

DATE ISSUED: October 7, 2005 REPORT NO. 05-205

ATTENTION: Natural Resources & Culture Committee
Agenda of October 12, 2005

SUBJECT: Contract award for Miramar Mixed Construction and Demolition
Recycling Facility

REFERENCE: Manager's Report No. 94-191 (July 7, 1994)
Manager's Report No. 95-91 (April 26, 1995)
Manager's Memorandum re: CMR 95-91 (May 26, 1995)
Manager's Memorandum re: CMR 95-91 (August 2, 1995)
Manager's Report No. 96-117 (May 28, 1996)
Manager's Memorandum re: Solid Waste Management Issues
(August 1, 1996)
Manager's Report No. 98-61 (March 20, 1998)
Manager's Report No. 99-160 (July 28, 1999)
Manager's Report No. 04-175 (July 28, 2004)
Manager's Report No. 04-176 (July 28, 2004)
Manager's Report No. 05-071 (March 9, 2005)

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

BACKGROUND

The goals of the mixed construction and demolition material recovery facility (C&D facility) are to extend the life of Miramar Landfill and to assist the City in meeting the AB 939 waste diversion mandate. As a result of this Agreement, the C&D facility will be a key component in meeting these goals. It will be designed to process up to 800 tons per day of recyclable construction and demolition material that would otherwise be disposed of in the landfill, and will have an option to increase the incoming tonnage to 1,500 tons per day. However, as additional mixed C&D recycling infrastructure is now being developed in the region, it is not currently envisioned that the increase from 800 tons per day to 1,500 tons per day will be needed. The

C&D facility effort and the C&D ordinance are driving the development of privately owned facilities, which would handle the additional mixed C&D waste that is generated in the City and region. The Environmental Services Department (ESD) anticipated that this might occur and thus included the 1,500 tons per day phase as an option only.

For calendar year (CY) 2003, the City achieved a 45% AB 939 diversion rate. In that year, 1.9 million tons of City waste were disposed in landfills, and of that, approximately 400,000 tons of C&D material were disposed at Miramar Landfill. Approximately 35% of the waste generated by residential, commercial and industrial sources in the City which is currently landfilled is C&D material, and local recycling markets exist for much of that material if it is source separated. The development of the C&D facility will allow the City to divert C&D material without requiring builders and property owners to sort their C&D materials prior to delivery to a processing facility.

The ESD issued a Request for Proposal (RFP) on November 3, 2004 to select a contractor to design, construct, and operate the C&D facility. The department received four viable proposals. City staff, assisted by a consultant, Hilton Frankopf & Hobson, LLC, conducted the technical review of the proposals. After completing its technical ranking, the selection committee viewed the price proposals and formed an overall ranking. On May 11, 2005, the committee selected Zanker Road Resource Management, Ltd. (Zanker) and Community Recycling and Resource Recovery, Inc. (Community), as the two top proposals and directed ESD staff to enter into contract negotiations.

The final selection was Community's proposal, and this was based on technical factors including, but not limited to, its twelve years of experience in operating a mixed municipal solid waste recycling facility. This facility currently processes 1,400 tons per day with 99% uptime. Community also operated three mixed C&D facilities that together processed 750,000 tons of Northridge Earthquake debris with an 88% recycling rate. Third, since 1999, Community has operated a high volume mixed C&D facility in Sun Valley, California that currently recycles 75% of the material it receives and can process up to 100 tons per hour. Community is also vertically integrated; it is a collector, processor, marketer, and an end user of C&D materials. Community presented a very strong marketing plan for the processed material, and when compared to the other proposals, it was decided that Community could provide a higher quality soil product from the C&D facility.

The cost estimates of the two highest technically ranked proposals were reviewed using a variety of daily throughput scenarios. The conclusion was that Community was the lowest bid, based on all the feasible scenarios.

