CITY OF GOLETA

Agenda Item D.5
PRESENTATION
Meeting Date: June 7, 2016

TO: Mayor and Councilmembers

FROM: Rosemarie Gaglione, Public Works Director

CONTACT: Everett King, Environmental Services Coordinator

SUBJECT: Update on the status of the Tajiguas Resource Recovery Project

RECOMMENDATION:

Receive an update on the Tajiguas Resource Recovery Project.

BACKGROUND:

The County of Santa Barbara owns and operates the Tajiguas Landfill, located on the Gaviota Coast in Santa Barbara County. The Tajiguas Landfill currently provides disposal services for the cities of Buellton, Solvang, Goleta and Santa Barbara as well as the South Coast, Santa Ynez and New Cuyama unincorporated areas. Despite the region's aggressive and successful recycling efforts, which currently results in a diversion rate of approximately 75%, more than 181,956 tons of municipal solid waste (MSW) were disposed at the Tajiguas Landfill in FY 2014-15.

Following the last approved expansion of the Tajiguas Landfill, the County Board of Supervisors directed County staff to explore alternatives to managing the community's waste stream in order to reduce and eventually eliminate the need for continued landfill operations. As a result, a multi-jurisdictional Solid Waste Task Group, consisting of elected officials and staff from the County and all its incorporated jurisdictions, was formed to fully analyze the solid waste management systems then in place, and to make recommendations for the future management of solid waste. Those jurisdictions within the Tajiguas Landfill's waste shed determined that a facility that would convert waste to energy and other useful products (conversion technology) would be the preferred option to significantly extend the life of Tajiguas. Without the proposed Tajiguas Resource Recovery Project (TRRP), at current fill rates, Tajiguas is expected to be full by approximately 2026.

The proposed TRRP would include a Material Recovery Facility (MRF) designed to recover recyclable materials and remove organic materials from the current municipal solid waste stream, and an Anaerobic Digestion Facility (ADF) that would process pre-sorted organic waste, and organic wastes recovered from the MRF to produce biogas and a solid material called digestate. The biogas would be used to generate electricity, and the digestate would be composted and undergo additional processing, resulting in a soil amendment that could be suitable for agricultural application.

The TRRP is a cooperative effort of the County of Santa Barbara and the cities of Santa Barbara, Buellton, Goleta and Solvang, collectively referred to as the Public Participants. The Public Participants would commit their waste stream to Tajiguas to assure the financial viability of the TRRP. The goals of the project include:

- Increasing Diversion of post-recycled MSW
- Reduce Environmental impacts of landfilling
- Produce Green energy and other marketable products
- Provide financial feasibility, sustainability, and result in a long-term integrated solid waste management system

The County is coordinating and managing this procurement effort on behalf of the Public Participants. A working committee (Committee) of staff from these participating jurisdictions was formed to evaluate the technical and financial aspects of the proposed TRRP, and conduct negotiations with the selected vendor.

In October 2009, a Request for Proposals to establish a facility was released by the Santa Barbara County Board of Supervisors.

In June 2010, the County received proposals from four vendors, and during 2010 and 2011 the Committee evaluated the technical and financial feasibility of the proposals with the assistance of third party experts.

In January 2012, based upon the recommendation of the Committee, the Santa Barbara County Board of Supervisors selected Mustang Santa Barbara Investors, LLC (MSB, formerly Mustang Renewable Power Ventures) as the preferred vendor and directed County Staff to proceed with the environmental review of MSB's proposal.

In addition, the Public Participants entered into a non-binding Term Sheet with MSB that laid out general parameters for continued negotiations, and gave MSB the exclusive right to negotiate the proposed facility for a limited term.

During November and December 2014, negotiations between the Public Participants and MSB failed to yield an acceptable agreement. While the Project was technically sound, these sessions failed to produce business terms which met many of the original objectives of the RFP and Term Sheet. One of those objectives was a facility tipping fee of $100/ton or less. The cost of private financing, driven by the requirements of MSB's equity partners, resulted in a tip fee as high as $146/ton.

Following these negotiations, the Public Participants temporarily paused negotiations with MSB and reassessed the proposed project. The County prepared a public financing model for the project using revenue bonds guaranteed by waste delivery agreements, and found the potential for a considerable cost savings to the rate payer with a tip fee approximately 25-30% less than what was proposed under private financing.

In May 2015, the Committee presented its findings to City Managers and the County CEO and recommended the following options:

- Continue to negotiate with MSB under the current 100% private equity financing structure and its associated cost ($146.00/ton), or

- Exercise the right to terminate our participation in the project (which would mean essentially starting from the beginning), or

- The Committee's recommendation: Further evaluate alternative means of financing the project to decrease costs to the ratepayer, including a detailed evaluation of

    - A hybrid approach using public financing for the MRF component of the project and private financing for the ADF (to take advantage of an available Investment tax credit); and
    - A publically financed model supplemented by private equity investments

The Committee's recommendation was endorsed by the City Managers and County CEO, and at the July 7, 2015, County BOS meeting, staff was directed to explore public financing options for the Project.

