TO: Mayor and Councilmembers

FROM: Steve Wagner, Public Works Department

CONTACT: Everett King, Environmental Services Coordinator

SUBJECT: Resource Recovery Project Term Sheet

RECOMMENDATIONS:

A. Receive presentation on the current status of the Resource Recovery Project.

B. Authorize the City Manager to sign the Resource Recovery Project Term Sheet on behalf of the City.

BACKGROUND:

The Resource Recovery Project is a multi-jurisdictional, public-private effort to develop and implement a modernized solid waste management system that will significantly reduce the need to continue disposing of refuse at the Tajiguas Landfill. Several proposals were submitted in response to the 2009 Request for Proposals to Establish a Solid Waste Management Conversion Technology Facility to Process Waste Currently Buried at the Tajiguas Landfill. Following extensive review by staff of the participating jurisdictions, the proposal submitted by Mustang Renewable Power Ventures, LLC (Mustang), consisting of a Materials Recovery Facility (MRF) and an Anaerobic Digestion (AD) Facility, was identified by as the preferred proposal. That selection was endorsed by the County Board of Supervisors in January 2012.

Staff presented its last update to the Council on the status of the proposed Resource Recovery Project on May 1, 2012. The following is a summary of actions undertaken since that presentation.

On May 2, 2012 a Request For Proposals (RFP) for Environmental consulting services was issued by the County, and following the receipt and review of several proposals, Padre and Associates was selected to write the Environmental Impact Review (EIR), and AECOM was selected to prepare the air quality/greenhouse gas emission analysis for the EIR. The County Board of Supervisors approved the contracts with Padre and AECOM, on November 13, 2012,
On May 14, 2012, a public Scoping Meeting was held by Santa Barbara County to accept comments regarding issues of concern that should be evaluated in the EIR. At the Scoping Meeting, MarBorg Industries requested that property it owns in the City of Santa Barbara be considered in the EIR as a possible site to locate the MRF component of the proposed Resource Recovery Project.

Throughout the spring and summer of 2012, the Subgroup performed detailed review of multiple pro-formas developed by Mustang to meet various scenarios outlined by the Subgroup, and met with representatives of Mustang on several occasions to better understand Mustang’s proposed rates of return on investment and assumptions about debt/equity financing for the project, interest rates, anticipated revenues from the sale of commodities, identified areas of risk, and other issues.

The 2009 RFP specified that the selected vendor would pay for the environmental review required under the California Environmental Quality Act (CEQA). In the pro-formas submitted by Mustang, the cost of environmental review was included in the pre-entitlement expenses that the vendor would incur, raising the concern that the estimated cost of the environmental review process included a profit margin, unnecessarily increasing its cost. In addition, the City Managers of the participating jurisdictions were concerned that having Mustang pay for the environmental review could create the perception that it was exerting undue influence on the outcome. The City Managers therefore recommended that the County fund the environmental review through a $2.45/ton increase to the Tajiguas refuse tipping fee over three years (FY 13/14, FY 14/15, and FY 15/16). That decision was endorsed by elected representatives of the participating jurisdictions at the Multi-Jurisdictional Solid Waste Task Group Conversion Technology Subgroup Meeting on November 1, 2012.

MarBorg’s proposal to site the MRF component on property it owns in Santa Barbara presented challenges to the process outlined by the 2009 RFP, and required additional negotiation of the Term Sheet’s language. The proposed budget for the environmental review was also adjusted to reflect the additional cost to conduct the necessary environmental review of MarBorg’s and other potential publically-owned sites at a sufficiently detailed level.

In order to determine environmental impacts, the EIR will study the MRF component at MarBorg’s proposed site at a level that will allow elected officials to make an informed decision in choosing the environmentally superior alternative. In order to determine the feasibility of MarBorg’s proposed site, MarBorg has been asked to respond to the RFP for the MRF component, and to provide the financial information necessary to determine the feasibility of the proposed site. In addition, MarBorg will be asked to pay the $4,200 fee specified in the RFP for late submissions, and to make a refundable deposit in the amount of $100,000, as was required of all other proposers.
DISCUSSION:

Mustang has asked that each of the participating public partners sign a non-binding Term Sheet that will provide assurance that participating jurisdictions are still conceptually interested in the project, and intend to commit the flow of their solid waste to the project if the facility is able to meet each of the project goals outlined in the RFP, and is identified by the environmental review as the environmentally superior project.

The Term Sheet reiterates terms specified in the RFP, and will memorialize the Project’s basic deal points that have been agreed among the parties to act as guidelines for the negotiation and possible execution of a binding agreement by the participating jurisdictions. It will also inform the public regarding the goals and principals identified by the Santa Barbara County Multi-Jurisdictional Solid Waste Task Group that will guide the proposal to develop the Resource Recovery Project throughout the public review process.

The Term Sheet was drafted in a manner that is consistent with recent environmental case law, and has been extensively reviewed by the legal counsels for the participating jurisdictions, and Mustang. Throughout the review process, City staff have met with and involved the Council’s solid waste sub-committee, consisting of Councilmembers Bennett and Connell.

The Term-sheet is a non-binding statement of intent that does not commit participating jurisdictions to any financial obligations or tonnage commitments, and does not preclude the possibility that the participating jurisdictions may take discretionary actions contrary to the current stated intent of the parties in order to comply with the California Environmental Quality Act (CEQA) and other provisions of the law. Signing the Term Sheet would not prevent the City from ultimately electing not to participate in the project.

The Resource Recovery Project will not proceed unless and until the parties have negotiated, executed and delivered mutually acceptable agreements based upon information produced from the CEQA environmental review process and other public review and hearing processes, subject to all applicable government approvals. If an agreement can be reached, these negotiations may result in definitive binding agreements which also may include various contracts, leases, issuance of bonds and other legal documents.

Extensive negotiations were required in developing Exclusive Right to Negotiate provisions that were satisfactory to all parties. The Term Sheet contains an Exclusive Right To Negotiate clause that allows for the possible siting of the MRF component on privately owned property, while protecting Mustang’s interests and investment in the project. For County-owned property, Mustang will have the exclusive right to negotiate with participating jurisdictions. On privately-owned property the property owner has the exclusive right to negotiate with the participating jurisdictions.

The Term Sheet broadly covers the following topics:
• **Public Participants’ Responsibilities:** these include the formation of a governance structure, possibly a Joint Powers Authority or a multi-agency Joint Powers Agreement; and the intention to negotiate a site lease between the County and the vendor, Construction and Operation terms, and Waste Services Commitment terms.

• **Proposed Resource Recovery Project Facilities:** includes provisions addressing Design, Construction, Bonding & Insurance.

• **Site(s) Lease:** includes provisions addressing the Tajiguas Landfill, Other Sites, Term, Regional Waste Infrastructure Fee, Access, and Buy-out Option.


• **Other consideration to Public Participants:** includes provisions addressing Grant Fund Payments, Contract Administration Payments, and Revenue.

• **Project Financing:** includes provisions addressing Contractor’s Financing Obligation, CPCFA Bond Debt Financing, Equity Financing, No Public Participant Obligations, and Financing Commitment Term.

• **Operations and Maintenance:** includes provisions addressing Project Operator, Manager, Project Employees, Start-up & Testing, Acceptance, Performance, Reports, and Bonding & Insurance.

• **Permitting:** includes provisions addressing Lead Agency, Entitlement Process, Contractor Obligations, Contract and Public Participant Termination.

• **Indemnification:** includes standard indemnification language.

• **Miscellaneous Provisions:** includes provision addressing Exclusive Right to Negotiate Definitive Agreements

In summary, this Term Sheet does not commit any of the participating jurisdictions to the project as a whole or to any particular features, and it does not preclude any alternatives or mitigation measures that CEQA may require to be considered including the option of not going forward with the project.

**FISCAL IMPACTS:**

There are no fiscal impacts associated with adopting the attached Term Sheet, which is non-binding, and which does not obligate the City of Goleta to commit any funds to finance any aspect of the environmental review process. Any commitment of municipal solid waste, source separated recyclables, or source separated greenwaste generated
within the City of Goleta to the proposed Resource Recovery Project will be subject to future negotiations between the City and whatever governance structure, such as a Joint Powers Authority, is agreed upon between the participating public jurisdictions.

ALTERNATIVES:

The City of Goleta currently relies on the County-owned and operated Tajiguas Landfill for disposal of its solid waste. At current fill rates, Tajiguas is expected to reach its currently permitted capacity around 2026. The Resource Recovery Project will significantly extend the life of the landfill by 20 years at a cost that is expected to be competitive with other solid waste management options by the time the facility becomes operational. Additional benefits include enhanced recycling, producing clean, renewable energy, and achieving substantial reductions in green-house gas emissions associated with landfills.

