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I. Executive Summary

City Compost MN is looking to transform the City of Minneapolis and stand as a model for large scale, urban organic waste services. We utilize a highly effective process to take organic waste that would normally be discarded into landfills and recycle it back to the land as enriched soil (a process commonly called composting). We want to minimize Minneapolis’ environmental impact through the creation of a new type human system (organic waste services) that models itself after natural ecosystems, where nothing goes to waste!

In 2009, San Francisco became the first large, American city to mandate composting for homes and businesses, sparking a trend that other U.S. cities have begun adopting ever since. Today, Minneapolis stands ready to follow suit and join the ranks of other progressive American cities in this effort to reduce public waste. In fact, Minneapolis on January 1st, 2015 began its new optional composting program for 1-4 unit residential buildings. As these program offerings continue to expand, Minneapolis will need somewhere to process this resource.

Enter City Compost MN. At present, there is no compost processing facility equipped to handle large-scale volumes of compostable materials within the City of Minneapolis. City Compost MN aims to address this need. We will work with local hauling companies to bring compostable materials to our facility, which will save them money on transportation and labor hours. After delivery of materials, we will turn those materials into soil through the 3-4 month compost process. We will then repackage the composted waste for commercial sale to garden centers, landscapers, urban farms, and local consumers.

II. The Problem

A first problem to address is that, as compost offerings continue to become more commonplace in Minneapolis and around the country, facilities will be needed to process the waste collected. Currently, Minneapolis sends its compostable waste to a transfer station, where it is then picked up and brought to either Dakota County or the Shakopee Mdewakanton Sioux to the South of Minneapolis.

Another problem for Minneapolis is that, with the growing number of community and urban gardeners and farmers, as well as the high number of urban parks in Minneapolis, a large amount of soil is required to maintain the productivity and health of gardening, farming, and recreational facilities. Currently, soil and fertilizers are produced elsewhere and brought into the city.

Furthermore, last year, the City issued an order rejecting a request to burn additional waste at the Hennepin Energy Recovery Center (HERC) until a comprehensive and city-wide organics recycling (composting) program was developed, as it was believed that approximately 38% of its incinerated waste could have been composted. As Minneapolis keeps pushing forward with compost initiatives, compost volumes will increase and the practice will become more
commonplace. With that in mind, more facilities will be needed to process the increased amount of waste.

III. The Solution

As with many other services, there is an opportunity to enter this market profitably by locating a facility directly in Minneapolis, which lowers the miles required for transportation or materials and, consequently, the labor hours required for transportation. Putting a local source of soil in the City also tailors to the increased interest in gardening, growing network of community gardens, city parks, and lawns, all of which need soil to stay healthy.

IV. Social Value Proposition

City Compost MN is a waste processing company in Minneapolis that cuts trash costs and creates a valuable end product that current waste processors do not. Minneapolis is growing, with goals of achieving 500,000 residents by 2025. It has a wealth of restaurants, breweries, grocery stores, and coffeehouses. These business types, specifically, have greatly increased economic activity in the city, but they also all create a lot of waste, which is currently either being burned or shipped out of the city, both of which have associated environmental costs. City Compost MN takes the compostable waste, which can represent up to 80% of overall waste in restaurants, and turns it into high quality soil through the composting process. This process helps reduce the volume and cost of trash collection, while also disposing of compostable items responsibly and locally, all while creating a valuable, all natural fertilizer in the form of compost that can be used for gardens, farms, landscaping, and more. In Minneapolis, food and the environment both matter. The City Compost MN team has backgrounds in business, public policy, and environmental engineering and has designed compost facilities small and large in the past. With City Compost MN coming to Minneapolis, we are helping to bring table scraps back to the farm.

V. Market Summary

The market for processing companies can be broken into two sections: front-end and back-end. On the front-end, City Compost MN solicits haulers to dump their compostable waste at the facility and pay a tipping fee per ton. The main compostable waste hauler in Minneapolis is Eureka Recycling, a non-profit located in St Paul. There are, however, a total of 9 companies in the Twin Cities metro that will haul commercial compostable waste. As the number of companies that collect compostable waste grows, we expect the number of haulers that will accept compostable waste to also increase.

