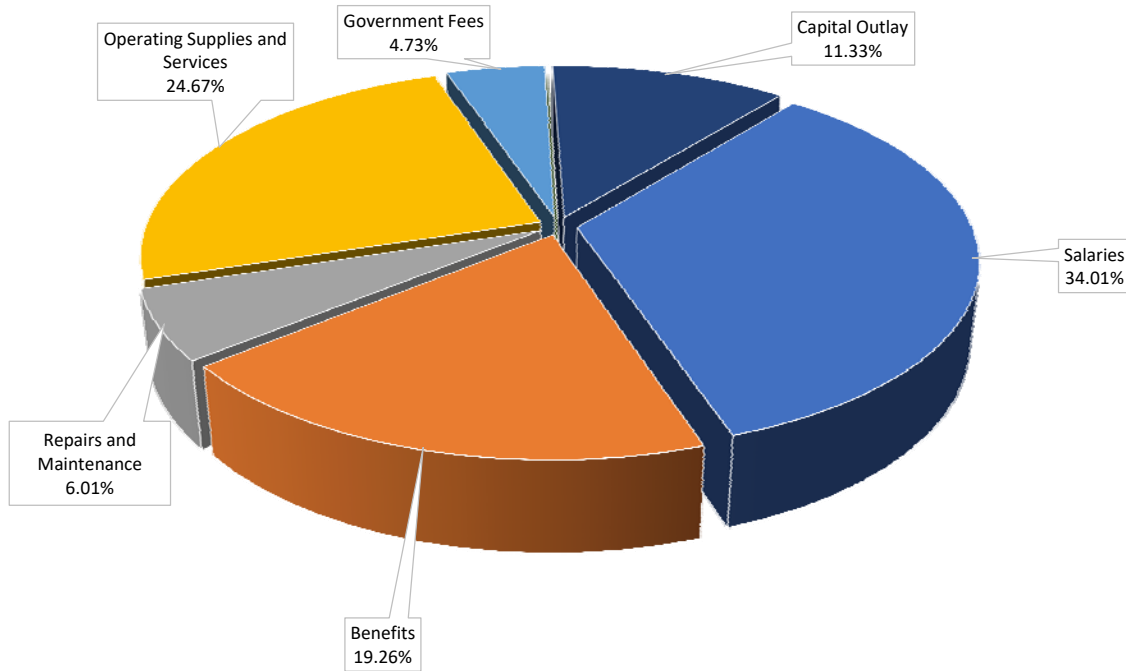
FINANCIAL HIGHLIGHTS (Continued)

The following figures show the District's sources of revenues and areas of expenditures for fiscal year 2020:

Sources of Revenue



Areas of Expense



MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of five parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, required supplementary information and other supplementary information.

The financial statements provide both long-term and short-term information about the District's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of schedules of required supplementary information and a section of other supplementary information that further explains and supports the information in the financial statements.

The District's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statement of revenues, expenses and changes in net position. All assets and liabilities associated with the operation of the District are included in the statement of net position.

Net Position

Fiscal year 2019-20

The statement of net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Net position is reported in three categories: Invested in capital assets – net of debt, restricted and unrestricted. Invested in capital assets – net of related debt is the cost of the District's buildings, equipment and infrastructure after deducting accumulated depreciation and debt still owed on these assets. Restricted assets are the funds the District is required to set aside for landfill closing/cleanup reserves and revenue bond proceeds that are restricted for the acquisition of Materials Recovery Facility Improvement Project and the Franchise Hauler Truck Parking and Maintenance Facility Project.

The District's total net position at June 30, 2020 was \$41.5 million, a 10 percent increase of \$3.8 million over net position at June 30, 2019 (See Table A-1). Most of the increase in total net position is attributable to a reduction of accounts payables and an increase of recycled material sales.

Total assets and deferred outflows increased by 2 percent to \$121 million.

Total liabilities and deferred inflows decreased by 2 percent to \$79.5 million.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Fiscal year 2018-19

The deficit unrestricted portion of net position is primarily the result of recording the net pension liability in accordance with Governmental Accounting Standards Statement No. 68 (\$11.6 million) and the total other postemployment benefits liability in accordance with GASB Statement No. 75. (\$2.3 million).

The District's total net position at June 30, 2019, was approximately \$37.7 million, an 11.0 percent increase over net position at June 30, 2018 (See Table A-1). Total assets and deferred outflows increased by 35.0 percent to \$119.0 million and total liabilities and deferred inflows increased 50.0 percent to \$81.3 million.

Table A-1
Net Position
(in thousands of dollars)

	2020	2019	2018	Change	
				2020 to 2019	2019 to 2018
Current Assets	\$ 32,788	\$ 38,380	\$ 11,011	-14.6%	248.6%
Restricted Assets	4,850	4,850	4,850	0.0%	0.0%
Deposits	155	155	155	0.0%	0.0%
Capital Assets–Net	78,937	71,885	68,410	9.8%	5.1%
Intangible Assets–Net	89	105	122	-15.2%	-13.9%
Total Assets	116,819	115,375	84,548	1.3%	36.5%
Deferred Outflows	4,165	3,635	3,636	14.6%	0.0%
Total Assets and Deferred Outflows	\$ 120,984	\$ 119,010	\$ 88,184	1.7%	35.0%
Current Liabilities	\$ 5,323	\$ 7,035	\$ 4,806	-24.3%	46.4%
Non–Current Liabilities	18,642	16,841	15,460	10.7%	8.9%
Revenue Bonds Payable	49,179	51,411	28,390	-4.3%	81.1%
Estimated Closure/Post Closure Costs	6,057	5,702	5,336	6.2%	6.9%
Total Liabilities	79,201	80,989	53,992	-2.2%	50.0%
Deferred Inflows	317	312	227	1.6%	37.4%
Total Liabilities and Deferred Inflows	\$ 79,518	\$ 81,301	\$ 54,219	-2.2%	49.9%
Net Position:					
Invested in Capital Assets– Net of Debt	41,209	41,809	38,056	-1.4%	9.9%
Restricted	4,850	4,850	4,850	0.0%	0.0%
Unrestricted	(4,593)	(8,950)	(8,941)	-48.7%	0.1%
Total Net Position	41,466	37,709	33,965	10.0%	11.0%
Total Liabilities, Deferred Inflows, and Net Position	\$ 120,984	\$ 119,010	\$ 88,184	1.7%	35.0%

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Revenues, Expenses and Changes in Net Position

Fiscal year 2019-20

Operating revenues increased by 5 percent to \$39.6 million (See Table A-2). Some of the major impacts on District revenues are from:

- Revenues from disposal fees remained consistent with prior year with an increase of 0.3 percent.
- Power revenue remained consistent with prior year with a decrease of 0.8 percent.
- Recycled material sales increased by 36.3 percent due the fast-growing activity of the Material Recovery Facility (MRF) CRV values assigned to diverted products by CalRecycle which started in full capacity in 2019. CRV values represent over 60 percent of total MRF revenue.
- Mulch, compost and woodchip sales decreased by 17.3 percent due to the business slow-down resulted from the COVID-19 Worldwide Pandemic.
- Sand sales decreased 7.2 percent compared to the prior year.
- Last chance mercantile sales decreased by 25.5 percent due to the COVID-19 Worldwide Pandemic and the store closure.

Operating expenses increased by 7.6 percent to \$36,004,497. Salaries increased by 18.0 percent, due to employees accepting an early retirement package from the District. Benefits increased by 27.9 percent due to the increase in the unfunded pension liability partially offset by a decrease in the number of employees. Repairs and maintenance remained consistent with prior year. Contracted services decreased by 29.7 percent due to the business slow-down in the last fiscal year quarter. Recycling expenses decreased by 17.7 percent while the office supplies increased by 267.9% due to buying COVID-19 related cleaning and disinfecting supplies. The closure/post-closure costs decreased by 36.0 percent resulting from the submission of revised plans as part of the 5-year permit review process. The revised plans have not been approved and the regulating body has determined that the higher of the approved or revised plans should be used to calculate the current year's costs.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Fiscal year 2018-19

Operating revenues increased by 28.2 percent to \$37,746,293 (See Table A-2). Some of the major impacts on District revenues are from:

- Revenues from disposal fees increased by 12.9 percent due primarily to a percent increase in tonnage received under contract for disposal only.
- Power revenue increased by 28.5 percent due primarily to increase in the market price for electricity and increased volume of power generated.
- Recycled material sales increased by 457.4 percent due primarily to having twelve months of sales in fiscal 2019 compared to five months of sales in the prior year. A more stable element of Material Recovery Facility (MRF) revenue are CRV values assigned to diverted products by CalRecycle. CRV values represent over 60 percent of total MRF revenue.
- Mulch, compost and woodchip sales increased 7.2 percent due to higher volume of woodchip sales. Sand sales decreased 16.1 percent compared to the prior year.
- Last chance mercantile sales increased by 0.9 percent.

Operating expenses increased by 15.4 percent to \$33,515,275. Salaries increased by 13.6 percent, due to an increase in employees during the year to staff the MRF operations. Benefits decreased by 7.9 percent due to the increase in employees partially offset by a lower increase in the unfunded pension liability. Repairs and maintenance remained consistent with prior year. Operating supplies and services increased by 35.4 percent due to the increased costs of temporary employees and increased wood waste recycling costs. Taxes, licenses and permits increased by 43.9 percent due primarily to the increase in fees from regulatory agencies. The closure/post-closure costs decreased by 12.6 percent resulting from the submission of revised plans as part of the 5-year permit review process. The revised plans have not been approved and the regulating body has determined that the higher of the approved or revised plans should be used to calculate the current year's costs.

Higher bond interest expense and bond cost of issuance were the only significant changes from the prior year to non-operating revenues (expenses).

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Table A-2
Revenues, Expenses and Changes in Net Position
(in thousands of dollars)

	2020	2019	2018	Change	
				2020 to 2019	2019 to 2018
Operating Revenues					
Disposal Fees	\$ 28,828	\$ 28,747	\$ 25,459	0.3%	12.9%
Power Sales	1,324	1,334	1,038	-0.7%	28.5%
Last Chance Mercantile Sales	594	797	790	-25.5%	0.9%
Recycled Material Sales	7,872	5,763	1,034	36.6%	457.4%
Landscape Product Sales	136	180	168	-24.4%	7.1%
Scale and Operational Services	708	742	739	-4.6%	0.4%
Sand Sales	169	183	218	-7.7%	-16.1%
Total Operating Revenues	39,631	37,746	29,446	5.0%	28.2%
Operating Expenses					
Salaries	12,244	10,374	9,174	18.0%	13.1%
Employee Benefits	6,933	5,419	5,883	27.9%	-7.9%
Depreciation and Amortization	4,080	3,972	2,865	2.7%	38.6%
Repairs and Maintenance	2,163	2,410	2,414	-10.2%	-0.2%
Operating Supplies, Services and Other Expenses	8,883	7,693	5,868	15.5%	31.1%
Taxes, Licenses and Permits	914	2,370	1,539	-61.4%	54.0%
Closure/Post Closure Costs	788	1,231	1,301	-36.0%	-5.4%
Total Operating Expenses	36,005	33,469	29,044	7.6%	15.2%
Operating Income	3,626	4,277	402	-15.2%	963.9%
Non-Operating Revenues (Expenses)					
Interest Income	753	381	188	97.6%	102.7%
Other Revenue (Expenses)	372	377	357	-1.3%	5.6%
Interest Expense-Revenue Bonds and Capital Leases	(994)	(834)	(490)	19.2%	70.2%
Total Non-Operating Revenues (Expenses)	131	(76)	55	-272.4%	-238.2%
Change in Net Position	3,757	4,201	457	-10.6%	819.3%
Total Net Position - Beginning of Year	37,709	33,508	33,508	12.5%	0.0%
Total Net Position - End of Year	\$ 41,466	\$ 37,709	\$ 33,965	10.0%	11.0%

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Operating Revenue and Expenses by Department

Fiscal year 2019-20

- Administration/organization includes senior management, administrative, accounting and engineering staff, along with organization-wide supplies and services, such as the computer network and telephone systems.
- Household hazardous waste (HHW) revenue is from charges for small quantity generators.
- Last chance mercantile (LCM) revenue is from the sale of items received from the public and recovered from the Materials Recovery Facility.
- The District continues to incur expenses for air emission testing and compliance requirements for the landfill gas power operations. The District operations benefit from “free electricity” and the revenue from the sale of excess power generated by the landfill gas power operations.
- The revenue for the Materials Recovery Facility (MRF) includes the disposal fees for refuse and green waste diverted at the facility, along with the revenues for sales of recycled materials, scrap metal and landscape materials and the revenue from CalRecycle CRV refund claims.
- Disposal fees make up the Scale's revenue.

Fiscal year 2018-19

- Administration/organization includes senior management, administrative, accounting and engineering staff, along with organization-wide supplies and services, such as the computer network and telephone systems.
- Household hazardous waste (HHW) revenue is from charges for small quantity generators.
- Last chance mercantile (LCM) revenue is from the sale of items received from the public and recovered from the Materials Recovery Facility.
- The District continues to incur expenses for air emission testing and compliance requirements for the landfill gas power operations. The District operations benefit from “free electricity” and the revenue from the sale of excess power generated by the landfill gas power operations.
- The revenue for the Materials Recovery Facility (MRF) includes the disposal fees for refuse and green waste diverted at the facility, along with the revenues for sales of recycled materials, scrap metal and landscape materials and the revenue from CalRecycle CRV refund claims.
- Disposal fees make up the Scale's revenue.

Budget Highlights

Fiscal year 2019-20

The District's operating revenues of \$39.6 million were \$3.1 million above budget and non-operating revenue was \$0.7 million above budget amounts. The increase resulted primarily from increased revenue from sales of MRF products and CalRecycle CRV claims partially offset by lower Last Chance Mercantile and landscaping product revenue. Power sales remained stable to budget.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Operating expenses of \$36.0 million were \$2.4 million above budget. Salary expenses and benefits are \$3.2 million above budget due to employees accepting an early retirement package from the District and the pension expense recognizing the differences between actuarial assumptions and projected and actual plan investment earnings. Recycling costs were \$0.4 million above budget due to increased volume of wood waste processing. Professional services costs were \$0.6 million below budget due in part to lower engineering services related costs. Revised maintenance plans being submitted as part of the 5-year permit review process. The plans have not been approved and the higher of the previous approved or submitted costs were used to calculate the closure/post closure costs. (see Note 6). The outside services were below budget due to less temporary workers in the MRF than was budgeted. There were several items under budget: outside services - \$134,704; professional services - \$588,592; fuel - \$342,372; taxes and fees - \$43,361; depreciation and amortization - \$19,852; public awareness - \$92,519 landfill; education, meetings and travel - \$158,244; office expenses - \$70,880. Other categories over budget were; hazardous waste program - \$36,316; insurance - \$35,940; safety equipment and supplies - \$85,998; environmental services - \$66,294; utilities - \$68,542; operating supplies - \$66,989; recycling services - \$510,739; closure and post closure care costs - \$288,000.

Fiscal year 2018-19

The District's operating revenues of \$37.7 million were \$3.1 million above budget and non-operating revenue was \$0.3 million below budget amounts. The increase resulted primarily from increased tonnage delivered for processing and disposal. Last chance mercantile, scale and operational services, power sales and sand sales remained stable to budget. Landscape product sales decreased due primarily to decreased availability of processed wood based products.

Operating expenses of \$37.7 million were \$3.1 million above budget. Salary expenses and benefits are \$0.9 million above budget due to an increased headcount for the Material Recovery Facility and the pension expense recognizing the differences between actuarial assumptions and projected and actual plan investment earnings. Recycling costs were \$1.3 million above budget due to credits given to the District's contract waste customer and increased volume of wood waste processing. Maintenance of structures and equipment were \$0.3 million above budget due to higher maintenance costs on MRF equipment. Professional services costs were \$0.3 million below budget due in part to less costs incurred temporary employees. Revised maintenance plans being submitted as part of the 5-year permit review process. The plans have not been approved and the higher of the previous approved or submitted costs were used to calculate the closure/post closure costs. (see Note 6). The contractual services were below budget due to less temporary workers in the MRF than was budgeted. Other categories over budget were gas project maintenance - \$741,206; office expenses - \$266,036; hazardous waste program - \$123,353; public awareness - \$72,259; fuel - \$70,939; safety equipment and supplies - \$60,368; environmental services - \$26,948; and miscellaneous - \$18,600.

There were several items under budget: operating supplies - \$483,639; depreciation and amortization - \$331,349; insurance - \$168,797; landfill closure and post closure care costs - \$133,632; education, meetings and travel - \$37,393; utilities - \$31,329; and bad debt expense - \$14,720.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

Capital Assets and Debt Administration

Capital Assets

The District's capital assets, net of accumulated depreciation, at June 30, 2020, totaled \$79.0 million on June 30, 2020. (See Table A-3). The increase of \$7.0 million is mostly due to capital acquisitions for the materials recycling facility.

	2020	2019	2018	Change	
				2020-19	2019-18
Land	\$ 578	\$ 578	\$ 578	0.0%	0.0%
Facilities and Infrastructure	20,414	21,230	22,143	-3.8%	-4.1%
Equipment	29,932	30,575	28,235	-2.1%	8.3%
Power Project	6,080	6,982	6,093	-12.9%	14.6%
Module Development	10,352	8,392	6,746	23.4%	24.4%
Intangible Assets	89	105	122	-15.2%	-13.9%
Construction in Progress	11,581	4,128	4,615	180.5%	-10.6%
	<u>\$ 79,026</u>	<u>\$ 71,990</u>	<u>\$ 68,532</u>	<u>9.8%</u>	<u>5.0%</u>

Fiscal year 2019-20 major capital asset additions include:

- \$4,137,000 for module development.
- \$2,029,000 for MRF expansion.
- \$1,392,000 for LFG field improvements.
- \$908,000 for 2 wheel loaders.

