



AGENDA BILL

Agenda Item No. 4.E.

Date: June 16, 2020
To: El Cerrito City Council
From: Maria Sanders, Operations & Environmental Services Division Manager;
Yvetteh Ortiz, Public Works Director/City Engineer, Public Works
Department
Subject: Amendment to Agreement for Commingled Recyclable Materials
Processing Services

ACTION PROPOSED

Adopt a resolution approving and authorizing the City Manager to execute an Amendment to the Agreement with Napa Recycling and Waste Services, LLC (NRWS) for a total amount not to exceed \$220,000 annually for commingled recyclable materials processing services through June 30, 2021.

BACKGROUND

The City of El Cerrito operates the City's recycling programs, including the curbside recycling collection for El Cerrito residents and businesses, and the daily operations and recycling services at the Recycling + Environmental Resource Center. As previously reported to the City Council in June and December 2019, changes in the market for recyclable materials precipitated by the Chinese policy known as "National Sword" have dramatically curtailed the demand for recycled materials. This, and other policies instituted by countries that normally import recycled feedstock, have turned the economics of processing recyclables from a net revenue generating activity (wherein the revenues from the sale of recyclables exceeded the expenses to process the materials) to a net expense (wherein the cost of processing exceeds the revenue from the sale of recyclable materials). As a result, recyclables, both single-stream (commingled) from curbside pick-up and separated-stream from the Recycling Center drop-off, are now commanding little or no compensation; and domestic recycling processors have shifted to a model of charging for accepting materials. This situation has only been exacerbated by the COVID-19 pandemic, given the additional safety measures that processing facilities must take to protect the health of their front-line employees.

In the spring of 2019, due to the changing recycling economics resulting from the Chinese National Sword policy, the City requested proposals from recyclable materials processors within reasonable distance of El Cerrito. Based on evaluation of the four submitted proposals, NRWS was found to provide the best value to the City. As a result on June 18, 2019, the City Council approved a contract with NRWS in an amount of \$108,000 annually and a contingency amount not to exceed \$43,000 annually to process the City's curbside recyclables, at a price of \$25 per ton of recyclables (Resolution 2019-39). NRWS provided by far the best pricing per ton of all the proposals

(almost four times less than the next lowest proposal). NRWS also provided the best value for the City's Recycling Program, given the comprehensiveness of the materials they accepted, including plastic containers, paper milk cartons, and aseptic containers. They also provided the stability of a long-term contract with the City of Napa to operate their Materials Diversion Facility (MDF).

NRWS is a locally-owned full-service hauling and recycling processing company. They are the exclusive hauler of recycling, compost, and trash in the City of Napa, and operate the City of Napa's MDF under an agreement running through 2031. The Napa MDF is a regional recycling and composting facility that recently underwent a significant upgrade to the single-stream sorting operation. These upgrades enable the facility to process additional material, deal with the increasingly complicated and changing material stream, and prepare cleaner materials to market.

NRWS is transparent regarding where they market their materials. As is the industry standard, NRWS sells to brokers for most commodities, who then sell to the mills, either globally or domestically. Most of the materials are being sent to mills domestically. Some continue to be sent overseas. Currently, polyethylene terephthalate (PET), including PET clam shells, and high-density polyethylene (HDPE) containers are being milled in southern California. Mixed rigid plastics are currently being milled in Malaysia. NRWS is one of the only regional resource recovery companies that is working with the Carton Council to divert paper and aseptic cartons to recover the high-grade paper fiber contained in these cartons. These containers are being pulped at a paper mill in Mexico.

Given the unpredictable market conditions in the recycling industry at the time the contract was awarded, the contract term was set to be one year with an option to annually renew, including renegotiation of any new fee adjustments. To protect the City from arbitrary increases upon renewal, any adjustment to the processing cost was indexed to the percentage change in the recycling markets. City staff have been satisfied with the performance of NRWS under the contract; and NRWS has been pleased with the quality of El Cerrito's material. Both parties desire to extend the contract. However, new government fees charged by the City of Napa, effective July 1, 2020, require an adjustment to the contract amount.

ANALYSIS

As the owner of the MDF, the City of Napa is responsible for setting the fees that are charged to customers that deliver materials to the MDF for recycling. These rates cover the costs of processing the materials as well as the fixed City of Napa costs related to the purchase and maintenance of the MDF, including a recent \$4 million investment in processing equipment. As previously mentioned, NRWS has a long-term agreement with the City of Napa to operate and market the MDF. As such, they are responsible for not only processing the City of Napa's solid waste, but also to obtain third party contracts to ensure adequate throughput and profitability of the MDF. In the past, profitability resulted from the sale of recyclable materials whereby the revenue was shared between the City of Napa and NRWS.

