

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF AUTHORIZING) RESOLUTION NO. 88-942
EXECUTION OF A MEMORANDUM OF)
UNDERSTANDING WITH RIEDEL) Introduced by
ENVIRONMENTAL TECHNOLOGIES, INC.) Rena Cusma
FOR A MASS COMPOSTING FACILITY)

WHEREAS, The Metropolitan Service District (Metro) has determined, as part of its Solid Waste Reduction Program adopted in Resolution No. 85-611, that up to 48 percent of the municipal solid waste in the Portland tri-county area could be allocated to alternative technology; and

WHEREAS, the two-part Request for Qualifications and Request for Proposal solicitation and selection process yielded mass composting as a feasible technology, and Riedel Environmental Technologies, Inc. (RET) as the systems contractor with which to negotiate a Memorandum of Understanding (MOU) for a mass composting facility; and

WHEREAS, RET submitted additional information Metro had requested, on April 15, 1988, and negotiation of the Memorandum of Understanding was completed on May 25, 1988; and

WHEREAS, RET has guaranteed their facility will process 185,000 tons per year of municipal solid waste, to produce at least 55% (101,750 tons) compost, and no more than 35% (64,750 tons) residue, with the remaining tonnage to be recovered materials, revenues from which will be shared with Metro to lower the tip fee Metro will pay; and

WHEREAS, RET provided a firm facility price not subject to further adjustment for reason other than Metro initiated changes and escalation according to the Chemical Plant Index, which is \$18,000,000 exclusive of site cost of \$1,250,000; and

WHEREAS, Metro may choose to own the site and purchase the site directly from RET; and

WHEREAS, the tip fee achieved through the Memorandum of Understanding negotiations is \$41.20 for the first year of operation, in 1988 dollars, and is 1.7% less than the landfill based system cost represented by Metro's contract with Oregon Waste Systems for services of an out-of-region landfill; and

WHEREAS, RET has secured markets, all of which are outside the three county area, for 100% of the first year's compost production; and

WHEREAS, RET has agreed to make its Killingsworth Fast Disposal Landfill site available for contract years one (1) through five (5) to store up to 100,000 tons of compost, should markets not accept the compost, and to provide property to accommodate storage of the compost in later years if needed; and

WHEREAS, RET has a letter of interest from several banks who may provide a "letter of credit" to enable the project to achieve at least a AA rating for the issuance of private activity bonds, and to act as the "deep pocket" in the transaction; and

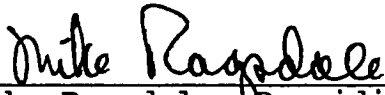
WHEREAS, RET has secured a conditional use permit for an 18+ acre site located on Columbia Boulevard to be used as a mass composting facility; and

WHEREAS, RET has negotiated with Metro a business agreement that includes a 15% equity contribution from RET (or 10% if the project does not receive transitioned tax status), and risk allocation where the cost of Metro-caused change and/or uncontrollable circumstances are borne by Metro, and RET-caused changes are borne by RET; now, therefore,

BE IT RESOLVED,

That the Council of the Metropolitan Service District authorizes the Executive Officer to execute the Memorandum of Understanding, in a form substantially similar to Exhibit A attached to the original hereof, and hereby incorporated by reference, with RET and to commence negotiation of the long term service contract with RET using the Metro negotiating team already established.

ADOPTED by the Council of the Metropolitan Service District this 23rd day of June, 1988.


Mike Ragsdale, Presiding Officer



METRO

2000 S.W. First Avenue
Portland, OR 97201-5398
503/221-1646

Memorandum

Agenda Item No. 8.7

Date: June 22, 1988

Meeting Date June 23, 1988

To: Metro Council

From: Councilor Gary Hansen, Chair
Council Solid Waste Committee

Regarding: COUNCIL SOLID WASTE COMMITTEE REPORT ON JUNE 23, 1988
COUNCIL MEETING AGENDA ITEM

Agenda Item 8.7 Consideration of Resolution No. 88-942, for the Purpose of Authorizing Execution of a Memorandum of Understanding with Riedel Environmental Technologies, Inc. for a Mass Composting Facility

Committee Recommendation

The solid Waste Committee recommends Council adoption of Resolution No. 88-942.

