



Memorandum

MONTEREY REGIONAL WASTE MANAGEMENT DISTRICT

Reviewed by WMM Date 12/12/08
General Manager

DATE: December 12, 2008
TO: General Manager
FROM: Assistant General Manager
SUBJECT: Request from Sunland Garden Products to Modify Existing Lease Agreement

RECOMMENDATION: That the Board of Directors (1) Deny the Forbearance Request for from Sunland Garden Products to modify the existing lease agreement for rent, water, sharing of tip fee revenue, and product purchase; and (2) Authorize the General Manager to re-negotiate the agreement with Sunland, or negotiate an agreement on a month-to-month basis, not to exceed an 18 month period, with another tenant or company, under the same general terms and conditions presently in the rental agreement with Sunland.

BACKGROUND

In January of 2000, Sunland Garden Products entered into a five year agreement with the District for the leasing of approximately 60 acres of District property for organic waste processing and composting. This lease terminated at the end of 2004 and has been maintained on a month-to-month basis since that time. Sunland has been at the District and a partner in its green waste operations for over 20 years. Sunland currently holds a composting permit granted from the California Integrated Waste Management Board. The permit goes with the operator of the site, not the landowner, and is separate from the District's operating permits. The original owners of Sunland sold their business to another group of owners early in 2008 and the new management has been operating under the original terms of the lease agreement since their purchase. Their request for a forbearance of certain provisions of the lease has come about because of a downturn of general economic conditions and specific aspects of their business model.

District staff has met with the new owners of Sunland on a few occasions since they acquired the business. Discussion centered on the ability of the District to grant a long-term lease and provide benefits to Sunland currently not covered under the present lease agreement.

DISCUSSION

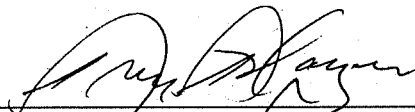
District staff took under review the request for forbearance of the rent and rate increase from Sunland. If all the terms requested by Sunland letter (attached) were granted by the District, the total loss of revenue to the District would be approximately \$50,000 on an annual basis. District staff has been able to find at the present time alternative sources for the material, (about 17,000 tons annually), that Sunland takes from the District's grinding operations. The District is presently compensated at a rate of about \$1 per ton for this mulch material by Sunland. Sunland has not taken any material from the District for about a 30 day period and the District has been able to make all of the green waste produced go to beneficial uses on and off-site.

Because it appears that Sunland may not be able to sustain the terms of its lease agreement, staff is also recommending to the Board that the General Manager be authorized to attempt to re-negotiate the terms of agreement with Sunland and at the same time negotiate a temporary lease with another company under the same general conditions offered to Sunland, on a month-to-month basis. While staff is currently able to find outlets for the entire mulch product produced through its green waste recycling operations, it may be prudent to find another tenant who could make use of this product. Organics material movement in this market is problematic, and the District's best interests would be served, if Sunland terminates its lease with the District, to find another local outlet for its mulch material. This would be by design a short-term lease while the longer term organic processing and composting Request for Proposals is being considered by the regional group of jurisdictions.

Staff believes that securing a replacement tenant if necessary would serve the needs of the District while, to the extent possible, retaining the same basic revenue flow and cost structure in place for green waste processing.

CONCLUSION

Due to the pressing financial needs of the District to control costs and enhance revenues, staff recommends denial of the request for forbearance of payment for rent and water with Sunland Garden Products.



Timothy S. Flanagan

Attachments:

Letter of Forbearance



90 Pioneer Road
Watsonville, CA 95076
Phone 831.724.6500
Fax 831.724.9443
www.sunlandgarden.com

19 November 2008

William Merry
General Manager
Monterey Regional Waste Management District
Marina, CA

Dear William,

I hope this letter finds you well. Also, thank you and your staff for meeting with us yesterday.

As we discussed, economic conditions are very difficult for everyone and particularly tough for Sun Land's composting operation. Our composting operation is and has been losing money for as long as we've been running Sun Land and, therefore, we need to take steps to change that. We shared some of our ideas to take advantage of the processing green waste into compost and marketing and selling the compost. These ideas will be detailed in a plan that, in general, consists of three parts: 1) revenue sharing, 2) sharing tipping fees, and, eventually, 3) re-locating Sun Land from Watsonville to Marina.

In the meantime, we need to take some steps immediately to mitigate our losses. We are asking MRWMD to 1) forbear on our rent, the fees to purchase the raw materials (green waste), and costs for water, and 2) sharing with Sun Land \$17.50/ton of the \$22.00/ton tipping fee collected from the green waste brought to MRWMD.

I'm requesting the forbearance start with this month and the tipping fees start with December, 2008. I'm also requesting that we continue the two aforementioned steps until the MRWMD accepts a proposal from us or another vendor in response to your upcoming RFP.

If you have any questions, please call at 724-6500.

Thank for your consideration.

Best wishes,

Juan C. Batista

"Life comes from the soil..."
President Wilson, 1913