DISCUSSION

The City's AB 939 waste diversion rate could increase by up to 0.68% in CY 2006, and up to 5.42% in CY 2007 as a result of the C&D facility. Since the City's current AB 939 diversion rate is 45%, this facility will likely be instrumental in the City achieving the State mandated 50% diversion rate. The tonnage diverted by the C&D facility in CY 2007 and subsequent years would remain constant, and therefore, continue contributing to the City's overall waste diversion

rate at this level. Community will be required to achieve diversion levels based upon the phasing in of their project.

There are three phases to the proposal. During Phase I (first six months of operations), 50% of incoming tonnage must be recycled. During Phase II (ongoing operational phase), 75% of incoming tonnage must be recycled and during Phase III (if implemented), the requirement would be 80% recycling. In addition, there are limits in each phase on the amount of material that may be beneficially used on a landfill. This will ensure that landfill space is conserved, local recycling markets are expanded and improved, and the City and Community are protected in the event the California Integrated Waste Management Board further restricts diversion credits for beneficial use on landfills. Facilities that are designed to primarily produce materials to be beneficially used on landfills typically generate products that are lower quality than if they were sent to traditional recycling markets. Therefore, in the event that on-landfill markets are no longer viable options for diversion credit, these facilities would require expensive equipment upgrades to be able to produce the higher quality products required by traditional recycling markets.

The C&D facility will be an outdoor operation located at Miramar Landfill, on top of a municipal solid waste landfill. Community will operate on an approximately eight acre portion of a twenty-four acre section of Miramar Landfill which will be permitted for recycling activities.

Loads will be selected by Community at the Miramar Landfill fee booth and directed to the C&D facility. The accepted materials will be tipped onto a staging area where Community, using loaders, crushers, magnets, screens, and/or conveyors will separate and process accepted materials. Processed materials will be marketed for reuse or recycled.

In fiscal year (FY) 2006, the only fiscal impact will be the expenditure of up to \$600,000 in pre-existing CIP funds from the Refuse Disposal Enterprise Fund for site improvements and other project expenses. The improvements would include providing a scale to be located on the C&D facility for Community to use to weigh outbound loads, providing water and electricity service to the C&D facility site, and other related improvements and expenses.

The City will process transactions for incoming loads at the fee booth at the Miramar Landfill and hold the solid waste facility permit for Community to operate under. The City will also pay for providing up to ½ megawatt of electricity from the onsite cogeneration facility, and ongoing permitting and certification costs. These activities will allow the City to retain control of key areas, minimize its costs, avoid paying for duplication of services, and allowed Community to offer a lower Per-Ton Service Fee to process the loads they accept at the C&D facility.

The Per-Ton Service Fee will be paid on every ton of material Community accepts at the C&D facility. Community will be paid \$25.25 per ton for Phase I (first six months of operations), \$23.60 per ton for the Phase II (ongoing operational phase), and \$22.25 per ton for Phase III (if implemented). Community will dispose of the residue from the C&D facility at the Miramar Landfill at no charge. Community will also be allowed to deliver clean green waste, clean wood waste, and clean drywall that is separated at the C&D facility to the Miramar Greenery

Composting Facility at no charge.

The C&D facility should begin accepting waste in early FY 2007, and it is envisioned that the following will occur in FY 2007:

- Approximately 198,400 tons of material currently going to Miramar Landfill for disposal will be processed at the C&D facility, resulting in a net annual reduction in cash flow of \$6.04 million to the Refuse Disposal Enterprise Fund:
 - \$3.25 million in deferred revenue due to recycling 135,400 tons of material.
 - \$1.5 million in lost revenue due to disposing 63,000 tons of residue at no charge.
 - \$209,870 in decreased regulatory fees due to recycling 135,400 tons of material.
 - The Refuse Disposal Enterprise Fund will incur \$1.6 million in costs for additional equipment and staffing at the Miramar Greenery Composting Facility to process clean green waste, clean wood waste, and clean drywall that will be delivered after being separated at the C&D facility.
- The Recycling Enterprise Fund will incur approximately \$210,000 in costs as follows:
 - \$200,000 for purchasing electricity and maintaining permits and scale.
 - \$10,000 net increased cost to pay Community \$1.25 per ton of the Per-Ton Service Fee for Phase I.

