



July 2, 2018

Tom Varga
Director of Public Works
City of Fort Bragg
416 N. Franklin Street
Fort Bragg, CA 95437

Subject: Cold Creek Compost, Inc. - Rate Increase Justification

Dear Mr. Varga:

Thank you for your June 26, 2018 communication regarding Cold Creek Compost's (Cold Creek) increase in the current tip fee. This letter provides additional justification and support of the tip fee increase from the current price per ton of \$27.36 to \$36.00 per ton.

Since starting the operation in 1995, Cold Creek has provided the community with a local option for recycling organic materials. Of the approximately 177 permitted composting operations in California, Cold Creek is one of thirty facilities (or 17%) currently permitted to accept food materials. Cold Creek's ability to accept food materials provides a tremendous benefit to the community, particularly as the State continues to require increased diversion from landfills.

The current increase in the tip fee ensures that all local jurisdictions are paying the same tip fee as well as matching the Sonoma County Waste Management Agency (SCWMA) rate. As evidenced in **Table 1** below, the Cold Creek price per ton is still the lowest rate in the industry, while accepting the widest range of feedstocks.

Table 1 – Tip Fee & Feedstock Comparison

Company Information	Types of Feedstocks Received	Price Per Ton
Solid Waste Systems Ukiah, CA	Green and wood materials only <u>NO</u> food materials, soiled paper, etc.	\$45.60/ton – Gate Fee
Quakenbush Mountain Clearlake, CA	Green and wood materials only <u>NO</u> food materials, soiled paper, etc.	\$37.75/ton – Gate Fee
Waste Management - Redwood Novato, CA	Green, food, and wood materials	\$46.50/ton – Recent contract rate for SCWMA
Recology - JPO Vacaville, CA	Green, food, and wood materials	\$65.93/ton – Recent contract rate for SCWMA
City of Napa Compost Facility Napa, CA	Green, food, and wood materials	\$49.00/ton – Recent contract rate for SCWMA
Wes Green Landscape Arcata, CA	Green and wood materials only <u>NO</u> food materials, soiled paper, etc.	\$55.00/ton – Gate Fee
<i>Cold Creek Compost</i> Ukiah, CA	<i>Agricultural, green, food, and wood materials</i>	\$36.00/ton

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The solid waste industry is one of the most highly regulated industries in the State. Recent regulations have placed additional financial and operational burdens on the industry that require new equipment as well as an increase in personnel, as outlined below.

- 1) To comply with air quality regulations, Cold Creek was required to retire the facility's tub grinder and purchase a new compliant grinder with at least a Tier 3 engine. Total cost of the new grinder = \$900,900.
- 2) Effective January 1, 2018, CalRecycle placed the responsibility of physical contamination limits on compost operators. This requires that finished compost does not contain more than 0.5% by dry weight of physical contaminants greater than 4 millimeters, and no more than 20% by dry weight of this 0.5% shall be film plastic greater than 4 millimeters.

In order to ensure compliance, Cold Creek has purchased additional sorting equipment and hired additional labor to sort contamination, including:

- i) Purchase of a new trommel screen at the cost of \$447,500.
- ii) Purchase of a new air lift separator at the cost of \$23,500.
- iii) More than doubled the number of ground crew staff, increasing from 2 employees to 5 employees at an annual cost of over \$35,000 per employee.

Future regulations, including compliance with air quality regulations and state diversion requirements, will necessitate additional expenditures in the coming years as outlined in **Table 2** and in the sections below.

Table 2 – Costs to Replace Current Fleet By 2028 In Compliance With Air Quality Regulations

Current Loaders	Loader Type	Replacement Cost
1	Michigan 475	\$900,000 each
2	Michigan 275	\$625,000 each
1	Michigan 175	\$470,000 each
2	Michigan 75	\$165,000 each
2	Caterpillar 966	\$470,000 each
1	Caterpillar 980	\$550,000 each
Total Replacement Cost		\$4,440,000

Recent state legislative regulations, as described below, mandate the diversion of organic materials from the landfill.

AB 32, The California Global Warming Solutions Act of 2006

Assembly Bill 32 (AB 32), the *California Global Warming Solutions Act of 2006*, declares that global warming poses a serious threat to the economic well being, public health, natural resources, and environment of California. AB 32 provided initial direction for creating a comprehensive multiyear program to limit California's greenhouse gas (GHG) emissions at 1990 levels by 2020. One specific requirement includes the preparation of a "Scoping Plan" for achieving the maximum technologically feasible and cost-effective GHG emission reductions by 2020.

The first Scoping Plan update occurred in May 2014. *Key Recommended Actions for the Waste Sector* outlined in the updated Plan includes the requirement that the Air Resources Board (ARB) and CalRecycle lead the development of program(s) to eliminate disposal of organic materials at landfills. The requirement mandated legislation that now requires businesses that generate organic waste to arrange for recycling services before the end of 2014. **AB 1826** was enacted in October 2014 as a result of this requirement, prior to the 2014 year-end deadline. (Note - organic wastes degrade in a landfill to create methane gas, a GHG with a global warming potential of 28-36 compared to a global warming potential of 1 for CO₂.)

In addition, ARB was tasked to lead a process for identifying and recommending actions to address California agency and federal permitting as well as site challenges associated with composting and anaerobic digestion.

