

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

*Request to Approve a Time Extension for the
Initial Term of the Master Regulatory Agreement¹*

**Waste Management of Alameda County, Inc.
Application No. 16-SM008**

Tuesday, October 15, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Waste Management of Alameda County, Inc.

Location – San Leandro, Alameda County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Construction of a New Organics Material Recovery Facility and Organics Material Composting Facility

Total Amount of Qualified Property Approved– \$77,272,550

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$6,506,349

Amount of Time Requested –

- One year, two months, and 13 days, until December 31, 2020, for the Initial Term of the Master Regulatory Agreement (four years, two months, and 13 days from the date of initial CAEATFA Board approval)

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate at the time of initial approval, which was 8.42%.

REQUEST

On October 18, 2016, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Waste Management of Alameda County, Inc. (“WMAC” or the “Applicant”) for the purchase of up to \$77,272,550 in Qualified Property to build a new state of the art Organics Material Recovery Facility and Organics Material Composting Facility at its Davis Street Transfer Station in Alameda County (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purposes of the program.

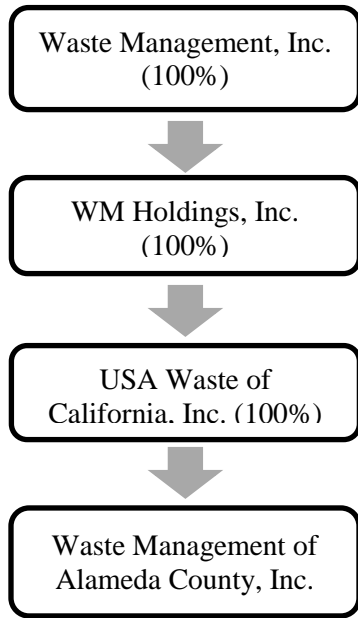
As of June 30, 2019, WMAC has used the STE to purchase \$34,434,454 of Qualified Property (45% of the total Qualified Property approved). WMAC is requesting to extend the Agreement initial term by one year, two months, and 13 days to accommodate unforeseen circumstances that affected the Project’s initial timeline such as delayed design, permitting, and construction activities. According to WMAC, it had to extend its design phase after having solidified its contractual obligations, and encountered delayed permit approvals due to an abnormal backlog of permit reviews with the City of San Leandro. WMAC represents that other minor impacts to the timeline were also due to the availability of labor, materials, and sequencing of construction tasks. Now that design and permitting are complete, WMAC believes that the additional time will enable the project to be completed by July 31, 2020, and all invoices will be processed in time for the December 31, 2020 semi-annual report to CAEATFA.

THE APPLICANT

Waste Management, Inc. is a comprehensive waste management and environmental services provider that operates transfer stations, recycling facilities, and single stream facilities across North America. Waste Management of Alameda County serves as the franchised waste hauler for the City of Oakland and surrounding communities.

The parent company, Waste Management, Inc., has one other subsidiary through other holding companies that has received a CAEATFA STE award for a biogas alternative source project: WM Renewable Energy, L.L.C., which received an award on January 20, 2015 for approximately \$2 million in Qualified Property for an estimated sales and use tax exclusion of \$168,767. Another Waste Management subsidiary, Waste Management Recycling and Disposal Services of California, received a CAEATFA STE award on October 18, 2019 to construct a new organic waste material recovery facility. The application was for approximately \$3.5 million in Qualified Property for an estimated sales and use tax exclusion of \$294,700.

The chain of ownership for Waste Management of Alameda County is as follows:



The corporate officers of Waste Management of Alameda County are:

- Barry Skolnick, President
- Leslie Nagy, Controller and CFO
- Courtney Tippy, Vice President and Secretary
- Dave Stratton, Vice President and Assistant Secretary

THE PROJECT

The Applicant requested a sales and use tax exclusion to build a new state of the art Organics Material Recovery Facility and Organics Material Composting Facility at the Davis Street Transfer Station in Alameda County.

The Project will increase diversion of glass, paper, metals, wood, and plastic, and allow recovery of organic materials for the first time. The organics material recovery facility incorporates a four track parallel processing system, shredders, and screening systems. Screening systems filter the waste by size into one of four tracks. Each track includes magnetic screening to sort metals, density separation to sort paper, plastic, and other high density materials, and optical separation to remove paper, glass, plastic, and wood. Organic material will be composted in the adjoining organics material composting facility. The organics material composting facility will pre-treat and process organic materials in an eight lane processing system. The material will be actively composted for a 21-day retention time, and then blended with other compost products and materials by a third party compost facility operator.

