



**A Public Agency**

OLD BUSINESS



## STAFF REPORT

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To: SBWMA Board Members  
From: Hilary Gans, Operations Contracts Manager  
Kevin McCarthy, Executive Director  
Date: February 27, 2014 Board Meeting  
Subject: Consideration of Approval of Additional Third-Party Tons into the Shoreway Environmental Center Materials Recovery Facility (MRF)

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### Recommendation

Staff recommends the Board approve Resolution 2014-03 attached hereto authorizing the following action:

- Approve additional third-party tons into the Shoreway Environmental Center MRF with the conditions of approval detailed in **Exhibit A**.

### Analysis

On September 22, 2011 the Board of Directors approved Resolution 2011-25 that permits South Bay Recycling (SBR), the Shoreway facility operator, to receive and process recyclable materials from outside of the JPA service area (third-party tons) in a quantity not to exceed 15,000 tons per year or 100 tons per day (tpd). Under this approval, SBR is paying the SBWMA a host fee of \$10 per ton for each ton of third-party recyclables delivered to the materials recovery facility (MRF) by Recology of San Bruno.

Recology has been delivering 45 tpd during 2013 and recently began delivering additional new tonnage from communities in Santa Clara County. The delivery of the new tons is being managed by SBR to stay under the 100 tpd limit, but Board approval is needed so additional tons can be received and managed in the most cost effective manner. In total, Recology is planning to deliver approximately 26,000 tons from sources outside the SBWMA service area in calendar year 2014. SBR, Recology and SBWMA staff all support negotiations that will result in a longer term arrangement.

Staff is seeking Board approval of a six-month evaluation period for SBR to receive Recology tons with no specific daily or annual tonnage limits during that period (the MRF facility currently has an additional second shift of capacity of approximately 75,000 tons per year -- which is well above the new tons expected from Recology).

The six-month evaluation period proposed by Staff will allow for a number of items to be addressed including:

- SBR staffing for a second shift of MRF operations. SBR currently utilizes County Vocational Rehabilitation Services (VRS) workers and an agreement needs to be finalized between SBR and the County for the current workers as well as for the new workers needed for a second shift of operations at the MRF. A Letter of Intent is currently in place between SBR and VRS and a final agreement is expected to be before the County Board of Supervisors within the next 30 days.
- SBWMA staff needs to observe the functioning of the MRF operations with the additional tonnage to make sure that there are not adverse impacts to the facility's operations and to evaluate the potential need and cost for additional MRF infrastructure (e.g., an expanded tipping/unloading area for the recyclables).
- SBWMA staff needs to re-evaluate the host fee to make sure that all SBWMA direct costs (e.g., equipment depreciation) associated with handling third-party tons are captured and an appropriate host

fee is negotiated for consideration by the Board. To be clear, SBR is responsible for all operational cost, equipment repair costs (>\$10,000 equipment repairs) and residue disposal associated with third-party tonnage being processed at the MRF. All additional costs and/or depreciation would be passed on to SBR in the new negotiated host fee.

- A long-term processing agreement needs to be negotiated between SBR and Recology.

Once the above items are addressed, Staff will come back to the Board within the six month evaluation period with a recommendation regarding approval of a longer-term third party processing agreement.

The host fee to be received by the SBWMA is still being negotiated but at a minimum will be \$10 per ton adjusted by a CPI which would result in a host fee of \$10.30 per ton. The host fee is meant to cover the direct expense to the facility (equipment wear) associated with processing the additional tons plus a margin to cover some of the other MRF expenses that the JPA incurs (e.g., MRF building and equipment depreciation and interest expense). **Table 1** on page 3 of this report (Cost per Ton for Incremental Third-Party Tons at the Shoreway MRF) shows the detail of the SBWMA Direct Expense at \$6.57 and a Margin of \$3.73 per ton upon which the host fee is based.

### **Background**

In the master plan design, the Shoreway MRF and equipment was "sized" with a processing capacity sufficient to handle the SBWMA daily generation of single stream recyclable materials in one eight-hour shift. Staff has realized that the Shoreway MRF has the potential to serve as a regional processing center and receive additional tonnage (materials from outside of the SBWMA service area) by operating longer hours. In reference to this fact, the Shoreway facility Operating Agreement provides for SBR to bring third-party tons to the facility upon SBWMA approval.