Fiscal year 2018-19 major capital asset additions include:

- \$946,400 for module development construction in progress.
- \$1,201 for a landfill compactor.

Debt Administration

On May 28, 2015, through the bond underwriter, the District issued \$31,145,000 in 2015 Series A and Series B Integrated Waste Management Revenue Bonds to fund the acquisition of the Materials Recovery Facility Improvement Project and the Franchise Hauler Truck Parking and Maintenance Facility Project. Through the bond trustee, the District continues to make its regularly scheduled payments on the 2015 Series A and B Integrated Waste Management Revenue Bonds. During 2020, principal payments of \$1,205,000 were made, leaving a balance of \$25,700,000. The District was in compliance with the bond covenants at June 30, 2020 and 2019.

Bond Rating – In May 2015, Standard and Poor's assigned the Series 2015 Bonds the rating of AA- and view the outlook as stable.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

On November 7, 2018, through the bond underwriter, the District issued \$22,970,000 in 2018 Series A and Series B Integrated Waste Management Revenue Bonds to fund the design, acquisition and construction of improvements to the Monterey Peninsula Landfill and paying costs of issuance related to the sale and delivery of the Series 2018 Bonds. Through the bond trustee, the District continues to make its regularly scheduled payments on the 2018 Series A and B Integrated Waste Management Revenue Bonds. During 2019, principal payments of \$745,000 were made, leaving a balance of \$21,960,000. The District was in compliance with the bond covenants at June 30, 2019.

Bond Rating – In November 2018, Standard and Poor's assigned the Series 2018 Bonds the rating of AA- and view the outlook as stable.

Economic Factors and Next Year's Budget and Rates

Operating revenues are projected to decrease \$5.3 million in fiscal 2021 due to the Covid-19 pandemic. After state and county shelter in place orders were issued the District closed the Last Chance Mercantile and implemented procedures to ensure employees were performing their work in a safe environment. There are reductions expected in material volumes originating within Monterey County and a decrease in MRF revenues primarily due to lower commodity prices. There are rate increases scheduled for disposal fees and single stream recyclables processing fees effective July 1, 2020. The District is budgeting operating costs to decrease \$2.9 million from fiscal 2019 gained through a combination of the following measures: 1) staff reductions from voluntary retirements and certain operational changes; 2) wage cuts; 3) wage increase deferrals; 4) reductions to non-personnel spending; and 5) targeted layoffs and hiring freezes. The District Board has approved the utilization of unrestricted cash reserves to cover purchases of capital assets and debt principal payments.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, customers, bondholders and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Peter Skinner, Director of Finance and Administration, at (831) 384-5313.

BASIC FINANCIAL STATEMENTS

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2020 AND COMPARATIVE 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS		
Current assets		
Cash and investments (Note 3)	\$ 28,614,648	\$ 34,208,631
Accounts receivable, net	3,657,661	2,977,433
Accrued interest receivable	87,576	57,000
Other receivables	346,199	563,024
Prepaid expenses	83,410	574,089
Total current assets	<u>32,789,494</u>	<u>38,380,177</u>
Non-current assets		
Restricted cash and investments (Note 3)	4,849,925	4,849,925
Deposits	155,000	155,000
Capital assets, net (Note 4)	79,025,732	71,989,806
Total noncurrent assets	<u>84,030,657</u>	<u>76,994,731</u>
Total assets	116,820,151	115,374,908
Deferred outflows of resources		
Pension related amounts (Note 6)	3,324,325	3,574,849
OPEB related amounts (Note 7)	840,752	60,266
Total deferred outflows of resources	<u>4,165,077</u>	<u>3,635,115</u>
Total assets and deferred outflows of resources	<u>\$ 120,985,228</u>	<u>\$ 119,010,023</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**STATEMENT OF NET POSITION (Continued)
JUNE 30, 2020 AND COMPARATIVE 2019**

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	2020	2019
Current liabilities		
Accounts payable	\$ 1,460,361	\$ 3,173,632
Security deposits	52,045	52,801
Compensated absences	270,139	318,761
State/County waste management fees	261,027	327,710
Payroll and payroll liabilities	106,528	100,865
Revenue bonds and equipment lease interest payable	482,869	510,758
Current portion of revenue bonds payable (Note 8)	2,231,681	2,091,743
Current portion of installment sale obligation (Note 9)	458,783	458,783
Total current liabilities	<u>5,323,433</u>	<u>7,035,053</u>
Non-current liabilities		
Compensated absences	810,419	899,444
Long-term portion of installment sale obligation (Note 9)	980,343	1,431,813
Net pension liability (Note 6)	13,041,310	11,977,493
Total OPEB liability (Note 7)	3,809,546	2,532,472
Revenue bonds payable, net (Note 8)	49,178,889	51,410,571
Landfill closure and post closure care (Note 5)	6,057,277	5,702,368
Total noncurrent liabilities	<u>73,877,784</u>	<u>73,954,161</u>
Total liabilities	<u>79,201,217</u>	<u>80,989,214</u>
Deferred inflows of resources		
Pension related amounts (Note 6)	317,248	311,841
Total liabilities and deferred inflows of resources	<u>79,518,465</u>	<u>81,301,055</u>
Net position		
Net investment in capital assets	41,209,453	41,809,486
Restricted for		
Debt service	2,349,925	2,349,925
Landfill closure	1,500,000	1,500,000
Environmental impairment	1,000,000	1,000,000
Unrestricted (deficit)	<u>(4,592,615)</u>	<u>(8,950,443)</u>
Total net position	<u>\$ 41,466,763</u>	<u>\$ 37,708,968</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

	2020	2019
Operating revenues		
Disposal fees	\$ 28,828,155	\$ 28,746,709
Power sales	1,323,808	1,334,418
Recycled material sales	7,872,131	5,763,355
Last chance mercantile sales	593,666	797,392
Scale and operational services	708,019	741,603
Sand sales	169,458	182,605
Landscape product sales	135,804	180,211
Total operating revenues	<u>39,631,041</u>	<u>37,746,293</u>
Operating expenses		
Salaries	12,244,176	10,421,186
Employee benefits	6,933,397	5,418,921
Depreciation and amortization	4,080,148	3,971,650
Recycling	2,322,351	2,723,001
Taxes, licenses and permits	1,393,089	1,313,979
Maintenance of structures and equipment	2,184,588	1,961,924
Professional services	787,612	1,231,323
Fuel	917,628	1,270,939
Contractual services	770,158	1,095,765
Gas project maintenance	1,036,239	741,206
Operating supplies	1,076,990	1,008,361
Landfill closure and post closure care costs	354,908	366,368
Insurance	80,244	351,595
Public awareness	162,484	237,259
Office	554,287	150,661
Safety equipment and supplies	257,750	287,368
Education, meetings and travel	76,753	155,608
Hazardous waste program	305,316	403,353
Environmental services	331,294	276,948
Utilities	108,544	84,980
Miscellaneous	25,883	42,600
Bad debt expense	-	280
Total operating expenses	<u>36,003,839</u>	<u>33,515,275</u>
Operating income	<u>\$ 3,627,202</u>	<u>\$ 4,231,018</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)
FOR THE YEARS ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

	<u>2020</u>	<u>2019</u>
Operating income	<u>3,627,202</u>	<u>4,231,018</u>
Non–operating revenues (expenses):		
Interest income	\$ 753,311	\$ 380,917
Rents and leases	343,337	346,015
Gain on sale of capital assets – net	28,610	27,590
Interest expense – revenue bonds and installment sales	(994,494)	(833,821)
Cost of revenue bonds issuance	-	(411,141)
Other income (expense)	(171)	3,236
Total non-operating revenues (expenses)	<u>130,593</u>	<u>(487,204)</u>
Change in net position	3,757,795	3,743,814
Net position, beginning of year	<u>37,708,968</u>	<u>33,965,154</u>
Net position, end of year	<u>\$ 41,466,763</u>	<u>\$ 37,708,968</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

	2020	2019
Cash flows from operating activities		
Cash received from customers	\$ 39,167,638	\$ 37,655,902
Cash payments to employees for services	(17,493,221)	(15,117,075)
Cash payments to suppliers of goods or services	(13,681,240)	(11,853,973)
Net cash provided by operating activities	<u>7,993,177</u>	<u>10,684,854</u>
Cash flows from noncapital financing		
Other non-operating revenues	<u>343,166</u>	<u>349,251</u>
Net cash provided by noncapital financing activities	343,166	349,251
Cash flows from capital and related financing activities		
Payments for capital acquisitions	(11,116,074)	(6,251,658)
Principal payments for capital leases	(451,470)	(224,253)
Proceeds from disposition of capital assets	28,610	33,411
Principal paid on revenue bonds	(2,091,744)	(1,521,688)
Proceeds from revenue bonds	-	25,479,376
Bond issuance costs paid	-	(411,141)
Interest paid on revenue bonds and capital leases	(1,022,383)	(625,751)
Net cash provided by (used for) capital and related financing activities	<u>(14,653,061)</u>	<u>16,478,296</u>
Cash flows from investing activities		
Investment income	722,735	368,917
Proceeds from investments sales	18,830,728	-
Payments to acquire investment instruments	(3,821,381)	(20,177,000)
Net cash (used for) provided by capital and related financing activities	<u>15,732,082</u>	<u>(19,808,083)</u>
Net change in cash and cash equivalents	9,415,364	7,704,318
Cash and cash equivalents, beginning of year	<u>18,881,556</u>	<u>11,177,238</u>
Cash and cash equivalents, end of year	<u>\$ 28,296,920</u>	<u>\$ 18,881,556</u>

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**STATEMENT OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 3,627,202	\$ 4,231,018
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,080,148	3,971,650
Landfill closure and post closure care	354,908	366,368
Changes in assets, liabilities, deferred inflows and outflows		
Accounts payable	(1,713,271)	850,739
Accounts receivable	(680,228)	(431,928)
Accrued compensated absences	(137,646)	20,845
Accrued payroll and payroll liabilities	5,663	(19,886)
Accrued State/County waste management fees	(66,683)	18,095
Deferred outflows - OPEB	(780,486)	(60,266)
Deferred outflows - pension	250,524	61,579
Net pension liability	1,063,817	465,974
Other receivables	216,825	1,070
Power sales receivable	-	340,467
Prepaid expenses	490,679	614,439
Security deposits	(756)	(143)
Deferred inflow-Pension	5,407	-
Total other postemployment benefits liability	1,277,074	254,832
Total reconciling adjustments	<u>4,365,975</u>	<u>6,453,835</u>
Net cash provided by operating activities	<u>\$ 7,993,177</u>	<u>\$ 10,684,853</u>

Reconciliation of cash and cash equivalents to the statement of net position

Demand deposits with financial institutions	\$ 9,387,080	\$ 8,637,569
Investments treated like demand deposits	<u>18,909,840</u>	<u>10,243,987</u>
Total cash and cash equivalents, end of year	28,296,920	18,881,556
Investments	<u>5,167,653</u>	<u>20,177,000</u>
Total cash and investments on the statement of net position	<u>\$ 33,464,573</u>	<u>\$ 39,058,556</u>
Cash and investments - classified as unrestricted	\$ 28,614,648	\$ 34,208,631
Cash and investments - classified as restricted	4,849,925	4,849,925
Total deposits and investments	<u>\$ 33,464,573</u>	<u>\$ 39,058,556</u>

Supplemental Disclosures

Noncash investing and financing activities		
Change in fair market value of investments	\$ 92,900	\$ 17,535

The accompanying notes are an integral part of these financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

NOTE 1. DESCRIPTION OF ENTITY

Reporting Entity – The Monterey Regional Waste Management District (District), was formed in 1951 under the California Health and Safety Code. The primary purpose of the District is to dispose of solid waste in the Monterey Peninsula area. The District's role has expanded to include the recovery of recyclable materials in the waste stream (cardboard, newspaper, glass, wood waste, plastic, metals, concrete, asphalt, reusable building materials and resale items) and to receive nonhazardous liquid wastes. In addition, the District operates a landfill gas to electrical energy system which generates more than 5,000 kilowatts of continuous power. The accompanying financial statements conform to generally accepted accounting principles as applicable to governments.

The District is governed by a nine-member board made up of representatives from the following entities: City of Carmel-by-the-Sea, City of Del Rey Oaks, City of Marina, City of Monterey, City of Pacific Grove, City of Sand City, City of Seaside, Pebble Beach Community Services District and the unincorporated area representing the western portion of Monterey County.

The Monterey Regional Waste Management Authority (component unit of the District) was formed pursuant to the provisions of the Government Code of the State of California and a Joint Powers Agreement, dated April 1, 1993, by and between the City of Carmel-by-the-Sea, City of Del Rey Oaks, City of Marina, City of Monterey, City of Pacific Grove, City of Sand City and City of Seaside. During the fiscal year ended June 30, 1996, the Pebble Beach Community Services District also became a member of the Authority. The Authority was formed to assist in the financing and public capital improvements, such as the design, acquisition and construction of additions, betterments and improvements to the District's facilities.

The Authority has issued revenue bonds to finance the capital improvements and will maintain the debt from the revenue bonds on its books. The District has received ownership of the constructed assets and will maintain these assets on its books. In consideration for these assets, the District has pledged its revenue to the Authority, in sufficient amounts to pay the principal and interest payments of the revenue bonds. The Bank of New York Mellon Trust Company (Trustee) is described in the Integrated Waste Management Improvement Agreement and the Trust Agreement by and between the Authority, the District and the Trustee.

The accompanying financial statements present the activities of the District and its component unit, the Authority, a legally separate organization for which the District is financially accountable. The governing board of the District serves as the governing board of the Authority. The Authority exists solely to finance the acquisition and construction of equipment and facilities for the District. The Authority is so intertwined with the District that it is, in substance, the same as the District and, therefore, is reported as a blended component unit of the District.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting – Enterprise funds are financed in whole or in part by fees charged to external parties, and are accounted for in an enterprise fund. Enterprise funds maintain their records using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position displays information about the primary government (District) and its component unit (Authority). Eliminations have been made to minimize the double-counting of activities between the entities.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values.

Net Position – The District's net position is required to be classified for accounting and reporting purposes into the following categories:

Net Investment in Capital Assets – This component of net position, includes capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net position.

Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Cash and Cash Equivalents – The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and the Local Agency Investment Fund (LAIF).

Investments – The District records its investments at fair market value. Changes in fair market value are reported as revenue in the statement of revenues, expenses, and changes in net position. Fair market value of the LAIF is determined by the sponsoring government based on quoted market prices. The District's investments in LAIF are valued based on the relative fair value of the entire pool to the pool's amortized cost.

Accounts Receivable – Accounts receivable are composed of amounts due from customers for tipping fees. At June 30, 2020 and 2019, the balances are shown net of the allowance for uncollectible accounts of \$10,892 and \$10,892, respectively. The District used the allowance method to account for uncollectible accounts receivable. The allowance is based on prior experience and management's analysis of bad debts.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Capital Assets – Purchased capital assets are accounted for at cost, or contributed assets are recorded at estimated acquisition value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to depreciate assets, by asset class, are as follows:

Administrative and scale	5–40 Years
Disposal and recycling	3–60 Years
Power project	5–40 Years
Module development	5–80 Years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Compensated Absences – The District allows employees to accrue vacation and compensation time. The accrued liability is based on the employee's hourly rate at year end. All accumulated vacation and compensation time is recorded as an expense and a liability in the proprietary fund at the time the liability is incurred and depending on classification, as a current or long-term liability. Upon termination of an employee, the District is required to pay accrued vacation and compensation time. Sick leave is recorded as an expense when it is paid and it is not required to be paid upon termination of an employee.

Bond Premiums – Bond premiums are amortized over the life of the bond as a component of interest expense.

Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. The following timeframes are used:

Year Ended June 30, 2020

Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

Year Ended June 30, 2019

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense and additions to/deductions from the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Deferred Outflows and Inflows of Resources – In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Revenues and Expenses – Revenue is recognized when earned. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of user charges for disposal fees. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions.

Spending Order Policy – When an expense is incurred for which there are both restricted and unrestricted net position is available, it is the District's policy to apply these expenses to restricted net position to the extent that such are available and then to unrestricted net position.

Budget Policy – The District's Board of Directors annually adopts the budget for the District. Board of Directors' actions are required for the approval of budget revisions.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District to make estimates and assumptions that affect the reported amounts at the date of the financial statements. Actual results could differ from those estimates.

New Accounting Principles from the Governmental Accounting Standards Board (GASB)

GASB Statement No. 95– In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance* . The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of this Statement are effective immediately as they delayed the effective dates of several GASB Statements. The effective dates listed in the Future Governmental Accounting Standards Board (GASB) Pronouncement section have been updated to reflect the postponed effective dates.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

New Accounting Pronouncements – Effective in Future Fiscal Years

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019, or fiscal year 2020-21. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 89 – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement is effective for reporting periods beginning after December 15, 2020, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 90 – In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2019, or fiscal year 2020-21. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2021, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

GASB Statement No. 92 – In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practices issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 93– In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for reporting periods beginning after June 15, 2021, or fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 94– In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 96– In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Statement is effective for reporting periods beginning after June 15, 2022, or fiscal year 2022-23. The District is evaluating the impact of this Statement on the financial statements.