The City may choose to remain within the Tajiguas Wasteshed, or it may opt to manage its solid waste independent of the County and the proposed project. If the City decides to remain within the current solid waste management system and to rely on the proposed Resource Recovery Project, it may do so under two options.

The first option is to move forward as a participating jurisdiction in the Proposed Resource Recovery Project, by agreeing to the attached Term Sheet. As a participating jurisdiction in any binding agreement, the City would have voting rights in whatever governance entity is ultimately formed to manage the Project, and would benefit from the tipping fee negotiated between the participating jurisdictions and Mustang.

The second option would be for the City to withdraw from the Public Partnership, and become a customer to the new facility, should it become operational. Under that scenario the City would not need to commit its solid waste flow to the project, retaining the flexibility to export its solid waste to another landfill. The disadvantages of doing so include no participation and no voting rights in a governance entity, and perhaps a premium on the tip fee charged by the proposed project.

Council may also choose to withdraw from the Tajiguas wasteshed, and export its solid waste to another landfill. The closest currently operating landfills that could potentially accept Goleta’s waste are located in San Luis Obispo and Ventura Counties. The City of Santa Maria is proposing the construction of a new landfill at Las Flores Ranch, located in north Santa Barbara County, which could potentially receive Goleta’s waste for disposal. The City would be subject to paying a yet unknown tipping fee, set by the City of Santa Maria, and the City’s waste would have to be transported over greater distances, adding transportation costs to customer rates, and increasing environmental impacts.

Exporting the City’s solid waste to another landfill would require a transfer capability, either by truck or rail. The City would need to acquire, or lease, a fleet of semi-trucks to haul waste to a distant landfill, and construct a transfer facility, or, possibly, make an
arrangement to lease the County’s South Coast Recycling and Transfer Station for this purpose.

Continued landfilling of the City’s waste would also forgo the benefits of power generation, and reduced green-house gas generation, and would increase the City’s carbon footprint.

Legal Review By:       Reviewed By:       Approved By:
______________________                       ___________________                       ___________________
Tim W. Giles                            Michelle Greene                            Dan Singer
City Attorney                            Administrative Services Director          City Manager

ATTACHMENTS:

1. Tajiguas Resource Recovery Project Term Sheet
ATTACHMENT 1:

Tajiguas Resource Recovery Project Term Sheet
TAJIGUAS RESOURCE RECOVERY PROJECT TERM SHEET

This TERM SHEET ("Term Sheet") is entered into by and between the COUNTY OF SANTA BARBARA, ("County"), the CITY OF SANTA BARBARA, a California municipal corporation and charter city ("Santa Barbara"), the CITY OF BUELLTON, a California municipal corporation ("Buellton"), the CITY OF GOLETA, a California municipal corporation ("Goleta"), the CITY OF SOLVANG, a California municipal corporation ("Solvang") (collectively "Public Participants") and MUSTANG RENEWABLE POWER VENTURES, LLC, a California limited liability company ("Mustang" or "Contractor"). The Term Sheet is based on the Request for Proposals ("RFP") issued in October 2009 by the Public Participants for a Resource Recovery Project. It sets forth basic terms of a proposed transaction to modify the existing Tajiguas Landfill, which is owned by the County and which receives solid waste from residents, businesses and other entities within the jurisdictions of the Public Participants, to include the development of a solid waste resource recovery facility. Public Participants and Contractor are sometimes collectively referred to herein as the "Parties". The use of the terms “will” or “shall” or “may” or use of the passive or active voice in any description in this document is meant to be merely descriptive, pending CEQA review and final decisions and negotiations of terms and procedures mentioned herein, and shall not, in any way, change the speculative nature of the description of the project or terms thereof in this document.

I. INTRODUCTION

The purpose of this Term Sheet is to memorialize the preliminary terms contained in the RFP, as modified through discussions among the parties, and to inform the public regarding the goals and principles identified by the Santa Barbara County Multi-Jurisdictional Solid Waste Task Group that will guide the proposal to develop the proposed Resource Recovery Project (as defined below) throughout the public review process. As further described below, the Resource Recovery Project shall not proceed unless and until the parties have negotiated, executed and delivered mutually acceptable contractually binding agreements based upon information produced from the CEQA environmental review process and other public review and hearing processes, subject to all applicable governmental approvals. If agreement can be reached, these negotiations may result in definitive binding agreements ("Definitive Agreements") which also may include leases, issuance of bonds and other legal documents.

This Term Sheet is intended to memorialize the present intent of the parties in the manner approved by the California Court of Appeal in the case of Cedar Fair v City of Santa Clara, 194 Cal.App.4th 1150, in that it is a non-binding statement of intent and does not preclude the possibility that the Public Participants may take actions at their legislative discretion contrary to the current stated intent of the parties in order to comply with the California Environmental Quality Act (CEQA), state statutes, or their municipal charters and other provisions of law.

The Resource Recovery Project (also referred to as “Project”) is a modification of the currently existing operation at the Tajiguas Landfill. The Project, as presently envisioned, will include two
components: a Materials Recycling Facility (“MRF”) and an Anaerobic Digestion facility (“AD”). The AD facility will also include one or more combined heat and power units (“Power Plant) that is estimated to convert methane rich biogas to approximately 1+ megawatts of renewable power that will be sold to So Cal Edison via a long term power purchase agreement. The Project is based upon the landfilled municipal solid waste and waste characterization study of 2008 as included in the project Request for Proposals (RFP).

The Resource Recovery Project will be designed, built, owned, operated and, after its primary operational period, potentially transferred to the County by Contractor via a private-public partnership structure, pursuant to Government Code Section 5956.4 et seq and other provisions of law. Other than initial CEQA costs, no Public Participant funds are anticipated to be used for the permitting, development, ownership or operation of the Resource Recovery Project. The Resource Recovery Project will process mixed municipal solid waste (MSW) generated by the Public Participants as well as potentially process Commingled Source Separated Recyclables and Source Separated Organic (food & green) Waste (as such terms are defined herein) into valuable commodities (recyclables, compost, soil amendments & energy) diverting an estimated 62% or more of the processed material from disposal at the Tajiguas Landfill consistent with the goals of the Public Participants.

The Resource Recovery Project is intended to provide at least a 20 year solid waste management plan for the region that will help all participating jurisdictions achieve a variety of unfunded State mandates. Since the passage of AB 939 in 1990, which required the diversion of 50% of all waste generated, there has been a considerable legislative effort to limit and mitigate the environmental impact of the handling and disposal of waste. The most prominent of these new laws is AB 341, which sets a state recycling rate goal of 75% or higher. The Resource Recovery Project will allow all participating communities to substantially increase diversion rates. The state also requires that all communities plan for at least 15 years of disposal capacity (California Public Resources Code Div. 30, Part 2, Chap. 4, Sec. 41701). This project would give the Public Participants at least 20 years of disposal capacity without expanding the landfill or exportation of the waste to another community.

Other important State requirements that the Resource Recovery Project will help Public Participants achieve are AB 32, the Global Warming Solutions Act and SB 2X – 33% Renewable Energy by 2020. MSW is a significant cause of greenhouse gases. When buried municipal solid waste decomposes and methane gas is generated. Although over 75% of the gas generated at the Tajiguas Landfill is captured through best management practices, the remaining 25% of the gas is still generating the same amount of CO2 as 22,000 passenger vehicles on the road every year. The Resource Recovery Project is planned to largely eliminate all future methane potential of the region’s landfilled waste; greatly reducing local greenhouse gas emissions and helping participating jurisdictions achieve the reduction mandated by AB 32. The Tajiguas Landfill currently generates 2.5 MW of green energy from the methane it collects. The Resource Recovery Project would add an estimated 1 MW of green energy to its existing production, enough to power approximately 1,000 homes here in Santa Barbara County and helping the state get to 33% of renewable energy by 2020.
The Public Participants are considering forming a joint powers authority (JPA) or entering into a five public agency joint powers agreement (JPA) to administer the relationship between the Public Participants and the Contractor over the anticipated 20 year term of the Definitive Agreements. The County intends to execute a Site Lease with the Contractor for the Project Site(s) located at the Tajiguas Landfill to facilitate the construction and operation of the Resource Recovery Project and the transfer of the project facilities to the County at the end of the term.

