

**Mission**

To manage Salinas Valley solid waste as a resource, promoting sustainable, environmentally sound and cost effective practices through an integrated system of waste reduction, reuse, recycling, innovative technology, customer services and education.

Vision

To reduce the amount of waste by promoting individual and corporate responsibility.
To recover waste for its highest and best use while balancing rates and services.
To transform our business from burying waste to utilizing waste as a resource.
To eliminate the need for landfills.

Innovation • Integrity • Public Education • Efficiency • Fiscal Prudence • Resourcefulness • Customer Service • Community Partnerships

November 19, 2018

Subject: CITY OF SALINAS WITHDRAWAL FROM SALINAS VALLEY SOLID WASTE AUTHORITY

Mayor Gunter and Council Members,

It is with great sadness that the hard-working men and women of our agency are facing the damaging prospects and impacts of the City of Salinas (City) exiting the very agency the City helped create in 1997 to serve the utility needs of our residents and businesses. In addition, our loss of economies of scale associated with the City leaving our agency will cause a severe financial burden on the remaining member agencies. A promise was made by the City to our other member agencies that any contemplated actions would not be financially impactful.

Cost to Withdraw

The full cost of withdrawal to the City will be determined by the Board of Directors in consultation with legal and financial experts. Today, what Authority staff can provide are the baseline costs to the City to cover the City's share of its secured debt and long-term obligations for closed landfill care. The City will also be obligated, through some form of irrevocable contract, to fund its share of any unforeseen future of environmental liabilities for the landfills that may arise.

- City's estimated share of all Authority long-term and operating liabilities today is 62%, or approximately \$56,000,000.
- City's annual cost share of debt principal and interest, and closed landfill closure care is estimated at \$2.5-\$2.7 million per year through pay off of all debt service in 2032.
- After 2032, the City share of closed landfill care will be approximately \$900,000 per year (in 2018 dollars) with potential for annual increases (cost of living and regulatory changes) for the foreseeable future.
- Other stranded costs and obligations to the remaining agency members is to-be-determined through consultation.
- Remaining members will lose the economies of scale for the remaining operations and will likely result in substantial rate increases to maintain the system.
- It is unlikely the City can find a lower and sustainable cost alternative in the region than that provided by the Authority.
- For fiscal year 2018-19, the full cost of providing day-to-day public services by the Authority (excluding inherited legacy liabilities for closed landfills) is approximately \$64.05/ton. The comparative costs for the Monterey Regional Waste Management District (District) is \$107.30

with the stated potential for further increases in the coming years. The District's lower published landfill tipping fee appears to be supported by substantial revenues from importation of refuse from Santa Clara and Santa Cruz Counties and is not likely sustainable long term as landfill capacity is sold in increasing volumes to outside parties. See Attachment 1 for the 10-year comparisons of the effective cost of services for both agencies.

Withdrawal Purpose Unclear

The Authority has, for the last 10 years, been focused on relocation of our operations to support the City's desire for redevelopment of the Alisal Market Place (AMP). The administrative record of our efforts to assist the City is long and detailed, with many starts and stops on feasible sites offered by the City or others and later removed from consideration. The short summary of our efforts is included as Attachment 3.

The Authority Board of Directors has been diligently trying to meet the City objectives to relocate the Sun Street Operations, but with little support from the City's administration. The City's most recent effort to develop a Memorandum of Understanding (MOU) between the Authority and the District, was done with no communication from the City's consultant or collaboration with the Authority. As a result, the City's proposed MOU was flawed and contains terms and conditions that would not be compliant with the California Environmental Quality Act (CEQA), and had some proposals that may not be feasible. In addition, the supporting documents contained no information on cost to ratepayers, a critical and historically important component for decision making by our Board and the City.