AB 341, Solid Waste Diversion

Assembly Bill 341 (AB 341), adopted in May of 2012, sets forth the requirements of the statewide mandatory commercial recycling program. Its purpose is to reduce GHG emissions by diverting commercial solid waste to recycling efforts and to expand the opportunity for additional recycling services and recycling manufacturing facilities in California. This law requires California commercial businesses and public entities that generate four or more cubic yards per week of waste and multi-family housing complexes with five or more units, to adopt recycling practices

Each local jurisdiction is required to inform businesses about the recycling requirement and to keep track of the level of recycling within the business community. In addition, each jurisdiction is required to report to Cal Recycle on progress in the business community

AB 1826, Mandatory Commercial Organics Recycling

AB 1826 requires businesses recycle organic materials starting April 1, 2016, with the ultimate goal of diverting 50% of organic materials disposed from businesses by 2020 as compared to 2014. The bill also requires local jurisdictions implement a commercial Organic Recycling Program to divert organic materials generated by businesses.

AB 876, 15-Year Organic Processing Capacity

Beginning August 2017, AB 876 requires every county or regional agency to estimate the amount of organic materials that will be generated in the county or region. In addition, the agency must estimate the additional organic materials necessary for a recycling facility and identify the capacity for processing materials. The agency must understand the areas identified by the county or regional agency and identify locations for new or expanded organic waste recycling facilities capable of safely meeting the additional needs.

SB 605, Short Lived Climate Pollutants

SB 605 requires the California Air Resources Board (CARB) reduce emissions of short lived climate pollutants, including methane. As such, CARB aims to eliminate disposal of 90% of organic materials from landfills by 2025.

SB 1383, Short Lived Climate Pollutants

SB 1383 mandates the reduction in landfilling organic materials, thereby reducing methane emissions. This bill has two specific goals: 1) 50% reduction in the level of statewide disposal of organic waste from 2014 levels by 2020; and 2) 75% reduction in the level of statewide disposal of organic waste from 2014 levels by 2025.

AB 1594, Green Waste ADC Phase-Out of Diversion Credits

Beginning in 2020, the use of green materials for alternative daily cover (ADC) will not be counted as diversion through recycling and will instead be considered part of a jurisdiction's disposal rate. The bill requires every jurisdiction to address these new requirements and divert green materials currently used as ADC by August 2018.

The above noted legislative bills work in conjunction to increase the collection of organics and the capacity for organics collection. Collectively, these laws will decrease the use of organics as ADC in landfills and decrease the landfilling of organics. CalRecycle estimates an additional 21,000 tons of organic materials in Mendocino County will need to be recycled/composted in the next 15 years. Due to legislation and anticipated increases in organic materials, Cold Creek is working to ensure future capacity for the City's needs.

In 2017, Cold Creek composted over 43,000 tons of incoming feedstocks and is close to reaching the permitted capacity of 50,000 tons. Cold Creek is currently in the process of designing a new expanded facility to support an increase in the annual permitted tonnage to 200,000 tons. This expansion will allow for an increase in future capacity and ensure the City of Fort Bragg can continue to meet State mandated diversion requirements. The facility will also save ratepayers money on transportation and tip fees costs associated with landfilling organic materials. Currently, the majority of landfilled material from Fort Bragg is hauled to Potrero Hills in Suisun City, CA, which is 180 miles one way from Waste Management's Pudding Creek facility, versus the 59 miles organic materials travel to the Cold Creek facility. Increased diversion from the landfill coupled with increased capacity at Cold Creek will result in a savings to ratepayers, reductions in greenhouse gas emissions, and compliance with State regulations.

In order to support a future expansion and ensure the City can continue to meet current and future diversion requirements, Cold Creek is in the process of planning and designing a new state of the art composting facility at the existing site. Costs to support this endeavor include:

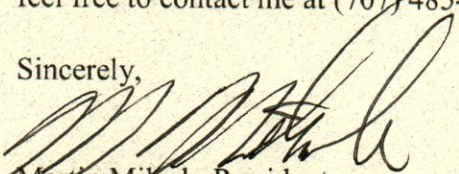
- 1) Increase in rent to secure a long term contract and additional acreage in order to accommodate a future expansion. Effective 2016, rent increased \$1,500.00 per month with additional increases of \$1,000.00 per month every 5 years.
- 2) Costs for design, permitting, and CEQA are estimated to be \$200,000 to \$350,000.
- 3) Construction costs for the expansion are estimated to be \$7 to \$9 million.

Additional financial and market conditions that have impacted the facility outside of Cold Creek's control include:

- 1) Increase in diesel fuel costs due to market conditions and State taxes.
- 2) Fifty percent reduction in revenue from the sale of planter mixes in 2018.

As evidenced above, there are many factors influencing the operational costs of the facility which necessitate the increase to the tip fee. We encourage you, City staff, and Councilmembers to visit the facility in order to gain a greater understanding of our operations and to appreciate the value Cold Creek brings to the community. If you have any questions or require additional information, please feel free to contact me at (707) 485-5966.

Sincerely,



Martin Mileck, President
Cold Creek Compost, Inc.

cc: Tabatha Miller, Fort Bragg City Manager
Scott Schneider, Fort Bragg Administrative Services Director
Steve Shamblin, Waste Management