The Applicant represents that the Project will process an additional 312,000 tons of waste per year that is currently being sent directly to the landfill. Of these 312,000 tons per year, 195,000 tons per year will be recycled, a diversion rate of 65%. The Project is Phase One and Two of a multiphase plan designed to increase recycling at the site. Phase Three, which is not included in the application, is expected to add additional processing equipment and an anaerobic digester facility.

INITIAL TERM EXTENSION REQUEST

WMAC has requested that the initial term of the Agreement be extended from October 18, 2016 to December 31, 2020 to accommodate Project delays caused by prolonged design, permitting, and construction activities.

Staff Evaluation

WMAC represents that additional time to use the STE award is critical for its Project because it lacked pertinent information needed to predict a more accurate timeline during the development and execution of its design build contract. The Company shares that it does not expect any other delays now that it has surpassed the design and permitting stages. WMAC represents that all construction activities and the Project will be completed by July 31, 2020. By extending the time to December 31, 2020, this will ensure that the financial and administrative tasks related to the Qualified Property purchases are finalized.

Based on this information, Staff believes extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid an additional fee of \$500 because extending the initial term requires a modification to the Applicant’s Master Regulatory Agreement.

RECOMMENDATION

Staff recommends that the Board approve Waste Management Alameda County, Inc.’s request to extend the initial term of the Agreement by one year, two months, and 13 days to December 31, 2020 as it is in the public interest and advances the purpose of the program.

³ California Code of Regulations Title 4, Division 13, Section 10036

Attachments

Attachment A: Waste Management Alameda County, Inc.'s letter requesting waiver (September 24, 2019)

Attachment B: Waste Management Alameda County, Inc.'s staff summary at the time of approval

**RESOLUTION APPROVING A TIME EXTENSION FOR
WASTE MANAGEMENT ALAMEDA COUNTY, INC.’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

October 15, 2019

WHEREAS, on October 18, 2016 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$77,272,550 of Qualified Property for **Waste Management Alameda County, Inc.** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by one year, two months, and 13 days to December 31, 2020; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to December 31, 2020.

Section 2. This resolution shall take effect immediately upon its passage.

**Attachment A: Waste Management Alameda County, Inc.'s Letter Requesting Waiver
(September 24, 2019)**



WASTE MANAGEMENT
Northern California –
Nevada
100 Vassar Street
Reno, NV 89502

September 24, 2019

CAEATFA STE Program
Office of the State Treasurer
915 Capital Mall
Sacramento, CA 95814

Re: CAEATFA STE Program Extension

Dear CAEATFA:

We are requesting a waiver for a time extension per the Program's regulations.

1. The Project is a design build project- additional time was required to design the project based on information that was not available at the time of the Design Builder contract execution and development of the original schedule.
2. Permitting timeline was greater than anticipated due to design changes and an abnormal back log of permit reviews conducted by the City of San Leandro.
3. Minor impacts to the original schedule have occurred based on the availability of labor, materials and the sequencing of construction tasks.

We do not expect any other delays to the schedule as design and permitting are complete. Delay could occur for abnormal weather events or other impacts that are outside of the direct control of the Design Builder and WMAC.

The anticipated schedule for purchasing the remainder of the Qualified Property will be completed by December 31, 2020. The extension is necessary because the project has been delayed due to construction activities and the project is expected to be completed by July 31, 2020. The additional time will allow us to ensure that all eligible invoices are included and submitted in our report to CAEATFA for the period ending December 31, 2020.

Attached is a signed Legal Status Questionnaire

Please contact me if there are any further questions.

Signature: _____

Name: Barry Skolnick

Title: President

Date: September 24, 2019

Attachment B: Waste Management Alameda County, Inc.’s Staff Summary at the Time of Approval

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁴

**Waste Management of Alameda County, Inc.
Application No. 16-SM008**

October 18, 2016

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Waste Management of Alameda County, Inc.

Location – San Leandro, Alameda County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Construction of a New Organics Material Recovery Facility and Organics Material Composting Facility

Value of Qualified Property – \$77,272,550

Estimated Sales and Use Tax Exclusion Amount⁵ – \$6,506,349

Estimated Net Benefits – \$2,017,327

Application Score –

Fiscal Benefits Points:	1,288
<u>Environmental Benefits Points:</u>	<u>22</u>
Net Benefits Score:	1,310