Authority staff has now completed and received unanimous approval from our Board on the MOU and it has been forwarded to the District for consideration. As the publicly stated reason for City withdrawal, this action alone should cause the City to stop this process and reconsider the severe damage and implications withdrawal will have on our citizens, workers and ratepayer costs. Continuation of the withdrawal process is not consistent with the City's stated intent for using this process to speed up the MOU preparation.

The Authority remains committed to a transparent three step process for all its decisions to include:

1. What is the cost to ratepayers?
2. What is the impact to the community?
3. What is the benefit to the community?

Authority Model

Salinas Valley Solid Waste Authority is a model agency, within our community, industry, and as a government agency in general.

- Salinas Valley Solid Waste Authority (Authority) has no current unfunded pension liability, a serious financial issue that currently challenges most government agencies in California.
- The Authority's current cost of services has only risen 5.4% after deducting for "Legacy Liabilities" (see Attachment 1, 10-year rate history).
 - "Legacy Liabilities" account for \$16.99/ton of our \$68.50/ton landfill fee.
 - The liabilities were not created by the Authority, but instead were inherited liabilities when the agency formed in 1997. These costs are made up of the debt needed to fix and fund repairs and deficient environmental controls at the inherited landfills, to close the under performing landfills, and to partially fund the \$8 million for purchase of the City's Crazy Horse Landfill (our most significant closed landfill liability and still a federally listed Superfund site).

- The Authority no longer relies on un-sustainable importation of waste to our landfills to fund its operations. Landfill space is a limited asset for agencies in our industry and when it's gone, it's gone, and the local ratepayers will have to make up those lost of revenues.
- The remaining Authority revenues received from importation of waste (2004-14) are dedicated in reserve for one-time use for infrastructure. We believe that use of one-time funds from a sale of assets for annual operational costs is not sustainable and creates a future ratepayer liability in exchange for short term rate reduction (subsidy).
- Use of debt service (bonds/loans) improves an agency's cash flow by reducing its annual cost. However, it also means that only a portion of the actual ratepayer contribution goes to the actual infrastructure (typically 50-70% depending on term and interest rate) with the balance going to interest and investor returns. The Authority has moved towards a "pay-as-you-go" budgeting structure to avoid or minimize any future debt and maximize the ratepayer investments directly into infrastructure. As examples:
 - Our next landfill cell will be constructed with new capital reserves created specifically for this project and no debt is needed.
 - The current short-term loan for initial heavy equipment purchases to take over the Johnson Canyon Landfill operations will be paid off next summer and going forward a contribution will be made annually to an equipment replacement reserve to provide ongoing capital for future equipment replacement, in lieu of debt.
- The Authority has leveraged its organic waste stream and member agency support to receive a \$1.34 million State grant to build the necessary infrastructure to meet new, unfunded State mandates to maximize recovery of organic wastes going to our landfill. The City withdrawal resolution and staff report specifically site three State bills that will be addressed with this infrastructure: AB 1594, AB 1826 and SB 1383. All three bills are related to diversion of organics material from landfilling and the Authority Board of Directors has, for three years, been discussing and implementing a plan to address compliance with these mandates, including rates.
- The Authority conducted a third-party public survey last year, in order to determine the public needs relative to our future long-term facilities. Excerpts from that survey are included (Attachment 2).
 - The Authority has a very high brand rating
 - Authority actions related to our programs and facilities are strongly supported by community priorities
 - Maintaining local facilities, even if Sun Street Transfer Station operations are relocated locally, are highly supported, particularly by Salinas respondents.

We hope the City will consider these facts and the potential disruption to our agency and ratepayers when deciding on your course of action.

