



Southeast Resource Recovery Facility (SERRF) Update

City Council Meeting – February 6, 2024

SERRF - Background

- The Southeast Resource Recovery Facility (SERRF) is a Waste-To-Energy (WTE) operating facility located in the Port of Long Beach area and is co-owned by the City of Long Beach (City) and the Los Angeles County Sanitation District (LACSD) under a Joint Powers Authority (JPA) with a 2/3 to 1/3 split between the City and the LACSD, respectively.
- SERRF is currently operated by Covanta Long Beach Renewable Energy Corporation (Covanta) under contract to the City.
- SERRF was placed into service in July 1988, at a cost of \$108 million, as a 30-year operating facility that has now been operating for over 35 years.
- In 2017, the City commissioned HDR Engineering, Inc. (HDR), consultant to the City, to perform a physical condition assessment of SERRF to identify major capital expenditures that may be required to keep the facility operational beyond its original 30-year design life.

SERRF - Background

- Based on HDR's findings, the City invested \$13.7 million in capital and refurbishments in SERRF in FY 2019 and FY 2020 with the expectation that that facility would be capable of continuing operating through the Covanta contract term of June 30, 2024.
- The passage of State Assembly Bill 1857 (AB 1857) in late August 2022 removed the AB 939 waste diversion credit for jurisdictions that delivered municipal solid waste to existing WTE facilities in California beginning January 1, 2023.
- The anticipated reduction of nearly 50 percent of the annual waste tonnage processed at SERRF, along with its corresponding loss of revenue, introduced significant financial risks to the City for SERRF's continued commercial operations through the Covanta contract term of June 30, 2024.

SERRF - Background

- The expiration of SCE's 30-year Power Purchase Agreement in 2018 resulted in SERRF operating at an annual loss of approximately \$4 million, which was offset by available funds accumulated from prior years of operations.
- Staff estimated an additional revenue loss of \$2 million per month resulting from implementation of AB 1857. This would further increase the revenue shortfall and quickly deplete the funds available thereby necessitating the closure of the facility at the end of February 2023.
- Covanta approached the City in late 2022 and proposed amending the commercial structure of the current Agreement to continue SERRF's operations.

SERRF - Background

- On January 17, 2023, City Council authorized the seventh amendment to the SERRF Operations and Maintenance Agreement No. 23336 with Covanta (Seventh Amendment), thereby amending the commercial structure under the Agreement such that Covanta would take responsibility for all SERRF revenues and expenses for a contract period beginning on February 1, 2023, and continuing until June 30, 2024.
- The Seventh Amendment also amended the SERRF Operations and Management Agreement in relation to early termination of operations and decommissioning.
- The Seventh Amendment became effective on February 1, 2023.

SERRF - Recent Events

- Over the past couple of months, Covanta has encountered several failures of equipment near or at the end of its design life and unanticipated outages that have resulted in significant facility downtime, compromising the economic viability of SERRF.
- Covanta agreed to the revised commercial structure in the Seventh Amendment as a “pilot” to evaluate if the facility was sustainable on its own accord which has recently proven not to be the case.
- Covanta’s management concluded that the facility was not sustainable in its current state due to lack of clarity for SERRF’s future (difficult to retain their staff) and the age of the facility.

SERRF - Recent Events

- Covanta also identified \$8 million to \$17 million of additional capital investment necessary to extend the operating life of SERRF for an additional 5 years.
- An investment of this size by the City would deplete most, if not all, of the funds available in the SERRF Fund, leaving no funding available for the future decommissioning and demolition of the facility.
- The City was notified by Covanta on November 3, 2023, that it was exercising its right to cease operating SERRF pursuant to existing Agreement by providing the required (90) days advance written notice.
- The Agreement with Covanta was due to terminate on June 30, 2024.

SERRF – Operating Options Evaluated

- Since the November 2, 2023, notification by Covanta that it was exercising its right to terminate the Agreement, Staff has been evaluating potential options for the continuation of the SERRF's operations.
- Staff evaluated the option of continuing operating SERRF beyond February 1, 2024, utilizing Covanta as the operator on a cost plus 15% basis and included the \$17 million additional capital investment necessary to extend the operating life of SERRF for an additional 5 years.
 - Under this scenario, the SERRF Fund balance would reduce to a negative \$104,021,330 at the end of five years using current market rate tip fees of \$80/ton.
 - To retain the current SERRF Fund balance at the end of 5 years under this scenario, tip fees would need to be increased to \$157/ton, nearly double the current market rate tip fees. There would most likely be no waste brought to SERRF by haulers if the tip fees were set at this rate.

SERRF – Operating Options Evaluated

- HDR's 2017 facility condition assessment identified capital investments in the range of \$40.9 million to \$66.3 million to continue to operate SERRF through 2039.
 - Staff explored the option of securing bonding for the \$66.3 million of capital needed; however, given the uncertainty of future revenue streams and the evolving legislative environment at the state, it became evident that SERRF's operations could not directly support the bond debt and would likely need the backing of the City's General Fund to secure the debt.
 - Adding this potential bond debt burden to the already challenged City's General Fund would not be fiscally responsible, particularly with no assurances of future SERRF revenues.
- Staff reached out to other potential operators for SERRF to solicit their interest in replacing Covanta and operating the facility after January 31, 2024.
 - There are a limited number of qualified operators for WTE facilities in the US, with most of them located in east coast areas.
 - None expressed any desire to relocate or establish new operations in the western U.S. at this time.

SERRF – Next Steps

- The fiscal challenges facing SERRF's continued future operations are numerous and are now at a point that they can no longer be overcome.
- Operating SERRF today—initially designed for a 30-year operating life and now in its 35th year of operations—has been extremely challenging and is no longer sustainable without the infusion of a significant amount of capital investment.
- The uncertainty of reliable future revenue streams created from the evolving legislative environment in the state, introduces significant unknowns and risks into any capital investment consideration for SERRF.
- The SERRF Fund currently has the funds available for the remaining tasks of decommissioning and demolition of the facility.
- Further actions to continue operating SERRF beyond January 31, 2024, would most likely endanger the health of the existing SERRF Fund.

SERRF – Next Steps

- Pursuant to the terms of the Operations and Maintenance Agreement, Staff has been working with Covanta to develop a decommissioning plan for SERRF that includes the salvage of equipment and materials to offset a portion of the decommissioning costs.
- It is anticipated that the decommissioning plan will be complete before January 31, 2024.
- Decommissioning operations are currently planned to commence February 1, 2024, and are estimated to be completed in 12 months.

SERRF – Summary

- SERRF, which incorporates WTE technology, was initially conceived and developed by the City as an environmentally responsible tool for its municipal solid waste management.
- SERRF has been successfully operating for over 35 years in the most regulated air basin in the United States.
- Multiple scientific studies have shown that WTE offers significant reductions in Greenhouse Gas (GHG) emissions compared to that of landfilling waste.
- It has served the City as a critical tool to avoid landfilling waste after reduction, reuse, and recycling with every ton of waste processed at SERRF avoiding a ton of CO₂ equivalent emissions.
- The proposed new organic waste receiving and processing facility offers many of the same benefits that SERRF did at its inception and is therefore the best option to manage City's organic waste in the future.



Thank you!
Questions?