The County will be the Lead Agency for CEQA purposes, and the County’s Public Works Department Resource Recovery & Waste Management Division will be the project applicant in order to complete the CEQA Process.

No new or increased taxes will be required to finance the development of the Resource Recovery Project. The Definitive Agreements to be executed between the proposed JPA or parties to the JPA and the Contractor will provide for delivery of the waste streams in volumes and at tip fees agreed upon by the Public Participants that will be less than $100 per ton, as specified in the Resource Recovery Project Request for Proposals, for the term of the agreement with Contractor.

The Public Participants have defined the following requirements for the Project (“Project Goals”):

*Increase Diversion of Post-Recycled MSW for Affected Jurisdictions.* The Resource Recovery Project must increase the diversion of post-recycled MSW intended for landfill disposal through pre-processing (or post-processing) and/or conversion of post-recycled MSW into beneficial products such as energy, fuels, or other marketable products (e.g., compost, aggregate, metals).

*Reduce Environmental Impacts of Landfilling MSW.* Modification of current landfill operations to include the Resource Recovery Project must limit and/or mitigate environmental impacts of landfiling MSW, including but not limited to water quality and greenhouse gas emissions.

*Provide Financial Feasibility and Sustainability.* The Resource Recovery Project must have capital and operating costs that result in a feasible, cost-competitive tipping fee, with long-term financial stability that would limit financial impacts to affected rate payers.

*Produce Green Energy and Other Marketable Products.* The Resource Recovery Project must include a component of green energy and/or fuel production, along with other marketable products, as applicable, such as recovered metals and compost.

*Provide a Humane Work Environment.* The Project will be dedicated to maintaining humane working conditions, and will not consider any Resource Recovery that is deemed to have an unjust or unsafe impact on workers.
Result in a Long-Term Waste Disposal Plan. The Resource Recovery Project must result in a long-term waste disposal alternative for participating jurisdictions within Southern Santa Barbara County (with a 20 year minimum lifespan required).

II. TERM SHEET NON-BINDING; CEQA COMPLIANCE REQUIRED

A. EFFECT OF TERM SHEET. This Term Sheet is intended to provide a general non-contractual framework for the subsequent negotiation of definitive agreements regarding the development and operation of the Resource Recovery Project and does not create any binding contractual obligations on any Party or to commit any Party to a particular course of action. A transaction of this type involves many essential terms and conditions that have not yet been agreed upon, and it is expressly contemplated by the Parties that, in order to effectuate the Resource Recovery Project, binding Definitive Agreements will have to be negotiated, agreed to by the Parties and ultimately submitted to the elected official boards of the Public Participants for appropriate reviews and approvals in accordance with the applicable statutory and municipal code requirements for such approvals. As a result, all terms and issues set forth in this Term Sheet are subject to further discussion, revision and approvals. Contractor and the Public Participants each acknowledge and agree that all binding contracts, transactional documents, leases and land use entitlements must be approved in the future in accordance with the provisions of state and local law, and all other applicable legal requirements ("Applicable Requirements").

B. NO IMPACT ON CALIFORNIA ENVIRONMENTAL QUALITY ACT PROCESS. In order to comply with the California Environmental Quality Act ("CEQA") and give the public the opportunity to be aware of the environmental consequences of the Resource Recovery Project, and to fully participate in the CEQA process, the County, on behalf of the Public Participants, retains the discretion to (i) modify the transaction, create and enter into transactional documents, and modify the project as may, in their sole discretion, be necessary to comply with CEQA, (ii) identify and select other feasible alternatives to avoid significant environmental impacts, (iii) balance the benefits of the Resource Recovery Project against any significant environmental impacts prior to taking final action if such significant impacts cannot otherwise be avoided, and/or (iv) determine not to proceed with the Resource Recovery Project. No legal obligations will exist unless and until the parties have negotiated, executed and delivered mutually acceptable agreements based upon information produced from the CEQA environmental review process and on other public review and hearing processes, subject to all applicable governmental approvals.

In accordance with California Code of Regulations, Title 14, section 15084(d)(3), the County will serve as Lead Agency, with its Public Works Department Resource Recovery & Waste Management Division, ("RRWMD") serving as Project Applicant for both permitting and CEQA process purposes. Contractor will serve as a Vendor to the Project Applicant, and shall be responsible for permitting, constructing and operating the Project. Public Participants, as Responsible Agencies under CEQA, may take discretionary action on behalf of their individual agency to determine their level of participation in the resulting project. The County shall subject the EIR prepared by the Consultant hired by the County to the County’s own review and analysis, and the conclusions and findings of the
final EIR shall reflect the County’s independent judgment. Contractor shall bear all of the costs associated with the preliminary and final engineering and design for the Project and of the preliminary feasibility studies required by Contractor for the project’s preliminary engineering and design. County shall issue a request for proposal for an EIR consulting firm to prepare the environmental document for the Project. County understands and acknowledges that prior to entering into the Definitive Agreements each of the Public Participants will exercise their independent judgment by reviewing and considering the final EIR and approving the Project.

III. OVERVIEW OF PROJECT

A. PROJECT HISTORY TO DATE

The Public Participants formed the Santa Barbara County Multi-Jurisdictional Solid Waste Task Group (“MJSWTG”) in 2002 to provide a forum to discuss and plan regional long-term solid waste management strategies and facilities. The MJSWTG identified various areas of interest and appointed representatives to serve on Subgroups, including the Conversion Technology (CT) Subgroup, to specifically research the feasibility of anaerobic digestion facilities and thermal gasification facilities for the communities served by the Tajiguas Landfill.

In February 2004, the MJSWTG developed a long-term waste management plan for the County. The plan was adopted by the jurisdictions served by the Tajiguas Landfill and included the development of a conversion technology (CT) facility which is essentially a facility that further recovers materials from the wastestream and converts those materials into energy, fuels, and other potentially marketable products.

In March 2007, the CT Subgroup of the MJSWTG was re-initiated and established a technical working subgroup comprised of staff from each of the participating jurisdictions (the cities of Buellton, Goleta, Santa Barbara, Solvang, and the County). This technical subgroup has met regularly over the last five years and was instrumental in hiring a consultant to evaluate the feasibility of conversion technologies, preparing the request for proposals for the project, reviewing the proposals submitted, conducting presentations to the general community regarding the project, and selecting the recommended project.

In August 2007, County staff provided a solid waste management update to the Santa Barbara County Board of Supervisors which included the request for direction for staff to work with its regional partners to evaluate the feasibility of constructing a facility that would reduce our community’s reliance on landfilling. Technologies are available that would further process waste to remove recyclables and convert the majority of the remaining material into synthetic fuels, electricity, compost, soil amendments or other usable products. The benefits of this type of facility include providing a long-term waste management plan, minimizing the environmental effects of waste disposal, providing financial stability, maximizing recycling rates for participating jurisdictions, and potentially generating green energy for our community.
In October 2007, the City Council of Santa Barbara and the County Board of Supervisors approved the recommendation made by the Subgroup to hire Alternative Resources, Inc. (ARI) to proceed with the evaluation of a CT facility to be established on the South Coast, most likely at the Tajiguas Landfill. ARI was recommended to the Santa Barbara County Board of Supervisors based on a RFP process and selection committee that contained staff members from the County of Santa Barbara, the City of Santa Barbara, the City of Goleta, and the Montecito Sanitary District.

During the Fall and Winter of 2007/2008, staff from the County and City of Santa Barbara conducted a comprehensive outreach effort speaking directly to over 40 community organizations, agencies, and jurisdictions including the City Councils of Goleta, Buellton and Solvang. The purpose of the effort was to make the community more aware of the current rates of waste generation and the need for a long-term waste management plan and how CT may fit in the plan. In addition, the potential benefits of further processing recyclables and converting waste to an energy source were explained. Based on community feedback, the CT Subgroup and ARI drafted goals that were used as guiding principles in the evaluation process as well as evaluation criteria that were used to screen potential technologies for suitability at the Tajiguas Landfill.

In January 2008, both the City of Santa Barbara City Council and the Santa Barbara County Board of Supervisors approved the project goals and criteria to be used when preparing the feasibility report.

In April 2008, a feasibility report was completed and identified eight potential CT contractors, representing three different processes (anaerobic digestion, thermal processing, and refuse derived fuel). Each of the contractors met all of the criteria and expressed their ability to achieve 60-100% diversion at a rate of less than $100 per ton (an assumed cost to dispose at an alternative facility in the future). Due to the breadth of contractor types and capabilities, it was determined by the consultant and Subgroup that there were feasible alternatives that could result from a competitive procurement process.

