

Agenda Report

TO: CITY COUNCIL

DATE: October 5, 2009

THROUGH: MUNICIPAL SERVICES COMMITTEE

FROM: CITY MANAGER

SUBJECT: APPROVAL OF AMENDMENT TO THE CONTRACT WITH CEDARWOOD YOUNG CORP., DBA ALLAN COMPANY TO PROCESS RECYCLING MATERIAL COLLECTED IN THE CITY OF PASADENA

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize the City Manager to amend the contract with the Cedarwood Young Corp., dba Allan Company for payment to the City for recycling material collected from the City of Pasadena's Curbside Recycling Program reducing the payment from \$42.15 per ton to \$24.00 per ton for the third three-month extension period July 1, 2009 to October 31, 2009, based upon a review of recycling market conditions at the end of the second three month period; and
2. Authorize City Manager to continue to accept Allan Company's temporary reduction to their current contract pricing with the City of Pasadena to be reviewed every three months as agreed as long as the temporary pricing increases are in conjunction with the rise in prices of the commodities market.

BACKGROUND:

In 1989, the California Integrated Waste Management Board adopted AB 939 as a response to diminishing landfill capacity. The bill required cities to undertake efforts and document progress to reduce, reuse and recycle as methods to decrease the amount of disposal and extend the useful life of landfills. The City of Pasadena operates a curbside recycling program that collects approximately 7,600 tons of recyclables per year. The sale of this material provided the City with approximately \$400,000 in recycling revenue in FY 2008 which partially offsets the cost of the program.

The City Council authorized a contract with the Allan Company for the processing and resale of recyclables on June 23, 2008. The agreement between the Allan Company

and the City has a payment to the City of \$42.15 for each ton of curbside recycling material provided to the Allan Company.

Due to current global economic downturn that has caused a severe drop in the recycling commodity markets, worldwide demand for recyclable goods has decreased significantly. According to many industry reports the prices have dropped between 60 to 75 %. Since September 2008, paper commodities, which make up the majority of curbside recycling, have dropped 60%. There has been a similar drop in the aluminum and plastic commodity prices.

Staff received a letter (Attachment A) from Allan Company dated January 13, 2009, requesting a temporary reduction in their current contract pricing. The first request resulted in a reduction in the amount per ton Allan Company has agreed to pay from \$42.15 per ton to \$15.00 per ton. On February 2, 2009, City Council Authorized the City Manager to amend the contract with the Cedarwood Young Corp., DBA Allan Company for payment to the City for recycling material collected from \$42.15 to \$15.00, with a second three month extension to July 1, 2009.

Staff received a second letter (Attachment B) from Allan Company dated March 20, 2009, requesting an extension of the temporary reduction in their current contract pricing. An agreed per ton price between Allen Company and the City for the second extension period (2nd quarter of 2009 April through June) resulted in an increase from the first quarter due to a slight upswing in market conditions which resulted in an \$18.50 per ton proposal. Paper commodities increased approximately 2% over this three month period.

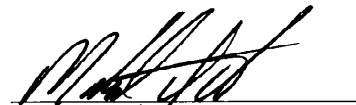
Staff received a third letter (Attachment C) from Allan Company dated July 28, 2009, requesting an extension of the temporary reduction in their current contract pricing with the City for the third extension period (third quarter of 2009 July through September) which resulted in an increase to \$24.00 per ton. Paper commodities increased approximately 3% over this three month period.

Staff will continue to monitor and evaluate the recycling commodities market on a monthly basis. It is recommended that the City staff continue to accept Allan Company's temporary reduction to their current contract pricing with the City of Pasadena reviewed every three months as agreed as long as the temporary pricing increases in conjunction with the rise in the commodities market and will only return to Council for direction if there is no increase after every three month review period.

FISCAL IMPACT:

In Fiscal Year 2009, the City received approximately \$272,000 in recycling revenue. Based upon a projected drop in the amount of material collected and the temporary rate reductions, staff anticipates a 15% to 20% reduction in revenue in FY 2010 or approximately \$217,600. Staff will utilize Fund 406 Refuse Collection balances to offset the reduced recycling revenue.