In FY 2008 and subsequent years, it is envisioned that the following will occur:

- Approximately 288,800 tons of material currently going to Miramar Landfill for disposal will be processed at the C&D facility, resulting in a net annual reduction in cash flow of \$7.76 million to the Refuse Disposal Enterprise Fund:
 - \$5.2 million in deferred revenue due to recycling 216,600 tons of material.
 - \$1.7 million in lost revenue due to disposing 72,200 tons of residue at no charge.
 - \$335,730 in decreased regulatory fees due to recycling 216,600 tons of material.
 - The Refuse Disposal Enterprise Fund will incur \$1.2 million in costs for additional equipment and staffing at the Miramar Greenery Composting Facility to process clean green waste, clean wood waste, and clean drywall that will be delivered after being separated at the C&D facility.
- The Recycling Enterprise Fund will incur approximately \$254,480 in costs as follows:
 - \$200,000 for purchasing electricity and maintaining permits and scale.
 - \$54,480 net increased cost to pay Community an adjusted Per-Ton Service Fee based upon increases in CPI.

The deferred revenues on the tonnage that is recycled will be recouped when the saved landfill space is sold. Additionally, due to the diversion and recycling of mixed C&D material, an increase in over one year of landfill life is expected for every seven years the C&D facility is open.

Another option would be to charge Community using an alternative payment structure other than the one described above. In this scenario, the Per-Ton Service Fee would be \$42.25 per ton for Phase I (first six months of operations), \$31.00 per ton for the Phase II (ongoing operational phase), and \$28.25 per ton for Phase III (if implemented). In this scenario, Community would be charged the Government rate for disposing of residue (currently \$24 per ton) and delivering

material to the Miramar Greenery Composting Facility (currently \$22 per ton). As a result of being charged for greenery materials, Community will likely use the Miramar Greenery for Phase I, but will primarily use other markets for these materials in Phase II. The Agreement would contain a provision that would allow ESD to waive the fees on certain quantities of greenery materials in return for a discount to the Per-Ton Service Fee for month long periods. Utilizing this option would have a greater impact on the Recycling Enterprise Fund than the proposed option, and therefore, would require an increase in the AB 939 Fee.

There will be no impact on the General Fund, as the Refuse Collector Business Tax and Franchise Fee will still be charged on in-coming waste. These funds are collected by ESD and deposited in the General Fund.

Community will be responsible for marketing all the recyclable materials from the C&D facility. ESD considered whether it would be beneficial to include a revenue sharing component in the agreement, but due to the nature of the materials and market conditions, it would not be beneficial to the City. As many of these materials have a low, zero, or even negative value, revenue sharing on the back-end would lead to higher payments to Community on the front-end. Any revenue that is earned from the sales of recyclable materials will offset Community operating costs, and is already reflected in their cost proposal.

The execution of the Agreement will be contingent on the successful negotiation and approval of a sublease agreement to be formed between the City and Community. The site sublease is necessary because the City leases the Miramar Landfill, which is located on the Marine Corps Air Station Miramar property, from the United States of America. ESD is currently working with the U.S. Marines to obtain necessary approvals and to develop lease language. ESD anticipates coming before the City Council in winter 2005 to obtain approval to enter into the sublease agreement. The Agreement and the C&D facility sublease must all be approved by the City Council before the C&D facility site sublease may be signed and entered into. In the event that the sublease agreement is not approved, the Agreement will not become effective.

ESD will return to the Natural Resources and Culture Committee on November 16, with an action item for the City to authorize the City Manager to award and execute an agreement with Community Recycling and Resource Recovery, Inc. (Community) to design, construct, and operate the C&D facility, contingent on the future approval and execution of a site sublease. The fiscal impact of these reductions in revenue and additional costs will be addressed in greater detail in this meeting.

Respectfully submitted,

Elmer L. Heap, Jr.
Environmental Services Department Director

Approved by: Richard Mendes
Deputy City Manager

HEAP/KPP