



2014 ANNUAL REPORT



February 18, 2015



South Bay Recycling, LLC

February 18, 2015

Kevin McCarthy
Executive Director
SBWMA/ReThink Waste
610 Elm Street, Suite 202
San Carlos, CA 94070

Dear Mr. McCarthy:

Enclosed is a copy of the South Bay Recycling's 2014 Annual Report. South Bay Recycling will send electronic copies to each jurisdiction.

In accordance with the requirements of our Operating Agreement, the undersigned hereby certifies, under penalty of perjury, that the report submitted herewith is true and correct to the best knowledge of the undersigned after reasonable inquiry.

If you should have any questions or require additional information, please call me at (650) 802-8355.

Sincerely,

Dwight E Herring

Dwight E Herring
General Manager

cc: Hilary Gans
Marshall Moran

SOUTH BAY RECYCLING

ANNUAL REPORT TO THE SBWMA

**FOR YEAR
2014**

**Submitted
February 18, 2015**

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2014 ANNUAL REPORT

DEFINITIONS

Municipal Solid Waste (MSW) – MSW delivered to the Shoreway Facility is delivered by the following sources: Recology of San Mateo County; Member Agency Vehicles; Public Self-Hauled; Maintenance Facilities from Recology of San Mateo County and South Bay Recycling; and, Contracted Non-Franchised Haulers.

Bulky Item/Reusable/Recoverable Materials – Recyclable materials recovered by Sorters from various waste streams. These items include, but are not limited to: electronic waste, cardboard, mixed rigid plastics, scrap metal, reusable furnishings, appliances, clothing, etc.

Organics Materials – Compostable materials such as food scraps, food-soiled paper fiber, wood and other plant materials collected Recology of San Mateo County from residential, commercial and multi-family complexes and delivered to the Shoreway Facility; and/or wood and other plant materials delivered to the Shoreway Facility by the public.

Inert/C&D Materials – Mixed Dirt, Cement, Rock, and other Construction and Demolition Debris delivered to the Shoreway Facility by the public.

Recycling Materials – Cardboard, Newspaper, Mixed Paper and Bottles and Cans collected by Recology of San Mateo County from residential, commercial and multi-family complexes and delivered to the Materials Recovery Facility for processing; and/or Recyclable materials delivered to the Public Recycling/Drop-Off Center by the public.



2014 ANNUAL REPORT OPERATIONS SUMMARY

Total municipal solid waste tonnage received:	209,310
Total bulky item, reusable, recoverable tonnage received:	1,342
Total organics tonnage received:	105,720
Total inert and C&D tonnage received:	29,571
Total recyclable tonnage received:	<u>103,949</u>
Total tonnage received into Shoreway Facility:	449,893
Total tonnage received into Transfer Station:	345,946
Total tonnage received into MRF:	103,949
Total tonnage disposed:	209,310
Total tonnage diverted:	240,583
Overall Calculated Diversion Rate:	53%



OPERATING STATISTICS

ABOUT SOUTH BAY RECYCLING

In January 2011, South Bay Recycling began operating the Shoreway Facility Transfer Station and state-of-the-art Materials Recovery Facility under an Operating Agreement with the South Bayside Waste Management Authority (ReThink Waste).

South Bay Recycling, LLC, (SBR) is a joint venture between two of the most experienced operators of mixed waste MRFs, commingled residential recyclables MRFs and Transfer Stations in California; Community Recycling & Resource Recovery, Incorporated (Community Recycling) and Potential Industries, Incorporated (Potential Industries). SBR brings together the strengths of each company; the transfer and C&D processing capability of Community Recycling, and the single stream processing experience of Potential.

Community Recycling is one of a group of California companies owned and managed by Thomas Fry. It has been in business since 1974 and has provided recycling, composting and energy production service to many communities throughout southern and central California. Community Recycling and Resource Recovery, Inc. presently owns and operates a Mixed Waste Material Recovery Facility (MRF)/Transfer Station/Recycling Complex in the City of Los Angeles and California's largest Composting Facility in Lamont. Community Recycling's sister companies also operate Biomass Power Plants in Madera and Dinuba.

Potential Industries was founded in Los Angeles as a privately held corporation in 1975. Potential is a full service diversified recycling company that operates four recycling facilities in the Southern California. Suppliers of recyclable materials include; municipalities, waste disposal companies, certified recycling centers, commercial and industrial accounts, and material recovery facilities. The Company processes over 300,000 tons of recyclable material per year. Potential also has partnerships with recycled paper mills in China.

Community Recycling has evolved over more than three decades from a standard transfer station operation to a fully integrated mixed waste MRF operator, processing C&D and a wide range of organic material to compost. The Company is well positioned to support communities in their drive for zero waste and beyond. In Q4 2014 Community Recycling announced it was entering into an Asset Purchase Agreement with Recology, Inc., and the Agreement includes the proposed transfer of Community's shares of South Bay Recycling to Recology. The proposed transfer is anticipated to occur at the end of February 2015.

Potential Industries has evolved from a traditional buyback recycling center to embrace residential commingled processing, and then again to secure additional markets through paper mill development. As such, the Company is able to optimize recycling, maximize diversion, and guarantee the strong and steady export markets for recyclable materials.

FACILITIES, EQUIPMENT AND PERSONNEL

The Shoreway Facility is open to the public and provides residents, businesses, contractors, municipalities, and individuals the ability to bring their trash, yard trimmings, organics, construction debris or recyclable materials for processing and transfer to permitted landfills, end users, and other processing centers for further separation and marketing of materials.