In May 2008, County staff presented the Feasibility Report and its findings to the Santa Barbara County Board of Supervisors and requested direction to begin drafting a Request for Proposals (RFP) to solicit project proposals from the short-listed conversion technology vendors identified in the feasibility report, directions for staff to continue to make presentations to the community on the results of the report, and to hold a public forum for elected officials from the potential partner cities to discuss the legal arrangement for the facility.

In August 2008, the CT Subgroup held a two-day public forum to discuss ownership, operation, financing, and contract administration of this potential facility. These meetings were attended by elected officials of the cities of Santa Barbara, Goleta and Buellton as well as the County of Santa Barbara. Feedback from this forum was formally presented and approved by the Santa Barbara County Board of Supervisors in October 2008.
During the summer of 2009, the City Councils of each jurisdiction proposed to participate in the project (cities of Buellton, Goleta, Santa Barbara, and Solvang) approved letters of interest and intention to commit material to the project if the facility was able to meet each of the project goals.

In October 2009, an RFP to modify existing operations at Tajiguas Landfill and establish a facility that would reduce our community’s reliance on landfilling was released by the Santa Barbara County Board of Supervisors. The City of Santa Barbara City Council also received an update on the release of the RFP. In June 2010, the County received five proposals submitted by four vendors (one vendor, Mustang Renewable Power Ventures, submitted a Base and an Alternative proposal). In October 2010, each of the vendors made oral presentations of their proposals to the Subgroup. During 2010 to 2011, ARI and the Subgroup reviewed the proposals submitted and held four public official forums to discuss the proposals including their opportunities, weaknesses and their strengths.

In June 2011, the Public Participants advised Mustang that the Public Participants represented by the CT Subgroup, as well as comments from previously held public official forums, preferred Mustang’s base proposal and thus would recommend Mustang as the preferred Project Contractor and the Base Proposal as the Preferred Project.

In January 2012, the Santa Barbara County Board of Supervisors agreed with the CT Subgroup and directed County Staff to proceed with the environmental review of Mustang’s proposal.

In June 2012, a meeting of City managers from the respective jurisdictions directed that the environmental review process be funded through a surcharge at the Tajiguas Landfill rather than by Mustang.

B. IMPLEMENTATION OF PROJECT GOALS.

1. No Public Participant funds will be used for the Entitlement/Permitting Process, construction, financing, commissioning, operation, management, or decommissioning and deconstruction of the Project;

2. The Definitive Agreements to be negotiated by the parties may include, as further specified below, a Joint Powers Authority or a five party JPAgreement between the Public Participants, Construction and Operation (C&O) terms, and a Site Lease.

3. The C&O terms will provide for Contractor to design, build, own, and operate the Project to, for and on behalf of the Public Participants on the selected County site(s) for the Project. The C&O terms are anticipated to include a waste delivery agreement[s] between the Public Participants and Contractor which shall provide for a minimum and maximum annual delivery of MSW and potentially other waste streams within the control of the Public Participants to the Project for processing.
4. Project revenues will be generated from a combination of Tip Fees, Power Sales, Product Sales, Carbon Credit and/or Renewable Energy Credit Sales as such terms are defined herein or in Contractor’s RFP Submittal will be sufficient in time and amount to pay debt service on any Bonds issued for the Project as set forth herein.

5. Only those Project revenue sources identified below (which shall be limited to the specified portion of demonstrated total net incremental municipal revenues, and those other dedicated Project revenues identified below, generated by the Project) shall be used to support any tax-exempt or taxable bonds or other state and local obligations issued by the California Pollution Control Finance Authority (“CPCFA”) or any other appropriate state or local agency for the Project (“Bonds”). The term of the Bonds shall be coterminous with or have a final maturity date earlier than the initial term of the Definitive Agreements and the Site Lease. The Public Participants will have no liability or any other responsibilities or obligations for any debt service of the Project.

6. Contractor will provide a guaranty or a combination of credit support, including a letter of credit, bond insurance, pledge of leasehold interest and/or assets, and such other mechanisms or combinations of these and other mechanisms, as described below, on terms acceptable to the legal counsels of the Public Participants, in order to ensure that no Public Participants’ funds, shall be used to satisfy the Project’s obligations with respect to the Bonds or the permitting and construction of the Project. The form and amount of such guaranty or other credit support may change throughout the term of the Bond financing as more specifically set forth below.

7. The County will retain fee ownership and will continue to operate the Tajiguas Landfill throughout the construction, operation and decommissioning, if any, of the Project.

C. PUBLIC PARTICIPANTS’ RESPONSIBILITIES. The following discussion represents the Parties’ concepts and intention at the time of approval of this Term Sheet, which may change as CEQA alternatives review, design studies and negotiations proceed.

1. **JPA Formation or Negotiator of JPAgreement.** The Public Participants will consider the formation of a Joint Powers Authority (“JPAuthority”) or entering into a five agency Joint Powers Agreement (“JPAgreement”). The JPAuthority or JPAgreement is anticipated to enter into the definitive and binding agreements with the Contractor as provided herein. The JPAuthority or JPAgreement will provide for the policies and procedures for implementing the Resource Recovery Project mutually agreed upon by the Public Participants and all necessary commitments by the Public Participants.

2. **Site Lease.** The County shall negotiate and execute a Site Lease with Contractor on terms as materially contemplated in Section B herein following completion of the CEQA Process and Entitlement Process and concurrent with execution of Definitive Agreements between the JPAuthority or parties to the JPAgreement and Contractor. The County will make space available for this project at no cost other than the Regional Waste Infrastructure Fee as defined in Section E 4. Should the final project include the use of real property that is not owned by the County, the Public Participants will negotiate with the owner of such property for the acquisition, lease and/or use of such other properties in a manner
consistent with this Term Sheet and such property agreements that will provide for the payment of a Regional Waste Infrastructure Fee.

3. **Construction and Operation (C&O) Terms.** The Public Participants and/or the JPAuthority or the parties to a JPAgreement intend to begin negotiating these terms and conditions during the environmental review of the Resource Recovery Project contemplated herein. The C&O terms will provide for the Parties’ mutually agreed upon commitments as detailed herein, in the RFP and in Contractor’s RFP Submittal Response. If the project goes forward, such C&O terms will be finalized after certification of the Final EIR by the Board of Supervisors and approval of the Project by the Public Participants and receipt of all necessary entitlements and included in the Definitive Agreements.

4. **Waste Services Commitment Terms.** The Public Participants intend to begin negotiating these terms and conditions during the environmental review of the Resource Recovery project contemplated herein. The Waste Services terms shall be reviewed and properly approved by each Public Participant and will provide for the Parties’ mutually agreed upon waste stream delivery commitments. Consistent with the RFP and in the Contractor’s RFP Submittal Response. If the project goes forward the Waste Services terms will be finalized after certification of the Final EIR by the Board of Supervisors and approval of the Project by the Public Participants and receipt of all necessary entitlements and included in the Definitive Agreements.

5. **Financial Structure.** Unless specifically indicated, the financial structure, including mechanisms and amounts ("Financing Plan"), is preliminary and subject to additional analysis, audits, and modifications. The current Financing Plan for the Project is based on Contractor’s analysis, Contractors’ RFP Submittal, and financial market conditions and other reasonable assumptions as of July 2012 that require further verification and confirmation. The parties understand and agree that the final Financing Plan may require revisions based on the results of continuing analysis and audits, including MSW characteristic surveys completed periodically or annually and the financial market conditions at the time the Project is ready to be financed, which is currently anticipated to occur in 2014 following completion of the CEQA Process and Contractor’s receipt of all necessary and required Entitlements to construct the Project. The final Financing Plan will be subject to the mutual agreement of the parties, the review and approval of the County’s Board of Supervisors and the other required decision-makers of Public Participants prior to the issuance of any bonds for the Project.

**D. PROPOSED RESOURCE RECOVERY PROJECT FACILITIES.** The following discussion represents the Parties’ concepts and intention at the time of approval of this Term Sheet, which may change as CEQA alternatives review, design studies and negotiations proceed.

