



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: November 22, 2016

TO: Mayor and Councilmembers

FROM: Environmental Services Division, Finance Department

SUBJECT: Potential Twenty-Two Year Commitment Of City Solid Waste To The Tajiguas Resource Recovery Project

RECOMMENDATION:

That Council receive a report on the status of the Tajiguas Resource Recovery Project and the potential commitment of solid waste to the Project.

EXECUTIVE SUMMARY:

For several years, staff from the City of Santa Barbara (City) have worked in concert with staff from the County of Santa Barbara (County), and the Cities of Goleta, Buellton and Solvang to solicit proposals and negotiate terms for a Resource Recovery Project (RRP or Project) that would substantially increase diversion of trash from landfill disposal and would provide a long-term waste management solution for the South Coast.

On July 12, 2016, the County Board of Supervisors approved a Waste Services Contract (WSC) with MSB Investors, LLC (MSB) to design, build, and operate the RRP, to be located at Tajiguas Landfill. The Project would consist of a material recovery facility to sort recyclables and organic materials from the trash, and an anaerobic digester to convert the organics to biogas that would be used to generate electricity.

The RRP would be financed by the County. To ensure repayment of the debt and to ensure that the County fulfills its financial obligations to MSB, each jurisdiction, including the City, would satisfy its proportional share of the project costs through the guarantee of a minimum delivery of waste and revenue to the Project. This formal commitment of waste and revenue would be formalized through the execution of a Materials Delivery Commitment and Processing Services Agreement (MDCPSA) with the County.

For the past several months, City staff have negotiated terms of such an agreement with the County. Throughout the negotiations, staff met routinely with an ad hoc subcommittee of the Council that was established on June 28, 2016.

During these meetings, staff presented a variety of information on the Project including: its risks and associated mitigations to those risks; the extent to which the RRP achieves the goals that were previously adopted for the Project and the extent to which alternative means and methods would achieve the same goals; the breadth and scope of technical, financial and contractual due diligence performed by staff; the financing and contractual arrangements between all parties; and, the impact to City ratepayers resulting from the tipping fees to be charged by the project.

The RRP would result in a gross tipping fee of approximately \$120 for each ton of waste and recyclables delivered to the facility. However, staff anticipates that a tipping fee of only \$110 would be built into trash and recycling rates. This reduction is the result of an annual refund of accumulated debt coverage surplus funds to be distributed to the City at the end of each fiscal year. For comparison, the tipping fee to simply dispose of trash without any additional sorting or recovery of recyclables is currently \$87 per ton. The original 2009 Request for Proposals established a ceiling of \$100 per ton.

The new tipping fee would be implemented in two phases spanning Fiscal Year (FY) 2018 and FY 2019. In FY 2018, the tipping fee for all waste streams would increase to \$99 to build a rate stabilization fund that would be used in subsequent years to minimize impacts to ratepayers from revenue volatility in the recyclable commodity markets. In FY 2019, the tipping fee would again increase from \$99 to \$120 per ton. City ratepayers' solid waste utility bills would increase by approximately 10.6 percent in FY 2018 and by an estimated additional four percent in FY 2019.

The RRP would provide a long-term waste management solution by: 1) significantly increasing the region's waste diversion rate, thus substantially extending the life of Tajiguas Landfill; 2) supporting City efforts to comply with present and future waste diversion and greenhouse gas reduction mandates; 3) providing a stable tipping with known annual adjustments; and, 4) generating renewable energy (equivalent to the demand of approximately 1,000 homes).

In November of 2016, the Ad Hoc Committee referred the MDCPSA to the full Council for consideration at its December 6, 2016 meeting, at which time an ordinance will be introduced to approve the MDCPSA between the City and the County. The Council will also make findings on the Final Subsequent Environmental Impact Report (Final SEIR) for the Project, which the Santa Barbara County Board of Supervisors certified on July 12, 2016.

DISCUSSION:

Background

For several years, staff from the County and the Cities of Santa Barbara, Goleta, Buellton, and Solvang (Public Participants), have worked together to explore the development of a Resource Recovery Project at the Tajiguas Landfill.