Sincerely,



R. Patrick Mathews, General Manager/CAO
Salinas Valley Solid Waste Authority (aka, Salinas Valley Recycles.org)

Copy to: Salinas Valley Solid Waste Authority Board of Directors
Salinas City Council
Cities of Gonzales, Soledad, Greenfield and King City Managers
Salinas City Manager
Monterey County Administrative Officer

Attachment 1

SVR Historic Landfill Tip Fees

Fiscal Year	SVR Published Landfill Tipping Fee (\$/ton)	Budgeted Agency Tonnage	Budgeted Waste Import Revenues ¹	Waste Import Tipping Fee Equivalent (\$/ton) ²	Budgeted AB939 Program Revenues	AB 939 Program Tipping Fee Equivalent (\$/ton) ^{1,2}	SVR Effective Tipping Fee (\$/ton) ³	Budgeted Legacy Liabilities ⁴	Legacy Liability Tipping Fee Equivalent (\$/ton) ^{2,4}	SVR Effective Tipping Fee Adjusted for Legacy Liabilities (\$/ton) ^{3,4}
2008-09	\$63.00	214,200	\$2,305,500	\$10.76			\$73.76	\$2,381,889	(\$11.12)	\$62.64
2009-10	\$63.00	189,700	\$2,377,800	\$12.53			\$75.53	\$2,492,800	(\$13.14)	\$62.39
2010-11	\$64.00	176,720	\$2,147,600	\$12.15			\$76.15	\$2,554,987	(\$14.46)	\$61.69
2011-12	\$64.00	166,000	\$2,243,300	\$13.51			\$77.51	\$2,514,413	(\$15.15)	\$62.37
2012-13	\$67.00	162,600	\$2,340,900	\$14.40			\$81.40	\$2,968,569	(\$18.26)	\$63.14
2013-14	\$67.00	166,500	\$2,318,800	\$13.93	\$1,732,000	\$10.40	\$91.33	\$3,167,597	(\$19.02)	\$72.30
2014-15	\$67.00	164,500			\$1,732,000	\$10.53	\$77.53	\$2,982,567	(\$18.13)	\$59.40
2015-16	\$67.00	165,000			\$2,166,100	\$13.13	\$80.13	\$2,698,141	(\$16.35)	\$63.78
2016-17	\$68.50	170,000			\$2,228,900	\$13.11	\$81.61	\$2,491,634	(\$14.66)	\$66.95
2017-18	\$68.50	177,500			\$2,319,700	\$13.07	\$81.57	\$2,566,675	(\$14.46)	\$67.11
2018-19 ⁵	\$68.50	185,000			\$2,319,700	\$12.54	\$81.04	\$3,142,485	(\$16.99)	\$64.05
2019-20	\$68.50	185,000			\$2,412,200	\$13.04	\$81.54	\$3,189,622	(\$17.24)	\$64.30
2020-21	\$68.50	185,000			\$2,504,700	\$13.54	\$82.04	\$3,237,467	(\$17.50)	\$64.54
2021-22	\$68.50	185,000			\$2,689,700	\$14.54	\$83.04	\$3,286,029	(\$17.76)	\$65.28
2022-23	\$68.50	185,000			\$2,874,700	\$15.54	\$84.04	\$3,335,319	(\$18.03)	\$66.01
	8.7%						13.9%			5.4%

Note 1: Ended waste importation FY 14-15 and reduction of \$2.3 million in revenues
Added AB 939 Program Fees in FY 13-14 for \$1.7 million in replacement revenues

Note 2: Tipping Fee Equivalent = budgeted AB 939 or waste import revenues/budgeted agency waste tonnage

Note 3: Effective Tipping Fee Equivalent assumes revenues recovered through agency landfill tipping fees only and no AB 939 or waste import revenues

Note 4: Legacy Liabilities are inherited old landfill closure/post-closure costs and related debt that are responsibility of, but not created, by SVR
MRWMD does not carry these legacy liabilities

Note 5: 1st year of full debt allocation for 2013 bond refinance (60% Legacy - 40% Ops)

SVR Effective vs. Published Tipping Fee



Does not include SVR adjustments (Effective Tip Fee reductions) for:

*Prior waste transfer subsidies to haulers before full cost recovery of truck, driver and loader expenses

