



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

DATE: March 11, 2022

TO: Board of Directors

FROM: General Manager

SUBJECT: Authorize General Manager to Execute Limited Term Disposal Agreement with Waste Connections, Ltd.

RECOMMENDATION: That the Board authorize the General Manager to execute a limited term disposal agreement under the terms and conditions presented with Waste Connections, Ltd. (WC), and as approved in form by District Legal Counsel, commencing April 1, 2022 for a term no longer than 4 years. This Agreement is for the disposal of approximately 65,000 tons per year of refuse from the municipalities of Morgan Hill and Gilroy.

BACKGROUND

In January 2022 San Benito County's John Smith Road Landfill (JSRL), operated by Waste Connections, Ltd. (WC), initiated a decision by the County's Joint Power Authority for JSRL to give notice to limiting waste disposal at JSRL to only San Benito County generated Municipal Solid Waste (MSW). The JSRL is estimated to only have 15 years of remaining disposal capacity as of April 2022. State legislation requires a municipality to maintain at least 15 years of disposal capacity as a minimum. As the contracted operator of the JSRL facility operations, WC is currently in the process to permit an expansion of the landfill and to expand the capacity of the facility to well over 100 years. The permitting process is ongoing and is expected to take between 12-36 months to complete.

The cities of Morgan Hill and Gilroy currently have franchise collection agreements with Recology San Benito County (Recology) for the collection and transportation of MSW. Those municipalities have separate agreements with WC for the disposal of the MSW collected in their jurisdictions. Since both Morgan Hill and Gilroy are located in Santa Clara County, the MSW from these cities is not able to be disposed of at JSRL until such time that new permitted disposal capacity is approved and the 15 year minimum remaining disposal capacity requirement is met.

In February 2022, Recology and WC asked to meet with staff to discuss the possibility of transporting the MSW from Morgan Hill and Gilroy to the MRWMD landfill for a temporary period of time until the JSRL permitting process was sufficiently completed to allow them to resume the disposal at JSRL.

The District currently has over 40 million tons of landfill capacity remaining, representing an estimated 120+ years of remaining site life given i) the current fill rate with the GWR-San Jose contract ending in 2036 and ii) that the waste tonnage associated with this limited term agreement stops at the end of the 4-year term. By entering into the term of this agreement from 4/1/22 to 3/31/2026, the estimated remaining life of the MPL would be reduced by approximately 6 months (with remaining landfill life still estimated at over 100 years). With over 40 million tons of landfill capacity remaining, the District has the 'capacity' to approve a limited term agreement such as this one and longer term agreements with municipalities in the Tri-County area.

DISCUSSION

Staff has had discussions with WC and Recology over the past month, and WC negotiated their terms for this Limited-Term Agreement between the District and WC – the negotiated terms are summarized as follows:

1. An exclusive agreement with the District for the disposal of an average of 250 tons per day of MSW to meet the contractual needs for the cities of Morgan Hill and Gilroy and the delegated responsibility of WC.
2. Include a rolling three month (3) “out” clause effective after 1 year. (The 3-month notice to be given when the San Benito County JPA officially rescinds the current directive to restrict waste disposal at JSRL to San Benito County generated waste materials. WC.
3. WC shall pay \$32.50 per ton disposal fee in the first year of the agreement, and will add a fixed escalation rate of \$2.50 per ton on the anniversary date of the contract (April 1) in Years 2 and 3, and a CPI increase for Year 4. (\$32.50/ton Year 1; \$35.00/ton Year 2, \$37.50/ton Year 3, and \$37.50/ton + CPI Year 4).

WC is interested in securing limited-term disposal capacity in order to satisfy long-term disposal contracts they have with jurisdictions in Santa Clara County. This material is primarily residential and commercial MSW. WC has indicated they have actively pursued other disposal operators and have concluded that the District’s service proposal and site access are preferable to that of the other landfills considered.

If the District were to accept the Morgan Hill and Gilroy tonnage from WC, the District would be essentially **generating** an annual revenue stream of close to \$2.15 million in the first year of the agreement, and up to a total revenue of close to \$7,000,000 over the 3 years and about \$9,500,000 should the 4th year of the Agreement occurs.

This Limited Term Disposal Agreement would be trading about 0.65% of the District’s total remaining capacity for a new, temporary revenue stream that staff recommends that the Board of Directors consider dedicating to future funding purposes and not absorbed into general operating funds. These revenues could be dedicated to such future needs as:

- A Capital Reserve Account
- A Landfill Closure Reserve Account (incremental final cap liner construction events)
- A Landfill Post-Closure Reserve Account (Post-Closure monitoring and care costs)
- Community Services Infrastructure Improvements
- Staff Health and Wellness Initiatives

FUTURE CAPITAL REQUIRMENTS

District staff has projected the need for additional capital for basic District functions to be between \$40-50 million over the remainder of this decade. This does not include any additional capital for partial closure of filled areas of the landfill or accruing for the eventual post closure costs for the landfill. The District’s annual capital replacement spend for mobile equipment and facility upkeep and maintenance is averaging about \$7-8 million per year. Module development costs are also on the order \$6-8 million and is performed currently on a schedule of every two to five years, depending on the size of the module and the incoming tonnage. The District’s current debt level is such that the District will not likely be able to borrow any significant capital for the next decade. Future capital will need to come from cash reserves generated from operations.

OPERATIONAL IMPACT

Staff has reviewed the implications on landfill operations associated with the temporary acceptance of this tonnage from Morgan Hill and Gilroy, and even with the acceptance of the anticipated 65,000 tons per year, the District will be able to adequately cover the costs of operation at the average rate of \$35.00 per ton. This material is transported in larger transfer trailer type vehicles (holding 20-25 tons per load), staff has seen only relatively minor impacts to the District's current operational cost structure. One additional HEO operator is anticipated to be added to handle the increased tonnage at the contracted levels. Current landfill equipment should be adequate to handle this tonnage.

ENVIRONMENTAL REVIEW

Similar to the recent amendment to the GWR-San Jose agreement, this activity is considered to be categorically exempt from CEQA given i) the lack of any significant impacts associated with the activity as determined in the review for the disposal of Morgan Hill and Gilroy MSW, ii) conformance with the environmental review associated with the District's operating permit, and iii) the temporary nature of the activity.

CONCLUSION

Staff recommends that the Board authorize the General Manager to execute a Limited Term Disposal Agreement with WC to provide temporary disposal services to the municipalities Morgan Hill and Gilroy subject to final review and concurrence from District Legal Counsel.



Felipe Melchor, General Manager