Discussion

A public hearing was held on Resolution No. 88-942. No one testified.

The Committee asked Mr. Gary Newbore, vice-president of Riedel Environmental Technologies, Inc. why the price of the project had gone up. Mr. Newbore said it was due to a mistake in the original estimate; the use of different processing drums and that we now have a firm price without a bid.

The Committee asked if the project would cost more than 20 percent over a landfill-based disposal system. The answer is no. The Committee asked when Metro would be "locked into" the project. General Counsel stated it would be at the point where definitive service and construction agreements are approved by the Council.

Councilor Kirkpatrick asked if the following criteria would be met by the project per Ordinance No. 86-201:

1. Project will demonstrate compliance with all applicable environmental protection regulations.
2. Project will minimize the financial risk to the public in terms of project funding and general management.
3. Marginal costs per ton will maximize amount of waste processed relative to the total project cost.

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June 22, 1988
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4. Project will maximize flexibility by minimizing capital costs and limiting construction time.
5. Over the financial life-cycle project will minimize increases in disposal system costs compared to a land-based system.
6. Proposal will demonstrate the financial strength and corporate commitment to resource recovery by the vendor.
7. Project technology, cost and location will gain regional public acceptability.

The Solid Waste staff and Mr. Newbore of Riedel stated that the proposed project meets all of the above criteria.

The Committee voted 4-0 to recommend Council adoption of Resolution No. 88-942. Voting aye: DeJardin, Hansen, Kelley and Kirkpatrick. This action taken June 21, 1988.

RB:gpwb
SWCRPT.622

STAFF REPORT

CONSIDERATION OF APPROVAL OF THE MEMORANDUM OF
UNDERSTANDING WITH RIEDEL ENVIRONMENTAL TECHNOLOGIES, INC.
TO DESIGN, CONSTRUCT, OWN, AND OPERATE A MUNICIPAL
SOLID WASTE COMPOST FACILITY

Date: June 2, 1988

Presented by: Rich Owings
Debbie Gorham

FACTUAL BACKGROUND AND ANALYSIS

On September 22, 1987 the Council approved by Resolution No. 87-809 that negotiations continue with Riedel Environmental Technologies, Inc. (RET) to negotiate a Memorandum of Understanding (MOU) for a mass composting facility. The facility was to process 160,000 tons per year of solid waste and to be located at 5437 N.E. Columbia Boulevard in Portland, Oregon. This authorization followed a lengthy process of proposer qualification and evaluation that was summarized in the Resource Recovery Project Final Evaluation Report dated June 19, 1987.

Negotiations took place between Metro and RET from October 1987 until early January 1988 at which point official negotiations were suspended due to the need for RET to develop greater specificity in the areas of 1) facility price, 2) financing, and 3) markets and storage for compost. RET was given until April 15, 1988 to provide the supplementary information in satisfactory form. RET provided the additional information by April 15 in a form sufficient to justify resuming formal negotiations to finalize the MOU. From January through May 25, 1988, negotiations took place on MOU language, risk allocation and technical specifications.

Negotiations concluded on May 25, 1988. RET guarantees a waste throughput of 185,000 tons per year (delivered direct haul) with a facility price of \$18,000,000 and an annual operation and maintenance fee of \$2,800,000. (If the project is not transitioned, the operation and maintenance fee will be reduced to \$2,750,000.) This results in a first year tip fee of \$41.20/ton in 1988 dollars and a system cost of \$43.61/ton (levelized cost). This is 1.7% less than the landfill-based system cost, which is \$44.61/ton.

Revenue from the sale of materials will be shared between Metro and RET. Metro will receive credit for the first five percent of materials revenues, and for years 1-6 excess materials revenue over the five percent will be shared two-thirds Metro and one-third RET. During years 7-11 and 12-20 the excess materials revenue will be shared 55/45 and 50/50 respectively.

