



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

October 28, 1981

CITY HALL
915 J STREET - 95814
(916) 449-5704

City Council
Sacramento, California

APPROVED
BY THE CITY COUNCIL

NOV 4 1981

Honorable Members in Session:

OFFICE OF THE
CITY CLERK

SUBJECT: Vegetal Waste Processing Agreement

SUMMARY

This report provides a description of the results of negotiations between the Assistant City Manager and a representative of the State Department of General Services concerning the financial commitments contained in the Vegetal Waste Processing Agreement. A recommendation is made for the City Council to approve the modified financial commitment contained herein. This recommendation is conditioned on an understanding that the City assume the full financial obligation for capital improvements (except for the Solid Waste Management Board Grant of \$227,664) necessary to provide the service to the State. Conceptual approval of the financial agreement by the Budget and Finance Committee occurred on October 27, 1981 by a 2-0 vote. Additional Committee recommendations are provided herein.

BACKGROUND INFORMATION

On October 13, 1981, the Budget and Finance Committee instructed the Assistant City Manager to open negotiations with a representative of the State Department of General Services in an effort to obtain a more favorable financial agreement to provide a vegetal waste fuel source to the State's Central Cooling and Heating Plant at 7th and Q Streets. The State proposed to pay the City \$2 per ton for a minimum of 20,000 tons per year. The maximum financial commitment by the State was set at \$50,000 per year. Several portions of the contract, and more specifically the financial commitments, caused the City Engineer and City Attorney to recommend against the contract proposed by the State of California.

The Budget and Finance Committee's instructions to the Assistant City Manager limited the negotiations to financial impact. No attempt was made to restructure the proposed capital and service program initially developed by the State and City staffs. Negotiation with the State representative was conditioned on the assumption that the City Council desired to participate in this experimental program by fully funding the capital improvements (minus the \$227,664 Grant from the Solid Waste Management Board). Further, that the City was to obtain a fair price for the vegetal waste fuel which will enable the

City to recover the cost of providing the service. The significant financial commitments negotiated with the State are as follows:

1. The price the State will pay to the City during the first year of the agreement is \$5.50 per ton. The previous amount offered by the State was \$2 per ton.
2. The price per ton paid to the City in succeeding years will be adjusted based on the Consumer's Price Index for the San Francisco Bay Area. The actual adjustment, if any, will be determined by multiplying the base rate of \$5.50 per ton by the percentage of the CPI. The previous contract made no allowance for increase in the price of the material provided by the City.
3. The minimum guaranteed payment by the State has been increased from \$40,000 to \$110,000 per annum.
4. The maximum to be paid by the State during the first year of the contract is increased from \$50,000 to \$150,000.
5. Changes negotiated in the financial penalty section of the Fair Employment Practices Act have eliminated most of the financial risks to the City. Additionally, the State agrees to acquire the plant and equipment acquired by the City in the event that the State should terminate the agreement with the City for FEPA violations. This change is consistent with the State's previous agreement to reimburse the City for depreciated cost of the City capital investment (minus the \$227,664 Solid Waste Management Board Grant).

FINANCIAL DATA

A contract with the State to provide increased vegetal waste for organic fuel requires the City of Sacramento to make a capital investment estimated in excess of \$1 million. This capital expenditure will be reduced by the amount of the Solid Waste Management Board's Grant of \$227,664. The total capital cost is an estimate based on a conceptual plan and no attempt is made by the City staff to present this as the final cost.

The projected annual operating expense for the proposed Vegetal Waste Processing Facility is in excess of \$248,000 per year. This amount includes an estimated \$108,310 in the depreciated cost of capital structures and equipment. The net operating cost to the City based on 1981 dollars, is \$139,000 per year. The cost for maintenance and operation, as estimated by the City staff, assumes a level of staffing and equipment performance without the benefit of experience with the proposed physical plant and material handling services.

RECOMMENDATION

It is recommended that the City Council approve the City-State Vegetal Waste Contract with the negotiated financial commitments contained in this report. The City Council is reminded that this program is experimental in nature and

represents a major capital risk without the benefit of proven performance experience. Acceptance of this contract will require the City to develop a processing plant, principally at City expense, to assist the State in proving the technology for the use of vegetal waste fuel.

The City Council previously set aside \$2 million from the City General Fund to finance the Waste Removal Landfill Transfer Station Project (FY 81-82). The prevailing economic conditions that have eroded the City's General Fund causes this office to recommend that the City Council approve alternate financing for the capital cost of this project. Assuming that the Council approves the project, it is recommended that the General Fund financial commitment to this project be considered as a loan to the Waste Removal Fund. Details of the payback schedule will be developed by the Finance Department for Council approval.

On Monday, October 26, 1981 the following additional condition was brought to the attention of the City Manager's office:

The City has not yet completed the CEQA process for the proposed project. The project was originally included in the environmental impact report for the proposed solid waste transfer station. The process of completion of the EIR may require up to sixty (60) days. The City Council may not approve the project until the City complies with CEQA. Assuming that the Council wishes to approve the project, it is recommended that the City staff be directed to complete the CEQA process as soon as possible.

ACTION BY THE COMMITTEE

The Budget and Finance Committee, on a 2-0 vote, directed the City staff to forward four Committee recommendations to the City Council.

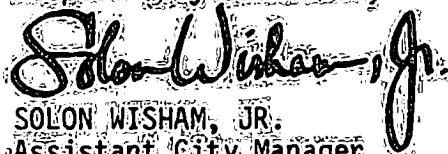
The Committee recommended that the Council:

1. Provide conceptual approval of the financial agreement between the City and State.
2. Provide conceptual approval of a General Fund loan to the Waste Removal Fund for capital projects not to exceed \$2,000,000. Actual capital expenditures to be approved on a project by project basis by the City Council.
3. Direct the staff to provide a recommendation to appropriate funds for a consultant to design the vegetal waste processing plant.
4. Direct the staff to complete the CEQA process on the Solid Waste Transfer Station which includes the proposed vegetal waste processing plant.

Recommendation Approved:


WALTER J. SLIRE
City Manager

Respectfully submitted,


SOLON WISHAM, JR.
Assistant City Manager

November 4, 1981
All Districts