GASB Statement No. 97– In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective for reporting periods beginning after June 15, 2021, fiscal year 2021-22. The District is evaluating the impact of this Statement on the financial statements.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments are classified in the financial statements as of June 30 as follows:

	2020	2019
Unrestricted	\$ 28,614,648	\$ 34,208,631
Restricted		
Held by trustee for bond reserve account	2,349,925	2,349,925
For landfill closure and post closure care costs	1,500,000	1,500,000
For environmental impairment fund	1,000,000	1,000,000
Total restricted	4,849,925	4,849,925
Total cash and investments	\$ 33,464,573	\$ 39,058,556

At June 30, deposits and investments are comprised of the following:

	2020	2019
Deposits with financial institutions	\$ 9,387,080	\$ 8,637,569
Investments		
U.S. Agency medium term notes	5,167,653	20,177,000
Local Agency Investment Fund (LAIF)	18,909,840	10,243,987
Total investments	24,077,493	30,420,987
Total deposits and investments	\$ 33,464,573	\$ 39,058,556

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Authorized Investments

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk and concentration of credit risk, other than as contained in California Government Code.

The District is authorized under California Government Code to make direct investments in the following:

Investment Type	Maximum Remaining Maturity	Maximum Specified % Of Portfolio	Minimum Quality Requirements	Government Code Sections
Local Agency Bonds	5 Years	None	None	53601(a)
U.S. Treasury Obligations	5 Years	None	None	53601(b)
State Obligations: CA and Others	5 Years	None	None	53601(d)
CA Local Agency Obligations	5 Years	None	None	53601(e)
U.S. Agency Obligations	5 Years	None	None	53601(f)
Bankers' Acceptances	180 days	40%	None	53601(g)
Commercial Paper: Non-pooled Funds	270 days or less	25% of the agency's money	(1)	53601(h)(2)(C)
Commercial Paper: Pooled Funds	270 days or less	40% of the agency's money	(1)	53635(a)(1)
Negotiable Certificates of Deposit	5 Years	30%	None	53601(i)
Non-negotiable Certificates of Deposit	5 Years	None	None	53630 et seq.
Placement Service Deposits	5 Years	30%	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 Years	30%	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None	53601(j)
Medium-term Notes	5 years or less	30%	(2)	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple	53601(l) and 53601.6(b)
Collateralized Bank Deposits	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-through and Asset Backed Securities	5 years or less	20%	(2)	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund	N/A	None	None	16340
Supranational Obligations	5 years or less	30%	(2)	53601(q)

(1) Highest letter and number rating by a NRSRO

(2) "A" rating category or its equivalent or better

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2020 and June 30, 2019, the District's bank balance of \$10,141,408 and \$7,038,203, respectively, was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District. As of June 30, 2020 and June 30, 2019, \$5,167,653 and \$20,177,000, respectively of the District's investment portfolio was exposed to custodial credit risk by not being insured or collateralized in the name of the District.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following is a summary of the credit quality of the District's investment portfolio at June 30:

Investment on June 30, 2020	Rating	2020	2019
Federal Home Loan Mortgage Corporation	Aaa	\$ -	\$ 5,177,000
Federal National Mortgage Association	Aaa	5,167,653	5,000,000
Federal Home Loan Bank	Aaa	-	5,000,000
Federal Home Loan Mortgage Corporation	Aaa	-	5,000,000
Local Agency Investment Fund (LAIF)	Not Rated	18,909,840	10,243,987
Total investments		<u>\$ 24,077,493</u>	<u>\$ 30,420,987</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

Concentration of Credit Risk

Investments in any one issuer that represent five percent or more of the total investment portfolio as of June 30, are as follows:

Investment on June 30, 2020	Value	% of Portfolio
Federal National Mortgage Association	\$ 5,167,653	21%

Investment on June 30, 2019	Value	% of Portfolio
Federal Home Loan Mortgage Corporation	\$ 5,177,000	17%
Federal National Mortgage Association	5,000,000	16%
Federal Home Loan Bank	5,000,000	16%
Federal Home Loan Mortgage Corporation	5,000,000	16%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair value of the District's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the investment portfolio by maturity.

Investment on June 30, 2020	Value	Maturity	
		Less than 1 year	1-5 years
Federal National Mortgage Association	\$ 5,167,653	\$ 5,167,653	-
Local Agency Investment Fund (LAIF)	18,909,840	18,909,840	-
	24,077,493	\$ 24,077,493	\$ -

Investment on June 30, 2019	Value	Maturity	
		Less than 1 year	1-5 years
Federal Home Loan Mortgage Corporation	\$ 5,177,000	\$ -	\$ 5,177,000
Federal National Mortgage Association	5,000,000	5,000,000	-
Federal Home Loan Bank	5,000,000	5,000,000	-
Federal Home Loan Mortgage Corporation	5,000,000	-	5,000,000
Local Agency Investment Fund (LAIF)	10,243,987	10,243,987	-
	30,420,987	\$ 20,243,987	\$ 10,177,000

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District’s own data.

The District’s fair value measurements are as follows at June 30, 2020:

Investment on June 30, 2020	Fair Value Measurement Using	
	Level 1	Uncategorized
Federal National Mortgage Association	\$ 5,167,653	\$ -
Local Agency Investment Fund (LAIF)	-	18,909,840
Total	\$ 5,167,653	\$ 18,909,840

Investment on June 30, 2019	Fair Value Measurement Using	
	Level 1	Uncategorized
Federal Home Loan Mortgage Corporation	\$ 5,177,000	\$ -
Federal National Mortgage Association	5,000,000	-
Federal Home Loan Bank	5,000,000	-
Federal Home Loan Mortgage Corporation	5,000,000	-
Local Agency Investment Fund (LAIF)	-	10,243,987
Total	\$ 20,177,000	\$ 10,243,987

Local Agency Investment Fund – The District participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The Authority adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the Authority’s position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2020 and June 30, 2019, LAIF had a weighted average maturity of 191 days and 173 days, respectively.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Capital Assets at June 30, 2019	Additions and Transfers	Dispositions and Transfers	Capital Assets at June 30, 2020
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land and improvements	\$ 578,210	\$ -	\$ -	\$ 578,210
Construction in progress	5,870,957	9,551,575	(40,367)	15,382,165
Total capital assets not being depreciated	<u>6,449,167</u>	<u>9,551,575</u>	<u>(40,367)</u>	<u>15,960,375</u>
Other capital assets				
Administrative and scale:				
Equipment	806,329	100,978	-	907,307
Facilities	17,010,137	6,540	-	17,016,677
Disposal and recycling:				
Equipment	46,101,991	1,264,596	(984,350)	46,382,237
Facilities	17,632,990	282,659	-	17,915,649
Power project	16,982,400		(52,306)	16,930,094
Module development	10,879,348		-	10,879,348
Intangible site master plan	738,557	-	-	738,557
Total other capital assets at historical cost	<u>110,151,752</u>	<u>1,654,773</u>	<u>(1,036,656)</u>	<u>110,769,870</u>
Less accumulated depreciation for				
Administrative and scale	(3,071,895)	(629,371)	-	(3,701,266)
Disposal and recycling	(40,906,157)	(3,434,753)	986,748	(43,354,162)
Intangible site master plan	(633,061)	(16,024)	-	(649,085)
Total accumulated depreciation	<u>(44,611,113)</u>	<u>(4,080,148)</u>	<u>986,748</u>	<u>(47,704,513)</u>
Other capital assets, net	<u>65,540,639</u>	<u>(2,425,375)</u>	<u>(49,908)</u>	<u>63,065,357</u>
Business-type activities capital assets, net	<u>\$ 71,989,806</u>	<u>\$ 7,126,201</u>	<u>\$ (90,275)</u>	<u>\$ 79,025,732</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Capital asset activity for the year ended June 30, 2019 was as follows:

	Capital Assets at June 30, 2018	Additions and Transfers	Dispositions and Transfers	Capital Assets at June 30, 2019
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land and improvements	\$ 578,210	\$ -	\$ -	\$ 578,210
Construction in progress	4,615,240	5,339,765	(4,084,048)	5,870,957
Total capital assets not being depreciated	5,193,450	5,339,765	(4,084,048)	6,449,167
Other capital assets				
Administrative and scale:				
Equipment	\$ 713,241	\$ 93,088	\$ -	\$ 806,329
Facilities	17,010,137	-	-	17,010,137
Disposal and recycling:				
Equipment	42,086,203	4,140,514	(124,726)	46,101,991
Facilities	17,480,328	152,662	-	17,632,990
Power project	15,189,090	1,793,310	-	16,982,400
Module development	10,879,348	-	-	10,879,348
Intangible site master plan	738,557	-	-	738,557
Total other capital assets at historical cost	104,096,904	6,179,574	(124,726)	110,151,752
Less accumulated depreciation for				
Administrative and scale	(2,467,395)	(604,500)	-	(3,071,895)
Disposal and recycling	(37,673,937)	(3,351,125)	118,905	(40,906,157)
Intangible site master plan	(617,036)	(16,025)	-	(633,061)
Total accumulated depreciation	(40,758,368)	(3,971,650)	118,905	(44,611,113)
Other capital assets, net	63,338,536	2,207,924	(5,821)	65,540,639
Business-type activities capital assets, net	\$ 68,531,986	\$ 7,547,689	\$ (4,089,869)	\$ 71,989,806

NOTE 5. LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and federal laws and regulations require that the Monterey Regional Waste Management District place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the estimated future closure and post closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The District's updated Site Master Plan and Closure and Post Closure Plan were approved by state regulatory agencies during the fiscal year ended June 30, 2006. The District completed an Updated Preliminary Closure and Post Closure Maintenance Plan and a Joint Technical Document for Landfill Development in April 2010. In December 2016, revised Closure and Post Closure Maintenance Plans were submitted as part of the 5-Year Permit Review. These plans have not received official approval.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

The liability recognized for the estimated landfill closure and post closure care cost used the greater cost estimates and are \$6,057,277 and \$5,702,368 as of June 30, 2020 and 2019, respectively which was based on 22.2 percent and 21.1 percent usage (filled) of the landfill at that date. It is estimated that an additional \$21,469,000 will be recognized as landfill closure and post closure care expenses between June 30, 2020, and the date the landfill is expected to be filled to capacity (in the year 2176). The current estimated total cost of the landfill closure and post closure care of \$26,332,539 is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfill were required as of June 30, 2020.

However, the actual cost of the landfill closure and post closure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

The Monterey Regional Waste Management District is required by state and federal laws and regulations to make annual contributions to finance closure and post closure care. The District is in compliance with these requirements. At June 30, 2020 and 2019, investments of \$1,500,000 were held to meet the state requirements. These investments are presented on the District's statements of net position as restricted assets. It is anticipated that future inflation costs will be financed in part from earnings on investments. The District meets the financial assurance test for federal purposes. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in post closure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users.

NOTE 6. NET PENSION LIABILITIES

Plan Description

The District participates in an agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2018, Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

All permanent District employees are eligible to participate in the Public Employees' Retirement (Fund) of California's Public Employees' Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state government agencies with the State of California. The Fund provides retirement, disability, and death benefits based on employees' age, years of service, and the highest year's compensation. Employees vest after five years of service and may receive retirement benefits commencing at age 50. These benefit provisions and all other requirements are established by state statute. CalPERS' annual financial report can be found on their website: www.calpers.ca.gov.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefits, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are as specified by the California Public Employees' Retirement law.

The Plans' provisions and benefits in effect at June 30, 2020 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after to January 1, 2013
Hire Date	Prior to January 1, 2013	On or after to January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefits payments	monthly for life	monthly for life
Retirement age	50 – 63	52 – 67
Monthly benefits, as a percent of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	9.11%	9.11%

Employees Covered

At June 30, 2018 and June 30, 2017 valuation dates, the following employees were covered by the benefit terms for each Plan:

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	63	47
Inactive employees entitled to but not receiving benefits	58	57
Active employees	127	113
Total	248	217

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2020 and 2019, the District paid the employer's share and the employee' paid the employees' share of the contributions. The contributions were as follows:

	<u>2020</u>	<u>2019</u>
Employer normal contributions	\$ 837,043	\$ 750,920
Annual UAL prepayment	727,373	580,600
Total employer contributions	1,564,416	1,331,520
Employee contributions	632,451	594,153

Net Pension Liability

The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability as of June 30, 2020, for the Plan is measured as of June 30, 2019, using an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown on the following page.

Actuarial Assumptions

The total pension liabilities in the June 30, 2018, actuarial valuation rolled forward to June 30, 2019, using standard update procedures, were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by entry age and service
Mortality	Based on CalPERS Experience Study using Scale BB

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

The total pension liabilities in the June 30, 2017, actuarial valuation rolled forward to June 30, 2018, using standard update procedures, were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	Varies by entry age and service
Mortality	Derived using CalPERS membership data for all funds

The mortality table used for Miscellaneous Plan was developed based on CalPERS’ specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website. All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained in CalPERS’ website under Forms and Publications.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2020 and 2019, the District recognized pension expense of \$4,448,191 and \$2,965,795, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>		<u>2019</u>	
	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Pension contributions subsequent to measurement date	\$ 1,564,416	\$ -	\$ 1,331,520	\$ -
Difference between actual and expected experience	961,277	-	932,050	-
Changes in assumptions	798,632	(146,146)	1,297,777	(311,841)
Net differences between projected and actual earnings on plan investments	-	(171,102)	13,502	-
Total	<u>\$ 3,324,325</u>	<u>\$ (317,248)</u>	<u>\$ 3,574,849</u>	<u>\$ (311,841)</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

\$1,564,416 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2021	\$ 946,374
2022	234,501
2023	112,636
2024	149,150
	\$ 1,442,661

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contribution on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for each cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2016.

Asset Class ¹	New Strategic Allocation	Real Return Years 1 - 10 ²	Real Return Years 11+ ³
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

⁽¹⁾ In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

⁽²⁾ An expected inflation of 2.00% used for this period.

⁽³⁾ An expected inflation of 2.92% used for this period.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	2020	2019
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 19,439,269	\$ 17,932,983
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 13,041,310	\$ 11,977,493
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 7,754,377	\$ 7,055,847

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

Changes in the Net Pension Liability

The changes in the net pension liability for the plan during the year ended June 30, 2020 are as follows:

	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: June 30, 2018 measurement date	\$ 42,453,518	\$ 30,476,025	\$ 11,977,493
Changes Recognized for the Measurement Period:			
Service Cost	1,343,425	-	1,343,425
Interest on the Total Pension Liability	3,069,788	-	3,069,788
Differences between Expected and Actual Experience	583,289	-	583,289
Contributions from the Employer	-	1,331,131	(1,331,131)
Contributions from Employees	-	595,223	(595,223)
Net Investment Income	-	2,028,008	(2,028,008)
Benefit Payments, Including Refunds of Employee Contributions	(1,548,836)	(1,548,836)	-
Administrative Expense	-	(21,748)	21,748
Other Miscellaneous Income/(Expense)	-	71	(71)
Net Changes	3,447,666	2,383,849	1,063,817
Balance at: June 30, 2019 measurement date	\$ 45,901,184	\$ 32,859,874	\$ 13,041,310

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

The changes in the net pension liability for the plan during the year ended June 30, 2019 follows:

	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: June 30, 2017 measurement date	\$ 39,609,799	\$ 28,013,440	\$ 11,596,359
Changes Recognized for the Measurement Period:			
Service Cost	1,203,629	-	1,203,629
Interest on the Total Pension Liability	2,840,989	-	2,840,989
Differences between Expected and Actual Experience	496,410	-	496,410
Changes of Assumptions	(250,536)	-	(250,536)
Plan to Plan Resource Movement	-	(71)	71
Contributions from the Employer	-	1,106,722	(1,106,722)
Contributions from Employees	-	538,059	(538,059)
Net Investment Income	-	2,391,198	(2,391,198)
Benefit Payments, Including Refunds of Employee Contributions	(1,446,773)	(1,446,773)	-
Administrative Expense	-	(43,653)	43,653
Other Miscellaneous Income/(Expense) ¹	-	(82,897)	82,897
Net Changes	2,843,719	2,462,585	381,134
Balance at: June 30, 2018 measurement date	\$ 42,453,518	\$ 30,476,025	\$ 11,977,493

¹ During Fiscal Year 2018-19, as a result of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 75), CalPERS reported its proportionate share of activity related to post-employment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2018-19, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

As of June 30, 2020, the District reported the following amounts for total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense:

Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
\$ 3,809,546	\$ 840,752	\$ -	\$ 573,330

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

As of June 30, 2019, the District reported the following amounts for total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense:

Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
\$ 2,532,472	\$ 60,266	\$ -	\$ 250,933

General Information about the OPEB Plan

Plan Description and Benefits Provided

The District maintains a single-employer, defined benefit healthcare plan (administered by the District). The District is obligated by a memorandum of understanding to contribute toward health insurance premiums for certain employees retired from the District at the age of 55 or older with at least five years of continuous employment with the District. Plan terms may be amended by the District and its bargaining units. Retirees are reimbursed at the rate of \$20 a month for each year of District service. Payments are made until the retiree reaches the age of 65. Beginning in 2006, the monthly rate is increased by 2 percent each calendar year. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Employees Covered by Benefit Terms

As of the June 30 measurement dates, the following employees were covered by the benefit terms:

	2020	2019
Participating Active Employees	117	112
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	-	-
Inactive Employees Currently Receiving Benefit Payments	19	5
Total	136	117

Total OPEB Liability

The District's total OPEB liability of \$3,809,546 for the fiscal year ended June 30, 2020 was measured as of June 30, 2020. The District's total OPEB liability of \$2,532,472 for the fiscal year ended June 30, 2019 was measured as of June 30, 2018 and rolled forward to June 30, 2019 using standard update procedures.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	2.20 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent per year

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

The discount rate estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets for funded plans. The discount rate used for an unfunded plan is based on an index of 20 year general obligation municipal bonds. A discount rate of 2.20% was used in the June 30, 2020 actuarial valuation. The interest rate used in the prior valuation was 3.50%.