Revenue from the sale of compost will be shared two-thirds Metro, one-third RET, years 1-6. During years 7-11 and 12-20 the revenues will be shared 55/45 and 50/50 respectively. RET also guarantees a minimum compost production of 101,750 tons (55%) and a maximum residue of 64,750 tons (35%).

The cost analysis assumes no compost revenue the first five years and \$3/ton, escalated, during years 15-20. Revenue from the sale of recovered materials is assumed to be \$25/ton.

RET will provide an equity contribution of 15 percent of the facility price if it is transitioned for tax purposes. If non-transitioned the estimated equity contribution is ten percent.

Incremental operation and maintenance costs will be \$17.39/ton for tonnage in excess of 185,000 tons per year.

Risk is divided into three categories; 1) Metro cause, 2) RET cause, and 3) uncontrollable circumstance. In a manner similar to the Combustion Engineering MOU on the RDF facility, Metro assumes risk for Metro cause and for uncontrollable circumstance and RET assumes the risk for RET cause and for reasons other than uncontrollable circumstance. There are however, areas of shared risk for uncontrollable circumstance for recovered materials and compost revenues when performance levels are not reached or where a reduction in recovered materials occurs. Loss of tax benefits is an RET risk except as to the equity formula described above.

The project will be financed with the sale of private activity bonds issued by Metro. Credit support for RET will be provided by a Letter of Credit (LOC). The LOC bank is expected to be Barclay's Bank of London, England, a bank familiar with the DANO process and compost facility financing. A letter of intent would be issued by Barclay's after execution of the MOU.

Metro will receive an option to purchase the facility site for \$1,250,000 with lease back to RET for 20 years at a nominal price. Should Metro elect not to purchase the site, then fair market lease payment must be negotiated to compensate RET for use of their site.

On the critical issue of compost marketing RET has agreed to market its compost in a manner not to disturb the existing markets for other compost products in the Portland Metropolitan area. At present RET has commitments to distribute the entire first year production of compost in a geographic area beyond a 45-mile radius from the City of Portland.

Transportation costs to deliver the compost to market are included in the operation and maintenance fee, and are subject to cost verification. The sum of \$416,250 escalated as of April 15, 1988, is the negotiated allowance for transporting the compost. If less is required, then two-thirds credit will accrue to Metro; if more, RET will absorb.

RET has agreed to provide storage for any compost they are unable to distribute. During all contract years, space will be available on the site to store 32,000 tons. In addition, RET has agreed to make its Killingsworth Fast Disposal Landfill site available for contract years 1-5 to store up to 100,000 tons. During years 6-10, in addition to the space provided for storage of compost on the site, RET has agreed to provide property, acceptable to Metro, that will:

- a. Accommodate the storage of 100,000 tons of compost if the 100,00 ton storage requirement has not been exceeded during the first five years of the service agreement.
- b. Accommodate the storage of 200,000 tons of compost if the storage requirement during the first five years will not have exceeded 200,000 tons at any one time.
- c. Provide for the storage of 500,000 tons of compost if RET will have needed to store more than 200,000 tons at any time during the first five years of the service agreement.

For contract years 10-20, RET will provide an alternative storage site which can accommodate the maximum number of tons which they will have needed to store at any time during the first ten years of the service agreement.

Once the MOU is executed, Metro must execute consultant agreements to complete final long-term service agreements with RET as well as financing documents. It is estimated that final RET agreements can be completed by November 1988, and the financing completed before spring of 1989. With an 18-month construction period, the facility could then be in operation by late-1990.

A copy of the MOU document will be made available on June 3, 1988.

Executive Officer's Recommendation

The Executive Officer recommends:

- a. approval of the Memorandum of Understanding between Metro and RET.
- b. staff preparation of consultant contracts for negotiation of long-term service agreements and financing documents.
- c. completion of Compost Market Study.
- d. staff report to Council on:
 - 1) results of Compost Market Study
 - 2) long-term service agreements
 - 3) final project finance structure

prior to execution of contracts and financing project.