On July 23, 2009 the Board approved the Shoreway Operations Agreement with SBR effective January 1, 2011. Section 5.03 of this Agreement requires SBWMA written approval prior to receiving new materials into the Shoreway facility by SBR or affiliated companies from Recology or other large third-party customers if not charged at the published gate rates.

On October 28, 2010 the Board approved amendments to the Shoreway Operations Agreement with South Bay Recycling. One of the Amendments was to Section 5.03 and would clarify that acceptance of third-party tons into the Shoreway facility would require a written agreement including "pricing terms and conditions." This condition also applies to new tons recruited to the MRF by the SBWMA MRF processing fee would need to be agreed upon with SBR.

On January 27, 2011, a staff report was presented outlining various pricing approaches for new tonnage into the Shoreway MRF. Staff shared various pricing models (e.g., fixed price approach, market based approach) and sought Board feedback on the degree of comfort with stated pricing models and/or the degree to which the SBWMA would be involved in quoting pricing to third-parties (e.g., Republic Services). The consensus opinion from the Board was twofold: ensure any third-parties pay their fair share of facility costs; and minimize any potential risk to the SBWMA or the operations that might result from any new tonnage.

Table 1

Cost per Ton for Incremental Tons at Shoreway MRF (calendar year 2014)							
SUMMARY		Current - 2014			New - 2014		TOTAL
		\$ /ton	Total \$		\$ /ton	Total \$	Total \$
3rd Party Tons			11,000			15,080	26,080
3rd Party Fee to SBWMA	\$	10.30	\$ 10,300		\$ 10.30	\$ 10,300	\$ 10,300
3rd Party Revenue to SBWMA	\$	10.30	\$ 113,300		\$ 10.30	\$ 155,324	\$ 268,624
Variable Equipment Depreciation (see "A")	\$	6.57	\$ 72,243		\$ 6.57	\$ 99,039	\$ 171,282
Margin	\$	3.73	\$ 41,057		\$ 3.73	\$ 56,285	\$ 97,342
DETAIL		Current			New - 2014		
MRF COST, TONS		BASE	3rd Party Tons	Total	BASE	Incremental	Total
Existing MRF Tons		67,451		67,451	67,451		67,451
Current 3rd Party Tons			11,000	11,000	11,000		11,000
New 3rd Party Tons				-		15,080	15,080
Total Annual MRF Tons		67,451	11,000	78,451	78,451	15,080	93,531
<b>A. SBWMA DIRECT EXPENSE</b>							
1. <b>EQUIPMENT DEPRECIATION</b>							
Equipment Capital Cost & Installation Total	\$	17,804,000			\$ 17,804,000		
Replaceable Equipment Capital Cost (per BHS)	\$	5,315,834			\$ 5,315,834		
Equipment Life (years)		12			12		
Depreciation Expense / Year	\$	442,986			\$ 515,229		
adjusted for additional tons			\$ 72,243	\$ 515,229		\$ 99,039	\$ 614,268
Depreciation Cost per Ton	\$	6.57	\$ 6.57	\$ 6.57	\$ 6.57	\$ 6.57	\$ 6.57
<b>B. OTHER OPERATING EXPENSE</b>							
1. <b>INTEREST EXPENSE</b>							
Interest Expense - (5 Year Average)	\$	2,808,180					
Allocated to MRF Equip - %		37.9%					
Allocated to MRF Equip - \$	\$	1,064,396		\$ 1,064,396	\$ 1,064,396		\$ 1,064,396
Interest Expense per Ton	\$	15.78	N/A	\$ 13.57	\$ 13.57	N/A	\$ 11.38
2. <b>MRF BUILDING CAPITAL</b>							
MRF Building Capital Improvements	\$	12,189,000					
Life (years)		30					
Depreciation Expense / Year	\$	406,300		\$ 406,300	\$ 406,300		\$ 406,300
Depreciation Cost per Ton	\$	6.02	N/A	\$ 5.18	\$ 5.18	N/A	\$ 4.34
3. <b>FIXED EQUIPMENT CAPITAL</b>							
Fixed Equipment Capital	\$	12,488,166					
Life (years)		18					
Depreciation Expense / Year	\$	693,787		\$ 693,787	\$ 693,787		\$ 693,787
Depreciation Cost per Ton	\$	10.29	N/A	\$ 8.84	\$ 8.84	N/A	\$ 7.42
Other Operating Expense- Total Cost per Ton	\$	32.09		\$ 27.59	\$ 27.59		\$ 23.14