<u>Additional Benefits Points:</u>	<u>60</u>
Total Score:	1,370

Staff Recommendation – Approval

⁴ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

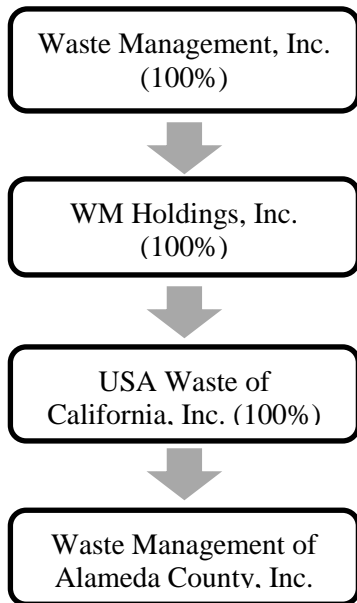
⁵ This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

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The parent company, Waste Management, Inc. has one other subsidiary through other holding companies that has received a CAEATFA STE award for a biogas alternative source project: WM Renewable Energy, L.L.C., which received an award on January 20, 2015 for approximately \$2 million in Qualified Property for an estimated sales and use tax exclusion of \$168,767. Another Waste Management subsidiary, Waste Management Recycling and Disposal Services of California, has a pending recycled feedstock application slated to go before the CAEATFA Board on October 18, 2016. The application is for approximately \$3.5 million in Qualified Property for an estimated sales and use tax exclusion of \$294,700.

The chain of ownership for Waste Management of Alameda County is as follows:



The corporate officers of Waste Management of Alameda County are:

- Barry Skolnick, President
- Don Carpenter, Vice President and CFO
- Courtney Tippey, Vice President and Secretary
- Dave Stratton, Vice President and Assistance Secretary

THE PROJECT

The applicant is requesting a sales and use tax exclusion to build a new state of the art Organics Material Recovery Facility and Organics Material Composting Facility (the “Project”) at the Davis Street Transfer Station in Alameda County.

The Project will increase diversion of glass, paper, metals, wood, and plastic, and allow recovery of organic materials for the first time. The organics material recovery facility incorporates a four track parallel processing system, shredders, and screening systems. Screening systems filter the waste by size into one of four tracks. Each track includes magnetic screening to sort metals, density separation to sort paper, plastic, and other high density materials, and optical separation to remove paper, glass, plastic, and wood. Organic material will be composted in the adjoining organics material composting facility. The organics material composting facility will pre-treat and process organic materials in an eight lane processing system. The material will be actively composted for a 21-day retention time, and then blended with other compost products and materials by a third party compost facility operator.

The Applicant represents that the Project will process an additional 312,000 tons of waste per year that is currently being sent directly to the landfill. Of these 312,000 tons per year, 195,000 tons per year will be recycled, a diversion rate of 65%. The Project is Phase One and Two of a multiphase plan designed to increase recycling at the site. Phase Three, which is not included in the application, is expected to add additional processing equipment and an anaerobic digester facility.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Bulk Handling Equipment (Organics Separation)	\$27,221,250
Bulk Handling Equipment (Conveyance and Recyclable Sorting)	770,000
Size Reducers & Shredders	83,600
Rolling Stock	1,860,600
Organics Material Composting Facility Anaergia Building	2,625,000
Organics Material Composting Facility Anaergia Equipment	11,947,100
Organics Material Recycling Facility Building	16,775,000
Organics Material Recycling Facility Facility Infrastructure	990,000
Organics Material Composting Facility Building	<u>15,000,000</u>
Total	<u>\$77,272,550</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

The Applicant has already broken ground on the building's foundation. The material and equipment is anticipated to be purchased in 2016 and 2017 and go on-line in 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$77,272,550 and the total net benefits are valued at \$2,017,327 for the Project. The Project received a Total Score of 1,370 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 22 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,288 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$8,381,777 resulting in a Fiscal Benefits score of 1,288 points for the Project.
- B. **Environmental Benefits (22 points)**. The Project will result in \$141,898 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 22 points for the Project. These benefits derive from the processing of mixed recyclables and organic material, which will divert approximately 195,000 tons of waste per year from the landfill.
- C. **Additional Benefits (60 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 60 additional points.
 1. **Permanent Jobs (30 of 75 points)**. The Applicant's Project will support a total of 74 permanent jobs at its Facility. CAEATFA estimates that approximately 10 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 30 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant's Project will support a total of 70 construction jobs at its Facility. CAEATFA estimates that approximately 10 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 30 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has applied for and received all permits allowing construction to commence. All requirements for permits issued by Alameda County, Cal Recycle, the City of San Leandro, and the Bay Area Air Quality Management District have been completed, and the applicant is awaiting review and issuance. The final building permits will be issued once the City inspects the completed construction.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$309,090.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM0008 for Waste Management of Alameda County’s purchase of Qualified Property in an amount not to exceed \$77,272,550 anticipated to result in an approximate sales and use tax exclusion value of \$6,506,349.

⁶ California Code of Regulations Title 4, Division 13, Section 10036