The mortality assumptions are based on the 2014 CalPERS Active Mortality for Miscellaneous Employees table created by CalPERS. CalPERS periodically studies mortality for participating agencies and establishes mortality tables that are modified versions of commonly used tables. This table incorporates mortality projection as deemed appropriate based on CalPERS analysis.

Changes in the Total OPEB Liability

For the year ended June 30, 2020:

	Total OPEB Liability
Balance at July 1, 2019	\$ 2,532,472
Changes for the year:	
Service cost	176,317
Interest on the TPL	90,379
Changes of Benefit Terms	240,242
Differences between Expected and Actual Experience	384,106
Assumption changes	462,772
Benefit payments	(76,742)
Net changes	<u>1,277,074</u>
Balance at June 30, 2020	<u>\$ 3,809,546</u>

For the year ended June 30, 2019:

	Total OPEB Liability
Balance at July 1, 2018	\$ 2,277,639
Changes for the year:	
Service cost	164,304
Interest on the TPL	81,606
Assumption changes	65,289
Benefit payments	(56,366)
Net changes	<u>254,833</u>
Balance at June 30, 2019	<u>\$ 2,532,472</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	2020 Total OPEB Liability	2019 Total OPEB Liability
1% decrease	\$ 4,066,592	\$ 2,754,661
Current discount rate (2.2% for 2020 and 3.5% for 2019)	3,809,546	2,532,472
1% increase	3,565,419	2,341,158

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rate	2020 Total OPEB Liability	2019 Total OPEB Liability
1% decrease (3%)	\$ 3,430,078	\$ 2,323,031
Current healthcare cost trend rate (4%)	3,809,546	2,532,472
1% increase (5%)	4,255,802	2,757,018

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the District recognized OPEB expense of \$573,330 and \$250,933 respectively. On June 30 the District reported deferred outflows of resources related to OPEB for the following items:

	2020	2019
Differences between expected and actual experience	\$ 356,272	\$ -
Change in assumptions	484,480	60,266
Total	\$ 840,752	\$ 60,266

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

Amounts reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Measurement Period	
Ended June 30:	Amount
2021	\$ 66,392
2022	66,392
2023	66,392
2024	66,392
2025	66,392
Thereafter	508,792
	<u>\$ 840,752</u>

NOTE 8. REVENUE BONDS

The 2015 Series A and B Revenue Bonds (revenue bonds) were sold, executed and delivered in the aggregate principal amount of \$31,145,000 only as fully registered bonds in the denomination of \$5,000 or any integral multiples thereof. The revenue bonds are dated and bear interest from May 28, 2015, at the rates per annum set forth below, payable semiannually on October 1 and April 1, commencing October 1, 2015, and will mature April 1 in the years and in the principal amounts set forth below. The Bank of New York Mellon Trust Company, Los Angeles, California, acts as trustee and Cede & Co, as the nominee of The Depository Trust Company, New York, New York, as registrar and paying agent for the 2015 Series A and Series B Revenue Bonds.

The 2018 Series A and B Revenue Bonds (revenue bonds) were sold, executed and delivered in the aggregate principal amount of \$22,970,000 only as fully registered bonds in the denomination of \$5,000 or any integral multiples thereof. The revenue bonds are dated and bear interest from November 21, 2018, at the rates per annum set forth below, payable semiannually on October 1 and April 1, commencing April 1, 2019, and will mature April 1 in the years and in the principal amounts set forth below. The Bank of New York Mellon Trust Company, Los Angeles, California, acts as trustee and Cede & Co, as the nominee of The Depository Trust Company, New York, New York, as registrar and paying agent for the 2018 Series A and Series B Revenue Bonds.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>Amounts Due within One Year</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds:					
Series 2015A	\$ 15,875,000	\$ -	\$ 705,000	\$ 15,170,000	\$ 730,000
Series 2015B	11,030,000	-	500,000	10,530,000	520,000
Series 2018A	11,555,000	-	-	11,555,000	-
Series 2018B	11,150,000	-	745,000	10,405,000	780,000
Total Revenue Bonds	49,610,000	-	1,950,000	47,660,000	2,030,000
Bond premiums	3,892,314	-	141,744	3,750,570	201,681
	<u>\$ 53,502,314</u>	<u>\$ -</u>	<u>\$ 2,091,744</u>	<u>\$ 51,410,570</u>	<u>\$ 2,231,681</u>

The Trust Agreement provides that the 2015 Series A and Series B and 2018 Series A and Series B Revenue Bonds and the interest thereon are payable from, and are secured by a first pledge of and charge and lien upon the revenues derived by the Authority from the District under the Improvement Agreement, the Reserve Fund held under the Trust Agreement, and certain interest, profit and other income derived from certain funds held under the Trust Agreement, all under the terms and conditions set forth in the Trust Agreement.

The debt service requirements of the bonds for the remaining term is as follows:

Fiscal Year	Principal	Interest
2021	\$ 2,030,000	\$ 2,164,481
2022	2,130,000	2,068,181
2023	2,230,000	1,967,081
2024	2,340,000	1,861,181
2025	2,440,000	1,755,881
2026-30	14,000,000	6,993,763
2031-35	17,400,000	3,597,038
2036-38	5,090,000	463,850
	<u>\$ 47,660,000</u>	<u>\$ 20,871,456</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019**

NOTE 9. INSTALLMENT SALE AGREEMENT OBLIGATIONS

In March 2017, the District entered into an installment sale agreement (capital lease) for the purchase of disposal and recycling equipment. The installment sale agreement expires in 2022. In August 2018, the District entered into an installment sale agreement (capital lease) for the purchase of disposal and recycling equipment. The installment sale agreement expires in 2023. The assets and liabilities under these agreements are recorded at the present value of the installment payments. The assets are depreciated over its estimated productive lives as title transfers at the end of the agreements. Depreciation of assets under the installment agreements are included in depreciation expense.

Following is a summary of property held under capital leases at June 30, 2020:

	Beginning Balance	Additions	Payments	Ending Balance
Disposal/recycling equipment	\$ 1,890,596	\$ -	\$ (451,470)	\$ 1,439,126
Accumulated depreciation	(488,198)	293,372	-	(194,826)
	<u>\$ 1,402,398</u>	<u>\$ 293,372</u>	<u>\$ (451,470)</u>	<u>\$ 1,244,300</u>

Minimum future payments under agreement as of June 30, 2020 for each of the next four years are:

Fiscal Year	Amount
2021	\$ 508,203
2022	508,203
2023	260,670
2024	260,670
Total minimum payments	1,537,746
Less amount representing interest	(98,620)
Present value of future minimum payment	<u>\$ 1,439,126</u>

NOTE 10. COMPENSATED ABSENCES

Compensated absences comprise unpaid vacation and the vested portion of sick leave, which are accrued as earned. The changes of the compensated absences were as follows during the year ending June 30, 2020:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$ 1,218,205	\$ 732,960	\$ 870,607	\$ 1,080,558	\$ 270,139

The changes of the compensated absences were as follows during the year ending June 30, 2019:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$ 1,071,692	\$ 699,263	\$ 552,750	\$ 1,218,205	\$ 318,761

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 AND COMPARATIVE 2019

NOTE 11. JOINT POWERS AGREEMENT

The District participates in a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA). The relationship between the District and the SDRMA is such that the JPA is not a component unit of the District for financial reporting purposes.

SDRMA was formed under a joint powers agreement pursuant to California Government Code Section 6500 et seq. effective August 1, 1986, to provide general liability, comprehensive/collision liability, property damage and errors and omissions risk financing for the member districts. SDRMA merged with Special District Workers' Compensation Authority (SWCA) on July 1, 2003, and now provides its members with workers' compensation coverage. SDRMA is administered by a board of directors, consisting of one member appointed by the California Special Districts Association and five members elected by the participating districts.

The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities and risk margin has not been calculated by the SDRMA. For the year ended June 30, 2020, the District made payments of \$424,670 to SDRMA for insurance premiums.

NOTE 12. CONCENTRATION IN SALES TO CUSTOMERS

In 2020, the District's two largest customers accounted for approximately 35 percent and 12 percent of sales. In 2019, the largest customers accounted for 37 percent and 12 percent of sales.

NOTE 13. CONTINGENCIES

Litigation - The District is involved in various litigation arising from the normal course of business. In the opinion of management, the disposition of all litigation pending is not expected to have a material effect on the overall financial position of the District at June 30, 2020.

COVID-19 Pandemic - During the fiscal year ended June 30, 2020, the world-wide corona virus pandemic impacted national and global economies. The District is closely monitoring its operations and liquidity and is actively working to the current and future impact of this unprecedented situation.

MD&A has numerous references to the impact of COVID 19 on the June 30, 2020 revs/expenses, as well as a projected decrease to revenues of \$5 million for FY20/21, so would believe a comment as to future impact is unknown seems reasonable as this continues.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

SCHEDULE OF CHANGES IN PENSION LIABILITY AND RELATED RATIOS FOR THE LAST TEN FISCAL YEARS

Fiscal Year	2020	2019	2018	2017	2016	2015
Measurement Period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Discount Rate	7.15%	7.15%	7.15%	7.65%	7.65%	7.50%
Total Pension Liability						
Service Cost	\$ 1,343,425	\$ 1,203,629	\$ 1,095,795	\$ 961,817	\$ 911,692	\$ 911,220
Interest	3,069,788	2,840,989	2,649,437	2,472,105	2,229,562	2,042,432
Difference Between Expected and Actual Experience	583,289	496,410	151,713	1,022,612	417,131	-
Changes of Assumptions	-	(250,536)	2,296,067	-	(567,504)	-
Benefit Payments, Including Refunds of Employee Contributions	(1,548,836)	(1,446,773)	(1,285,185)	(1,132,272)	(904,586)	(878,085)
Net Change in Total Pension Liability	3,447,666	2,843,719	4,907,827	3,324,262	2,086,295	2,075,567
Total Pension Liability – Beginning	42,453,518	39,609,799	34,701,972	31,377,710	29,291,415	27,215,848
Total Pension Liability – Ending (a)	45,901,184	42,453,518	39,609,799	34,701,972	31,377,710	29,291,415
Plan Fiduciary Net Position:						
Contributions – Employer	\$ 1,331,131	\$ 1,106,722	\$ 1,029,394	\$ 882,891	\$ 800,476	\$ 722,039
Contributions – Employee	595,223	538,059	492,056	454,237	458,764	411,403
Net Investment Income	2,028,008	2,391,198	2,829,731	154,052	557,377	3,522,944
Benefit Payments, Including Refunds of Employee Contributions	(1,548,836)	(1,446,773)	(1,285,185)	(1,132,272)	(904,586)	(878,085)
Plan to Plan Resource Movement	-	(71)	-	-	181	-
Administrative Expense	(21,748)	(43,653)	(36,888)	(15,017)	(34,233)	-
Other Miscellaneous Income(Expense)	71	(82,897)	-	-	-	-
Net Change in Fiduciary Net Position	2,383,849	2,462,585	3,029,108	343,891	877,979	3,778,301
Plan Fiduciary Net Position – Beginning	30,476,025	28,013,440	24,984,332	24,640,441	23,762,462	19,984,161
Plan Fiduciary Net Position – Ending (b)	32,859,874	30,476,025	28,013,440	24,984,332	24,640,441	23,762,462
Plan Net Pension Liability – Ending (a) – (b)	\$ 13,041,310	\$ 11,977,493	\$ 11,596,359	\$ 9,717,640	\$ 6,737,269	\$ 5,528,953
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.59%	71.79%	70.72%	72.00%	78.53%	81.12%
Covered Payroll	\$ 8,568,241	\$ 9,707,403	\$ 9,234,169	\$ 6,527,433	\$ 6,066,619	\$ 5,829,943
Plan Net Pension Liability as a Percentage of Covered – Payroll	152.21%	123.39%	125.58%	148.87%	111.05%	94.84%

Note to schedule:

Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to ten years as information becomes available.

Change of Assumptions

The discount rate changed from 7.50 percent used for the June 30, 2014 measurement date to 7.65 percent used for the June 30, 2015 measurement date. The discount rate changed from 7.65 percent used for the June 30, 2016 measurement date to 7.15 percent used for the June 30, 2017 measurement date.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**SCHEDULE OF PENSION PLAN CONTRIBUTIONS
FOR THE LAST TEN FISCAL YEARS**

Fiscal Year	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 1,564,416	\$ 1,331,520	\$ 1,106,332	\$ 1,029,394	\$ 882,891	\$ 800,476
Contributions in Relation to the						
Actuarially Determined Contribution	<u>(1,564,416)</u>	<u>(1,331,520)</u>	<u>(1,106,332)</u>	<u>(1,029,394)</u>	<u>(882,891)</u>	<u>(800,476)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$10,837,304	\$ 8,568,241	\$ 9,707,403	\$ 9,234,169	\$ 6,527,433	\$ 6,066,619
Contributions as a Percentage of						
Covered Payroll ⁽²⁾	14.44%	15.54%	11.40%	11.15%	13.53%	13.19%

Note to schedule:

Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to ten years as information becomes available.

² Includes one year's pay roll growth using 2.75 percent payroll assumption for fiscal year ended June 30, 2018; 3.00 percent payroll assumption for fiscal years ended June 30, 2014-17.

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE LAST TEN FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 176,317	\$ 164,304	\$ 159,907
Interest	90,379	81,606	81,366
Changes of benefit terms	240,242	-	-
Difference between expected and actual experience	384,106	-	-
Changes of assumptions	462,772	65,289	-
Benefit payments	<u>(76,742)</u>	<u>(56,366)</u>	<u>(54,198)</u>
Net change in total OPEB liability	1,277,074	254,833	187,075
Total OPEB liability - beginning	<u>2,532,472</u>	<u>2,277,639</u>	<u>2,090,564</u>
Total OPEB liability - ending	<u><u>\$ 3,809,546</u></u>	<u><u>\$ 2,532,472</u></u>	<u><u>\$ 2,277,639</u></u>
Covered-employee payroll	<u>\$ 10,837,304</u>	<u>\$ 9,962,707</u>	<u>\$ 9,174,477</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>35.2%</u>	<u>25.4%</u>	<u>24.8%</u>

Note to schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to ten years as information becomes available.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75 as of June 30, 2020.