FACILITIES

Transfer Station

The Transfer Station is open to the public Monday through Friday from 6:00 a.m. to 6:00 p.m. and on Saturday and Sunday from 8:00 a.m. to 5:00 p.m., and accepts the following materials:

Municipal Solid Waste

Mixed C&D and Inert Materials

Yard Trimmings

Food Scraps

Refrigerators

Appliances

Mattress or Box Springs

Sofas

Garage Doors

Tires

Scrap Metal

Types of materials not accepted at the Transfer Station are:

Liquid wastes or sludge

Car batteries

Hot ashes

Sealed containers

Animal waste

Dead animals

Oils and solvents

Medical waste

Radioactive or Reactive Materials

Any type of hazardous waste



Scale Attendants inspect all self-haul loads entering the Shoreway Facility and a minimum of four (4) loads from the franchise hauler. Scale Attendants have been trained on how to properly inspect, identify and report loads that contain hazardous materials or other types of waste that are unacceptable to be received.

Recology collection vehicles enter the Shoreway Facility and come to stop on one of two in-ground scales. The driver enters their vehicle number, route number and type of waste into the Driver Automated Terminal (DAT). The scale reads and records the trucks gross vehicle weight, subtracts the vehicle tare weight, which has been previously recorded and stored in the scale software system, and calculates and records the vehicle net weight. The driver receives a printout and exits the scale. Recyclable materials are delivered to the Materials Recovery Facility and all other materials are delivered to the Transfer Station.

The public entering the Shoreway Facility, are greeted by Scale Attendants, who are State Certified Weigh Masters, and have been trained in the proper volumetric measurement of the various types of materials received at the Shoreway Facility. To ensure Scale Attendants are providing an accurate measurement, an average of 724 pounds per cubic yard has been established which has been converted into a ratio of 2.76 yards per ton. The Transfer Station Supervisor conducts spot checks on a regular basis to ensure proper measurement procedures are being followed.

Scale Attendants identify the material type, measure the load and enter the information into the scale software system. The Scale Attendant receives the appropriate payment from the customer and the customer is issued a weigh ticket and receipt.

Customers are then directed to the Transfer Station where they are greeted by a Spotter. The Spotter is responsible for checking the weigh ticket and directing the customer to the appropriate area to dispose of their materials. Inside the Transfer Station, Sorters who have been trained to identify and recover materials that can be recycled or reused, remove these materials from the various waste streams for further processing.

Equipment Operators load materials into trailers, which are transported to the appropriate disposal site or processing Facility.

Public Recycling Center

The Public Recycling Center (PRC) is open to the public Monday through Saturday from 8:30 a.m. to 4:00 p.m. and accepts the following recyclable materials for drop off:

- | | | |
|------------------------|----------------------------|-----------------|
| Cardboard | Used Motor Oil | Sharps |
| Mixed Paper | Used Motor Antifreeze | Pharmaceuticals |
| Glass | Latex Paint | Cooking Oil |
| Aluminum Cans | Electronics | Clothing |
| Plastic Containers | Fluorescent Lighting Tubes | |
| Used Motor Oil Filters | Household Batteries | |



When the customer arrives into the PRC, they are greeted by an Attendant. Customers are directed to the appropriate area where they can drop off their materials. Customers with California Redemption Value (CRV) containers are offered three options to account for their containers in order to receive the redemption value.

1. Reverse Vending Machine (RVM). The RVM is convenient and easy to operate. Customers simply place their bottles or cans into the machine and when they are finished, the machine generates a receipt with the type and number of containers counted and the redemption value. The customer takes this receipt to the cashier for payment.
2. Weighing containers. Customers may choose to have their CRV eligible containers weighed. The customer is asked to transfer their containers into a basket provided by South Bay Recycling. The Attendant checks the contents of the basket and removes any non-CRV containers and/or any other debris as well as any liquid or other contents remaining in the containers. The basket is placed on a certified scale where the contents of the container are weighed. The customer receives a receipt which shows the net weight, material type and redemption value. The customer takes their receipt to the cashier for payment.
3. Counting containers. Customers may choose to have their containers counted. CalRecycle allows Recycle Centers to count up to a maximum of fifty (50) containers per customer. The customer transfers their containers into a basket provided by South Bay Recycling. The Attendant checks the contents of the basket and removes any non-CRV containers and/or any other debris as well as any liquid or other contents remaining in the containers. The Attendant counts each container and provides the customer with a receipt which shows the net weight, material type and redemption value. The customer takes their receipt to the cashier for payment.

South Bay Recycling also purchases segregated cardboard from customers who bring in more than 300 lbs. to the Public Recycling Center. Customers who bring in up to 999 lbs. receive \$0.045 cents per lb. and \$0.05 cents per pound for anything above 1,000 lbs.

Materials received into the Public Recycling Center are processed and sold to various end users who convert the materials into new products, or reusable items.



Material Recovery Facility

The Material Recovery Facility accepts residential and commercial single stream recyclables as well as source separated fiber. Single stream recyclables are processed using state-of-the-art processing equipment designed and manufactured by Bulk Handling Systems. The processing equipment is performing in a manner consistent with design parameters, and as a result, is achieving production and quality levels that meet or exceed goals.

Due to the operations ability to function at acceptable levels, in 2012, SBR began sourcing single stream, and source separated recyclable materials from third party haulers. In February 2014, SBR began transporting single stream recyclables from Recology-South Bay to the Shoreway Facility for processing. Due to the increase in tonnage, SBR added a second shift to its MRF operations. In August, SBR and Recology, Inc. entered into a long-term agreement with Recology, Inc. to receive and process single stream recyclable materials collected from non-member agencies located in San Mateo County and various jurisdictions throughout Santa Clara County, resulting in \$389,023 of additional unbudgeted revenue to the SBWMA, up 71.6% from 2013.



SBR has successfully applied its expertise in maximizing recovery and minimizing residue. By judiciously using equipment and labor, SBR was able to achieve an overall recovery rate of 90.6% (9.4% of inbound materials left the facility as residue). This recovery rate is among the best in the industry. SBR continues to work with its third party haulers, Recology of San Mateo County and the SBWMA to further improve the recovery rate by reducing the contamination level of inbound commercial and residential commingled recyclable materials.