1. **Resource Recovery Project.** Contractor will, at its own cost, construct the Project, including its MRF and AD components subject to completion of the CEQA Process and Contractor’s receipt of all necessary and required approvals and Entitlements, as such term is defined herein, and the suggested negotiation and execution of binding Definitive Agreements. The Resource Recovery Project will be constructed at the Tajiguas Landfill on a Site or other location determined to be appropriate as a result of the CEQA environmental review process to be specified by the County with mutual approval by
Contractor. If constructed at Tajiguas, the Project will have a site plan generally consistent with the Project site plan attached as Exhibit A, it being the intent of the parties that the Project shall encompass an approximately 6 acre site known as the “380 Operations Deck Site”. In addition, approximately 4-6 acres of additional site are required for composting material produced by the AD facility to be provided to Contractor at one or more locations at the Tajiguas Landfill by the County comparable to the location set forth on Exhibit B. The final Project site plan shall be subject to any conditions in the final Entitlements and mutual agreement of the parties, and shall be attached as an exhibit to the Definitive Agreements.

2. **Design.** Contractor shall have complete responsibility for the design and construction of those components of the Project located at a County site. The proposed design of the Project will be in accordance with the provisions of RFP Appendix F and shall be consistent with the site plan, floor plans, elevations and perspective drawings of the Project included in Contractor’s RFP Submittal. Final design of the Project shall be approved by the Public Participants and the County’s RRWMD and shall be subject to the CEQA Process and the Entitlement Process.

3. **Construction.** Contractor and its designated general contractor, Diani Building Corp., (“GC”) will construct those components of the Project located on County property in strict accordance with plans and specifications in the final Entitlements, approvals and building permits issued by the County’s Building & Safety Division of the Planning & Development Department. Contractor and its GC shall be responsible for complying with all requirements imposed by Applicable Law relating to the design and construction of the Project.

4. **Technologies.** If applicable, Contractor will construct those components of the Project located on County property using the MRF and AD technologies described in detail in its RFP Submittal. The MRF technology will be supplied by Van Dyke Baler-Bollegraaf based in the Netherlands. The MRF facility is designed to recover valuable recyclables (glass, metal paper, plastic, etc.) The recyclable recovery fraction is estimated to be ~37% of the MSW waste stream. The AD technology will be supplied by Bekon Energy Technologies, Inc. based in Munich, Germany or a comparable dry fermentation AD technology company to be approved by the Public Participants. The AD component is designed to process organic waste (~25%) into compost, soil amendments and electricity. The total landfill diversion rate for the Resource Recovery Project is estimated to exceed 62% of the MSW delivered to the Project for processing. The anticipated recovery and diversion percentages are dependent upon the characteristics of the waste delivered to the Project. As discussed in Section F 3 Waste Stream Characteristics, the target recovery and diversion percentages may be adjusted up or down based upon completion of a Waste Characteristics study to be completed prior to completion of the Definitive Agreement.

5. **Visitor Center.** Contractor has proposed to construct a visitor’s center as a key component of the Project consistent with the provisions of the RFP and as described in Contractor’s RFP Submittal. The Visitor Center will be staffed by the Contractor and open to the public during normal business hours.
6. **Bonding & Insurance.** Contractor, the General Contractor and the Project Operator (as such terms are defined herein) shall provide any and all surety, bonds and insurance related to the Project's design, construction, operations & maintenance as required by the RFP, as specified Contractor's RFP Submittal and as will likely be required in connection with the Project Financing, or as otherwise required by law.

E. **SITES(S); LEASE.** The following discussion represents the Parties’ concepts and intention at the time of approval of this Term Sheet, which may change as CEQA alternatives review, design studies and negotiations proceed.

Final selection of the Site(s) for the Project will depend on the outcome of the EIR review Process and the Entitlement Process.

1. **Tajiguas Landfill.** If the CEQA Process and the Entitlement Process results in approval of the Tajiguas Landfill as a location for portions of the Project, the County will enter into a Site lease with Contractor for one or more Tajiguas Landfill Site(s). These Tajiguas Landfill Site(s) may include the approximately 6 acre 380 Operations Deck Site and approximately 4-6 acres for compost curing at a location to be mutually agreed upon by the parties (“Tajiguas Composting Site”). The 380 Operations Deck Site and the Tajiguas Composting Site are referred to as the “Tajiguas Landfill Sites.”

2. **Other Sites.** If the CEQA and Entitlement Process identify an alternative Site for the Project, or any components of the Project, the Parties may negotiate for the acquisition or lease of such other properties and the use thereof with the owner of such property in a manner consistent with this Term Sheet and the County or JPA Authority (if such an Authority is created) may enter into a Site lease with Contractor for use of that property. The terms and conditions of a Site lease for the alternative Site, if any, must be compatible with the terms of the Site lease in the RFP and in paragraph C.2. (above).

3. **Term.** The initial term of the Site lease(s) shall be for a period of 20 years. The Public Participants shall have an option to extend the term for at least one additional ten-year extension upon providing 365 days written notice to Contractor of their intent to extend.

4. **Regional Waste Infrastructure Fee.** The Regional Waste Infrastructure Fee (“Fee”) is estimated to be $4,400,000 per year total for all approved Project site(s), adjusted annually by the Project CPI. The Contractor shall pay the Fee for the entire lease term and shall be payable in equal monthly installments. The Fee shall be payable to the County or its designee. The Regional Waste Infrastructure Fee is a fee understood by the participating jurisdictions to be intended to cover the reallocated cost for the closure/post closure of the landfills, environmental monitoring and controls required by regulating agencies, retirement of current debt service at the Tajiguas Landfill, reasonable administrative overhead.

5. **Environmental.** The Site lease will include standard environmental indemnity provisions. The County will indemnify Contractor for any and all pre-existing environmental conditions prior to the construction of the Project. Contractor will indemnify the County and the Public Participants for any and all environmental impacts caused by the construction, use of the site and operation of the Project.
6. **Access.** In conjunction with the execution of the Site lease(s) the County and Contractor will execute reciprocal easement agreements allowing Contractor and its operations to access the County Project Site(s) and any other areas of the Tajiguas Landfill Sites or any other approved Project Site(s) required for the normal operation of the Project.

7. **Buy-out Option.** Upon the expiration of the Term(s) of the Site Lease(s), the County (or the JPA Authority, if such an Authority is created) shall have the exclusive option, at their sole discretion, to acquire the Project improvements made by Contractor for a payment of $1.00. If the County (or the JPA Authority) determines not to purchase the Project improvements after the expiration of the Term(s), Contractor shall remove the Project improvements and restore the Site(s) to the condition reasonably equivalent to its condition before construction of the Project within 365 days from written notice from the County of the decision not to acquire the Project improvements or the JPA Authority’s decision not to exercise the extension of the Definitive Agreements including the Site Lease. If the County elects to acquire the Project, any and all decommissioning, demolition and removal reserves established by Contractor shall be disbursed to Contractor.

Sites. In order to protect the Public Participants and the rate payers and to comply with the Project’s Financial Feasibility and Sustainability goals, should an alternative Project Site(s), not owned by the County, be required by CEQA, operational necessity or at the discretion of the parties, an alternative arrangement shall be established granting the County or the JPA Authority the option of acquiring such Site(s) for a payment of $1.00 or an equivalent long-term lease.

8. **Possessory Interest Taxes.** Contractor acknowledges and agrees that this Site Lease may create a possessory interest subject to property taxation and that Contractor may be subject to the payment of property taxes levied on such interest. Contractor will covenant and agree to pay all taxes, including possessory interest tax and assessments, which may be levied upon any taxable interest in the land or improvements.

**F. WASTE STREAM COMMITMENTS.** The following discussion represents the Parties’ concepts and intention at the time of approval of this Term Sheet, which may change as CEQA alternatives review, design studies and Project negotiations proceed regarding the final terms of the Project and the Public Agency participation in the Project.

1. Pursuant to Section 5.1.4 Minimum and Maximum Deliveries Specified in the RFP, the public participants requested proposals for a facility designed to process a minimum of 192,102 and a maximum of 222,756 tons of municipal solid waste over the 20 year period of time. Since the release of the RFP, the public participants have requested that the potential optional element of processing source-separated commingled recyclables and organics at the same facility be included in the CEQA analysis as a means of enhancing the cost-effectiveness and efficiency of the community’s existing and future waste management programs. Two scenarios will be evaluated for purposes of CEQA and are included in the Notice of Preparation released by the County in April 2012. The first scenario is considered the Base Project and includes up to 250,000 tons per year of MSW entering the MRF, and up to 73,000 tons per year of organics entering the AD. The second scenario is referred to as the Optional Element and includes
up to 40,000 tons per year of source-separated commingled recyclables. Specific waste flow commitments made by each jurisdiction will be finalized at the time of contract negotiations with the Contractor.