In 2008, the City and other Public Participants adopted a set of goals to guide the selection of technologies and strategies that would ultimately be considered including:

- Increasing diversion of solid waste from landfill disposal to increase the life of Tajiguas Landfill
- Providing a long-term disposal plan with stable tipping fees
- Producing renewable energy and,
- Reducing the long-term impacts of landfilling

Following a formal procurement process which began in 2009, the Public Participants selected a project proposal, submitted by Mustang Renewable Power Ventures, now known as MSB Investors, LLC (MSB), comprised of the following components:

1. Materials Recovery Facility (MRF) – this facility would sort trash that is currently received at Tajiguas Landfill into three streams:
 - Recyclables – that would be separated, baled, and sold for reuse,
 - Organics – that would be recovered for processing in the Anaerobic Digestion Facility; and,
 - Residual – non-recoverable materials left over from the MRF and Anaerobic Digestion Facility that would ultimately be landfilled
2. Anaerobic Digestion Facility (ADF) – this facility would convert organics recovered from the MSW into compostable material and biogas. The compost would be marketed as a soil amendment or used for reclamation projects. The biogas would be combusted to generate electricity.

A detailed description of the history of the Project, the procurement process, proposed technologies, and business terms that would be negotiated with the preferred vendor were presented to the City Council on January 10, 2012. The Council Agenda Report is available at <https://goo.gl/3GQBE7>.

On July 12, 2016, the County Board of Supervisors approved a WSC with MSB to design, build, and operate the RRP. The RRP design, along with the performance guarantees placed on the vendor, would achieve the following results and would therefore achieve the goals of the RRP as outlined above:

- Diversion: The RRP would divert a minimum of 64.8 percent of waste by weight (based upon current waste composition assumptions and waste commitments by jurisdictions). As a result, the City's diversion rate of franchised solid waste that is collected by MarBorg would increase from 39 percent to approximately 75 percent.

- Reduce the Environmental Impacts of Landfilling: Diversion of organics from landfill disposal prevents the release of methane to the environment. Moreover, recovery of recyclables for re-manufacture into new products results in fewer environmental impacts, including fewer greenhouse gas emissions, when compared to products made from virgin materials.
- Generation of Renewable Power: The anaerobic digester, after providing for the power needs of the RRP, is expected to generate one net megawatt of electricity.
- Stable Tipping Fees: The tipping fees that City ratepayers would pay throughout the twenty-two year term would be firmly established at the outset of the contract and adjusted in response to known and well understood variables such as the consumer price index, etc.

While not one of the originally adopted goals, it should be noted that that the RRP would ensure the City's compliance with present and future environmental mandates related to the diversion of recyclables and organics from landfill disposal and the reduction of greenhouse gas emissions.

Documents related to the Board of Supervisors action are available at: <http://bit.ly/2fQKo2X>. Information on the key terms of the WSC that staff presented to Council in June of 2016 is available at: <http://bit.ly/2fYp8aN>.

Material Delivery and Processing Service Agreement

As stated above, the County executed a contract with MSB to design, build, and operate the RRP. Each Public Participant, including the City, has negotiated a separate MDCPSA with the County. To assist staff during negotiations, Council appointed an RRP Ad Hoc Committee (Committee) at its June 28, 2016 meeting. Staff met seven times with the Committee between July and November 2016 to discuss the following topics:

- The risks and associated mitigations to those risks related to:
 - Performance and casualty events (e.g. earthquakes, fire, etc.)
 - The technology to be used with the RRP
 - Loss of recyclable commodity revenue in response to global market forces as well as the upside revenue potential available to the City through revenue sharing with the vendor
 - Changes in law, and,
 - Marketing of compost derived from digestate produced by the anaerobic digester

- Alternatives to the RRP, including technology, facilities, and other diversion initiatives, and the extent to which these alternatives would achieve the goals for the RRP
- Project financing, vendor compensation, and the creation of various reserves to ensure the ability of the City (and the other Public Participants) to meet their obligations to the bonds while minimizing the impact to ratepayers from revenue volatility
- The impact to City ratepayers from the negotiated RRP tipping fees, and,
- Due diligence on the accuracy of the bond financing model and other County costs (e.g. regulatory compliance, closure of Tajiguas, and post closure maintenance) that would be embedded in the RRP tipping fee

Staff from the City and County recently finalized language to the MDCPSA that would govern the City's commitment of waste to the RRP. The following is a summary of the key terms of the agreement:

- **Contract Term:** Twenty-two years (Two-year construction period and twenty-year operation period)
- **County Responsibilities:** Finance the RRP, operate the scale house, dispose of residual waste and administer the WSC with MSB, ensure that MSB meets various performance standards including:
 - Material throughput: the RRP would be capable of processing material to its rated capacity at all times
 - Diversion: The RRP would divert a minimum of 64.8 percent of waste by weight as outlined above
 - Electrical Output Guarantee: power output per ton of digested organic material
 - Recyclable Sales Guarantee: the vendor would fetch commodity prices at market that are consistent with industry standards
- **City Minimum Annual Revenue (Tonnage) Commitment:** The purpose of the MDCPSA is to underpin the County's debt financing obligation and to provide a portion of the vendor's compensation for processing the City's waste. As such, the MDCPSA requires each Public Participant to guarantee a fixed revenue amount to the County each year for the twenty-year debt financing term.

The City represents approximately 40 percent (75, 297 tons) of the anticipated flow of materials to the RRP. The City's proportional share of the financing and operational costs totals \$9.03 million annually (adjusted in future years by CPI). For ease of administration, this fixed annual payment is divided by the City's tonnage commitment of 75,297 tons of trash and commingled recyclables for a tipping fee of \$120 per ton. Under this "put or pay" arrangement, should the City fail to actually deliver this minimum volume, it would be required to make a residual payment to the County to satisfy its annual revenue obligation.

It is important to note that the City's financial obligation to the RRP would be satisfied exclusively through solid waste rates charged to City customers for waste collected by its franchised waste hauler (MarBorg) as further described in the Budget/Financial Information section below. No General Fund monies would be used or placed at risk by executing the MDCPSA with the County.

- **Revenue Sharing:** In the case that revenues generated by the sale of recyclable commodities, compost, and electricity production exceed pro-forma revenues, then the City, along with the other Public Participants, would receive up to 75 percent of the excess revenues.

Council Consideration of the MDCPSA

Based upon the terms outlined above; staff's level of due diligence on all aspects of the project; the residual risk profile of the project in relation to various risk mitigations; and, the fulfillment of the adopted goals by the RRP, the Committee directed staff to bring the MDCPSA to the full Council for consideration.

Staff will introduce an ordinance to adopt the MDCPSA at the Council's December 6, 2016 meeting. Staff will also request that Council make findings on the Final SEIR for the Project that the County Board of Supervisors certified on July 12, 2016. The ordinance would then be brought to the Council for formal adoption at its December 13, 2016 meeting and would take effect thirty days after adoption.

BUDGET/FINANCIAL INFORMATION:

The RRP would result in a tipping fee of approximately \$120 per ton for each ton delivered to the facility. At the end of each fiscal year, the City will receive a refund from the County of surplus funds generated for the purpose of demonstrating debt coverage related to the bonds. Staff estimates this surplus to represent approximately \$10 per ton. Therefore, an "effective" tipping fee of approximately \$110 per ton would be used to set rates for City trash and recycling customers. For comparison, the tipping fee to simply dispose of trash at Tajiguas Landfill without any additional sorting or recovery of recyclables is currently \$87 per ton. The original 2009 Request for Proposals set a tipping fee of \$100 per ton.

Based upon guidance from the County's bond counsel to demonstrate the financial capacity of the County to repay the bonds, the MDCPSA contemplates a "ramp up" of the RRP tipping fee in Fiscal Years 2018 and 2019. In FY 2018, the tipping fee on trash, commingled recycling, and foodscraps would increase to \$99 per ton. This artificial "ramp up" rate would be used to create a rate stabilization fund to minimize impacts to ratepayers from revenue volatility associated with the recyclable material commodity markets. Monthly trash and recycling bills paid by City ratepayers would increase by approximately 10.6 percent as a result. In FY 2019, when the RRP would be

operational, the tipping fee would again increase from \$99 to approximately \$120. Monthly trash and recycling bills would increase an estimated additional four percent.

SUSTAINABILITY IMPACT:

The RRP would significantly increase the City's waste diversion rate and would strongly position the City to comply with all current and future State waste diversion mandates. This increase in South Coast diversion would approximately double the number of years before Tajiguas Landfill reaches its permitted capacity, thus meeting the State mandate to maintain at least 15 years of disposal capacity.

In addition, the project would generate renewable energy (equivalent to the demand of approximately 1,000 homes) and would reduce greenhouse gas emissions (equivalent to removing approximately 22,000 vehicles) when compared to current landfill disposal, in direct support of the City's efforts to comply with various State mandates to reduce greenhouse gas emissions.

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APPROVED BY: City Administrator's Office