San Mateo County Vocational Rehabilitation Services

San Mateo County (SMC) has several public programs whose purpose is to assist people in attaining their maximum potential within a work environment through counseling, work experience, education and vocational testing. One of the programs currently being used by South Bay Recycling is the VRS program, which is a unique public/private partnership, which strives to enhance people's self-esteem and dignity.

Since the start of operations, South Bay Recycling has utilized the services of San Mateo County, Vocational Rehabilitation Services (VRS). VRS provide Clients (Sorters) and Production Supervisors for sorting operations in the Materials Recovery Facility. VRS Clients have been trained to identify and remove non-recyclable materials from mix paper, old newspaper, cardboard, plastics, aluminum, and other targeted recyclable materials prior to being baled and shipped to market.

Contract renewal negotiations were concluded in 2014 and the new contract became effective on January 1, 2015. SBR continues to work with SMC so that the sufficient number of Clients are provided and that they meet performance criteria.

EQUIPMENT



Truck Fleet

Prior to commencing operations, South Bay Recycling purchased new 2010 Kenworth tractors for its operation and continues to operate these same vehicles. Each 2010 EPA-compliant CAT engine employs the best available emissions control technology to reduce NOx and Particulate Matter.

Our trailers were custom designed, engineered and manufactured to minimize weight and maximize payload, resulting in less equipment on the road which reduces traffic congestion, resource consumption and CO2 emissions. These results are shown on the ‘Truck Efficiency Report’.

We continually assess the operation and make necessary modifications to our equipment to improve performance and increase efficiency. Since the start of operations, SBR has made the following improvements:

1. Three of our walking floor trailers were outfitted with steel walking floors. These trailers exclusively transport materials such as construction debris and glass, reducing the risk of damage to our equipment, resulting in reduced downtime; and
2. Installation of on-board truck scales on all combination tractor/trailer equipment has improved transportation time, resulting in less transportation expense, which benefits the SBWMA.

With the exception of construction debris and inert materials, our average payloads exceeded the aggressive targets that SBR identified in its bid documents, which many thought were unattainable. Due to a significant change in the types of materials accepted by the C&D processor in 2013, payloads to Zanker Road have decreased from what SBR enjoyed prior to this change, as well as the amount of tons delivered to the C&D processor.

Solid Waste	Q1	Q2	Q3	Q4	TOTAL
Tons	49,632.39	52,375.59	53,254.13	54,049.90	209,312.01
Loads	1,912.00	2,017.00	2,054.00	2,089.00	8,072.00
Avg Tons/Load	25.96	25.97	25.93	25.87	25.93
Organics					
Tons	24,050.56	26,767.37	25,409.80	29,492.37	105,720.10
Loads	992.00	1,080.00	1,025.00	1,199.00	4,296.00
Avg Tons/Load	24.24	24.78	24.79	24.60	24.61
C&D					
Tons	6,013.66	7,505.93	8,409.90	7,166.63	29,096.12
Loads	290.00	363.00	410.00	363.00	1,426.00
Avg Tons/Load	20.74	20.68	20.51	19.74	20.40



Operating Equipment

Prior to commencing operations, South Bay Recycling purchased new 2010 Volvo Wheel Loaders, a diesel powered Man-Lift and electric powered Linde forklifts. Each 2010 EPA-compliant CAT engine employs the best available emissions control technology.

The Linde Forklifts produce zero emissions and have a battery life that allow for a full 12-hour operation before needing to be charged.

In 2014, SBR added the following equipment:

- One, Linde electric forklift; and
- One, Linde diesel powered forklift (for jobs requiring heavier lifting capacity).



Equipment Maintenance

South Bay Recycling performs repairs and preventative maintenance on all equipment it operates, to include, analyzing transportation, loading and processing activities to develop and incorporate processes and procedures that result in sustainable equipment performance.



Below is a listing of the equipment operated and maintained by South Bay Recycling:

Equipment Description	Quantity	Comments
Roll-Off Vehicles	1	2010 Xpeditor
Semi-Tractors	22	2010 Kenworth Tractors
Trailers	21	10 Tippers 10 Walking Floors 1 End Dump
Wheel Loaders	6	2 L110 Wheel Loaders 3 L60 Wheel Loaders 1 L120 Wheel Loader 1 Excavator
Fork Trucks	5	4 Linde Electric Fork Trucks 1 Linde Diesel Fork Truck
Pickup Truck	1	Ford F-150
Man-Lift/Telescope Boom Lift	2	1 Telescoping Boom Lift 1 Scissor Lift
Roll-Off Containers	18	12 50 cubic yard debris boxes 6 20 cubic yard debris boxes
Storage Containers/Bins	50	11 8 cubic yard bins 18 6 cubic yard bins 2 4 cubic yard bins 2 3 cubic yard bins 2 1.5 cubic yard bins 2 3 cubic yard tilt hoppers 4 6 cubic yard tilt hoppers 4 40' sea containers 4 universal waste containers 2 50 cubic yard enclosed containers
Platform Scales	2	Main Entrance
Reverse Vending Machines	2	Public Recycling Center