2. **Delivery Reset.** Pursuant to Section 5.1.5 of the RFP, the public participants included the ability for Periodic Delivery Resets to be a potential term of the Definitive Agreements. After proposal review, the Public Participants envision the possibility of a single Reset at Year 10 of no more or less than 10%. The public participants will determine the need for a Delivery Reset at the time of Definitive Agreement negotiations with the Contractor. For purposes of CEQA, the Public Participants have set a maximum amount of material that could possibly be received by the proposed facility.

3. **Acceptable Waste Characteristics.** The Definitive Agreement between the parties shall provide that the MSW delivered to the Project each year by the Public Participants shall be comprised of waste having characteristics (higher heating value-(HHV), moisture content-(MC) and or biomethane potential-(BMP), individually or collectively “Acceptable Waste Characteristics”) comparable to the MSW described in the Waste Characterization Study included in the RFP. The specific acceptable Waste Characteristics of the MSW to be delivered to the Project will be specified in the Definitive Agreement and shall additionally be determined by a study to be conducted prior to the completion of the Definitive Agreement. All parties acknowledge that changing the characteristics of the waste delivered to the facility can increase or decrease the amount of revenue achieved from the sale of commodities and the importance of not changing the characteristics without prior approval of the other parties.

4. **Spot Market Waste.** The Definitive Agreement between the parties shall provide that Contractor shall be permitted to acquire spot market MSW of other acceptable waste for processing at the Project at Tip Fees comparable to the Tip Fees charged to the Public Participants. Contractor's acquisition of spot market MSW is intended to utilize the Project's available processing capacity in the event the Public Participants’ MSW delivery volumes are less than the Project's maximum processing capacity. Spot market MSW may be acquired by Contractor from any private or public source located within the County if the Project has unutilized processing capacity. Spot market MSW may be acquired by Contractor from any private or public source located outside of the County only with specific review and legal approval of the Public Participants or the JPA.

5. **Tip Fees.** The Definitive Agreement between the parties shall provide that the Public Participants shall pay Contractor a Tip Fee as negotiated by the Public Participants. Such Tip Fee to be determined based on the specific waste processing components constructed at the Project (i.e. MRF and AD), each Project component's operating capacity, the volume of material committed to be delivered, the Resets, the Acceptable Waste Characteristics, and any other criteria defined and agreed upon by the parties as set forth in the Definitive Agreements. The Public Participants have conducted financial due diligence of the revised pro formas submitted by the Contractor dated July 17, 2012 and have found that the proposal meets the financial goals of the Project. At completion of the CEQA process and Contractor’s receipt of necessary approvals and Entitlements, the final tipping fee will be negotiated and included in the Definitive Agreements. **Regional Waste Infrastructure Fee Payment.** The Definitive Agreement between the parties shall provide that the MSW Tip Fees per ton charged the Public Participants may include the Regional Waste Infrastructure Fee as described in Section E 4.
6. **Tip Fee Variable Cost Component Adjustment.** The Definitive Agreement between the parties shall provide that the MSW Tip Fees per ton charged the Public Participants in year two and thereafter shall also include adjustment amounts intended to cover the cost of living increases for certain costs and expenses as more specifically detailed in the RFP (“Adjustment Factor” or “Project CPI”).

7. **Contractor’s Tip Fee Revision.** In the event that the Public Participants determine the need to revise any of the waste streams, resets, capacity or other operational parameters, or to materially modify any of the Project components, Contractor reserves the right to revise the Pricing set forth in their July 17, 2012 Submittal. Additionally, changes in other factors such as interest rates, market-accepted debt to equity ratios, and the value of biogas and recyclables may affect Pricing and will be negotiated prior to approval of the Definitive Agreements.

8. **Reconciliation/True-up Process.** The Definitive Agreement between the parties shall provide for an annual reconciliation process for each contract year between the payments made by Contractor to the Public Participants and payments made by the Public Participants to Contractor. Such reconciliation process is set forth and described in detail in the RFP, subject to approval by the JPA or Public Participants if JPA is not formed.

**G. OTHER CONSIDERATION TO PUBLIC PARTICIPANTS.**

The Definitive Agreement between the parties shall provide for the following additional payments to the County and the Public Participants:

1. **Grant Fund Payments.** Contractor shall make an annual Grant Fund Payment of $20,000 to the County payable upon completion of the Project Financing and adjusted annually by the Adjustment Factor. The annual Grant Fund Payment shall be used at the sole discretion of the Public Participants for activities related to the operation of the Project such as, but not limited to, intern programs, educational programs and outreach activities concerning the Project.

2. **Contract Administration Payments.** A payment of $50,000 per year shall be made by the Contractor to the County for contract administration and day to day operational oversight on behalf of the Public Participants commencing upon the completion of the Project financing and continuing until the commercial operation date at which point it shall increase to $160,000 per year, which values shall be adjusted by the Adjustment Factor as specified in the RFP.

3. **Revenue Sharing.** As requested in the RFP and as specified in Contractor's RFP Submittal, Contractor agrees to share 50% of any excess revenue generated by the Project with the Public Participants as specified in Contractor's RFP Submittal. Revenue Sharing with the Public Participants will include, but not be limited to, the following list of potential sources as defined in the RFP and as specified in Contractor’s RFP Submittal: Energy Revenues; Regulatory-Driven Revenues (post-RFP Submittal); Materials Revenues from both MSW recyclable recovery and commingled source separated recyclables, each subject to a different formula as specified in Contractor's RFP Submittal; Spot Market Waste Revenues and Fees upon achieving Revenue Sharing hurdle levels and amounts all as specified in Contractor's RFP Submittal. Specific revenue sharing formulas will be negotiated at the time of tip fee.
negotiations and will be included in the Definitive Agreements. **Cost Savings Sharing.** As requested in the RFP and as specified in Contractor's RFP Submittal, Contractor agrees to share 50% of any revenue generated by the Project with the Public Participants as specified in Contractor's RFP Submittal as a result of cost savings from one or more potential sources. Cost Savings Sharing with the Public Participants includes, but is not limited to, the following list of potential sources as defined in the RFP and as specified in Contractor's RFP Submittal: Reduction in Facility Construction Costs; Reduction in Financing Costs; Reduction in Operations & Maintenance Costs upon achieving Revenue Sharing hurdle levels and other amounts all as specified in Contractor's RFP Submittal. Specific cost sharing formulas will be negotiated at the time of tip fee negotiations and will be included in the Definitive Agreements.

**H. PROJECT FINANCING.**

1. **Contractor's Financing Obligation.** The Definitive Agreements executed by the parties shall provide that Contractor shall be responsible for 100% of the Project’s debt and equity financing as required by the RFP. The Public Participants shall have the option to review, audit and perform due diligence at any time on Contractor’s debt and equity financing proposals, and obligation(s).

2. **CPCFA Bond Debt Financing.** Contractor anticipates that the Project’s debt financing shall be funded through the issuance and sale of California Pollution Control Finance Authority (“CPCFA”) Industrial Development Waste Bonds (“Bonds”). Contractor anticipates approximately 60-80% of the Project's total cost shall be financed through the sale of CPCFA Bonds at market interest rates to be fully amortized over an 11-20 year schedule. As specified in Contractor's RFP Submittal, the debt amortization schedule will be determined based on the Resets mutually agreed upon by the Public Participants and Contractor upon completion of the CEQA Process and all necessary and required Entitlements prior to commencement of the Project Financing.

3. **Equity Financing.** Contractor anticipates that the Project’s equity financing may be funded through a combination of the sale of a 10% Investment Tax Credit (“ITC”) applicable to eligible Project costs and the placement of institutional equity for the balance.

4. **No Public Participant Obligations.** The Public Participants shall have no liability or responsibility for any portion of the Project Financing other than the timely payment of Tip Fees to the Project for the delivered waste stream volume, as specified in the Definitive Agreements.

5. **Financing Commitment Term.** If Contractor has not obtained Project Financing within twelve months from the date of completion of the CEQA Process and Contractor’s receipt of all necessary and required Entitlements to construct the Project, the Public Participants shall have the right to terminate the Definitive Agreements at their sole discretion.

**I. OPERATIONS & MAINTENANCE.**

The Definitive Agreements to be executed between the parties shall provide for the Operations & Maintenance of the Project as specified in the RFP and as specified in Contractor's RFP Submittal.
1. **Project Operator.** Contractor shall enter into a Project Operating Agreement with a qualified firm experienced in the day-to-day operations and management of facilities comparable to the Project ("Project Operator"). Contractor shall consult with the Public Participants in the selection process and shall not enter into any Project Operating Agreement with the Project Operator without the express written approval of such firm and the specific terms and conditions of the Project Operating Agreement from the County (or the JPA). The Project Operator shall be required to meet any and all specific criteria as specified in the RFP including bonding and insurance.