Haulers not obligated to use TS and can direct haul at their choice

Hauler cost to direct haul to LF (JCL or MPL) are estimated to be 25%+ higher than use of SVR transfer services

Attachment 1

MRWMD Historic Landfill Tip Fees

Fiscal Year	MRWMD Published Landfill Tipping Fee (\$/ton)	Budgeted Agency Tonnage	Budgeted Waste Import Revenues ¹	Waste Import Tipping Fee Equivalent (\$/ton) ²	Budgeted Capital Assessment Fees	Capital Assessment Fee Equivalent (\$/ton)	MRWMD Effective Tipping Fee (\$/ton) ³	MRWMD vs. SVR Effective Tipping Fee Differential
2008-09	\$45.00	232,000	\$697,250	\$3.01			\$48.01	-23%
2009-10	\$46.25	205,000	\$564,000	\$2.75			\$49.00	-21%
2010-11	\$47.00	190,000	\$2,780,600	\$14.63			\$61.63	0%
2011-12	\$47.00	195,000	\$3,470,100	\$17.80			\$64.80	4%
2012-13	\$48.00	190,000	\$3,420,000	\$18.00			\$66.00	5%
2013-14	\$51.75	180,000	\$2,727,500	\$15.15			\$66.90	-7%
2014-15	\$51.75	183,000	\$4,587,500	\$25.07			\$76.82	29%
2015-16	\$51.75	187,000	\$4,451,875	\$23.81			\$75.56	18%
2016-17	\$51.75	190,000	\$5,268,125	\$27.73			\$79.48	19%
2017-18	\$56.00	200,000	\$7,020,000	\$35.10			\$91.10	36%
2018-19 ⁴	\$62.00	200,000	\$9,059,000	\$45.30			\$107.30	68%
2019-20	\$68.20	200,000	\$9,330,770	\$46.65	\$1,000,000	\$5.00	\$119.85	86%
2020-21	\$75.02	200,000	\$9,610,693	\$48.05	\$2,000,000	\$10.00	\$133.07	106%
2021-22	\$77.27	200,000	\$9,899,014	\$49.50	\$3,000,000	\$15.00	\$141.77	117%
2022-23	\$79.59	200,000	\$10,195,984	\$50.98	\$3,000,000	\$15.00	\$145.57	121%
	76.9%						203.2%	

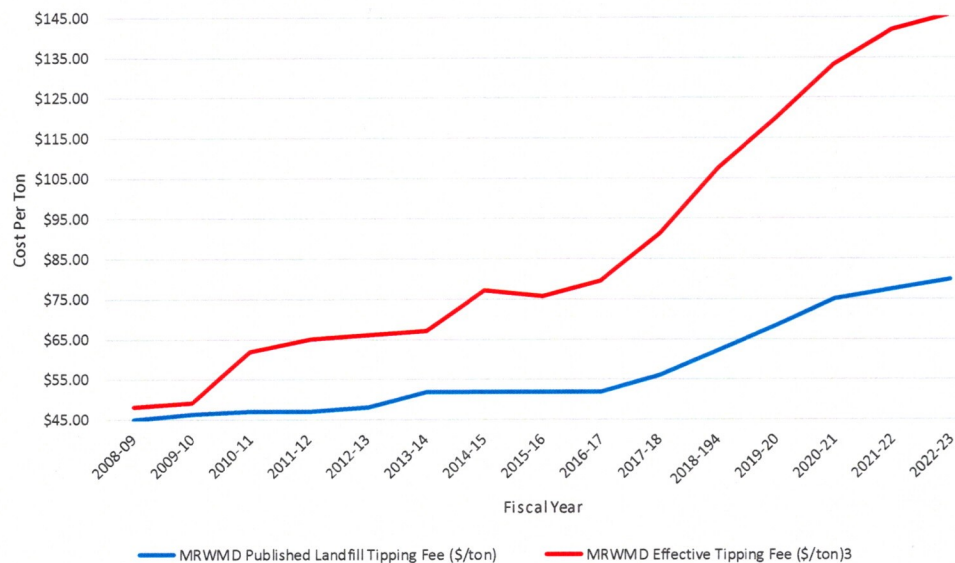
Note 1: Began Green Waste Recovery/Zanker Road/Z-Best waste & ADC importation for supplemental revenue in FY 2010-11, Santa Cruz County and Cities started importing waste in 2006-09