OTHER SUPPLEMENTARY INFORMATION

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2020**

	DISTRICT	AUTHORITY	TOTALS	CONSOLIDATING ENTRIES	TOTALS
CURRENT ASSETS:					
Cash and investments	\$ 28,614,648	\$ -	\$ 28,614,648	\$ -	\$ 28,614,648
Accounts receivable, net	3,657,661	-	3,657,661	-	3,657,661
Accrued interest receivable	87,576	-	87,576	-	87,576
Other receivables	346,199	-	346,199	-	346,199
Prepaid expenses	83,410	-	83,410	-	83,410
Total current assets	32,789,494	-	32,789,494	-	32,789,494
RESTRICTED CASH AND CASH EQUIVALENTS:					
Cash and cash equivalents held by Trustee for reserve account	-	2,349,925	2,349,925	-	2,349,925
Investments held by LAIF – reserved for landfill closure and post closure care costs	1,500,000	-	1,500,000	-	1,500,000
Investments held by LAIF – reserved for environmental impairment fund	1,000,000	-	1,000,000	-	1,000,000
Total restricted cash and investments	2,500,000	2,349,925	4,849,925	-	4,849,925
DEPOSIT	155,000	-	155,000	-	155,000
DUE FROM DISTRICT	-	49,512,582	49,512,582	(49,512,582)	-
CAPITAL ASSETS, NET	79,025,732	-	79,025,732	-	79,025,732
Total Assets	114,470,226	51,862,507	166,332,733	(49,512,582)	116,820,151
DEFERRED OUTFLOWS	4,165,077	-	4,165,077	-	4,165,077
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$118,635,303	\$ 51,862,507	\$170,497,810	\$ (49,512,582)	\$ 120,985,228

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

COMBINING SCHEDULE OF NET POSITION (Continued)

JUNE 30, 2020

	DISTRICT	AUTHORITY	TOTALS	CONSOLIDATING ENTRIES	TOTALS
CURRENT LIABILITIES:					
Accounts payable	\$ 1,460,361	\$ -	\$ 1,460,361	\$ -	\$ 1,460,361
Security deposits	52,045	-	52,045	-	52,045
Accrued liabilities:					
Compensated absences	270,139	-	270,139	-	270,139
State/County waste management fees	261,027	-	261,027	-	261,027
Payroll and payroll liabilities	106,528	-	106,528	-	106,528
Revenue bonds and equipment lease interest	30,932	451,937	482,869	-	482,869
Current portion of capital lease payable	458,783	-	458,783	-	458,783
Current portion of revenue bonds payable	-	2,231,681	2,231,681	-	2,231,681
Total current liabilities	2,639,815	2,683,618	5,323,433	-	5,323,433
NONCURRENT LIABILITIES:					
Compensated absences	810,419	-	810,419	-	810,419
Capital lease payable	980,343	-	980,343	-	980,343
Total OPEB liability	3,809,546	-	3,809,546	-	3,809,546
Net pension liability	13,041,310	-	13,041,310	-	13,041,310
Due to Authority	49,512,582	-	49,512,582	(49,512,582)	-
Revenue bonds payable - net	-	49,178,889	49,178,889	-	49,178,889
Landfill closure and post closure care	6,057,277	-	6,057,277	-	6,057,277
Total liabilities	76,851,292	51,862,507	128,713,799	(49,512,582)	79,201,217
DEFERRED INFLOWS	317,248	-	317,248	-	317,248
TOTAL LIABILITIES AND DEFERRED INFLOWS	77,168,540	51,862,507	129,031,047	(49,512,582)	79,518,465
NET POSITION:					
Net investment in capital assets	41,209,453	-	41,209,453	-	41,209,453
Restricted	2,500,000	2,349,925	4,849,925	-	4,849,925
Unrestricted	(2,242,690)	(2,349,925)	(4,592,615)	-	(4,592,615)
Total net position	41,466,763	-	41,466,763	-	41,466,763
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$118,635,303	\$ 51,862,507	\$170,497,810	\$ (49,512,582)	\$120,985,228

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

	DISTRICT	AUTHORITY	TOTALS	ELIMINATING ENTRIES	TOTALS
OPERATING REVENUES:					
Disposal fees	\$ 28,828,155	\$ -	\$ 28,828,155	\$ -	\$ 28,828,155
Power sales	1,323,808	-	1,323,808	-	1,323,808
Recycled material sales	7,872,131	-	7,872,131	-	7,872,131
Last chance mercantile sales	593,666	-	593,666	-	593,666
Scale and operational services	708,019	-	708,019	-	708,019
Sand sales	169,458	-	169,458	-	169,458
Landscape product sales	135,804	-	135,804	-	135,804
Total operating revenues	<u>39,631,041</u>	<u>-</u>	<u>39,631,041</u>	<u>-</u>	<u>39,631,041</u>
OPERATING EXPENSES:					
Salaries	12,244,176	-	12,244,176	-	12,244,176
Employee benefits	6,933,397	-	6,933,397	-	6,933,397
Depreciation and amortization	4,080,148	-	4,080,148	-	4,080,148
Recycling	2,322,351	-	2,322,351	-	2,322,351
Taxes, licenses and permits	1,393,089	-	1,393,089	-	1,393,089
Maintenance of structures and equipment	2,184,588	-	2,184,588	-	2,184,588
Professional services	787,612	-	787,612	-	787,612
Fuel	917,628	-	917,628	-	917,628
Contractual services	770,158	-	770,158	-	770,158
Gas project maintenance	1,036,239	-	1,036,239	-	1,036,239
Operating supplies	1,076,990	-	1,076,990	-	1,076,990
Landfill closure and post closure ca	354,908	-	354,908	-	354,908
Insurance	80,244	-	80,244	-	80,244
Public awareness	162,484	-	162,484	-	162,484
Office	554,287	-	554,287	-	554,287
Safety equipment and supplies	257,750	-	257,750	-	257,750
Education, meetings and travel	76,753	-	76,753	-	76,753
Hazardous waste program	305,316	-	305,316	-	305,316
Environmental services	331,294	-	331,294	-	331,294
Utilities	108,544	-	108,544	-	108,544
Miscellaneous	25,883	-	25,883	-	25,883
Bad debt expense	-	-	-	-	-
Total operating expenses	<u>36,003,839</u>	<u>-</u>	<u>36,003,839</u>	<u>-</u>	<u>36,003,839</u>
OPERATING INCOME	<u>\$ 3,627,202</u>	<u>\$ -</u>	<u>\$ 3,627,202</u>	<u>\$ -</u>	<u>\$ 3,627,202</u>

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)
FOR THE YEAR ENDED JUNE 30, 2020**

	DISTRICT	AUTHORITY	TOTALS	ELIMINATING ENTRIES	TOTALS
OPERATING INCOME	\$ 3,627,202	\$ -	\$ 3,627,202	\$ -	\$ 3,627,202
NON-OPERATING REVENUES (EXPENSES):					
Interest income	753,311	-	753,311	-	753,311
Rents and leases	343,337	-	343,337	-	343,337
Gain on sale of capital assets – net	28,610	-	28,610	-	28,610
Interest expense – revenue bonds and installment sales	(47,103)	(947,391)	(994,494)	-	(994,494)
Interagency reimbursement	(947,391)	947,391	-	-	-
Other income (expense)	(171)	-	(171)	-	(171)
Total non-operating revenues (expenses)	130,593	-	130,593	-	130,593
CHANGE IN NET POSITION	3,757,795	-	3,757,795	-	3,757,795
NET POSITION, BEGINNING OF YEAR	37,708,968	-	37,708,968	-	37,708,968
NET POSITION, END OF YEAR	\$ 41,466,763	\$ -	\$ 41,466,763	\$ -	\$ 41,466,763

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL TO BUDGET (Unaudited)
FOR THE YEAR ENDED JUNE 30, 2020**

	ACTUAL	DISTRICT BUDGET	VARIANCE - POSITIVE (NEGATIVE)
Disposal fees	\$ 28,828,155	\$ 24,585,604	\$ 4,242,551
Power sales	1,323,808	1,747,200	(423,392)
Recycled material sales	7,872,131	7,401,400	470,731
Last chance mercantile sales	593,666	800,000	(206,334)
Scale and operational services	708,019	1,665,000	(956,981)
Sand sales	169,458	150,000	19,458
Landscape product sales	135,804	200,000	(64,196)
Total operating revenues	<u>39,631,041</u>	<u>36,549,204</u>	<u>3,081,837</u>
OPERATING EXPENSES:			
Salaries	12,244,176	10,720,195	(1,523,981)
Employee benefits	6,933,397	5,281,343	(1,652,054)
Depreciation and amortization	4,080,148	4,100,000	19,852
Recycling	2,322,351	1,581,000	(741,351)
Taxes, licenses and permits	1,393,089	1,436,450	43,361
Maintenance of structures and equipment	2,184,588	3,370,500	1,185,912
Professional services	787,612	1,401,800	614,188
Fuel	917,628	1,260,000	342,372
Contractual services	770,158	1,018,500	248,342
Gas project maintenance	1,036,239	-	(1,036,239)
Operating supplies	1,076,990	794,000	(282,990)
Landfill closure and post closure care costs	354,908	500,000	145,092
Insurance	80,244	430,000	349,756
Public awareness	162,484	255,000	92,516
Office	554,287	128,000	(426,287)
Safety equipment and supplies	257,750	155,750	(102,000)
Education, meetings and travel	76,753	271,000	194,247
Hazardous waste program	305,316.0	220,000	(85,316)
Environmental services	331,294.0	545,000	213,706
Utilities	108,544.0	115,000	6,456
Miscellaneous	25,883.0	-	(25,883)
Bad debt expense	-	-	-
Total operating expenses	<u>36,003,839.0</u>	<u>33,583,538</u>	<u>(2,420,301)</u>
INCOME FROM OPERATIONS	3,627,202.0	2,965,666	5,502,138

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL TO BUDGET (Unaudited) (Continued)
FOR THE YEAR ENDED JUNE 30, 2020**

	ACTUAL	DISTRICT BUDGET	VARIANCE - POSITIVE (NEGATIVE)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	753,311.0	95,000	658,311
Rents and leases	343,337.0	325,000	18,337
Gain (loss) on sale of capital assets – net	28,610.0	-	28,610
Interest expense – revenue bonds and installment sales	(994,494.0)	(2,288,000)	1,293,506
Other income (expense)	(171.0)	30,000	(30,171)
Total non-operating revenues (expenses)	130,593.0	(1,838,000)	1,968,593
INCREASE (DECREASE) IN NET POSITION	3,757,795.0	1,127,666	2,630,129



Monterey Regional Waste Management District

Turning Waste Into Resources

Since 1951

California Air Resources Board (CARB) and
Monterey Bay Air Resources District (MBARD)

Landfill Inspections Update

Finance Committee Meeting
December 2, 2020

LANDFILL INSPECTIONS - BACKGROUND



PURPOSE: Monitor for Fugitive Landfill Gas (LFG) Emissions

REQUIREMENT: Minimize fugitive emissions from landfill

- **MBARD Inspection = Reviewing Quarterly Surface Emission Monitoring (SEM) Survey Reporting for 2019 & 2020**
- **CARB/MBARD INSPECTION OCCURRED ON 9-16-2020**
 - CalRecycle/CARB/MBARD inspection of Composting OPS
 - CARB/MBARD inspection of Landfill's Gas Wells

INITIAL FINDINGS - SUMMARY



- **MBARD Inspection = Reviewing Quarterly Surface Emission Monitoring (SEM) Survey Reporting for 2019 & 2020**
 - Reports lack documentation of corrective measures to respond to any survey exceedance
 - Violation issued for 2019 reporting year
 - 2020 Reporting year under review & additional information requested from MRWMD - *(potential for a violation)*

- **CARB/MBARD INSPECTION 9-16-2020**
 - 17 LFG Wells were monitored
 - 9 of 17 LFG Wells had emissions that exceeded the regulatory threshold (500 ppm) - *(potential for a violation)*

STATUS OF ACTION PLAN *(In Progress)*



- **MBARD – QUARTERLY SEM REPORTING**

- Submitted requested information on 11/13/2020
- Completed sUAS aerial drone monitoring
- Joined CARB Pilot Study of aerial flyover monitoring on 11/02/2020
- CARB Pilot Study aerial flyover completed – 11/12/20
- Made internal improvements in gas well monitoring

STATUS OF ACTION PLAN *(In Progress)*



- **CARB/MBARD INSPECTION**

- Submitted requested information on 11/06/2020
- Installed clay and/or membrane liner on the 9 wells having surface emission exceedances
- Monitored remaining wells to assess if there are surface emission exceedances

UPCOMING EVENTS



- **ACTION PLAN (*In Progress*)**

- Conduct 4th Quarter SEM survey – early December
- Review SEM survey results & define action plan to respond to any surface emission exceedances
- Implement corrective action measures to address any surface emission exceedances
- Continued installation of membrane liner on existing gas wells with surface emissions exceedances
- Begin installation of ~25 new vertical gas wells with membrane enhanced upper bore seal – 12/09/2020
- Continued increased monitoring of gas wells

Sustainable Excellence – Managing Waste As A Resource



MONTEREY REGIONAL
WASTE MANAGEMENT
DISTRICT

PILLARS OF SUSTAINABILITY

Our mission is to Turn Waste Into Resources in the most cost effective and environmentally sound manner to benefit the community.

PEOPLE



An engaged and talented workforce allows us to pursue the District's mission.

.....
Utilize an intentional and mindful process in the recruitment, development, and growth of our people.

.....
Build a high performance, safety-oriented culture.

.....
Promote the health and well being of our employees.

FINANCE



Strike a balance between community needs, cost containment, and environmental protection.

.....
Develop a sustainable revenue structure that provides funding for the programs and services we provide to the community.

.....
Follow and update the District's alternative funding options.

.....
Pursue strategic partnerships that allow for increased efficiencies and revenues, decreased costs, and enhanced environmental benefits.

ENVIRONMENT



The District's environmental stewardship promotes a sustainable community.

.....
Support member agencies with implementation of state-of-the-industry franchise collection contracts.

.....
Construct the MRF improvement project to increase diversion.

.....
Promote the beneficial use of biogas.

COMMUNITY



District services and programs to be responsive to the unique needs of our community.

.....
Ensure the effectiveness of the District's programs, services, and strategic partnerships.

.....
Strengthen the District's identity in the community.

.....
Build upon our coordinated education and outreach programs between District and community partners.

INNOVATION



Early adopters of programs and processes that best serve the needs of the District and the community.

.....
Track industry trends through involvement and education.

.....
Develop a comprehensive and innovative plan to maximize use of technology.

.....
Maximize opportunities to become a carbon-neutral energy producer.



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by:  Date: 11/25/20
General Manager

DATE: December 2, 2020
TO: General Manager
FROM: Director of Operations
SUBJECT: Report Out on Residential Single Stream Fiber & Residual Recovery Retrofit

BACKGROUND

The District's recycling operation at the Materials Recovery Facility (MRF) has been in operation for approximately three (3) years and has expanded the incoming flow of Single Stream Recyclable materials (SSR) from an initially projected volume of approximately 15,000 tons per year, to over 63,000 tons in 2020.

With the implementation of the Chinese National Sword initiative by the government of China in early 2018, the value of post-processed recyclable commodities had declined by approximately 50% below what was anticipated for the MRF when the facility was designed. Additionally, the National Sword initiative has reset quality standards for marketed materials not only in China but in markets across the globe. This has required that additional sorting staff be added to the processing lines to achieve those new standards, increasing labor costs above the original operating proforma that was established during the 2014 facility design. The MRF SSR system was initially designed primarily to process Municipal Solid Waste (MSW) materials with the intention of meeting future California diversion goals. It was not singularly designed to most efficiently and effectively process single stream recyclables in the larger volumes currently being received.

The Residential Single Stream Fiber and Recovery Retrofit that the Board approved in January 2020 was intended to begin to address the long-term needs of the District for processing SSR materials in a way that meets the changing marketplace requirements, while improving the economic performance of the facility. At the December 2019 Board of Directors meeting staff presented that the MRF was going to miss the budgeted FY 19/20 revenues for the facility by approximately \$1.4 million. The Retrofit was estimated to improve the financial performance of the MRF by approximately \$1 million per year through a projected increase in sales revenue of \$750,000 and a decrease in labor expense of roughly \$315,000. The balance of the revenue shortfall was projected to be made up through the phased-in implementation of the SSR processing fee charged to GreenWaste which provides another \$500,000 in the FY 20/21 budget.

DISCUSSION

Implemented Investments Approved by MRWMD Board in January 2020

The full effect of the Board of Director's approved investment of approximately \$3.5 million is beginning to be realized. The specific projected benefits were as follows:

1. The first piece of equipment installed in July was a Cardboard Separation Screen which was expected to improve the recovery of Cardboard (Old Corrugated Containers, aka OCC), while eliminating four (4) sorting labor positions that was estimated to provide approximately \$250,000/yr in savings.
2. The second piece of equipment installed in early August was the Optical Sorter for residual line clean-up and recovery of California Redemption Value (CRV) materials. Originally this was going to include robotics for separation, but during detailed design it was determined that an optical sorter that included metal detection and

3. camera technology would allow for greater efficiency and effectiveness. In the Fall of 2019 staff worked with the SCS Consultants to sample various source-points to the residual line to assess the potential loss of CRV materials, and based on their findings staff estimated that \$421,000 a year in revenue was being lost due to CRV containers being missed by either equipment and/or sorters. This investment was expected to increase CRV recovery by capturing over 70% of the materials on the residual lines in addition to reducing one sorter position for a combined net benefit of \$350,000/yr.
4. The third system installed in late August was the Optical Fiber Sorter to enhance the separation and recovery of OCC out of the mixed paper stream and combine it with the other separated cardboard that is being separated by the new OCC screen. Due to the increased value of the recovered OCC as compared to the Mixed Paper, and with a better value for the Mixed Paper reduced “brown grades” in it, staff anticipated an increase in revenue sales for our Fiber streams by approximately \$450,000/yr.

Table 1 below summarizes the total system cost and financial impacts as project by staff at the time of approval for the invest in January 2020

Table 1

Combined System Financial Impact			
	Cost	\$	3,500,000.00
	Annual Additional Revenue	\$	730,647.81
	Annual Savings in Labor	\$	316,064.43
	Projected Annual Additional Maintenance Expense	\$	87,500.00
	Payback of Investment - Years		3.65
			2.5%

Staff committed to the MRWMD’s Board of Directors’ approval of the capital improvement to provide to the Board a report of the financial and operational performance of the equipment and how actual financial performance compared to the initial projections provided to the Board in January, 2020.

FINANCIAL IMPACT

First Quarter Operational Results of Retrofitted MRF

At the time of approval staff anticipated that the system installation would occur in September/October of 2020 and be fully operational by November. Bulk Handling Systems (BHS) was able to move up the equipment manufacturing timeline, resulting in the installation in late July and completion of the third phase in late August. The District started to see immediate results in the recovery of OCC on July 29th, an increase in the recovery of CRV materials on August 9th, and the additional increased recovery of OCC from the Mixed Paper on August 23rd.

The installation of the equipment went relatively smoothly with a limited impact on the District’s operating schedule. Originally the schedule anticipated only two (2) days of operations being delayed. Ultimately the installation impacted the District’s ability to process materials on four (4) days in late July. Staff was able to stockpile materials onsite and not incur any additional costs by having another entity transport and process materials on our behalf. It took until the end of September for staff to process all the backlog of materials.