2. **Manager.** Except as provided below, Contractor shall, throughout the term of the Definitive Agreements, coordinate and supervise the Project Operator as the Project's Manager and shall remain liable to the Public Participants for 100% of all performance obligations as specified in the RFP, as specified in Contractor's RFP Submittal, as such obligations will be delineated in the Definitive Agreements. Contractor shall not sell, assign or hypothecate its ownership interest in the entity acting as Project Manager without the express written approval of the County and Public Participants (or the JPA), with any such approval not to be unreasonably withheld. In such an event of a proposed transfer, Contractor is to furnish to the Public Participants all information available to Contractor as to the responsibility, reputation, financial standing and business of any proposed assignee, subcontractor or other third party contemplated in this section. If Contractor fails to provide such information or the Public Participants, acting reasonably, are not satisfied as to the responsibility, reputation, financial standing and business of any proposed assignee, subcontractor or other third party, such shall constitute grounds for a reasonable withholding of consent. Public Participants’ approval of the transfer of the management function or ownership interest of the Contractor may include a provision for the reimbursement of any actual expenses incurred by the County and Public Participants (or the JPA) in the review of any such assignment.

3. **Project Employees.** As specified in the RFP and as specified in Contractor's RFP Submittal, Contractor, and or its Project Operator, shall use its/their best efforts to recruit, train and employ any County staff currently employed at the Tajiguas Landfill to work at the Project during operations.

4. **Start-up & Testing.** Following the completion of construction of the Project, start-up testing of all of the Project’s components, equipment and systems will be completed to demonstrate that each is installed correctly, functions as intended, and meets the applicable conditions specified in the RFP. Start-up testing will occur once the equipment or system has been installed and is mechanically and electrically complete. The Public Participants or their representatives shall have the right to observe any start-up testing.

5. **Acceptance.** Upon successful completion of the startup testing, the Acceptance Test will occur. Contractor, its GC and the Project Operator shall prepare an Acceptance Test Plan and conduct the Acceptance Test. The Acceptance Test is to demonstrate that the Project and all of its components (MRF & AD) function as intended to meet Performance Standards & Guarantees, including permit limits. The Acceptance Test shall include, but not be limited to, the following sub-tests: Facility Reliability Test; Facility Capacity Tests; Environmental Compliance Test; Net Electric Output Test; Material Recovery Test; Residue Test; Ambient Noise; and, Ambient Odor. The Performance Standards & Guarantees all
are specified in the RFP and Contractor's RFP Submittal and as such shall be delineated in the Definitive Agreements.

6. Performance. Contractor shall meet the Performance Guarantees for the Project as specified in the RFP and as specified in Contractor's RFP Submittal. The performance guarantees include the following: Waste Throughput Guarantee; Availability Guarantee; Annual Waste Throughput Guarantee; Minimum Electric Output Guarantee; Net Electric Generating Guarantee; Material Recovery Guarantee; Residue Quantity Guarantee; Residue Quality Guarantee; Environmental Performance Guarantee; and Scheduled Acceptance Date Guarantee. As specified in Contractor's RFP Submittal, all of the above performance guarantees are subject to the Public Participants' delivery of the Minimum Annual Delivery Tonnage of MSW meeting Acceptable Waste Characteristics. The specifics of each Performance Guarantee as well as compliance and remedies for each Performance Guarantee will be defined in the Definitive Agreements. The Performance Guarantees are dependent upon the characteristics of the waste delivered to the Project. As discussed in Section F 3 Waste Stream Characteristics, Performance Guarantees are likely to be revised upon completion of a Waste Characteristics study to be completed prior to completion of the Definitive Agreements.

7. Reports. Contractor and the Project Operator shall maintain records and prepare reports as described in RFP Appendix F, including reports to the Public Participants documenting operation and maintenance of the Project, regulatory activities, and other relevant information. Reports shall include monthly and annual operations and maintenance reports, and a monthly complaint log reporting any and all complaints relating to the Project and a description of the response.

8. Bonding & Insurance. Contractor, the General Contractor and the Project Operator shall provide any and all surety, bonds and insurance related to the Project's design, construction, operations & maintenance as required by the RFP, as specified in Contractor's RFP Submittal, as required in connection with the Project Financing, or as otherwise required by law. Such surety, bonds and insurance shall be provided by Contractor, General Contractor and the Project Operator in a form acceptable to the appropriate legal counsel.
J. PERMITTING.

The Definitive Agreements to be executed between the parties, based on applicable law and all federal, state and local regulatory agency requirements shall provide for the Entitlement processing of the Project as specified in the RFP and as specified in Contractor’s RFP Submittal.

1. Lead Agency. The County of Santa Barbara acting through its Public Works Department will be the lead agency for the permitting of the Project and for ensuring compliance with CEQA. The other Public Participants shall be Responsible Agencies. The County’s Public Works Resource Recovery and Waste Management Division will be the Project Applicant for permitting and CEQA purposes with the Contractor acting as the County’s vendor. The County’s Building & Safety Division will be responsible for the issuance of Building Permits required to construct the Project, if any. The County’s Public Works Resource Recovery and Waste Management Division will be responsible for an amendment to the County’s Non-Disposal Facility Element (NDFE) and or the County Siting Element (CSE).

2. Entitlement Process. As used in this Term Sheet, “Entitlement” shall refer to any permit or approval necessary for the project and “Entitlement Process” shall refer to the procedures, hearings, applications, approvals and decisions from any agency or entity necessary to accomplish the goals of this project.

3. Contractor Obligations. Contractor will additionally be responsible for obtaining the following permits from the relevant state or local agencies:

   a) Solid Waste Facility Permit- California Department of Resources Recycling and Recovery (CalRecycle)
   b) Air Permits (Construction and Operation) - Santa Barbara County Air Pollution Control District (SBCAPCD)
   c) Industrial Wastewater Discharge Permit-Central California Regional Water Quality Control Board (CCRWQCB)
   d) Septic System Permit-Santa Barbara County Public Health Department (SBCPHD)
   e) Stormwater NPDES Permit (Construction and General Industrial)-State Water Resources Control Board (SWRCB)
   f) California Department of Fish & Game Permit (if necessary) (CDFG)
   g) Renewable Portfolio Standard (RPS) Pre-Certification & Certification - California Energy Commission (CEC)
   h) Power Purchase Agreement (PPA) approval - California Public Utilities Commission (CPUC)
   i) Hazardous waste permitting, health risk assessment and Unified Program requirements - California Department of Toxic Substances Control (DTSC)

Contractor shall prepare, file and process applications for the above permits with the relevant state or local agency in parallel with the County’s CEQA Process & Entitlement Process. Commencing with the date on which this Term Sheet is executed, Contractor shall bear 100% of the going-forward cost of preparing, review, filing and processing such applications and the applications for the the Entitlement
Process. County shall provide Contractor with reasonable access to the County Sites for the Project as required by Contractor in order to complete the Entitlement Process.

4. **Contractor Termination.** Contractor reserves the right, in the exercise of its sole discretion, to withdraw from and terminate the Entitlement Process for the Project described above without penalty Contractor shall provide notice of withdrawal/termination in writing.

5. **Public Participant Termination.** Each Public Participant reserves the right, in the exercise of its sole discretion, to withdraw from and terminate its participation in the Project described above without penalty. Said Public Participant shall provide notice of withdrawal/termination in writing to the Contractor and all other public agencies.

K. **INDEMNIFICATION.**

The Definitive Agreements to be executed between the parties shall provide for the indemnification of the Public Participants as specified in the RFP and as specified in Contractor's RFP Submittal. To the extent that any indemnification provision in the RFP conflicts with provisions herein, the provisions herein shall take precedence.

1. **Contractor Indemnity.** Contractor shall protect, indemnify and hold harmless the Public Participants and their representatives, officers, employees and subcontractors (the “Indemnified Public Participant Parties”) from and against all liabilities, damages, claims, judgments, expenses, including attorney’s fees, or actions, and will defend the Indemnified Public Participant Parties in any suit for personal injury to, or death of, any person, or loss or damage to property arising out of the ownership, lease, use or operation of the Project, environmental harm resulting from the Project and/or the Sites for the duration of the Definitive Agreements Term, performance or non-performance of Contractor's obligations under the contract, or breach of its obligations there under.