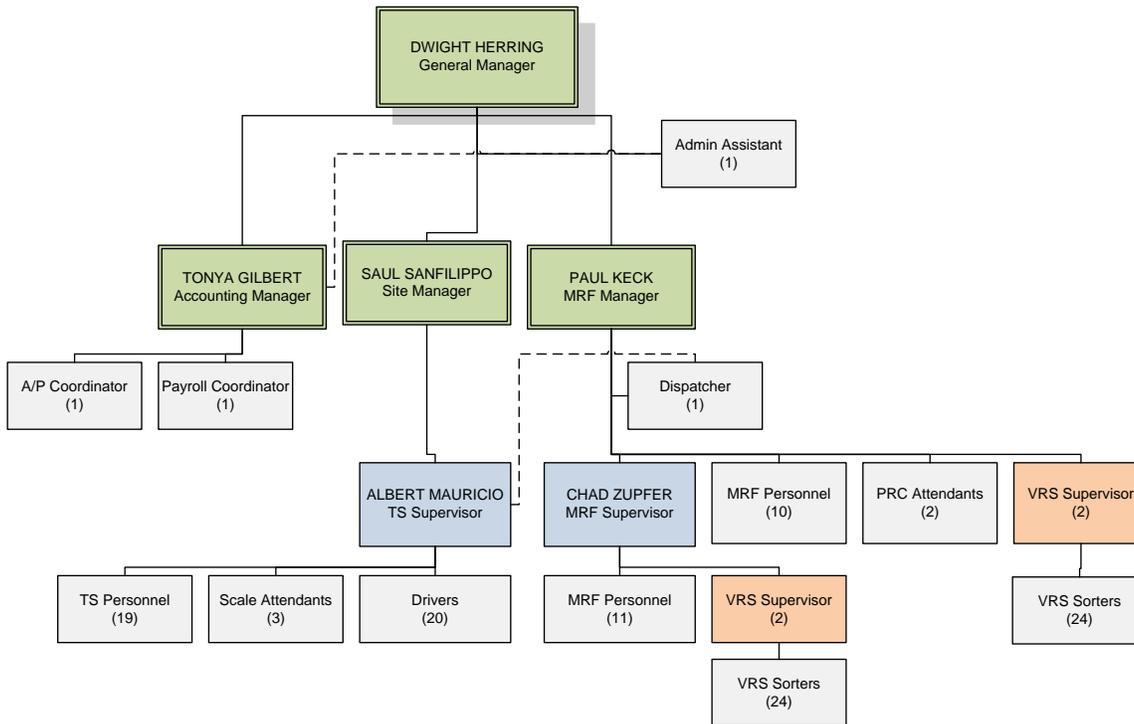
PERSONNEL

Our Greatest Asset is...

Our People



SBR ORGANIZATIONAL CHART



Staffing

South Bay Recycling employs a total staff of 75 personnel, of which, 69 hourly workers are represented by Teamsters Local No. 350. SBR personnel are made up of the following:

Department	FTE
Administrative Staff	6
Clerical Staff	4
Semi Drivers	20
Maintenance Staff	7
Equipment Operators	17
Scale Attendants	3
PRC Attendants	2
TS & MRF Floor Operators	<u>16</u>
Total Personnel	75

The Facility Operations Unit (Transfer Station, Materials Recovery Facility and Maintenance employees) CBA expired on December 31, 2014. Contract renewal negotiations were concluded in early February of 2015, which become effective January 1, 2015. As part of the negotiations, the Union agreed to merge the Mechanics Unit into the Facility Operations Unit. SBR now manages three Collective Bargaining Units:

- Semi Drivers Unit;
- Clerical Unit; and
- Facility Operations Unit

Management Team



Dwight Herring

Dwight Herring has served as General Manager for South Bay Recycling since November 1, 2011. From February 2011 to that date, Mr. Herring served as Site Manager. Mr. Herring has over 28 years' experience in the waste and recycling industry having held various management positions with Browning Ferris Industries, Waste Management, and Allied Waste. Before joining South Bay Recycling, Mr. Herring served as Vice President of Operations for TOMRA Pacific, Inc.



Saul San Filippo

Saul San Filippo has served as Site Manager for South Bay Recycling since April 2012. Mr. Sanfilippo has over 22 years' experience in maintenance and operations in the waste and recycling industry. Prior to joining South Bay Recycling, Mr. San Filippo served as Operations Supervisor for Republic Services of Daly City.



Paul Keck

Paul Keck started with South Bay Recycling in August as Material Recovery Facility Manager. Mr. Keck has over 36 years' experience in collection, post-collection and materials processing operations in the waste and recycling industry. Prior to joining South Bay Recycling, Mr. Keck served as the Operations Manager for Republic Services, Newby Island, overseeing material recovery and composting operations.



Albert Mauricio

Albert Mauricio has served as Transfer Station Supervisor for South Bay Recycling since April 2013. Mr. Mauricio has over 24 years' experience in freight and transportation operations having held various supervisory positions with United Parcel Service and Federal Express. Prior to joining South Bay Recycling, Mr. Mauricio served as Operations Supervisor for DHL Worldwide.



Chad Zupfer

Chad Zupfer has served as Materials Recovery Facility Supervisor for South Bay Recycling since September 2012. Prior to joining South Bay Recycling, Mr. Zupfer served as Operations Supervisor for Rock Tenn (formerly SMURFIT) in San Jose, California.



Tonya Gilbert

Tonya Gilbert has served as Accounting Manager for South Bay Recycling since May 2011. Ms. Gilbert has over 20 years' experience in bookkeeping and accounting operations. Prior to joining South Bay Recycling, Ms. Gilbert served as a Full Charge Bookkeeper for LARCO Industries, Inc.

MATERIAL MARKETING SUMMARY



South Bay Recycling is operating the Materials Recovery Facility equipment and processing normal grades of recyclable materials as follows:

- | | |
|---|---------------------------|
| Old News Paper (ONP) | Mixed Film Plastic (MFP) |
| Mixed Paper (MP) | Mixed Rigid Plastic (MRP) |
| Old Corrugated Containers (OCC) | Tin cans |
| HDPE color plastic (HDPEc) | Aluminum cans |
| HDPE natural plastic (HDPEn) | 3 mix glass |
| Plastic #3-#7 (or #5 PP based on market demand) | Scrap metal |

SBR transports mixed and clean glass to destinations in San Leandro, California. All other materials are sold freight on board (FOB) San Carlos with the buyer making arrangements and paying for transportation.