Impacts on Staffing and Cost Reductions

As stated previously, staff anticipated that these new pieces of equipment would reduce our staffing needs by five (5) sorting positions in total. Those reductions in the locations on the sort-line that were anticipated were achieved, four (4) on the OCC presort line positively pulling off cardboard and one (1) on the residual line recovering CRV materials. However, due to the volumes of materials being recovered from both the new Optical Sorters on the Residual line and the Mixed Paper line, we have had to reposition two (2) of those staff positions into other places on the post-sort line to do quality control sorting on the OCC line and the Container processing line. Table 2 below shows the financial summary of the circumstance. Residential Single Stream Fiber & Recovery Retrofit impacts of that change in staffing needs from the original projections:

Table 2

Labor Savings from Retrofit		
Anticipated Savings from Staffing Changes		
Vacated 5 sorting positions on the line - (4 OCC Pre-sort, 1 Residual line Recovery)	\$	316,064
Actual Annualized Savings from Staffing Changes		
Vacated 3 sorting positions on the line - (reduced 3 OCC Line)	\$	189,639
Difference	\$	(126,426)

Impacts on Revenue

The additions of the various pieces of equipment have had a significant increase in our revenues, although in slightly different ways than we had projected upon approval in January. In Table 3 below, we have annualized the impacts that we are experiencing in the first three (3) months of operation with the new OCC separation equipment:

Table 3

**OCC Recovery and Mixed Paper (MP) Value Increases
 After installation of New Equipment**

<u>Mixed Paper Avg \$/Ton</u>	<u>Mixed Paper Avg \$/Ton</u>		<u>Value per Ton</u>	<u>Annualized Inc/(Dec) in MP Value/yr</u>	Projected Impact (01/2020)	
<u>Jan - July</u> \$ (16.14)	<u>Aug - Oct</u> \$ 4.33	<u>Total MP Tons Post Retrofit</u> 9,460.04	<u>Actual Change in \$/ton</u> \$ 20.48	\$ 193,705.58	<u>Projected MP Tons/Yr Post Retrofit</u> 7,607.11	<u>Projected Change in \$/ton</u> \$ 25.00
<u>Mixed Paper Tons/Mo</u>	<u>Mixed Paper Tons/Mo</u>	<u>Reduction in MP Tons</u>	<u>Current \$/ton</u>		<u>Projected Annual MP Inc/(Dec) in Value (01/20)</u>	\$ 190,177.65
959.66	788.34	(171.33)	\$ 4.33	\$ (8,909.04)	<u>Projected Increase in OCC Tons/Yr.</u> 4096.13	<u>Projected OCC Change \$/ton</u> \$ 60.00
<u>OCC Tons/Mo</u>	<u>OCC Tons/Mo</u>	<u>Increase in OCC Tons</u>	<u>Current \$/ton</u>		<u>Projected Annual OCC Increase</u>	\$ 245,768.04
<u>Jan - July</u> 1,400.03	<u>Aug - Oct</u> 1,725.55	325.52			<u>Projected Impact (01/20)</u>	\$ 435,945.69
	<u>Annualized</u>	3,906.22	\$ 85.67	\$ 334,632.60		
			<u>Net Impact</u>	\$ 519,429.15		

As Table 3 indicates, if the first three months of operations and differential pricing remains consistent, we can expect to be receiving \$520,000 a year of additional revenue from the increased recovery of OCC and the improved quality of the remaining Mixed Paper. Staff estimates that we are currently recovering about 60% of the OCC that was previously commingled with the Mixed Paper. We will continue to look at how to further improve the separation of OCC from the Mixed Paper through the fine tuning of the equipment and other process improvements as there could be an additional \$250,000/yr. of value still available for the District to recover.

Staff has also seen a significant increase in revenues after the Residual Line Optical Sorting installation above the projected revenue from recovery of materials and CRV value mentioned earlier. Table 4 below shows the estimated quantities and values of the CRV materials that staff anticipated were available for projected recovery and that we could capture up to 70% of that value with this new equipment (\$350,00).

Table 4

	Total Tons Processed /Yr	CRV Value Available for Recovery			
		% of SSR Residual	Tons of CRV in Residual	Value of Lost CRV in Residual	% of Lost CRV Value
Alum	60000	0.06%	36.81	\$ 141,730.39	16.70%
PET	60000	0.18%	108.84	\$ 163,258.05	11.42%
HDPE	60000	0.26%	155.26	\$ 62,102.08	12.51%
PP	60000	0.18%	107.24	\$ 42,895.25	25.41%
Glass	60000	0.37%	220.35	\$ 11,017.25	26.86%
		1.05%	628.49	\$ 421,003.02	
			Lost Value Per Year	\$ 421,003.02	

We have experienced during the first three (3) months of operation a significantly higher increase in the value of materials recovered than anticipated. Table 5 below shows where that increased recovered value is coming from. The equipment is recovering significantly more Aluminum and PET than staff had projected, resulting in a projected increase of revenues of an additional \$285,000 a year.

Table 5

CRV/Container Value Recovery

Material	Annual Inc/(Dec) in tons	\$/Ton Value	Annual Inc/Dec in Value
ALUMINUM UBC	83.61	\$ 3,960	\$ 331,101.26
HDPE COLOR	79.50	\$ 296	\$ 23,504.02
HDPE NATURAL	4.76	\$ 1,106	\$ 5,262.83
POLY PROP #5	(57.13)	\$ 90	\$ (5,141.31)
STEEL CAN	(5.34)	\$ 75	\$ (400.71)
THERMOFORM - Outbound from MRF	136.21	\$ 130	\$ 17,706.74
PET	147.63	\$ 1,789	\$ 264,093.76
			\$ 636,126.58

During the period of time that these improvements were made on the system, the District also saw increases in the overall amount of materials that we were receiving at the MRF. Some of these increases were seasonal, and others were through new sources of materials, e.g, Merced County. The MRF averaged approximately 164 tons more a month of inbound materials during August through October compared to the previous three months of May through July. We have included a deduction of against the increased revenues that we have seen in Table 6 below we have aggregated the annualized cost savings and revenue enhancements that we have experienced in the first three months of operations.

Table 6

Total System Improvements		Actual Annualized	Projected (01/20)
<i>Annualized Additional Revenues</i>		\$ 1,155,556	\$ 730,648
<i>Annualized Labor Savings</i>		\$ 189,639	\$ 316,064
<i>Increased Tons/Mo in Aug-Oct</i>	164		
<i>Avg \$ Ton sold</i>	\$116		
<i>Deduction for Tonnage Increase (per month/annualized)</i>	(\$19,024)	\$ (228,288)	
		\$ 1,116,906	\$ 1,046,712

Budget vs Actual Expenses for Project

The total cost for the project came in approximately 3% over the budgeted project expense when including the additional expenses for safety enhancements for fall and fire protection modifications that staff has included in this project. Even with these included into the project costs, with the increase in the overall revenues, the Payback of Investment dropped from the original projected 3.65 years to 3.5 years if the performance of the system continues at the levels of recovery and the differential values between Mixed Paper and Cardboard continue at current levels.

Project Budget	\$ 3,500,000
<u>Expenses</u>	
BHS Contract Amount	\$ 3,432,364
Fire Protection Modifications	\$ 94,212
Fall Protection Estimate	\$ 68,288
Total Actual Costs	\$ 3,594,864

CONCLUSIONS

Staff is very pleased with the initial performance of the system. BHS and their installation contractor, Titus MRF Services, have provided a system that significantly enhances the District's capabilities to recover value from the materials in the recycling stream through more refined separation of higher value commodities from lower value streams. Additionally, it appears to have increased the recovery of materials that had previously been heading out with the residual stream, both increasing the financial performance of the system, but also increasing the overall diversion of the recycling stream by an additional 1%. Although modest, it is important to note that this is occurring simultaneously with an increase in the overall contamination rate of the stream of inbound materials.

Staff will continue to assess the performance of these improvements and also explore other options that might yield the same type of financial and diversion opportunities for the District. Staff will follow up with a FY 20/21 year end report out of the system improvements to inform the Board if the initial performance trends continue throughout the year.



Tim Brownell
Director of Operations



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by: [Signature] Date: 11/24/2020
General Manager

DATE: November 24, 2020
TO: General Manager
FROM: Director of Engineering & Compliance
SUBJECT: 10-Year Lease Agreement with Keith Day Company, Inc. for Composting Facilities

RECOMMENDATION: That Finance Committee Direct Staff to Recommend to the Board to Authorize General Manager to Execute 10-Year Lease Agreement with Keith Day Company, Inc. for Composting Facilities (Subject to Final Review by Legal Counsel) at an Initial Annual Rate of \$44,081.

BACKGROUND

Composting operations have been performed on a 60-acre lease parcel at the District by a third-party operator since 1998. The Keith Day Company, Inc. (KDCI) assumed operations of the Composting Facilities in 2009 on the leased parcel. During that time the size of the lease area has decreased to approximately 30 acres in size. The current lease agreement for the Composting Facilities has an initial 1-Year term with a supplemental 1-Year extension term clause that can be used annually to extend the lease agreement one more year. For the past ten years the District and KDCI have agreed to extend the lease every year so that the processing of wood, yard, and food wastes can continue at the Composting Facilities operated by KDCI.

DISCUSSION

Based on recent Finance Committee and Board Meetings, staff was directed to prepare a 10-Year Lease Agreement for KDCI's operation of the Composting Facilities on property leased from the District. Staff was provided this direction for several reasons, namely the following:

- Recognition of KDCI's recent capital equipment investments on the order of \$3 million for improvements in the processing of wood, yard, and food wastes for the District and its community members,
- Approval of \$2.5 million of District Capital Funds for capital improvements to the composting facilities to comply with the General Order Waste Discharge Requirements (WDR) for Composting Operations (Order WQ 2015-0121-DWQ) issued by the California Regional Water Quality Control Board, and
- The formal issuance of SB1383 regulations by the State of California for recycling organic wastes and reducing food wastes (e.g., the primary purpose of composting facilities).

The KDCI's operations of the composting facilities have been instrumental in the processing and recycling of wood, yard, and food wastes for the District. For the past 22 years, the diversion of these organic wastes from landfill disposal has helped the District consistently exceed the State's goal of 50% diversion. With the recent enactment of the SB1383 regulations for recycling and diversion of 75% of organic wastes (2014 basis), and both the District's and KDCI's capital investment commitments in the composting facilities, it is operationally critical to secure a minimum ten year period of operations from KDCI in the form a new lease agreement. The proposed lease agreement and its exhibits are attached for your review and consideration.

FINANCIAL IMPACT

There is no financial impact to the District's FY 2020/21 operating budget by entering into the proposed 10-Year lease agreement with KDCI for the composting facilities. The lease rate paid to the District by KDCI and the processing rate charged by KDCI to the District both remain the same as the current rate until July 1, 2021. The lease rate will be adjusted annually on July 1st in accordance with a specified regional inflation index. It is proposed that the processing rate follow the rate schedule presented below. This planned schedule of processing rates is inclusive of an annual inflation amount and a capital equipment capital recovery amount. Staff estimates that these future rates would be the same, or very similar to, rates that might have developed over the same time thru the annual extension process of the current 1-Year lease agreement. Thus, there is no significant change to the financial impact currently projected for the composting operations in those future years.

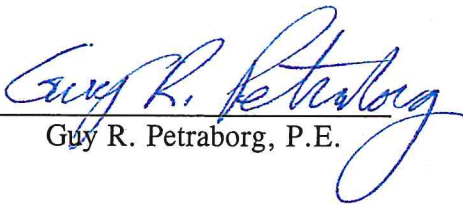
START DATE	PROCESSING RATE \$/ton
7/1/2021	\$26.25
7/1/2022	\$27.56
7/1/2023	\$28.67
7/1/2024	\$29.81
7/1/2025	\$30.71
7/1/2026	\$31.63

STRATEGIC PLAN

The District's lease of land for the KDCI's composting facilities operations fits under several general policy directives cited in the District's "Pillars of Sustainability" plan. Principally under the Finance, Community, and Environment pillars which speak to the District's stewardship of the Community's interests. The continued diversion of organic wastes away from landfill disposal and to the composting facilities for recycling and beneficial reuse represents an important contribution to the District's Mission of Turning Wastes into Resources.

CONCLUSION

Staff therefore recommends that the Finance Committee direct staff to recommend to the Board to authorize the General Manager to execute a 10-Year Lease Agreement with Keith Day Company, Inc. for Composting Facilities (Subject to Final Review by Legal Counsel) at an Initial Annual Rate of \$44,081.


Guy R. Petrabor, P.E.

Attachments:
Lease Agreement
Exhibit A
Exhibit B
Exhibit C

**LEASE AGREEMENT
FOR
COMPOSTING FACILITIES**

THIS LEASE (the "Lease") is made and entered into on December _____, 2020, by and between the MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT, a public entity duly organized pursuant to the provisions of California Health and Safety Code §§4170 *et seq.*, (the "District" or the "Landlord"), and KEITH DAY COMPANY, INC., a California corporation, doing business as Gabilan AG Services (the "Tenant"), as follows:

Recitals

This Lease is entered into with reference to the following facts and circumstances, which are hereby found and determined by the parties:

- A. The District owns and operates, under a Use Permit from the County of Monterey and a Solid Waste Facility Permit (SWFP) and Waste Discharge Requirement (WDR) Permit from the State of California, a three hundred fifteen (315) acre Class III sanitary landfill for the disposal of municipal solid waste and other acceptable waste streams. A portion of the permitted landfill disposal area has been set aside for the subject composting facility for the duration of this lease.
- B. The Tenant, since 2009 under a year-to-year rental agreement, has designed and been operating the District's composting facility to process organic materials, including yard waste, clean wood waste and, most recently, food waste upon the request of and for the benefit of the District and its member communities.
- C. A primary purpose and intent of the District and Tenant in entering into this Lease is to facilitate their joint implementation of the General Order Waste Discharge Requirements for Composting Operation (Order WQ 2015-0121-DWQ) enacted in 2015 by the Regional Water Quality Control Board, for completion in FY 20/21.
- D. The District has recently authorized a capital expenditure of up to \$2.5 million for improvements to the composting area site to accomplish the regulatory requirements of Order WQ 2015-0121-DWQ, and in recent years Tenant has invested approximately \$3 million in capital equipment for its operations on the District's site.
- E. As a lease of an existing public facility this Lease is categorically exempt from the California Environmental Quality Act ("CEQA") in accordance with CEQA Categorical Exemptions 15301.
- F. It is mutually agreed by the parties hereto that this Lease is upon and subject to the following terms, covenants, conditions and provisions, and the Tenant covenants, as a

material part of the consideration of this Lease, to keep, perform and comply with each and all of said terms, covenants, conditions and provisions to be kept, performed and complied with, and this Lease is made and entered into upon the condition of such performance and compliance.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises hereinafter set forth, District and Tenant agree to the following terms and conditions:

Terms and Conditions

ARTICLE I. PREMISES AND TERM

1.02 Leased Premises. District, for and in consideration of the lease payments, covenants and conditions herein contained to be kept, performed and observed by Tenant, does hereby lease to Tenant, and Tenant does hereby lease and accept from Landlord, a parcel of real property, hereinafter referred to as the "Premises," consisting of approximately 30 acres, more or less, of the District's sanitary landfill site near the Salinas River and north of Marina, California, the specific location of which Premises are designated and outlined on the map of the landfill site and the Premises is attached as Exhibit A hereto, which is incorporated herein and initialed by both parties hereto. The specific acreage of the leased Premises shall be determined by a survey of the property, along with a legal description which is required for Tenant's operating permit with the California Department of Resources Recycling and Recovery (CalRecycle). Any redesignations or changes in the specific location of the Premises during the term of this Agreement, or any extensions hereof, or any revisions in the total number of acres leased to the Tenant, shall occur only with the prior written approval of the District's General Manager and the District's Board of Directors.

1.03 Term. The term of this Lease shall be ten (10) years, commencing on the date first written above. This Lease may be extended, at the District's option, for two extended terms of not more than five (5) years each, at terms and provisions to be mutually agreed upon in writing by the parties. District shall provide Tenant with notice of District's exercise of its option to extend the term not later than 180 days prior to the conclusion of the initial and any extended term.

ARTICLE 2. LEASE PAYMENTS/RENT

2.01 Rent. Effective December _____, 2020, Tenant agrees to and shall pay to District, at the District's office at 14201 Del Monte Boulevard, Monterey County, California, or at Post Office Box 1670, Marina, California, 93933, as lease payments and rent ("rent") for the leased Premises, the sum of \$3,733.42 per month, payable in advance on the first day of each month.

2.02 Adjustment of Rent. The rent provided for in paragraph 2.01 shall be increased as of July 1 each year during the initial or an extended term of this Lease, starting with July 1, 2022, by the lesser of a) the rate of increase in the Consumer Price Index, All Urban Consumers for the San Francisco-Oakland-San Jose Region, for the prior calendar year period, or b) eight per cent (8%).

2.03 Interest on Late Rent Payments. If Tenant defaults or is late in the payment of any monthly installment of rent due hereunder, such installment shall bear interest at the rate of ten per cent (10%) per annum from the day it is due until actually paid.

2.04 Holding Over. Any holding over by the Tenant after the expiration of the initial or an extended term of this Lease with the consent of the District shall be construed to be a tenancy from month-to-month at a monthly rental equal to 125% of the of the monthly rental for the final month of the previous term. Tenant's occupancy during any period of holding over shall otherwise be on the same terms and conditions herein specified so far as applicable.

ARTICLE 3. UTILITIES AND TAXES

3.01 Tenant to Pay Utilities. Tenant shall pay all charges for water, heat, gas, electricity, telephone service, rubbish removal, portable toilet service and any and all other utility services of any kind and nature whatsoever, supplied to and used on the Premises, or any office trailer located off the Premises, throughout the initial or any extended term of this Lease , including any connection fees. All utility lines shall be installed underground by Tenant at Tenant's expense, except where approved otherwise with the prior written permission of Landlord. .