From December 2011 through August 2012, the Shoreway MRF was processing contracted recyclable tons from Republic Service's Newby Island facility. Starting in October 2012, contract recyclable tons from Recology's San Bruno transfer station have been received for processing and have been ongoing.

On February 13, 2014 this agenda item was presented to the SBWMA Technical Advisory Committee (TAC). Staff answered questions from TAC members and incorporated suggested changes in this staff report.

### Fiscal Impact

The SBWMA currently collects a host fee of \$10 per ton for every third-party MRF ton delivered to Shoreway (the host fee is paid by SBR to the SBWMA). In 2013 approximately \$110,380 in host fee payments were paid by SBR on the Recology tons accepted. In 2014, if the new volumes are also processed, they would generate an additional \$156,000 in revenue per year to the SBWMA. This amount will vary depending on the host fee amount that is approved by the Board for third-party tonnage and the actual tonnage received during the year.

### Attachments:

Resolution 2014- 03

Exhibit A - Core Terms for Agreement with SBR for Processing Third-Party tonnage at the Shoreway MRF



## RESOLUTION NO. 2014-03

### RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING ADDITIONAL THIRD PARTY TONS INTO THE SHOREWAY ENVIRONMENTAL CENTER MRF

WHEREAS, the SBWMA owns a Materials Recovery Facility (MRF) that has surplus processing capacity; and

WHEREAS, the SBWMA is interested in having SBR market this surplus capacity for the processing of third-party MRF tonnage in exchange for the payment of a host fee that would be paid by SBR to the SBWMA; and

WHEREAS, the Core Terms of a third-party MRF processing arrangement with SBR detailed in **Exhibit A** have been reviewed by the SBWMA Board.

**NOW, THEREFORE BE IT RESOLVED** that the South Bayside Waste Management Authority hereby authorizes the Executive Director to enter into an agreement with SBR for the processing of additional third-party tons for up to a six month period.

**PASSED AND ADOPTED** by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 27<sup>th</sup> day of February, 2014, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Atherton					Menlo Park				
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				

I HEREBY CERTIFY that the foregoing Resolution No. 2014-03 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on February 27, 2014.

ATTEST:

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Bill Widmer, Chairperson of SBWMA

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Cyndi Urman, Board Secretary

## Exhibit A

### Core Terms for Agreement with SBR for Processing Third-Party tonnage at the Shoreway MRF

1. SBR will need SBWMA approval before entering into any third-party MRF processing contracts. Such an Agreement is valid for up to six months at such time the Board of Directors will need to approve an extension or a new longer term Agreement.
2. Payment of a "host fee" to the SBWMA will be on a per ton received basis and structured as follows: a minimum payment of \$10 per ton plus a CPI adjustment.
3. SBR will make the host fee payment directly to the SBWMA on a monthly basis, by the 15<sup>th</sup> of the following month.
4. SBR will pay all operational cost, equipment repair costs and residue disposal associated with third-party tonnage being processed at the MRF.
5. SBR is responsible for any lost revenues that might result from third-party materials impacting the quality and marketability of the SBWMA's commodities.
6. SBWMA will have the right to cancel any third-party agreement that interferes with daily operations or effectiveness of the processing of the SBWMA's recyclable materials.
7. The processing of third-party tons can be terminated immediately by the SBWMA if the facility or SBR receives any regulatory violations.
8. The processing of third-party tons can be terminated immediately by the SBWMA if SBR is found to have violated or breached the terms of the Shoreway Operations Agreement.