Note 2: Tipping Fee Equivalent = budgeted waste import revenues/budgeted agency waste tonnage

Note 3: Effective Tipping Fee Equivalent assumes revenues recovered through agency landfill tipping fees only and no waste import revenues

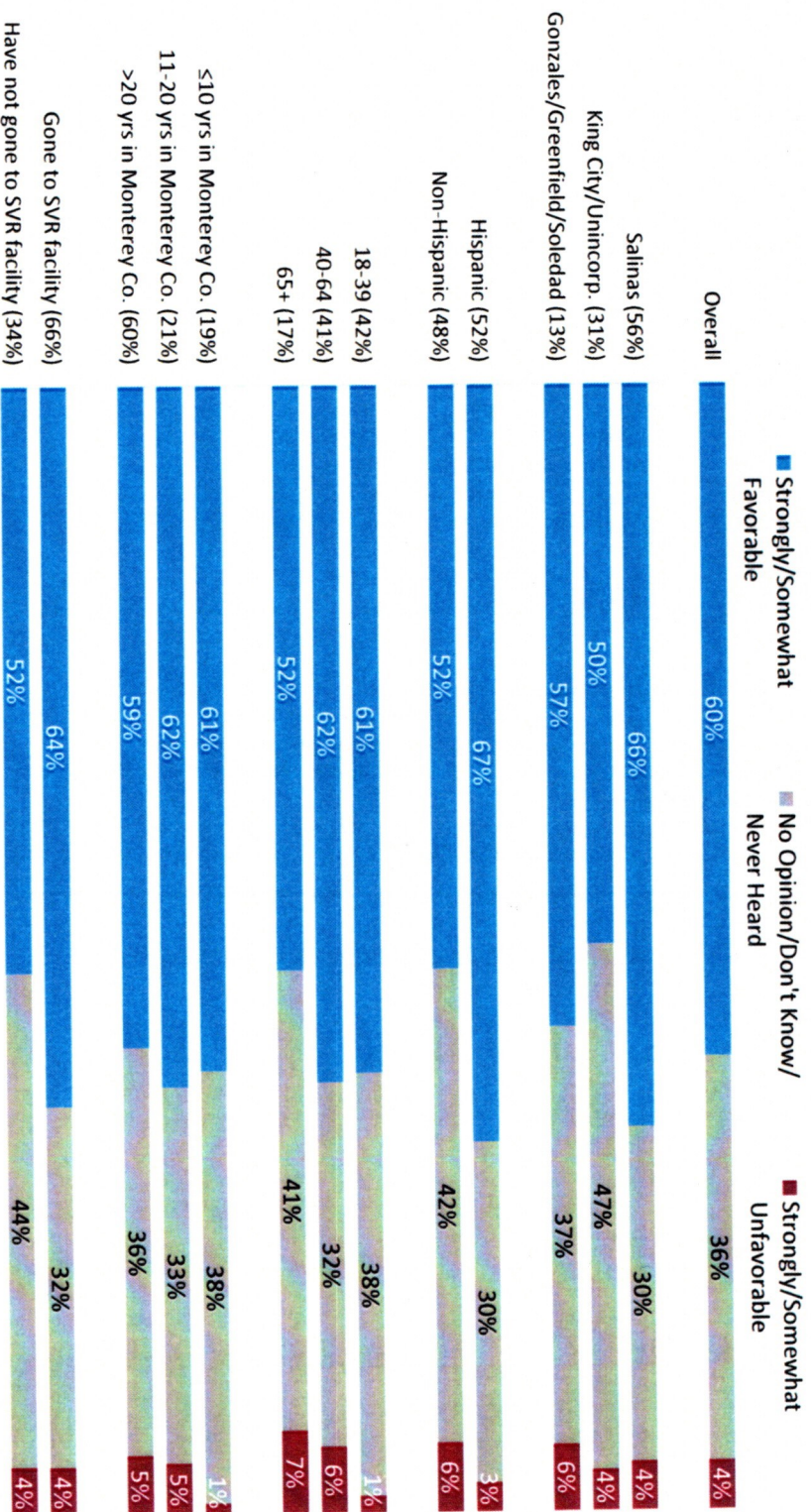
Note 4: MRWMD proposed FY 18-19 tipping fee increase of 10% (1st of 3, proposed 10% increases then a flat 3% CPI going forward) and an increased waste import revenue allocation for 18/19 then flat tonnage going forward with 3% CPI going forward, 3-27-18 Board Retreat