As required under the terms of the Operating Agreement, SBR compiles data for monitoring the prices that OCC, Mix, and ONP is sold for and compares them to the Fiber Commodity Price Assurance Average Index Value. The chart below provides a calculation showing the Quarterly Index value compared to the average sale price for each grade of fiber from the MRF, the Price Assurance Index, and the Premium per ton for each grade. SBR's expertise in material marketing has provided the SBWMA with a premium value for the recovered fiber of \$112,575.37 (see chart below).

2014	Cardboard	News	Mix Paper	TOTAL
Avg Index Value	\$ 139.71	\$ 93.52	\$ 102.41	
Avg Price Sold	\$ 142.44	\$ 95.25	\$ 105.04	
Difference (+/-)	\$ 2.73	\$ 1.73	\$ 2.63	
Tons	17,583.94	14,667.41	14,831.90	47,083.25
Premium Value	\$ 48,063.18	\$ 25,445.24	\$ 39,066.95	\$ 112,575.37

Selecting Buyers

SBR sends out a bid cover sheet to all approved buyers outlining the procedures and processes of handling recyclable outbound commodities. Each month, the bidder is provided a Commodity Bid Sheet for providing pricing for each commodity. SBR also prepared a MRF Commodity Sales / Shipping Procedure Overview outlining the internal procedures for handling the recyclable commodities. SBR ensures that recovered materials are handled in an environmentally sound manner, and only does business with established companies that have a good reputation in the industry.

Material Bidding and Monthly Revenue

SBR continues to work with its established buyers of recyclable material and expand opportunities with new buyers that are interested in purchasing material. All buyers are required to inspect all materials and assess quality. SBR has requested existing buyers to come reevaluate the materials as improvements in quality have been made by adjusting the processing equipment.

Recyclables Market Value

Revenue from recyclables consists of two components; scrap value and California Refund Value (CRV). In 2014 the average value of recyclables sold was 64% scrap value and 36% CRV value.

The scrap value consists of two primary types of materials, fiber and containers. Fibers include Old Corrugated Containers (OCC, aka cardboard), Old News Papers (ONP), and Mixed Paper (MP). Containers include glass, aluminum, plastics and metal. In 2014 the scrap value revenue from fiber (OCC, ONP & MP) made up 75% of the scrap revenue with the balance of 25% coming from containers.

The CRV value is determined by CalRecycle in Sacramento. The CRV program in California has strong bi-partisan support and is well established throughout the State. Over the past several years the program has seen increases in participation rates which have reduced the amount of unclaimed pre-paid deposits (which CalRecycle uses to pay for program operating costs). As such there are budgetary constraints on several “non-core” aspects of the CRV program, such as grants, market development, and community service programs. However, most of the revenue that Member Agencies receive for CRV materials consists of the “core” payments for Refund and Processing, and these components remain strong and solvent.

Fiber Scrap Value

Approximately 2/3 of total recyclables revenue comes from scrap value. Most of that scrap revenue comes from fiber, and as such it is important to look at the scrap value revenue and trend for fiber. The MRF generates three types of fiber which consists of approximately the same monthly quantities of cardboard (Old Corrugated Containers = OCC), newspaper Old News Paper = ONP) and mixed paper (Mixed Paper = MP). The historical average annual scrap value per ton fiber rate has been: 2012 it was \$128 per ton, 2013 it was \$125 per ton, and in 2014 it was \$115 per ton. SBR sends fiber to export markets in Asia, primarily China, because the export market is larger and pays better prices than the domestic market.

Export Fiber Market Conditions

In the second half of 2014 the port of Oakland began to suffer from ongoing service delays and labor disruptions which reduce the amount of materials that can be delivered to the port of export. As a result in baled recyclables have been stacking up in inventory at plants at recyclers throughout the bay area. SBR has begun sending material on an occasional basis to the Redwood City warehouse.

It is not viable to send materials to the Los Angeles/ Long Beach port because there is too much congestion there. Furthermore, trucking material to Southern California costs approximately \$50 per ton and once it arrives down there the material would still need to be trans-loaded and delivered to the port. The cost for such additional service is approximately \$25 per ton.

It is also not viable to send material to the Port of Portland/Seattle. Portland is only served by a few container lines and service is infrequent. Trucking material to Seattle is over \$50 per ton and once it arrives in the northwest the material would still need to be trans-loaded and delivered to the pier. The cost for such service is not known.

As a result of the temporary disruptions to operations at the port of Oakland there have been three alternatives that were reviewed. Store material on a temporary basis in a warehouse, sell to the domestic market, or send material to a landfill. It is not practical or environmentally responsible to send recyclable fiber to a landfill. The next section deals with fiber options for various grades in the domestic market.

Domestic Fiber Market Conditions

ONP – Only few small newsprint mills are left in the Pacific Northwest and they are served by the local and regional market. There are a few “insulators” in the western US that purchase ONP, but they tend to buy only intermittently with small quantities prefer pre-consumer quality without magazines, inserts, and junk mail.

OCC – Most bay area mills have closed and there are only a few that remain (Newark San Jose, Graphic Packaging Santa Clara). The price at local mills is typically at least \$10 per ton less than export pricing, and their regular supplier base is primarily packers who have low density bales or logistic constraints which do not allow them to export on a consistent basis. The local mills have high inventory, are cutting back volumes with regular suppliers, are dropping their prices, and are not accepting material from new suppliers. Mills in Southern California and the Pacific Northwest purchase primarily via long term contracts at pricing below export, and as such are not viable for spot market business.

Mix Paper – There is one bay area mill which purchases limited quantities of mixed paper from regular suppliers, mostly under contract, at pricing below export. Their inventory levels are high and they are not willing to receive shipments at this time.