Respectfully submitted,



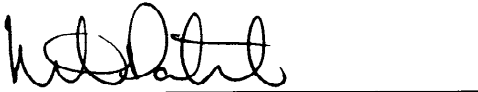
MICHAEL J. BECK
City Manager

Prepared by:



Thanos Gauthier
Public Works Supervisor
SMIWM Division

Approved by:



Martin Pastucha,
Director
Department of Public Works



Dealers in Primary and Secondary Paper Making Fibers

January 13, 2009

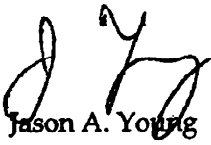
Gabriel Silva
Recycling Coordinator
City of Pasadena
233 West Mountain Ave
Pasadena, CA 91103

Dear Mr. Silva:

The economic recession in the United States has caused a historic drop in recycling commodity prices. The paper commodities which make up 70% of single stream material were valued at approximately \$144 per ton in September, today the average value is \$62 per ton. There has been a similar drop in aluminum and plastic prices. Today the total value of one ton of single stream from the City of Pasadena has fallen to roughly \$100 per ton while our operating costs are \$95 per ton and we pay the city \$42.15 per ton. Our loss is over \$35 per ton on the material we receive from Pasadena. Allan Company has processed the City of Pasadena's curbside recyclables directly with the City or through the franchise hauler for over 10 years. We have been a loyal vendor for the City and have absorbed losses before, but never to this magnitude. We request the City to give us a 3 month reprieve from our contract pricing. We propose to reduce what we pay the city to \$15 per ton for the first quarter of 2009 (January through March). At that time we would like to sit and discuss the markets with the staff, hopefully commodity prices will rebound and we can resume our contract pricing.

We would like to meet with you at your earliest convenience to discuss this in more detail. Thank you for your business and we look forward to hearing from you.

Sincerely,



Jason A. Young
Vice President



ALLAN COMPANY

Dealers in Primary and Secondary Paper Making Fibers

March 20, 2009

Mr. Thanos Gauthier
City of Pasadena
SMIWM Division
233 W. Mountain Street
Pasadena, CA 91103

Subject: Curbside Processing Payments

Dear Mr. Gauthier,

Allan Company appreciates our partnership with the City of Pasadena and thanks you for the cooperation during these tough economic times.

As promised when the City granted a reduction in the price per ton for curbside material, we have re-evaluated the market to determine whether an increase in pricing is appropriate. While commodity prices have yet to return to previous levels, we are able to offer the City an increase to \$18.50 per ton for curbside material delivered to our Baldwin Park Facility. This pricing will begin on April 1, 2009. We propose to continue at this rate through June 30, 2009. At that time, we would again evaluate the market and make appropriate adjustments.

Please contact me at (626) 962-4047 should you have any questions or require further information.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jason Young', written over a printed name.

Jason Young
Vice President



ALLAN COMPANY

Dealers in Primary and Secondary Paper Making Fibers

July 28, 2009

Mr. Thanos Gauthier
City of Pasadena
SMIWM Division
233 W. Mountain Street
Pasadena, CA 91103

Subject: Curbside Processing Payments

Dear Mr. Gauthier:

Allan Company appreciates our partnership with the City of Pasadena and thanks you for your cooperation during these tough economic times.

As promised when the City granted a reduction in the price per ton for curbside material, we have re-evaluated the market to determine whether an increase in pricing is appropriate. While commodity prices have yet to return to previous levels, we are able to offer the City an increase to \$24.00 per ton for curbside material delivered to our Baldwin Park Facility. This pricing will begin on July 1, 2009. We propose to continue at this rate through September 30, 2009. At that time, we would again evaluate the market and make appropriate adjustments.

Please contact me at (626) 962-4047 should you have any questions or require any further information.

Sincerely,

Jason A. Young
Vice President