MRWMD Effective vs. Published Landfill Tipping Fee



Brand Rating: SVR

Hispanic residents and residents of Salinas view SVR particularly favorably.

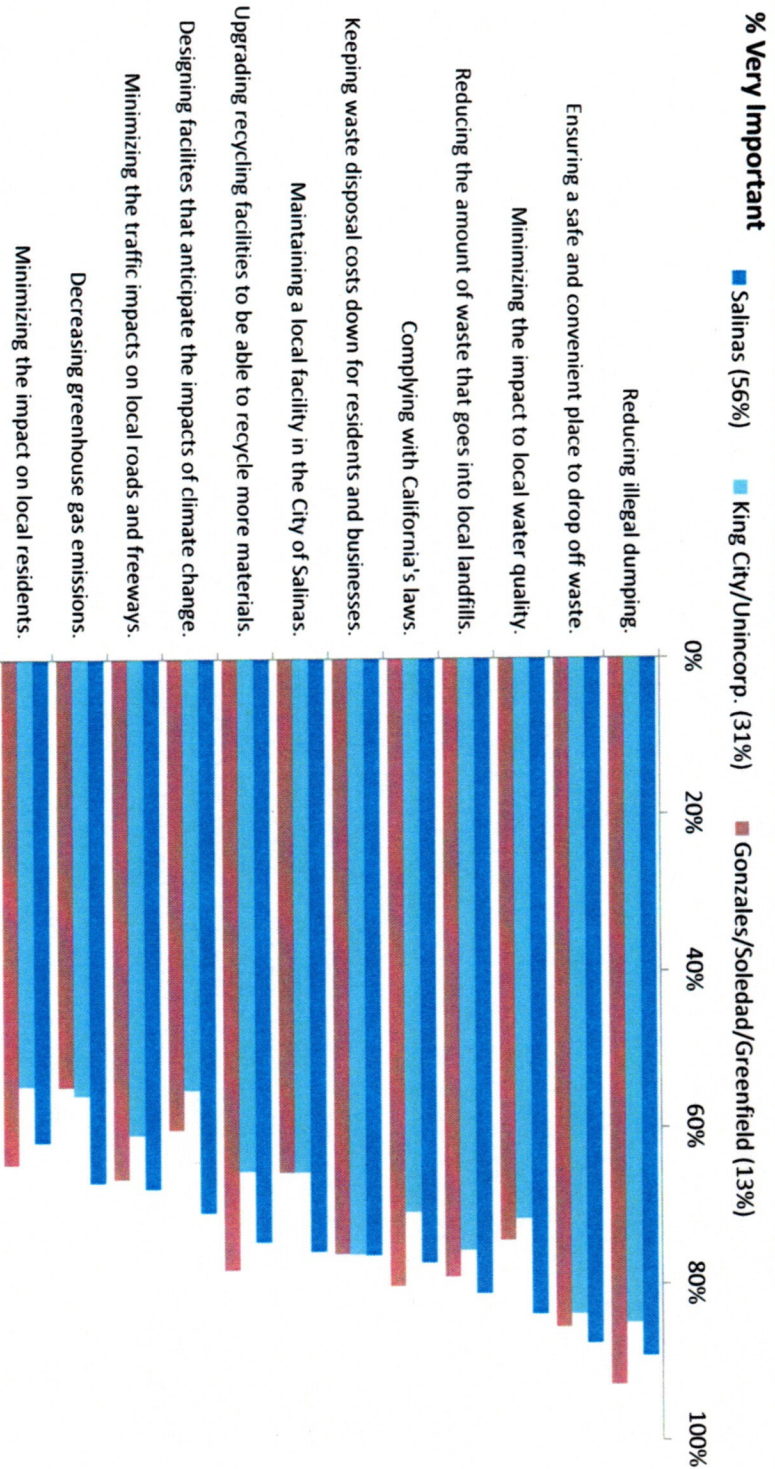


7. I'm going to read you a list of local service providers and organizations. Please tell me if you have a strongly favorable, somewhat favorable, somewhat unfavorable or strongly unfavorable opinion of each one. If you have never heard of one, please just say so.



Very Important SVR Priorities by Region

Residents of Salinas are more likely than other service area residents to value maintaining a local waste facility in the city, and they are more in-tune with issues related to waste collection and climate change, greenhouse gas emissions, and the impact to local water quality.