Port Issues, Status, and Implications for the Export Market

In mid-2014 the International Longshore & Warehouse Union (ILWU) and the Pacific Maritime Association (PMA) labor contract expired for workers that load and unload all container ships on the entire west coast of the US. The parties have been unable to agree on terms and conditions for a new contract, and in the fourth quarter of 2014 the Port of Oakland (along with all ports on the western US) began to experience delays and congestion which created issues with getting export cargo delivered to the port.

Throughout December 2104 the Port of Oakland experienced reduced throughput which created substantial delays for all import and export cargo. SBR exports all of their fiber (OCC, ONP & Mixed Paper) and approximately half of their non-fiber recyclables through the Port of Oakland. Toward the end of December the Port of Oakland was closed on 4 weekdays and operated at substantially less than capacity on several days. As a result all recyclers in the bay area suffered significant delays with shipments which caused even more material to pile up in inventory throughout the bay area.

SBR informed SBWMA Staff of developments and provided options to ensure ongoing site operations. In order to continue receiving loose material in the MRF and maintain site operations, SBR arranged for a local warehouse in Newark to temporarily receive and store approximately 1,200 tons of baled fiber in December 2014. SBR also obtained approval from the San Mateo County Health Services Department to temporarily store approximately 300 tons of baled containers (non-fiber) on site.

In January 2015 SBR began using a larger warehouse in Redwood City. This warehouse is owned by the County of San Mateo and has approximately 28,000 square feet of indoor storage and over 10,000 square feet of outdoor storage. The Redwood City warehouse has the capacity to store over three weeks of Member Agency MRF baled production from the Shoreway facility.

In January 2015, SBR and Recology obtained approval from the San Mateo County Health Services Department to temporarily store fiber on site in the “horseshoe” area north of the Transfer Station. This area has the capacity to store over three weeks of third party MRF baled material at the Shoreway facility. SBR is following up with San Mateo County Health Services Department’s Local Enforcement Agency (LEA) to update the site Transfer Processing Report (TPR), which is done every 5 years, to include emergency storage for both fiber and non-fiber bales at the Shoreway Facility on an ongoing basis.

Fiber Commodity Moisture Monitoring

The moisture testing protocol and test results were submitted to and approved by the Authority in 2011. If excess moisture is present then SBR will compile the required information and make a recommendation to the SBWMA so they can make an investigation to arrive at a determination based on the following information:

- Daily rainfall records in the local area
- Moisture measured in inbound loose material
- Average bale weights for OCC, ONP, Mix Paper
- Moisture measured in sorted/processed materials

In December 2014 there were several periods of heavy rainfall that resulted in wet materials being delivered to the MRF. SBR notified the SBWMA and Recology of the situation. A small portion of two loads were directed to the Transfer Station for disposal since that material was considered to be too wet and clumped/wadded to be processable. SBR was directed to sort the commingled material with high moisture content which resulted in approximately half of the baled fiber in December having an excess moisture content. SBR was directed to handle and market those materials without making any moisture adjustment with an understanding, that as had been done in the past, that claims or downgrade that are documented and reasonable will be adjusted on a case by case basis.

OUTLOOK FOR SALE OF RECYCLABLE MATERIALS



2015 Projections for Fiber Scrap Values

SBR will continue to export fiber in 2015 and beyond. Material will be sent to those destinations which have the best pricing and business practices. Over the past 4 months the port congestion in Oakland has resulted in higher ocean freight rates and higher trucking costs. In addition, overall economic growth rates in Asia, particularly China, have created a reduced demand for fiber.

Over the past 4 months the value of fiber generated at the Shoreway facility has declined by over 25%, or approximately \$35 per ton. In January 2015 the average scrap rate for fiber was \$95 per ton.

SBR believes the labor issues at the Port of Oakland will be resolved by mid-March 2015, and after this is done it will take 2-3 weeks for the terminals to clear their backlogs and resume normal operations. During this time the higher costs of dealing with port congestion will continue to have a negative impact on fiber pricing. SBR believes that fiber pricing in February and March 2015 represents the bottom of the price decline.

SBR anticipates that the export market for fiber will begin to rebound in the second quarter of 2015 and continue to provide a stable market for MRF fiber. Over the past few years the economic growth rates in China have declined, but this is not unusual because their high levels of growth rate were simply not sustainable. Although nobody can accurately predict 2015 pricing, SBR believes that once normal operations are established at the port of Oakland that within 5-7 months that fiber pricing will rebound to levels within 10% of the average 2014 levels.

2015 Projections for Container Scrap Values

Plastic pricing in 2015 is likely to be below the 2014 levels. Recycled plastic competes with petroleum based virgin materials (such as oil or natural gas), and these prices dropped significantly in 2014. However, 2014 price levels were higher than the average over the past several years, and as such SBR does not consider that 2015 scrap plastic pricing will have a negative material impact on overall revenues from the sale of recyclable materials.

Ferrous (tin cans and scrap steel) and non-ferrous (aluminum) pricing in 2015 is anticipated to be consistent with historical averages over the past few years. SBR does not consider that 2015 scrap plastic pricing will have a material impact on revenues.

3 Mix Glass scrap value in 2015 will be less than prior years. In 2014, there were only two companies in California which recycled mixed glass, and in the second half of 2014 one of them closed. When this happened the only company recycling glass in California was unable to handle all of the MRF glass from the bay area recyclers, so they reduced inbound volumes for all suppliers. As a result SBR accumulated some inventory in the Transfer Station of MRF glass, but that material was shipped out in January 2015. As a result of the over-supply of glass there has been a slight deterioration in pricing. However, most of the value for glass is from the CRV portion so the net overall impact is minor.

2015 Projections for Container CRV Values

In 2014 CalRecycle changed the rules regarding Recycling Center's paying CRV on beverage containers which included a combination of CRV eligible and non-CRV materials. The impact on SBR operations was minimal because it only impacted the Public Recycling Center.