Rates charged at the MDF to third parties, such as the City of El Cerrito, are usually referred to as “gate fees”. For single-stream recyclables, the City of Napa has never previously established a gate fee because the sale of recyclables has historically more than covered processing and facility costs. However, the substantial decline in the market value of recyclables, coupled with the substantial increase in processing costs, has prompted the City of Napa to establish and charge a new gate fee for single-stream recyclables brought to the MDF by contractual and third party users of the facility. This new gate fee starts at \$30 per ton for materials from outside of Napa County, effective July 1, 2020.

In addition to their processing costs of \$25 per ton, NRWS will be passing this cost through to El Cerrito, bringing the total cost for El Cerrito to \$55 per ton. Because NRWS values the consistency and cleanliness of El Cerrito’s curbside material, they have opted not to increase their processing costs at this time in order to mitigate the current price increase. This new price of \$55 per ton is still twice as low as the next lowest proposal received from Mt. Diablo Resource Recovery (MDRR) last year. Staff engaged R3 Consulting, a solid waste consulting firm, to confirm that this rate is still the most competitive rate available to El Cerrito. In an analysis of seven regional resource recovery facilities, almost all that were open to providing information are charging rates considerably higher than \$55 per ton. Only the Marin Recycling Center charged \$1 less per ton. However, this facility can only process dual stream material (paper and containers collected separately), which is incompatible with El Cerrito’s curbside recycling program. R3 did note in their analysis that most facilities did not express an interest in receiving additional material, given the current market conditions. Below are the results of R3’s analysis. Even considering slightly higher City operational costs for transportation and staff time as compared to MDRR, NRWS’s price continues to offer the most competitive total price.

Recycling Facility	Location	Gate Fee (\$ per Single-Stream Ton)
Republic Services – Integrated Resource Recovery Facility	Richmond	150.00
Mt. Diablo Resource Recovery	Pittsburg	100.00
Marin Sanitary Services – Resource Recovery Center	San Rafael	83.00
Marin Sanitary Services - Recycling Center (Dual stream recycling only)	San Rafael	54.00
Napa Recycling and Waste Services – Material Diversion Facility	Napa	55.00
California Waste Solutions – Recycling Center	Oakland	No approximate price – based on negotiation.
Alameda County Industries	San Leandro	No response

– Recycling Center		
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Given that the new proposed rate is still the most competitive available to the City of El Cerrito and that both NRWS and the City of El Cerrito are satisfied with each other's performance on other contract provisions, staff is recommending that the current agreement be amended to reflect the new costs and a term extension through June 30, 2021. Staff anticipated an increase in processing costs for curbside material and assumed a doubling of these costs, in addition to a 15% contingency, as part of the Integrated Waste Management (IWM) fee setting for solid waste rates effective January 1, 2020 (Resolution 2019-72). Thus, the IWM budget as proposed for Fiscal Year 2020-21 includes revenue that will cover the proposed increase in processing costs.

STRATEGIC PLAN CONSIDERATIONS

Amending the contract with NRWS to process the City's curbside material is crucial to maintaining dependable solid waste services in the City and will help fulfill the following City of El Cerrito Strategic Plan goals and objectives:

- Goal A: Deliver Exemplary Government Services by ensuring the City's solid waste programs, including its recycling services, are delivered in a continuous and dependable manner.
- Goal B: Achieve long-term financial sustainability by ensuring the lowest possible cost for processing of recyclable material.
- Goal F: Foster environmental sustainability by continuing to invest in the City's recycling programs and serving El Cerrito citizens as they continue to divert waste from the landfill.

ENVIRONMENTAL CONSIDERATIONS

All jurisdictions in California are required by law to provide recycling services for its residents and businesses through mandates established by AB 989, AB 341, and most recently SB 1383. In particular, SB 1383 mandates higher recycling and organics diversion compliance rates by the year 2022, requiring local governments to make recycling mandatory for all solid waste generators. Reliable and proper disposal, processing, and diversion of solid waste is necessary to protect the health and welfare of the community and environment. Contracting with NRWS for processing of the City's curbside material will ensure continuity of the City's recycling programs.

FINANCIAL CONSIDERATIONS

Funding for the additional costs to process the City's loose commingled recyclable materials, including the new City of Napa gate fee, has been incorporated into the IWM Fee setting effective January 1, 2020, as authorized by the City Council in December 2019 through Resolution 2019-72. At that time, City Council authorized \$319,800 for the upcoming Fiscal Year 2020-21 to cover increased materials processing costs including processor, transportation, and staff time costs. These funds are included in the IWM Fund as part of the proposed Fiscal Year 2020-21 Budget.

LEGAL CONSIDERATIONS

The City Attorney has reviewed and approved the Amendment.

Reviewed by:

A handwritten signature in blue ink that reads "Karen Pinkos".

Karen Pinkos, City Manager

Attachments:

1. Resolution
2. First Amendment to Agreement with Napa Recycling and Waste Services, LLC