Our back-end product, compost, is similar to fertilizer; however, it reacts differently from most fertilizers. Compost releases nutrients over a long period of time, on average two to three months. The chemical reaction in present fertilizers takes place immediately and usually lasts no longer than three to four weeks. After three to four weeks, the customer may have to buy more fertilizer, costing consumers additional time and money.
City Compost MN has identified five major market segments for selling the finished compost product:

**Agriculture:** food and nonfood crops and sod farms; community gardens/urban farms

**Landscapers:** industrial and commercial properties; golf courses, cemeteries, and athletic fields; landfill covers; and damaged soils

**Nurseries:** plant and forest seedling crops and reforestation projects

**Public agencies:** highway median strips, parks, recreational areas, and other public property

**Residents:** home landscaping and gardening

*Value Proposition:*

The possibility of growth in this market is sizeable. Businesses must have an alternative means for disposing of organic waste; City Compost MN offers a great alternative to meet that need. Further, market trends are skewing toward organic soil enhancements and away from chemical fertilizers; City Compost MN fills this need as well.

The City Compost MN value proposition is two-fold:

**Value proposition for commercial compostable waste haulers:** City Compost MN offers a service that reduces transportation costs, both fuel and labor hours, as well as helping to keep resources in the local economy.

**Value proposition for end users of finished compost:** Compost is a valuable soil amendment that improves many soil properties, such as: structural and thermal stability, water retention, resistance to wind and water erosion, and tillage. Plants and crops treated properly with compost may produce higher yields and have less weed growth. The local sourcing of our product also adds to the value of our end user because a growing population values investing in the local economy via local products.

*Differentiation:*

City Compost MN differentiates itself as follows:

**Recycled:** Our end product is considered recycled, which adds value for customers that make eco-conscious buying decisions.

**Local:** On the front-end, our service is located locally, which benefits the community and is convenient for the hauling supply chain. On the back-end, our compost represents a local option for customers interested in using local materials and resources, as opposed to chemical fertilizers or outsourced materials.

*Competition:*

In terms of compostable waste processing operations, though City Compost MN represents the only processing facility option in Minneapolis, there are a few other options for haulers to bring their compostable waste to in Minnesota. The nearest facilities, however, are more than 20
miles outside of Minneapolis, which adds considerable transportation costs to hauling operations.

On the waste supply side, the major competition comes from yard waste facilities, recycling facilities, and trash processors. Yard waste facilities and recycling facilities both take materials that are high in carbon (examples include tree branches, leaves, and soiled or clean paper and cardboard), which is an important component to the composting process that ensures the ideal chemical composition of the finished product. Yard waste and recycling facilities, then, are competitors for materials. Trash processors act as competition because they take all materials. If composting continues to grow in popularity, some trash processors may choose to enter the compost processing market to try to maintain revenues. This is, however, not a competitive threat in the short-term.

VI. Sales and Marketing

Though some sales and marketing will be necessary on the front-end to secure hauler contracts, the bulk of the work will happen with the back-end product. Particularly with the long winter months, it will be important to have warehousing options for finished goods to build up inventory for the “high seasons” of soil purchasing: early spring and right after harvest in fall. Though there are, of course, needs for soil at other times of the year, the gardening needs during these two high season times will be dramatically higher than at other times of the year.

To solicit hauler contacts, the management team will reach out to the limited number of compost haulers directly. As of this iteration, one hauler has already expressed interest in working together after City Compost MN begins operations. As for marketing to customers of our end product, we plan to utilize our slogan, which is discussed below, as well as packaging that outlines our differentiations as a local company with a local product. In addition to our slogan, pricing and distribution channels are also discussed more below.

“Table to Farm”:

City Compost MN uses the slogan “table to farm” because we take what is left on the table and put it back onto the farm as a soil amendment. We expect this message to resonate with many Minneapolis residents who are committed to environmentally responsible practices and are already familiar with the more common “farm to table” wording of many popular restaurants. As part of a longer-term plan to donate some of our end product to local community gardens and parks, we will also build a reputation for being a community partner and cornerstone.

Pricing:

City Compost MN will charge haulers a tipping fee, similar to that of other waste disposal management business models. Our initial financial projections use a tipping fee of $39 per ton, which will be adjusted in parallel patterns to the tipping fee for solid waste, which is also currently $39 per ton.
The finished compost will be priced at a rate similar to other available products, which currently are sold for between $5-10 per cubic yard to stores. Additional information on revenue projections will be elaborated on in the Financial Summary section.