On November 6, 2014 the California State Auditor released report 2014-110, which states The Beverage Container Recycling Program Continues to Face Deficits and Requires Changes to Become Financially Sustainable. The report recommends that: the Legislature should consider enacting statutory changes to increase revenues, reduce costs, or a combination of both; and that CalRecycle should enhance revenues while reducing expenditures, contract with Equalization to determine the feasibility and cost of transferring its revenue collection duties and audits to Equalization, and modify and annually update its fraud management plan. CalRecycle generally agreed with the findings of the Auditor's report.

SBR believes that CalRecycle has sufficient options at their disposal to reduce payments to non-essential aspects of the beverage container recycling program, and that regardless of legislative change CalRecycle will be able to continue and operate the CRV program in 2015 and beyond. SBR does not think that changes in the CRV program in 2015 will result in financial impacts which have a material impact on the Member Agency curbside program or the Public Recycling Center.

2015 MRF Volume Projections

Member Agency MRF volume in 2014 for Franchised Recyclables was 70,098 tons, an increase of 2,848 tons from 2013. This increase of 4% for 2013 to 2014 is consistent with the increase from 2012 to 2013 of 3.3%. SBR anticipates Member Agency MRF volumes for 2015 to be slightly above the 2014 levels.

Third Party MRF volume in 2014 for recyclables sorted in the MRF was 29,627 tons, which is an increase of 14,499 over 2013 levels. The 2014 increase occurred in the first quarter of 2014 when Third Party tons from Recology were added to the MRF in a manner consistent with Board approved actions. SBR anticipates Third Party MRF volumes for 2015 to be in line with 2014 levels, which is approximately 2,500 tons per month.

In 2015 SBR estimates the distribution of Member Agency MRF tons and Third Party MRF tons to be consistent with 2014 levels, which were approximately 70% Member Agency and 30% Third Party. These volumes will enable SBR to continue and run the second shift, and since there is a contract in place for Third Party tons SBR anticipates the current volumes to continue at similar levels.

There are two developments scheduled to take place in 2015 that are important to ensure ongoing MRF operations; the MRF tipping floor roof extension and the modification to the County permit to allow for temporary on site outside storage of baled fiber and non-fiber material.

ENVIRONMENTAL HEALTH & SAFETY COMPLIANCE

CREATING A CULTURE OF SAFETY

A safety culture exists within an organization [when] each individual employee, regardless of their position, assumes an active role in error prevention and that role is supported by the organization.



At SBR, we recognize that an ideal safety culture is the ‘engine’ that drives the system towards the goal of sustaining the maximum resistance towards its operational hazards. This goal is achieved irrespective of the organization's leader or current commercial concerns. What drives our safety program is a constant level of respect for anything that may bypass organizational safety systems. In other words, we are constantly looking for what can go wrong. It is very dangerous to think that an organization is safe because no information is saying otherwise. The culture we are creating requires safety management to be aware of the numerous factors that have an impact on the safety systems (i.e. human, technical, organizational, and environmental). SBRs safety culture is reflected and promoted by the following four factors:

- Senior management commitment to safety;
- Shared care and concern for hazards and a solicitude for their impacts on people;
- Realistic and flexible norms and rules about hazards; and
- Continual reflection upon practice through monitoring.

Preventative Measures

SBR makes every effort to ensure it is in full compliance of the General Operating Standards and Services required under the Operating Agreement. SBRs approach is preventative versus reactive. To this regard, management works collaboratively with its employees, the SBWMA and other regulatory agencies to develop and implement preventative measures that will reduce the risk of injury to our employees and the public we serve.

Since the start of operations, SBR and the SBWMA identified the need to install an additional fire suppression system inside each of the fiber storage bunkers located in the Materials Recovery Facility (MRF). This equipment is essential, and will prevent excessive damage should a fire occur in this area.



To ensure the operation is in compliance with Cal-OSHA standards, SBR contacted Cal-OSHA's Consulting Division and requested a post-operating review of the operation and its safe workplace practices program. In March, a representative of Cal-OSHA conducted a comprehensive inspection of the MRF and Transfer Station operations, and reviewed its safety programs, policies, procedures, and training regimen. As a result, Cal-OSHA identified areas of concern and made recommendations to its established programs. SBR has since corrected all areas of concern and have updated its safety program to include the recommended changes and trained staff and employees on the updated procedures.

Other General Operating Standards and Service in place include, but are not limited to:

Litter Control

SBR has a dedicated employee who is assigned to patrol, collect and properly dispose of any litter or debris that may be on or adjacent to Shoreway Road between Ralston and Holly. This employee is also responsible for collecting and removing any debris found throughout the property at the Shoreway Facility. The company has also contracted with a commercial sweeping company who is required to sweep each day, all areas within the Shoreway Facility and on Shoreway Road between Ralston and Holly, collecting all debris in these areas and disposing of them at the Shoreway Facility.

Vector Control

SBR conducts its operations in such a manner as to ensure that conditions are unfavorable for production of rodents, insects and seagulls. To this regard, SBR ensures that all solid waste, organics and construction and demolition debris that enters the Transfer Station is loaded and transported to the disposal site or processing facilities within 24 hours of receipt. SBR has contracted a vendor who provides pest control services at the facility. SBR has also installed effective bird control measures which have significantly reduced the number of seagulls and crows present at the facility.

Odor, Dust and Noise Control

Odor, noise and dust are always a concern when operating a Transfer Station, Materials Recovery Facility and Transportation operation. Dust and odor control systems have been installed and are in operation at the Transfer Station and Materials Recovery Facility.

Regulatory Compliance

SBRs management team conducts monthly facility and equipment inspections to ensure the facility and equipment are in good working condition and are in compliance with DOT and OSHA regulations and the facilities Operating Permits. Any deficiencies or areas of concern are documented and corrected prior to the next inspection. SBR utilizes EEAP (Safety Consultant) to conduct quarterly, comprehensive facility inspections, reviews their findings with the General Manager and submits their report to the Company's Corporate Safety Manager.