2. The County (or any successor or participating agency) may, in its sole and absolute discretion, elect to defend any third party litigation or suits challenging any action taken by the County with regard to any procedure or substantive aspect of the County’s approval of development of the Resource Recovery Project or related projects, the environmental review process under the California Environmental Quality Act (hereinafter “CEQA”) for the Project.

3. The Contractor may, however, in its sole and absolute discretion appear as real party in interest in any such third party action or proceeding.

4. If the County or any participating agency elects to actively defend such third-party action or proceeding, the Contractor shall be responsible for and fully reimburse the County for whatever reasonable legal fees and costs, in their entirety, which may be incurred by the County in defense of such action or proceeding and actually paid by the County to third parties (i.e., not to County or City officers, employees, staff or consultants). The County shall have the absolute right to retain such independent legal counsel as the County may deem necessary and appropriate.
5. In the event of an award of attorney fees and costs to any third party challenging the approval of the Project, under CEQA or for any other reason, the Contractor shall pay such an award and the County and other Public Participants shall have no responsibility or obligation to do so. Contractor shall also fully and completely reimburse County and other Public Participants in the event of any award of court costs and/or attorney fees is made directly against County and/or the Public Participants in favor of any third party challenging the Final EIR for the Project.

L. MISCELLANEOUS PROVISIONS

1. Contractor Affiliates. Elements of the Project may be undertaken by Mustang-Santa Barbara, LLC and/or B Mortgage Acceptance Corp. dba The Dewey Group, both of which are entities affiliated with Contractor. All references to “Mustang” or “Contractor herein shall refer equally, individually and collectively, to Mustang Renewable Power Ventures, LLC, Mustang-Santa Barbara LLC, and/or B Mortgage Acceptance Corp. dba The Dewey Group.

2. (a) Exclusive Right to Negotiate Definitive Agreements. The parties acknowledge that Mustang as the Project Contractor is granted an exclusive right to negotiate (ERTN) the Definitive Agreements with the Public Participants for the County-owned Project sites, subject to provisions of subparagraph L.2.(b) below. The exclusive right to negotiate shall commence upon the execution of this Term Sheet by at least the County and the cities of Santa Barbara and Goleta and shall continue for a period of 12 months following certification of Final EIR by the Board of Supervisors (BOS). No Project commitments of any kind have been made to Contractor nor will any be made until execution of Definitive Agreements. Notwithstanding the above, this ERTN shall terminate forty-eight months after execution of this Term Sheet. The 48 month period shall be tolled for up to an additional 18 months during pending CEQA litigation by a third party. Pending CEQA litigation begins when a CEQA challenge is filed in Superior Court and ends when final judgment is issued.

(b) Following certification of the Final EIR by the Board of Supervisors, and should an alternative site(s) (pursuant to paragraph E.2) for any component of the Project be selected which is not located on County-owned real property, Contractor understands and acknowledges that the Public Participants shall have the right to negotiate for the use of the non-county site directly with the property owner(s) of the alternative site(s) and the ERTN in the preceding paragraph for that component of the Project shall not apply to such separate negotiations. However, the ERTN shall still be in effect for all other components and County-owned sites for the Project pursuant to paragraph L.2.(a). The property owner(s) shall be afforded 12 months following certification of the Final EIR to negotiate mutually acceptable contracts for the use of the alternative non-County site or to provide a purchase option for such property held by the Public Participants. Should the property owner(s) fail within those 12 months or any extension thereof granted by the Public Participants to negotiate acceptable terms for such suitable alternative non-County site(s) for that Project component, the Board of Supervisors may reevaluate the selection of alternative sites identified in the certified Final EIR.

3. Implementation of this Term Sheet. This Term Sheet authorizes County staff, with the assistance and consultation of the County Counsel, and the assistance of the staff of the Public Participants, to negotiate Definitive Agreements consistent with the terms and conditions of this Term
Sheet with Contractor and to report to the County Board of Supervisors and the elected board of each Public Participant. Contractor understands that any and all contracts, leases, bonds and Definitive Agreements must be approved in accordance with the requirements of applicable CEQA law, the Santa Barbara County code and policy and any other applicable Public Participants’ Charters and applicable codes and must be reviewed and approved by the applicable Public Participants’ respective decision-makers.

4. **Cooperation.** In connection with this Term Sheet, the parties shall reasonably cooperate with one another to achieve the objectives and purposes of this Term Sheet. In an effort to accomplish the parties’ Goals set forth above, the parties will negotiate over the proposed terms and conditions related to the Project as set forth in this Term Sheet, it being understood and agreed that in drafting the Definitive Agreements, in the event of any inconsistency between any of the parties’ Goals and any more of the specific provisions contained in this Term Sheet, the parties shall look to, and be guided by, the more specific applicable provision in the RFP and/or Contractor's RFP Submittal. The County’s Public Works Department agrees to apply for and to reasonably expedite the processing of entitlements and approvals for the Project, including the commencement of the CEQA Process and the Entitlement Process. Notwithstanding the foregoing, any Party to this Term Sheet may exercise their prerogatives pursuant to paragraphs J.4. or J.5. to terminate negotiations at their discretion.

5. **Nondiscrimination:** Contractor shall comply with County laws, rules and regulations regarding nondiscrimination as such are found in the Santa Barbara Code and federal and state law and as such may from time to time be amended. These provisions are incorporated herein as if they were fully set forth. Noncompliance with provisions of this section shall constitute a material breach of this Agreement and in addition to any other remedies provided by law, County shall have the right to terminate the Agreement and the interest thereby created without liability therefore.

6. **Effect of Signatures.** By signing below, the parties evidence their general agreement with the provisions of this Term Sheet and agree to use this Term Sheet as the framework for the negotiations on binding Definitive Agreements. Any agreements resulting from negotiations will become effective only if and after such agreement has been considered and approved by the necessary Public Participants, following conduct of all legally required statutory and municipal charter review procedures, including any necessary CEQA Process and Entitlement Process. This paragraph remains a statement of general intent and does not create a legal or contractual obligation for any party to enter into any agreement described in or contemplated in this Term Sheet.
IN WITNESS WHEREOF, the parties executed this TERM SHEET on the dates indicated.

COUNTY OF SANTA BARBARA:

Attest __________________________
By: ____________________________
Clerk Chair

Date:__________________________
Date:__________________________

APPROVED AS TO FORM:
County Counsel

By: ____________________________
Deputy

Date:__________________________
CITY OF SANTA BARBARA:

APPROVED AS TO CONTENT:
By: _____________________________
City Finance Director

Date: ___________________________

By: _____________________________
City of Santa Barbara
City Administrator

APPROVED AS TO FORM:
City of Santa Barbara
City Attorney

By: _____________________________

Date: ___________________________
CITY OF GOLETA

APPROVED AS TO FORM:

By: ____________________________  By: ____________________________
Tim W. Giles, City Attorney  Daniel Singer, City Manager
City Attorney

Date: ____________________________  Date: ____________________________

ATTEST:

By: ____________________________
Deborah Constantino, City Clerk

Date: ____________________________
CITY OF BUELLTON:

By: __________________________  By: __________________________

Its: __________________________  Its: __________________________

Date: __________________________  Date: __________________________
CITY OF SOLVANG:

By: ________________________

By: ________________________

Its: ________________________

Its: ________________________

Date: ________________________

Date: ________________________
MUSTANG RENEWABLE POWER VENTURES, LLC

By: __________________________
    John Dewey
Its: Managing Member

Date: __________________________

B MORTGAGE ACCEPTANCE CORP. DBA
THE DEWEY GROUP

By: __________________________
    John Dewey
Its: President & CEO

Date: __________________________
APPENDIX A

PROJECT SITE PLAN
TAJIGUAS LANDFILL 380 OPERATIONS DECK SITE
Figure 4 - Site Plan

Tajiguas Landfill Resource Recovery Project

4/11/2012
APPENDIX B

PROJECT SITE PLAN
TAJIGUAS LANDFILL COMPOST CURING AREA(S)
For Typical Leachate Collection System and Pad Detail, see Exhibit CFA-5

KEYNOTES:
1. Compost windrow
2. 3" AC wearing course over
3. MPV 600 paving mat over 3" AC base course
4. 12" min. compacted earth fill
5. Litter fence
6. Existing monolithic cover soil layer
7. 1/2" HDPE irrigation pipe in 2" Sch 40 PVC duct

prepared by
John Kular Consulting
10901 Rockridge Way, Bakersfield, CA 93311
661-663-7732  kularconsult.com

Tajiguas Resource Recovery Project
Exhibit CFA-2
Compost Layout and Grading Plan
8/22/2012