On March 22, 2016, the Committee again met with City Managers and the County CEO to present an update and seek direction to pursue a public financing model, and to continue negotiations with MSB under those conditions.

DISCUSSION:

With the change from a private financial model to one of public financing, the County commissioned full financial and technical audits of both the proposed MRF and ADF by third party experts in the summer of 2015. These studies showed that the construction and operational costs related to the proposed MRF and ADF are consistent with other facilities or justified given the requirements of the location.

The County has also re-assessed various technology, performance, marketing and financial risks associated with the project.

The technological risk associated with the proposed TRRP is deemed to be relatively low. MRFs have been in operation throughout the world for decades, and equipment from the MRF vendor for the Project, Van Dyke, is used in over 500 facilities world-wide.

Similarly, anaerobic digestion is a process that is well understood, and has been in use by waste water treatment plants for many decades. Bekon, the selected vendor for the proposed ADF currently has 19 facilities in operation, with another eight in development.

Performance risk is mitigated by construction and performance bonds that will be provided by the selected construction firm, A.J. Diani, vendor warranties provided by Van Dyke and Bekon, and liquidated damages specified in the Waste Service Contract with MSB.

To mitigate financial risk, the project proposes 20-year Material Delivery Agreements with the participating jurisdictions. Under the current proposed arrangement, the Public Participants would assume the risk associated with changes in recyclables commodity values. However, this is a risk that the Public Participants currently bear, and have for the past 20 years. A rate stabilization fund will also be created to minimize the impacts of any unanticipated costs to rate payers. Until the project financing is closed, the final interest rate is unknown, constituting an additional financial risk.

Public Financing Review

In evaluating the potential for full public financing, the County contracted with HF&H Consulting to prepare a project model using public financing. In addition, the impact of a publicly financed project on the overall operations of the County's Resource Recovery and Waste Management Division, and the cost of its regulatory obligations was also analyzed. The result showed that public financing of the project would save ratepayers at least 30%, and provides a starting point for a tip fee that participating jurisdictions would be willing to pay for design, construction and operating services.

Business Terms and Price

Because MSB will no longer be the owner of the facility under a public financing model, MSB's role was reconsidered to determine whether there was value in maintaining the same team of vendors.

MSB has developed detailed project designs, and has selected well-known vendors with proven technologies. In addition to Van Dyke and Bekon, A.J. Diani has been identified as the construction contractor. MarBorg Industries has been selected as the MRF operator, and Nursery Products has been selected to operate the ADF.

MSB has also made significant progress with various permitting agencies such as the Air Resources and Water Quality Control Boards. If MSB and the Public Participants can come to agreement on the basic business terms and price, a Waste Service Contract will be negotiated for design, construction and operational services.

A total tip fee for the project is currently projected to be approximately $105/ton. As of July 1, 2016, the tipping fee at the Tajiguas Landfill will be $87/ton. The gap between the current tipping fee and the projected TRRP tipping fee is expected to diminish over the course of the next couple of years, with annual incremental increases to the Tajiguas tip fee. The components of the proposed TRRP tip fee include operations, disposal of remaining waste (consisting of by-pass waste unsuitable for the TRRP, and residual), debt service, and divisional costs (regulatory requirements, closure and post-closure costs).

New Requirements

Since initiating procurement for the TRRP, several new state mandates have been passed, that can be partially or fully met by the proposed project. These include:

- AB 32: Requires the reduction of greenhouse gas emissions from all sources throughout the state.
- AB 341: Requires diversion of commercial recyclables and establishes a 75% diversion goal.
- AB 1826: Requires the diversion of commercial organics.
- AB 876: Requires plan for 15 years of organic processing infrastructure.

Next Steps

The County hired a Financial Advisor in April to continue evaluating the financial feasibility of the project, options for public financing, and the preparation of a funding package.

At the July 12, 2016, Board Hearing the BOS will be asked to certify the Final Subsequent EIR, receive initial results from the Financial Advisor, and approve a negotiated Waste Service Contract.

Waste Delivery Agreements between the Public Participants and the County also need to be finalized. It is anticipated that staff will return to Council in the fall for approval of the final Material Delivery Agreements and CEQA findings. Following that, the BOS will approve the Material Delivery Agreements and the release of the funding package.

FISCAL IMPACTS:

Under a public financing model, the TRRP, if approved and built, will be funded through County issued revenue bonds, and no City contribution will be required for the facility's construction or operation. The debt service on the public revenue bonds will be included in the TRRP tip fee, which will in turn be reflected in residential and commercial solid waste collection rates.

ALTERNATIVES:

The presentation is purely informational and intended to provide Council with an update on the status of the proposed TRRP.

Legal Review By:

Tim W. Giles
City Attorney

Approved By:

Michelle Greene
City Manager