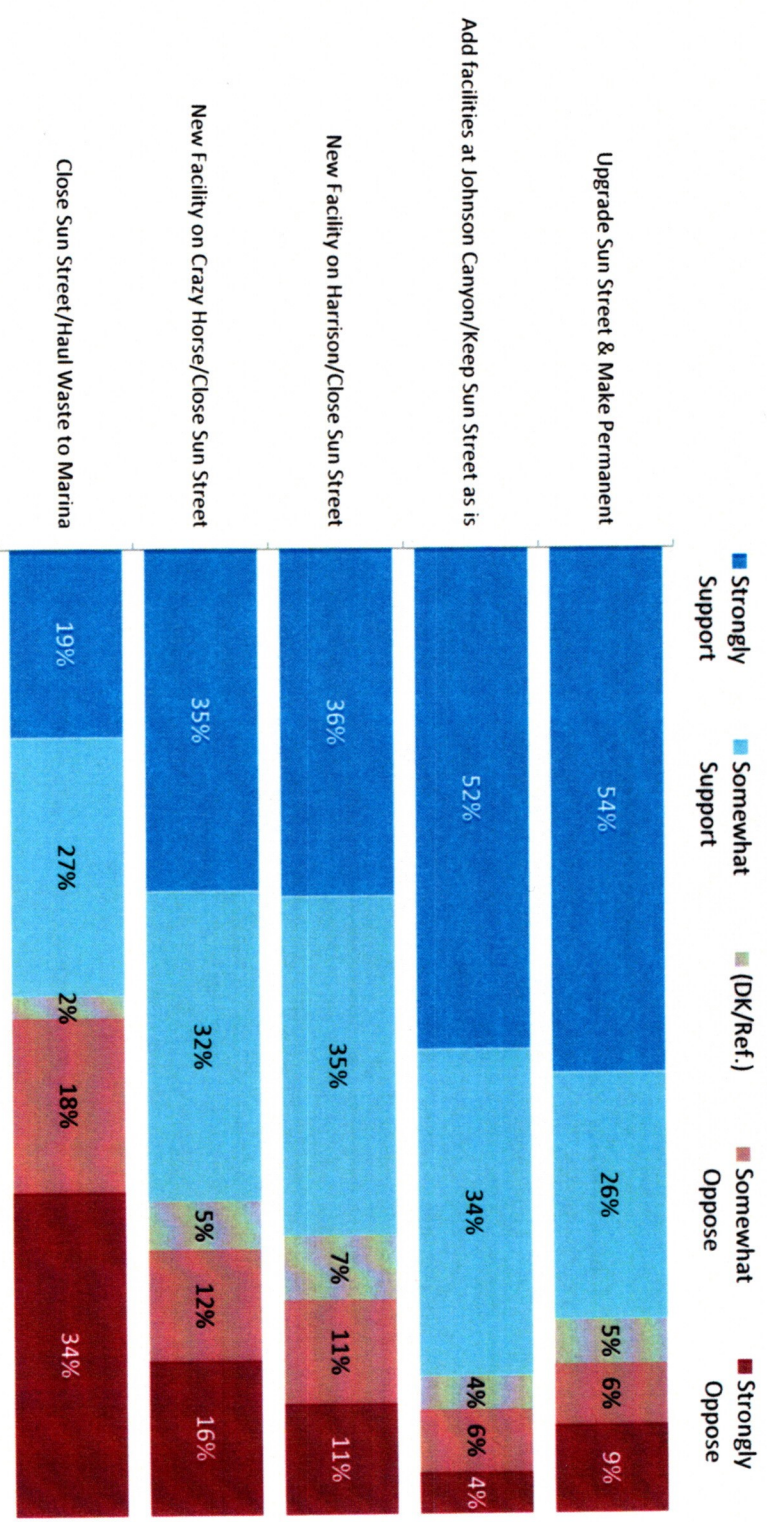


23-34. I'm going to read you a list of priorities that Salinas Valley Recycles considers when providing services to the community. After each one, please tell me if it is very important, somewhat important, not too important, or not at all important to you.



Facility Proposals Support

Support is highest for the two proposals that keep the Sun Street Transfer Station open. A majority strongly support upgrading and making the Sun Street facility permanent.



35-39. I am going to read you some proposals that are being discussed for waste management and disposal in the Salinas Valley in the future. For each one, please tell me if you strongly support, somewhat support, somewhat oppose or strongly oppose that proposal.

Attachment 3

Brief history of the Sun Street Relocation efforts

- Authority approves a resolution in late 2008 to support the City's AMP project which included offers of City owned land for the relocation of the Sun Street Transfer operations.
- Environmental review and City property negotiations temporarily placed on hold in 2011 due to recession, loss of redevelopment funding and city administrative transitions.
- Authority reinitiated negotiations in 2013-15, but City property to support AMP development and Authority facility relocation was eventually removed from consideration by City and other options were placed on the table, restarting the process.
- Multiple relocation sites have been considered, recommended and/or supported by the City since 2015, but later eliminated.
- With support and recommendation from the City Administration, the Authority staff has recommended re-purposing of the Madison Lane Transfer Station to replace some or all of the Sun Street Transfer operations.
- With the passing of the AMP leading contact for the City in 2014, Authority began direct consultation with City administration on the Sale of our Sun Street Properties, a critical component of our relocation effort. Numerous emails and several in person requests were exchanged between Authority and City Administration from June 2015 and March 2018 on the specific point of "Who is the new developer representative and/or who will purchase Authority Sun Street properties to facilitate relocation."
- At 5:50 p.m. on November 15, 2018 (10 minutes prior to Authority Board meeting), Authority staff and City representatives on the Authority Board of Directors received an email from the City Manager on this matter, stating that the City's AMP developer had dropped out of the project in 2016, nearly three years earlier.
- At about this same time, Authority staff was reviewing the City agenda that had also just been posted to the City web page regarding the potential withdrawal.
- To further complicate this issue, staff had also just confirmed one day earlier that Republic Services, the City's Refuse and Recycling Collector, was about to execute a deal to purchase the Madison Lane Transfer Station. As the current proposed relocation site for the Authority, recommended and supported by the City of Salinas administration, this raises new questions and concerns. This site was to be formally approved and environmental review started at the November 2018 Board of Directors meeting but has now been deferred due to these recent complications and uncertainty arising outside the Authority control.