

August 14, 2018

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute an amendment to the Southeast Resource Recovery Facility (SERRF) Operations and Maintenance Agreement No. 23336 with Covanta Long Beach Renewable Energy Corporation (Covanta), in an amount not to exceed \$8,700,000, to provide for capital investment by both the City of Long Beach and Covanta for facility equipment replacement. (Citywide)

DISCUSSION

The SERRF Operations and Maintenance Agreement (Agreement) between the City of Long Beach (City) and Covanta, provides for the operation of SERRF until June 30, 2024. In 2017, Covanta notified the City that equipment in the facility had reached its operational end of life and would require replacement. Covanta has estimated that the replacement work will cost \$13,700,000. The City contracted with HDR Engineering (HDR) in April 2017 to perform a condition assessment report for the facility. HDR is an engineering company that provides ongoing expertise to numerous waste-to-energy projects in the United States. Following a facility inspection, an assessment report was issued on June 8, 2017. The report verified that equipment in the facility has reached a point beyond efficient operations and without proper repair or replacement, the equipment may fail. The report outlines the required capital investment for various operating scenarios dealing with the expected operational life. For the facility to continue operations until 2024, HDR concurs with the proposed capital investment in the facility.

Under the terms of the proposed amendment, Covanta will make a capital investment in the facility in the amount of \$5,000,000 and the City will commit \$8,700,000. The funds will be used to replace 30-year-old equipment in the facility, as well as capital improvements to facilitate receiving higher value profile waste.

The current SERRF Agreement also allows either party to terminate the Agreement after December 2018. This termination for convenience provision was necessary when the current Agreement was executed because the economic feasibility for either party to continue operation of SERRF through 2024 was uncertain. With the proposed repairs expected to stabilize operations and maintenance efforts, the both the City and Covanta are interested in amending and pushing back the date of provision allowing either party to terminate the Agreement after December 2021. The term of the Agreement will not change, which is in effect through 2024. The proposed amendment will be beneficial to the City as it extends the

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commitment with Covanta for operation of the SERRF by not allowing termination for convenience until after 2021.

In the spirit of collaboration, the proposed amended Agreement will also include recitals intended to promote good faith collaboration between the City and Covanta to develop opportunities to accept higher value waste moving into the future. In addition to a more secure operation of SERRF until 2024, the Agreement will allow the City to explore a path for responsible environmentally safe waste disposal beyond 2024.

This matter was reviewed by Deputy City Attorney Amy R. Webber on June 28, 2018 and by Revenue Management Officer Geraldine Alejo on July 19, 2018.

TIMING CONSIDERATIONS

City Council action is requested on August 14, 2018, as long lead times for equipment procurement and replacement affect critical operations and facility availability.

FISCAL IMPACT

The contract amendment amount will not exceed \$8,700,000 for the capital replacement work. The City will be funding approximately \$2,000,000 in FY 18, \$5,000,000 in FY 19 and \$1,700,000 in FY 20. Covanta will invest the remaining \$5,000,000 needed for the repairs. Sufficient funds for FY 18 are budgeted in the SERRF Fund (EF 331) in the Energy Resources Department (ER). The Department will return to City Council with a request to increase appropriations for FY 19 and FY 20. Any work not currently budgeted will only proceed at such a time that appropriations have been approved by the City Council. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted.



ROBERT DOWELL
DIRECTOR OF ENERGY RESOURCES

RD:CRT

APPROVED:


PATRICK H. WEST
CITY MANAGER