**Distribution Channels:**

Our end-product will be delivered through either pickup truck (rental or leased) or semi-load (contracted), depending on the size of the delivery. Garden shops and hardware stores that sell soil will receive orders in 20-pound bags that can be bought in any quantity desired. Urban farmers may have enough of a need to require a full semi-load of compost, which we can accommodate as a company located in an urban environment with many services available. We also plan to offer discounts for buying in full semi-loads because it saves labor and material costs for us by not having to individually bag and deliver product.

To find and acquire customers, we will first start by reaching out to existing contacts within our home networks. As the company grows, we will hire a sales staff to reach out to larger chains and handle the increasing product sales. We will rely on direct distribution channels throughout the early stages of operation. In order to strengthen our customer networks, we will also create a robust website with detailed information describing our location, compost practices, and the value of locally produced compost. We will have contact and ordering information on our website, as well, for both large and small customers. Additionally, we will offer basic composting education and have educational materials available for both the general public but also for our partner businesses. We will also partner with local organizations to help raise awareness and continue to build our status as a community partner.

**VII. Operations**

City Compost MN takes raw materials (in the form of food scraps, soiled paper and cardboard, leaves, grass clippings, tree debris, and other compostable products) and uses natural microorganisms to transform those inputs into finished compost, which can be used directly in gardens, combined with clay and sand mixtures to create various grades of soil, and can also be used as an agricultural additive.

City Compost MN works with a unique composting strategy that tailors to the demands of both an urban environment and a cold climate. Other compost companies in the Northern United States face problems of frozen compost and lowered pile temperatures, both of which significantly slow down the compost process and require extra time before processing. City Compost MN, on the other hand, processes its materials indoors in a warehouse to better control temperatures.

In addition to having more control of pile temperatures, utilizing a warehouse reduces any potential smell concerns from surrounding businesses or residents. The use of a physical structure allows any smell that comes off of the compost piles to be pumped through woodchip air filters before being released outside, which mitigates the smell concerns of surrounding properties in the urban environment. The use of wood chip filters is also unique because filters can be disposed of simply by being added to the compost piles. In addition to the filters, a front
end loader will also be used to rotate a pile, which speeds up the compost process and lowers the smell.

Haulers deliver materials directly to our facility. When haulers arrive with raw materials, they are weighed and controlled for quality (to make sure that non-compostable materials are not mixed in). Quality control is performed by City Compost MN employees. A front-end loader then moves raw materials into windrow piles in the warehouse.

Another aspect of the City Compost MN model is the partnership with hardware stores, newspapers, and city landscaping crews. The main contributor to the smell produced by compost piles is wet organic material (mainly rotting or decaying food). This can be eliminated by having a better mixture of woody, fibrous materials that dry out the piles and eliminate odors. By partnering with hardware stores, newspapers, and landscaping crews, City Compost MN gains access to a greater volume of woody materials to create an optimal mixture of wet and dry inputs that leads to a high quality product without the associated smell. Minneapolis, luckily, has a wealth of all three of these to partner with.

The final operational step is bagging the finished compost for sale at garden/farm shops, as well as organizing pickup for larger customer orders by truck. Bagging is performed by employees and will eventually require a bagging machine to handle larger volumes. For large orders, finished compost will be loaded directly into a pickup truck or semi, depending on order quantity.

VIII. Pilot

In order to validate the assumptions laid out so far, we plan to run a pilot project in the summer of 2015. We plan to utilize a regulatory exception that allows us to create a compost pile under 120 cubic yards with a standard city approval as opposed to the lengthier Minnesota Pollution Control Agency (MPCA) approval process, which is needed for larger facilities.
In order for this project to succeed, we plan to work with Eureka Recycling to obtain compostable material. They have agreed to reroute their trucks for a maximum of 5 days or until we have received the maximum allowable amount of waste. We will then process this, along with woody, carbon inputs (sticks, leaves, grass clippings, etc.) for three to four months until the pile has completed the composting process, and sell the finished soil to local vendors. This trial period will allow us to troubleshoot our model and test the viability of the local market for selling soil, which we feel is the largest challenge to this venture.

In order to minimize costs, we are hoping to partner with the University of Minnesota for use of facilities and some machinery, though this is not yet guaranteed. This would allow us to test our minimum viable product for a lower cost than otherwise. As a backup plan, we will rent land and equipment for this four-month pilot project, which will also give us a better sense of actual costs of operation.