3.02 Tenant to Pay Taxes. In addition to rent, Tenant shall pay and discharge any and all taxes, general and special assessments and other charges of every description, including possessory interest taxes, which during the term of this Lease may be levied upon or assessed against the Premises and all interests therein and all improvements and other property thereon. Provided, however, that Tenant shall not be responsible or liable for any permanent improvement bonds or assessments which are not based upon or do not relate to the use made of the Premises by Tenant. Tenant is hereby specifically notified that although the District is a public entity not normally subject to property taxes upon its real property, the Premises leased hereby to Tenant and Tenant's possessory interest therein may well be subject to the payment of property taxes levied thereon by a governing agency, for which Tenant shall be solely liable.

ARTICLE 4. USE AND OCCUPANCY

4.01 Use of Premises. Tenant shall use the premises solely for the purpose of conducting and carrying on the business of composting organic materials, final product processing and packaging, the wholesale and retail sale of same, and for other uses normally incident thereto, and for no other purpose without first obtaining the prior written consent of the District. Tenant agrees to utilize District's feedstock materials to the extent possible. Tenant may also import feedstock materials. To the extent such imports may interfere with use of District's feedstock materials, District and Tenant agree to discuss and resolve such issues. In no event may any imported feedstock materials that would otherwise be sent to the landfill be accepted by Tenant for a tipping fee without the prior written consent of the District. The intent of these terms is that the Tenant's activities do not compete with the District's market area activities and responsibilities.

4.02 Experimental Composting. As part of the consideration for the lease of the Premises to Tenant, the Tenant agrees that it will continue to make good faith efforts to experiment

with the composting and possible reuse of woodwaste and yardwaste materials, wastewater sludge (biosolids), food waste and other organic wastes as may be received by the District for disposal at its landfill site.

4.03 Maintenance and Restoration. Tenant shall, at its own cost and expense, keep and maintain the Premises and all improvements and facilities on the Premises in good order and repair and in as safe and clean a condition as they were when received from the District, reasonable wear and tear excepted, and upon termination of this Lease or abandonment by Tenant of the Premises, Tenant shall restore the Premises to a reasonably similar condition as existed prior to Tenant's entry thereon, and shall remove all improvements, personal property and stored composting materials therefrom except those improvement(s) that receive the District's written approval to remain. The District and Tenant agree that the condition of the lease area shall be the condition resulting from the site improvements planned for Fiscal Year 2020-21 to satisfy the requirements of the General Order WDR issued by the California Regional Water Quality Board and the Solid Waste Facility Permit issued by CalRecycle.

4.04 Access to Premises. The District shall provide Tenant with access to said Premises by means of an access road across District's property from Del Monte Boulevard (the old Highway 1), and such access road may be used by persons wishing to purchase from or conduct business with Tenant during those hours that the District's disposal site is otherwise open to the public. Composting and any other business operations of Tenant shall not be conducted in such a manner as to restrict the access to any of the District's remaining property.

4.05 Tenant Improvements. Tenant shall be responsible for constructing all Tenant improvements, including, without limitation, an all-weather working surface and stormwater drainage facilities. Tenant shall be permitted to place a temporary industrial-type building on the premises and to pave the outside equipment work areas adjacent thereto, but only after first submitting the plans and specifications therefor to the District and obtaining District's written approval of same, which approval shall not be unreasonably withheld.

4.06 Drainage. Drainage from any improvements to or alterations of the Premises shall be engineered by Tenant so that District's remaining lands are not adversely affected and so that surface flows over and above those generated by such land in its present unimproved state are retained in an engineered structure approved by the appropriate permitting jurisdiction(s). Tenant shall be responsible for maintaining the working surface grade to avoid the accumulation of standing water caused by creation of low spots.

4.07 Public Health and Safety. Tenant shall supply systems for the protection of public health and safety, including without limitation, a fire control program, a dust and odor control program, and provisions for vector control. Tenant shall operate the composting facility so as to minimize potential health and safety problems for employees of both Tenant and District, other tenants, and users of the landfill site and neighboring properties. Tenant shall operate and maintain the composting facility in a neat and orderly manner and shall monitor the area as frequently as necessary to prevent litter from blowing off the premises of the composting facility.

4.08 Odor Control. Tenant shall conduct the composting operation in such a manner as to minimize odors, especially the migration of odors to adjacent properties on and off the landfill disposal site. The compost material shall be maintained in an aerobic condition to avoid odors produced by anaerobic conditions. It is specifically acknowledged by District that by its nature, even a well-designed and operated aerobic composting facility may occasionally generate odors which are perceived by some to be offensive. Tenant shall not be considered in default if offensive odors are generated occasionally, provided the facility is operated according to the provisions of this Lease and the requirements of all applicable permits and regulations for the composting facility. In the event that offensive odors are generated occasionally which result in complaints and Tenant is operating the facility in accordance with this Lease and applicable permits and regulations, Tenant and District shall work together in resolving such complaints.

4.09 Waste and Nuisance Prohibited. Tenant shall not commit or permit the commission by others of any waste on the Premises, shall not maintain, commit or permit the maintenance or commission of any nuisance as defined in Section 3479 of the California Civil Code on the Premises, and shall not use or permit the use of the Premises for any unlawful purpose.

4.10 Dust Control. To minimize the generation of fugitive dust leaving the Premises, Tenant shall apply water to the composting facility area or undertake other dust mitigation measures as necessary to control dust or as necessary to maintain compliance with any Air District permits issued for the composting operations.

4.11 Fire Control. Tenant shall design the composting facility so that a fire control program can be implemented by the Tenant. The fire control program shall be implemented in accordance with requirements of the local fire department providing fire protection and suppression services to the District's landfill disposal site, insurance underwriters requirements, the permits for the composting facility, and all applicable local rules.

4.12 Materials Storage Requirements. Long-term storage of compost materials is only acceptable to the extent that satisfactory odor, vector, dust, and fire control measures are employed to eliminate nuisance, health and safety problems. In the event Tenant fails to store materials in an acceptable manner as set forth in this Lease, Tenant shall defend and indemnify the District from all liability and expense resulting from such failure, including, without limitation, nuisance claims by neighboring land users and owners.

4.13 Environmental Requirements. Tenant shall ensure that the operations of the composting facility are in compliance with all permit conditions issued for the facility, including without limitation, permits issued by the California Integrated Waste Management Board, the California Regional Water Quality Control Board, the Monterey Bay Unified Air Pollution Control District, and the County of Monterey. The District holds the Land Use Permit from Monterey County.

4.14 Educational Opportunities. Upon notice, and with supervision, Tenant will allow public education opportunities to be conducted at the site with the Landlord's prior approval. Such opportunities may be arranged by either the Tenant or the District.

4.15 Compliance with Governmental Authorities. Tenant shall comply with and shall observe in its use of the Premises all requirements of all governmental authorities, local, state, and federal, in force now or in the future, affecting the Premises or the Landlord's landfill operations.

4.16 Inspection by Landlord. Tenant, upon notice, shall permit the District or District's agents, representatives or employees to enter the Premises at all reasonable times for the purpose of inspecting the Premises to determine whether Tenant is complying with the terms of this Lease and for the purpose of doing other lawful acts that may be necessary to protect District's interest in the Premises under this Lease.

4.17 Liens and Claims. Tenant shall promptly pay when due all amounts payable for labor and materials furnished to Tenant, so as to prevent any lien or other claim under any provision of law from arising against the District or the Premises and shall pay all amounts due under the Unemployment Insurance Act with respect to such labor.

ARTICLE 5. INDEMNITY AND INSURANCE

5.01 a) No Liability of Landlord for Tenant's Acts. The District, its Board of Directors, officers, employees and agents shall not be liable at any time for any loss, damage, injury to the property or person or any person whomsoever, claims, lawsuits, costs, expenses, attorney's fees, court costs or any other cost at any time occasioned by or arising out of any act or omission of the Tenant, or any employee or agent of Tenant, or of anyone holding under Tenant or from the occupancy or use of the Premises or any part thereof by or under the Tenant, or directly or indirectly from any state or condition of the Premises or any part thereof during the term of this Lease.

b) Indemnification of District. Notwithstanding anything to the contrary in this Lease, to the full extent permitted by law, Tenant shall defend, protect, indemnify, and hold the District, its Board of Directors, officers, employees and agents, and the Premises, free and harmless from any and all damages, liabilities, claims, suits, actions, proceedings, costs and expenses of whatsoever nature, without limitation or restriction, arising under the terms of this Lease or arising out of or in connection with the operation carried on by Tenant on, or the use or occupancy of, the Premises.

5.02 Insurance Requirements. Without limiting the Tenant's duty to indemnify, the Tenant shall maintain in effect throughout the initial and any extended term of the Lease the insurance coverage set forth in **Exhibit B**, attached hereto and incorporated herein by this reference. Tenant will have the District, its board, officers, employees and agents named as additional insureds or covered parties with respect to claims arising out of the performance of Tenant's operations under this Lease, including ongoing and completed operations, and shall further provide that its coverage is primary to any insurance or self-insurance maintained by the District, and that the insurance of an additional insured or covered party shall not be called upon to contribute to a loss covered by the Tenant's primary coverage.

5.03 Certificate of Coverage. A certificate of coverage, certifying the Tenant's coverage which shall meet all requirements of this Lease, shall be provided to the District prior to the

execution of this Lease. Acceptance of the certificate of coverage shall in no way modify or change the indemnification provisions of this Lease, which shall remain in full force and effect. District shall be provided with thirty (30) days' prior written notice of any reduction in coverage or limit, cancellation or intended cancellations.

5.04 Compliance with Insurance Policies. Tenant shall comply with all of the terms and conditions of each insurance policy maintained pursuant to the terms of this Lease to the extent necessary to avoid invalidating such insurance policy of impairing the coverage available thereunder.

5.05 Limits. The limits of insurance maintained by the Tenant shall not be construed as limits on its indemnification obligations set forth in the Lease.

ARTICLE 6. DEFAULT AND REMEDIES

6.01 Default. District may, at its option and without limiting District in the exercise of any other right or remedy it may have on account of a default or breach by Tenant, exercise the rights and remedies specified in paragraph 6.02 if:

a) Rent Default. Tenant defaults in the payment of any money agreed to be paid by Tenant to District for rent or to be paid for utilities or for any other purpose under this Lease, and if such default continues for ten days after written notice to Tenant by Landlord.

b) Other Default: Tenant defaults in the performance of any other of its agreements, permits, conditions, or covenants under this Lease and such default continues for ten days, plus such period of delay as Tenant may encounter in the performance of its agreements by reason of matters beyond the control of Tenant.

6.02 Remedies. On any breach or default district may exercise any of the following rights after the periods of time stated in paragraph 6.01:

a) Re-entry and Removal and Storage of Property and Repairs. Immediately re-enter and remove all persons and property from the Premises, storing the personal property in a public warehouse or elsewhere at the cost of, for the account of, and at the risk of Tenant.

b) Collection of Rent Installments. To collect by suit or otherwise each installment of rent or other sum as it becomes due hereunder, or to enforce, by suit or otherwise, any other term or provision hereof on the part of Tenant required to be kept or performed, it being specifically agreed that all unpaid installments of rent or other sums shall bear interest at the rate specified in paragraph 2.03 hereinabove.

c) Termination of Lease and Damages. Terminate this Lease, in which event Tenant agrees to immediately surrender possession of the Premises, and to pay to District, in addition to any other remedy District may have, all damages District may incur by reason of Tenant's defaults, including the cost of recovering the Premises.

6.03 No Waiver of Default. District's failure to take advantage of any default or breach of covenant on the part of Tenant shall not be, or be construed as, a waiver hereof, nor shall any custom or practice which may grow up between the parties in the course of administering this Lease be construed to waive or to lessen the right of District to insist upon the performance by Tenant of any term, covenant, or condition hereof, or to exercise any rights given it on account of any such default. A waiver of a particular breach, or default, shall not be deemed to be a waiver of the same or any other subsequent breach or default. The acceptance of rent hereunder shall not be, or be construed to be a waiver of any term, covenant, or condition of this Lease.

6.04 Remedies Cumulative. The rights, powers, elections, and remedies of the District contained in this Lease shall be construed as cumulative and no one of them is or shall be considered exclusive of the other or exclusive of any rights or remedies allowed by law, and the exercise of one or more rights, powers, elections, or remedies shall not impair District's right to exercise any other.

ARTICLE 7. GENERAL PROVISIONS

7.01 Dispute Resolution.

- a) Duty to Meet and Confer. If any dispute arises between the parties as to proper interpretation or application of this Lease, the parties shall first meet and confer in a good faith attempt to resolve the matter between themselves. Representatives of each party will personally meet and attempt in good faith to resolve the dispute.
- b) Mediation. If their representatives are unable to resolve the dispute within 15 days thereafter, the parties agree to first endeavor to settle the dispute in an amicable manner, using mandatory non-binding mediation under the rules of the Judicial Arbitration and Mediation Service ("JAMS"). The expenses of witnesses for either side shall be paid for the party producing such witnesses. All other expenses of the mediation shall be borne equally by the parties, unless they agree otherwise. Any resultant agreements from mediation shall be documented in writing. All mediation proceedings, results, and documentation shall be inadmissible for any purpose in any legal proceeding (pursuant to California Evidence Codes sections 1115 through 1128), unless otherwise agreed upon in writing by both parties. Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery. Mediation shall be completed within 30 days after request for the mediation by either party or such additional time as may be mutually agreed upon in writing by both parties.
- c) Arbitration. If the dispute is not or cannot be resolved by mediation, the parties may mutually agree (but only as to those issues of the matter not resolved by mediation) to submit their dispute to arbitration. Before commencement of the arbitration, the parties may elect to have the arbitration proceed on an informal basis; however, if the parties are unable so to agree, then the arbitration shall be conducted under the rules of JAMS. The decision of the arbitrator shall be binding, unless within 30 days after issuance of the arbitrator's written decision a party

files an action in a court of law. Venue and jurisdiction for any legal proceeding between the parties shall lie in the Superior Court for the County of Monterey.

7.02 Conditions and Covenants. All of the provisions of this Lease shall be deemed as running with the land, and construed to be "conditions" as well as "covenants" as though the words specifically expressing or imparting covenants and conditions were used in each separate provision.

7.03 No Waiver of Breach. No failure by either District or Tenant to insist upon the strict performance by the other of any covenant, agreement, term, or condition of this Lease or to exercise any right or remedy consequent upon a breach thereof, shall constitute a waiver of any such breach or of such covenant, agreement, term, or condition. No waiver of any breach shall affect or alter this Lease, but each and every covenant, condition, agreement, and term of this Lease shall continue in full force and effect with respect to any other then existing or subsequent breach.

7.04 Time of Essence. Time is of the essence of this Lease, and of each provision hereof.

7.05 Subleasing and Assigning. Tenant shall not encumber, assign or otherwise transfer this Lease or any right or interest in this Lease, or any right or interest in the Premises, without the express written consent of the District. Neither shall Tenant sublet the Premises or any part thereof or allow any other persons, other than Tenant's agents, employees and customers to occupy or use the premises or any part thereof without the prior written consent of District. A consent by District to one assignment, subletting, occupation or use by another person shall not be deemed to be a consent to any subsequent assignment, subletting, occupation or use by another person. Any encumbrance, assignment, transfer or subletting without the prior written consent of the District, whether it be voluntary or involuntary, by operation of law or otherwise, is void and shall, at the option of District, terminate this Lease.

7.06 Insolvency of Tenant. The insolvency of Tenant as evidenced by a receiver being appointed to take possession of all or substantially all of the property of Tenant, the making of a general assignment for the benefit of creditors by Tenant, or the adjudication of Tenant as a bankrupt under the Federal Bankruptcy Act, shall terminate this Lease and entitle District to re-enter and regain possession of the Premises.

7.07 Binding on Heirs and Successors. This Lease shall be binding on and shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto, but nothing in this paragraph contained shall be construed as a consent by District to any assignment of this Lease or any interest therein by Tenant except as provided in paragraph 7.05 of this Agreement.

7.08 Entire Agreement. This Lease contains the entire agreement of the parties with respect to the matters covered by this Lease, and no other agreement, statement or promise made by any party, or to any employee, officer or agent of any party, which is not contained in this Lease, shall be binding or valid.

7.09 Partial Invalidity. If any term, covenant, condition, or provision of this Lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

7.10 Attorney's Fees. Should either party commence any legal action or proceeding against the other based on this Lease, the prevailing party shall be entitled to an award of attorney's fees.

7.11 Modification. This Lease is not subject to modification except in writing.

7.12 a) Delivery of Notices-Method and Time. All notices, demands, or requests from one party to another may be personally delivered or sent by mail, certified or registered, postage prepaid, to the addresses stated in this section, and shall be deemed to have been given at the time of personal delivery or at the end of the second full day following the date of mailing.

b) Notices to District. All notices, demands, or requests from Tenant to District shall be given to District at the District's offices at 14201 Del Monte Boulevard, Monterey County, California, or at Post Office Box 1670, Marina, California, 93933-1670.

c) Notices to Tenant. All notices, demands, or requests from District to Tenant shall be given to Tenant at Keith Day Company, Inc. at 1091 Madison Lane, Salinas, California 93907.

d) Change of Address. Each party shall have the right, from time-to-time, to designate a different address by notice given in conformity with this section.