San Mateo County Local Enforcement Agency (LEA) conducts monthly inspections to ensure the facility is operating in compliance with the Solid Waste Facilities Permit. SBR received no Notices to Correct (NOC) or Notices of Violation (NOV) from the LEA. In 2014 the LEA approved temporary storage of non-fiber bales on site. In 2015 SBR will be following up the LEA to update the facility Transfer Processing Report (TPR), which will include allowing both fiber and non-fiber bales to be stored on site (during special circumstances) and to extend the MRF tip floor roof so that more materials can be held under roof.

Employee Training

SBRs management team conducts safety meetings each month with its employees. The training topics are listed below.

Bloodborne Pathogens

Confined Space

Driver Qualification and Inspection

Emergency Response

Employee Observation

Ergonomics

Fall Protection

Fire Prevention

Hazard Communication

Hearing Conservation

Lock Out/Tag Out

Personal Protective Equipment

Seat Belt Use

SELF-HAUL DIVERSION

Overview

SBR is required to divert a minimum of 30,000 tons per year of the total tons received from the public into the Shoreway Facility. Of the 57,072 tons received from the public, SBR diverted 30,807.18 tons, not including organics/yard trimmings, resulting in a 53.9% diversion rate. With the inclusion of organics/yard trimmings, SBR diverted 39,288.47 tons, resulting in a total diversion rate of 68.8%.



SBR will continue to collaborate with the SBWM A to improve diversion, including from the inbound franchise tons, in particular as it relates to the Organics to Energy (O to E) project which is currently in the evaluation stage.

Sorting Operations

Self-haul customers who enter the transfer station are directed by Spotters to the appropriate tipping area based on the material type they are bringing in. Once the customer has completed unloading their material, Sorters identify recyclable and/or reusable materials and recover these items and place them in designated areas for further processing or collection by the end user. Sorters also remove contaminants from the organics such as plastic bags, flower pots, and other unacceptable materials. Equipment Operators support the sorting staff by separating loads and removing heavy items for diversion.

Self-Haul Customer Incentives

SBR collaborated with the SBWMA to establish an incentive fee structure for clean inert and wood materials. Customers receive a reduced rate of 20-25% to encourage additional volumes of these types of materials. In addition, Scale Operators make customers aware of the savings when they have split loads of clean materials, allowing them to tip in multiple areas. The designated material types are printed on the weight tickets so contractors can report diversion credits to the municipalities that maintain C&D Ordinances.

Recovered Materials

SBR Sorters are trained to identify and recover recyclable materials from the various waste streams. SBR has designated areas where recovered recyclable materials are stored until they can be processed or sold. In some cases the material is set aside as a specific grade, and in other cases materials are culled or pulled from mixed materials. These materials include:

Appliances	Mattresses
Refrigerators	Sofas
Tires	Garage doors
Electronics	Carpet
Cardboard	Used Clothing
Scrap Metal	Used Books and Magazines
Clean Wood	Used Household Goods
Mixed Rigid Plastic	Furniture

FUTURE OPTIONS UNDER CONSIDERATION

SBR makes every effort to seek out and evaluate opportunities to recover other materials. Options under consideration are:

- Removal of materials that can either be marketed as traditional recyclables or culled from the residue and used in some type of beneficial use;
- Segregate other clean inert materials (i.e., asphalt, rock, ceramics, etc.); and
- Identify and recover materials that can either be segregated by material type and stored in the Transfer Station or combined with other dry recyclables and sent to the MRF for processing.

SBR is intent on identifying opportunities to expand the diversion efforts at the Shoreway Facility. Our plan is to work directly with the SBWMA staff on the use of mechanical technologies and appropriate staffing levels to expand recycling efforts. Throughout 2015 SBR will work cooperatively with SBWMA and Recology to identify materials in the Transfer Station that can be recycled or diverted for beneficial use. Space constraints are the biggest obstacle, both in the Transfer Station and the MRF. SBR continues to participate in the Long Range Planning process, which includes, evaluating markets that will bring new opportunities to enhance diversion.

Commercial Load Evaluation and Sorting

Evaluation of commercial loads will be conducted as part of the review to determine which type of materials should be identified as part of diversion from a sorting operation. SBR will continue to work with SBWMA and/or their consultants to identify materials from certain collection routes that could be sorted in the Transfer Station. Sampling and testing will take place, and based on the results, SBR will work directly with the SBWMA to evaluate mechanical sorting/screening opportunities in the Transfer Station. At this time, the greatest opportunity seems to be recovering energy from high moisture organics and food waste culled from MSW. Overall, the materials in the Transfer Station seem best suited for energy recovery of composting due to the high moisture content. Much of the fiber in the Transfer Station is cross contaminated from MSW and moisture, but there is a possibility that beverage containers, metals and some rigid plastics could be recovered in the Transfer Station.

CIVIC ENGAGEMENT

South Bay Recycling recognizes that our business is unique; touching nearly every resident and business in the communities we serve. Ours is truly a public-private partnership. We also recognize the importance of community involvement. From civic and charitable endeavors to business and government participation.

South Bay Recycling has developed a Civic Engagement Plan with the intent for this to become as much a part of our culture as providing world-class service to our customers. We want to become a visible and valued organization within the communities we serve, focused on making a real impact on what's most important.



Earth Day

At the annual Earth Day Event, at the Shoreway Facility, SBR employees manned a booth where visitors were provided pamphlets and other give-a-ways on how the importance of recycling.

SBR volunteers held classes on how to make pots out of recycled paper and compost out of dirt and sand.



SBR placed a bale of crushed aluminum cans next to our booth and visitors were asked to guess how many cans they thought were in the bale. SBR gave away an Adult 20-speed bicycle and a children's BMX bicycle to the adult and child who came the closest to the number of cans in the bale.