A major benefit of this pilot project is that it is only taking on materials for a few days at the beginning, as opposed to on a rolling basis, which is what our normal operations would look like. This limited window allows us to focus intensely on each, individual aspect of our operations, acceptance of new materials and processing of materials, which means that we can troubleshoot both aspects with relative ease without the ongoing pressures of performing both operations. This pilot project will leave us better prepared for expanded operations pending our regulatory approval by the MPCA.

The only setback to our pilot project is that our pilot will be exclusively outdoors, whereas our desired operations will in a warehouse. This does not, however, drastically change how material is accepted and processed, but it will change the processing rate and the amount of liquid in the pile to a small degree.

We do not feel like this small difference in operational performance of our pilot is compromising to our approach and are excited about moving forward.

IX. Financial Summary

For a full description of the data and the assumptions made, see the appendix. A basic breakdown of total revenues and expenses for the first few years of operations is below.

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<th>Year</th>
<th>1</th>
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<td>Total Revenues</td>
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<td>$302,234.40</td>
<td>$327,216.24</td>
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<tr>
<td>Total Expenses</td>
<td>$251,060.67</td>
<td>$243,560.67</td>
<td>$246,185.67</td>
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<tr>
<td>Philanthropy</td>
<td>$0</td>
<td>$0</td>
<td>$4,051.53</td>
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<td>Cash Flow by Year</td>
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<tr>
<td>Overall Cash Flow</td>
<td>-$46,076.67</td>
<td>$12,597.07</td>
<td>$89,576.11</td>
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X. **Scalability**

City Compost MN is seeking to redefine how compost is processed in the urban environment. As we aim to indicate with our name, City Compost MN aims to be the scalable solution for other urban environments, too, with the potential for other branches such as City Compost WI, City Compost IL, etc.

As our model proves its viability in the Minneapolis market, we plan to expand first to St Paul and then to other state markets. In each market, some tailoring may be necessary to find the proper hauling partners and soil sale avenues, but we are confident that this model can be applied in every urban area around the country.

XI. **Management Team**

**Peter Schmitt (CEO):**
Peter has been active in compost for several years, along with his wife and City Compost MN MN COO, Katie. Peter studied Environmental Science at the University of Minnesota as an undergraduate before coming back to the school to pursue his Masters of Business Administration and Masters of Public Policy.

**Katie Schmitt (COO):**
Katie received her degree in agricultural and biological engineering from Purdue University in Indiana, which she will use to streamline operations and address environmental concerns of operating a compost facility in an urban environment. Her engineering background serves as a basis for all operations decisions including compost process design and runoff mitigation. Both Peter and Katie have composted both small and large for several years from worm compost bins under the sink to helping design larger scale solutions for summer camps.

XII. **Conclusion**

City Compost MN is striving to develop market dominance in the thriving urban Minneapolis environment. By leveraging an active restaurant scene, along with the general environmental focus of many City initiatives, City Compost MN is poised for rapid growth and expansion. The planned partnerships with the City and local companies as part of a Public Benefit Corporation model also hope to leverage public as well as private investors to develop critical initial funds to implement the unique composting system utilized by City Compost MN.

The business model proposed aims to turn significant profits, maximize community impact, limit transportation and infrastructure cost requirements for waste management, and push Minneapolis to the forefront of progressive cities in the United States in how it manages its waste streams. The young, ambitious, and talented management team at City Compost MN will create a model that will persist for a generation and beyond by taking advantage of its first mover advantage and setting the standard for compost in the urban environment, which will also help springboard City Compost MN into eventual expansions into other urban markets.
XIII. Appendix

The following assumptions were made in the financial projections:
1. Tipping fees for compost would be the same as for trash.
2. 18 tons per week is based on a discussion with a hauler at their current capacity. As this business scales, that number could be drastically higher. The largest compost companies in the country process 300 tons per day.
3. Finished compost can sell at $6 per bag to garden shops. Compost sells at stores for between $5-10.
4. We can find adequate land in Minneapolis for $2,000,000.
5. Two salaries at the poverty level will be enough to run operations for 5 years, with a 5% raise per year.
6. Once City Compost MN turns a profit, we can afford to donate 5% of our profits to local charities and causes.
7. Payments for land and the front-end loader are based on the payment calculation at the bottom of the table below. For both land and front-end loader, we conservatively assumed no future sale value, just to get a conservative payment estimate.

<table>
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<th>Year</th>
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<td><strong>Revenues</strong></td>
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<td></td>
</tr>
<tr>
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<td><strong>Front-end loader (20 year life)</strong></td>
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**Land Calculation**

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