7.13 Counterparts. This Lease, consisting of ten (10) pages, plus Exhibit A and B, has been executed by the parties hereto in two counterparts, each of which shall be deemed to be an original copy.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have executed this Agreement in duplicate on the date first hereinabove stated at Marina, California.

LANDLORD:

MONTEREY REGIONAL WASTE
MANAGEMENT DISTRICT

By _____
Chairman

And by _____

TENANT:

KEITH DAY COMPANY, INC.

By _____
Keith Day, President

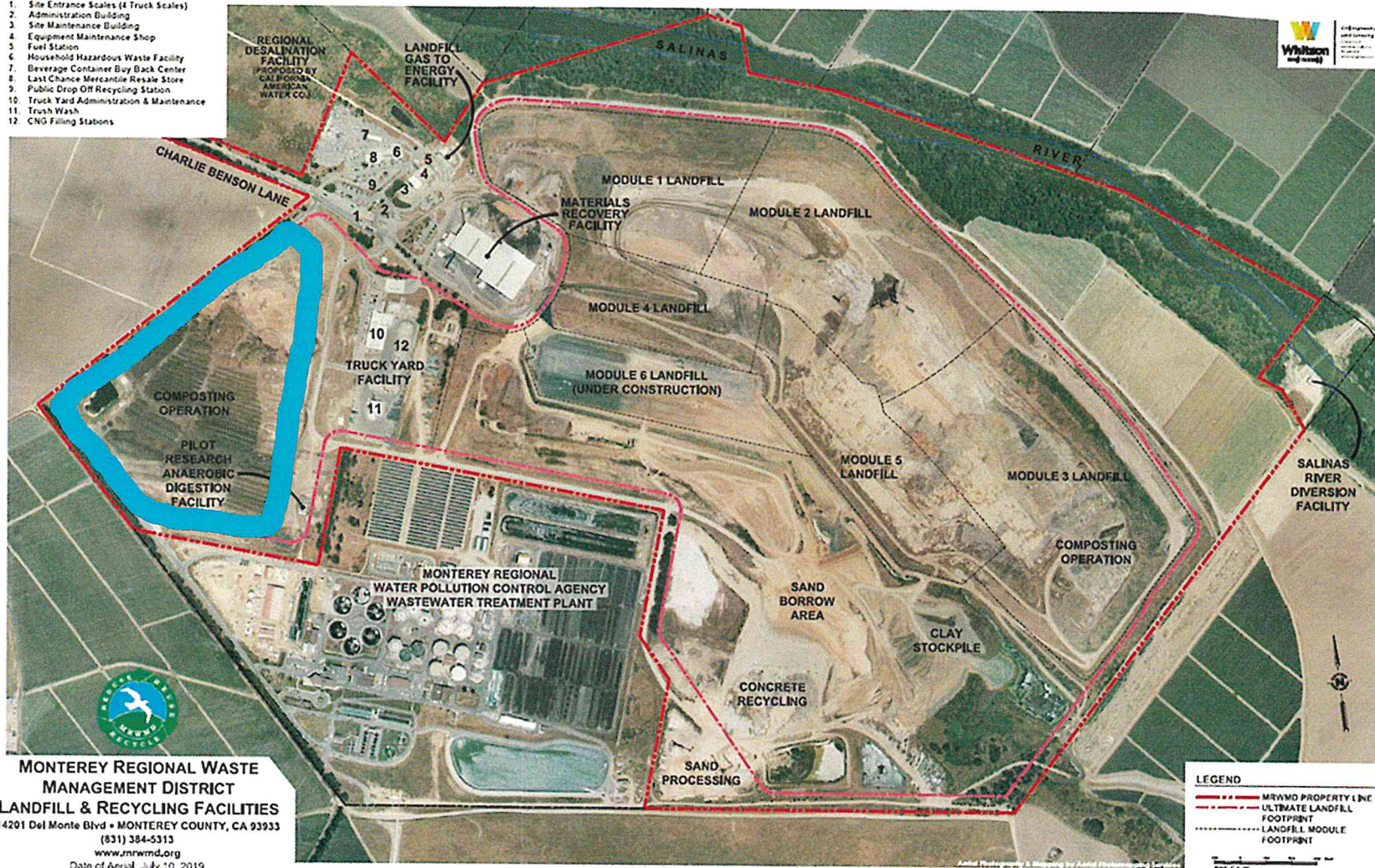
General Manager

EXHIBIT A - Map showing location of premises [to be initialed by the parties and attached.]

EXHIBIT B - Insurance Requirements

EXHIBIT A - COMPOST FACILITY AREA MAP

1. Site Entrance Scales (4 Truck Scales)
2. Administration Building
3. Site Maintenance Building
4. Equipment Maintenance Shop
5. Fuel Station
6. Household Hazardous Waste Facility
7. Beverage Container Buy Back Center
8. Last Chance Mercantile Resale Store
9. Public Drop Off Recycling Station
10. Truck Yard Administration & Maintenance
11. Trush Wash
12. CNG Filling Stations



MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT LANDFILL & RECYCLING FACILITIES
 14201 Del Monte Blvd • MONTEREY COUNTY, CA 93933
 (831) 384-5313
 www.mrwmd.org
 Date of Aerial July 10, 2019

Compost Facility Area – Approximate Limits

EXHIBIT B
INSURANCE REQUIREMENTS

Without limiting Tenant's indemnification obligations to District under this Lease, Tenant shall provide and maintain for the duration of this Lease insurance against claims for injuries to persons or damages to property which may arise from or in connection with the Tenant's operation and use of the leased premises. The cost of such insurance shall be borne by the Tenant.

1. Minimum Scope of Insurance

Coverage shall be at least as broad as:

A. Commercial General Liability, Occurrence form, Insurance Services Office Form CG0001.

B. Automobile Liability covering all owned, non-owned and hired auto, Insurance Services Office Form CA0001.

C. Workers Compensation, as required by State of California and Employer's Liability Insurance.

D. Property Insurance against all risk or special form perils, including Replacement Cost and debris removal coverage for any Improvements, without deduction for depreciation, constructed or erected by Tenant, and the personal property of Lessee, its agents and employees.

E. Pollution Legal Liability and Remediation and/or Errors & Omissions applicable to underground or above ground fuel storage tanks, fueling or refueling operations with a limit no less than \$1,000,000 per claim or occurrence and \$2,000,000 aggregate per policy period of one year. This policy shall be endorsed to cover materials to be transported by the Tenant.

2. Minimum Limits of Insurance

Tenant shall maintain limits no less than:

A. Commercial General Liability including Premises, Operations, Products and Completed Operations, Contractual Liability and Independent Contractors: \$1,000,000 per occurrence for bodily injury, personal injury and property damage. The General Aggregate limit shall be \$2,000,000 and shall be a Per Location Aggregate. Fire Damage Limit (Any One Fire) \$300,000 and Medical Expense Limit (Any One Person) \$5,000.

B. Automobile Liability: \$1,000,000 each accident for bodily injury and property damage. Coverage will include contractual liability.

C. Employers Liability: \$1,000,000 each accident for bodily injury or disease. Coverage shall include a waiver of subrogation endorsement in favor of the District.

D. Property: Full replacement cost with no coinsurance penalty provision.

3. Deductibles and Self-Insured Retentions

Any liability deductible or self-insured retention must be declared to and approved by the

District's General Manager or his or her designee. The property insurance deductible shall not exceed \$5,000 per occurrence and shall be borne by the Tenant.

4. Other Insurance Provisions

The general liability and automobile liability policies are to contain, or be endorsed to contain the following provisions:

A. Additional Insured Endorsement: Any general liability policy provided by Tenant shall contain an additional insured endorsement applying coverage to the District, the members of the District Board of Directors and the officers, agents and employees of the District, individually and collectively.

B. Primary Insurance Endorsement: For any claims related to this Lease, the Tenant's insurance coverage shall be primary insurance as respects the District, the members of the Board of Directors of the District and the officers, agents and employees of the District, individually and collectively. Any insurance or self-insurance maintained by the District, the members of the Board of Directors, the District's officers, officials or employees shall be excess of the Tenant's insurance and shall not contribute with it.

C. Notice of Cancellation: Each required insurance policy shall be endorsed to state that coverage shall not be canceled, except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to the District at the address shown in section of the Lease entitled "Notices".

General Provisions

5. Qualifying Insurers

All required policies of insurance shall be issued by companies which have been approved to do business in the State of California by the State Department of Insurance, and which hold a current policy holder's alphabetic and financial size category rating of not less than A- VII according to the current Best's Key Rating guide, or a company of equal financial stability that is approved in writing by District's Risk Manager.

6. Evidence of Insurance

Prior to commencement of this Lease Tenant shall furnish the District with certificates of insurance and amendatory endorsements effecting coverage required by this clause. Tenant shall furnish certified copies of the actual insurance policies specified herein, within thirty days after commencement of Lease. Thereafter, copies of renewal certificates and amendatory endorsements shall be furnished to District within thirty days of the expiration of the term of any required policy. Tenant shall permit District at all reasonable times to inspect any policies of insurance of Tenant which Tenant has not delivered to the District. Policies, renewal certificates and amendatory endorsements shall be delivered to the District at the address shown in the section of the Lease entitled "Notices."

7. Failure to Obtain or Maintain Insurance;

District's Remedies. Tenant's failure to provide insurance specified or failure to furnish certificates of insurance, amendatory endorsements and certified copies of policies, or failure to

make premium payments required by such insurance, shall constitute a material breach of the Lease, and District may, at its option, terminate the Lease for any such default by Tenant.

8. No Limitations of Obligations

The foregoing insurance requirements as to the types and limits of insurance coverage to be maintained by Tenant, and any approval of said insurance by the District are not intended to and shall not in any manner limit or qualify the liabilities and obligations otherwise assumed by Tenant pursuant to the Lease, including, but not limited to, the provisions concerning indemnification.

9. Review of Coverage

District retains the right at any time to review the coverage, form and amount of insurance required herein and may require Tenant to obtain insurance reasonably sufficient in coverage, form and amount to provide adequate protection against the kind and extent of risk which exists at the time a change in insurance is required.

10. Sub-tenants' Insurance

Tenant shall require any District-approved sub-tenant, of all or any portion of the Premises, to provide the insurance coverage described herein prior to its occupancy of the Premises.

EXHIBIT C
PROCESSING SERVICES AGREEMENT

Without limiting Tenant's obligations to District under this Lease, Tenant shall provide processing services to the District in accordance with this Lease, permit conditions, and applicable statutes and laws. The Tenant, since 2009 under a year-to-year rental agreement, has designed and operated the composting facility on District property to process organic materials, including yard waste, clean wood waste and, most recently, food waste upon the request of and for the benefit of the District and its member communities. It is mutually agreed by the parties hereto that the processing services are subject to the following terms, covenants, conditions and provisions, and the Tenant covenants, as a material part of the consideration of the processing services, to keep, perform and comply with each and all of said terms, covenants, conditions and provisions to be kept, performed and complied with, and entered into upon the condition of such performance and compliance.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises hereinafter set forth, District and Tenant agree to the following terms and conditions for processing services of green wastes, yard wastes, wood wastes, and food wastes:

Terms and Conditions

ARTICLE I. PROCESSING SERVICES

1.01 Location. Tenant shall receive and process materials on the District property that is defined in this Lease except where otherwise agreed to in writing by the District.

1.02 Term. The term of processing services shall be the term of this Lease.

1.03 Tenant Receipt of Materials. The commercial route trucks that deliver green waste, yard waste, and/or food waste materials to the District will be directed to the Lease facility and received by the Tenant, at which point all such material shall be owned by and the responsibility of the Tenant. At no cost to the Tenant, the District shall supply to the Tenant an empty roll-off or similar container for the Tenant's use to deposit trash and non-organic debris removed from the green/yard/food waste materials delivered to the Tenant. The District shall periodically remove and dispose of the trash and return empty containers to the Tenant at no cost to the Tenant. The Tenant shall immediately notify the District, upon receipt of the load, of any loads that contain excessive amounts of trash. The parties acknowledge that both the Tenant and the District may have additional costs to which additional fees are charged to the customer involved. The District will accept the "overs" remaining after processing all material at no charge to the Tenant. All such "overs" shall be hauled by the District from the Lease Facility to a location at the landfill at no cost to the Tenant. The District will also provide a trommel screen to be used, operated and maintained by the Tenant. The District shall assist the Tenant, if necessary, to

receive electrical power utility service. The Tenant shall perform normal routine maintenance on the District's trommel equipment, such as cleaning and lubricating to ensure proper operation. The District shall be responsible for repair and replacement of major components of the trommel equipment except that caused by the Tenant's improper or negligent use of the equipment. Should the District request that the Tenant perform any such major repairs on the District's trommel equipment, a quote will be provided to the District by the Tenant before any work is undertaken. The District and the Tenant acknowledge that the quantity of food waste material is likely to increase in the future and that the Tenant's operations of the Lease Facility may need to be modified with both new personnel and equipment. The District and the Tenant agree that should the annual food waste volume exceed 8,000 tons per year, the processing rate paid to the Tenant by the District may need to be renegotiated to accommodate the additional labor and equipment costs needed to process the food waste material.

The delivery of green/yard/wood waste materials that are received by the District at its Material Recovery Facility (MRF) will be sorted and cleaned by the District. Once the material from the public has been processed by the District, the clean green/yard waste will be segregated from the clean wood waste and piled neatly for routine pick up by the Tenant at no cost to the District. Upon pick up by the Tenant, the materials shall be owned by and the responsibility of the Tenant. The District will reduce the size of the wood waste so as not to damage the Tenant's trailers when loading and unloading the trailers, which will be performed by the Tenant at no cost to District on the northeast side of the District's MRF or at a mutually agreed to alternative location. Alternatively, the Tenant may choose to use Tenant's grinding equipment to grind the wood waste in-place on the northeast side of the District's MRF, or at a mutually agreed to alternative location, and transfer the wood grindings to the Lease facility at no cost to the District.

The Tenant shall assure the District that all organic waste received and processed by the Tenant from the District for processing on the Lease Facility shall be diverted from landfill disposal to the greatest extent possible so that such materials shall receive Diversion Credit in accordance with any and all waste diversion requirements under Applicable Law, except regarding non-organic material that is removed during the processing of waste at the Lease Facility.

ARTICLE 2. PROCESSING SERVICES PAYMENTS

2.01 Payments. Effective upon signing this Lease, District agrees to and shall pay to Tenant, a processing service payment at a processing rate of \$25.00 per ton until June 30, 2021. The parties acknowledge that the processing rate is inclusive of minimal to zero amounts of oversized logs and tree trunks. In the event that significant quantities of oversized logs and tree trunks are present, separate compensation to reimburse the Tenant for additional services that are necessary to reduce the size of the materials to permit the processing services to be employed shall be mutually agreed to by the parties and recorded in the form of an addendum to this Exhibit.

Tenant shall invoice the District on a bi-weekly basis and District shall pay the Tenant with a payment term of "Net 15 calendar days" from date of receipt of the invoice. The District shall

electronically submit scale tickets to the Tenant within seven (7) business days of the scale ticket transaction date. After June 30, 2021, and until June 30, 2027, the processing rate shall be as defined in the following table. District and Tenant acknowledge that annual inflation rates are included in the processing rates presented in the table below.

START DATE	PROCESSING RATE \$/ton
7/1/2021	\$26.25
7/1/2022	\$27.56
7/1/2023	\$28.67
7/1/2024	\$29.81
7/1/2025	\$30.71
7/1/2026	\$31.63

2.02 Adjustment of Processing Rate. After June 30, 2027, the processing rate shall be increased as of July 1 each year thereafter by the lesser of a) the rate of increase in the Consumer Price Index, All Urban Consumers for the San Francisco-Oakland-San Jose Region, for the prior calendar year period, or b) eight per cent (8%); and no less than 2% during the lease term.

2.03 Interest on Late Payments. If District is late in the payment of any invoices for processing services by the Tenant, such payments shall bear interest at the rate of ten per cent (10%) per annum from the day it is due until actually paid.

2.04 Adjustment of Processing Rate for Changes in Scope of Services. Any changes to the scope of services, either increases or decreases in the processing services performed by the Tenant, represent a basis for the District and/or the Tenant to request a change in the processing rate. The parties agree to provide a basis for the magnitude of the rate change and to negotiate the rate change in good faith. Mutually agreed changes in the processing rate shall be recorded in an addendum to this Exhibit, In the event that the parties cannot reach an agreement of the rate change, the dispute resolution terms of this Lease shall be used to achieve an agreement.

2.05 Diesel Fuel Surcharge. A surcharge will be applied for any increase above \$3.00 per gallon based on the average California diesel fuel price per gallon as published each Monday by the Energy Information Administration of the US Department of Energy. The base fuel rate of \$3.00 per gallon is included in the above processing rate. Should the cost of diesel fuel exceed this base fuel rate, or fall below the base fuel rate, the calculated fuel surcharge shall be used to determine the extra costs to KDCI for an increase above the base rate or a credit to the Landlord for a cost below the base rate. Tenant shall report to Landlord on a weekly basis the amount of fuel used in the prior week and the Tenant's cost of fuel purchase for every purchase of fuel by the Tenant. The fuel surcharge will be calculated by the Tenant every week and the credits to the Tenant and Landlord determined accordingly and presented in the Tenant's invoice to the Landlord.