

Agenda Report

October 17, 2016

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (October 11, 2016)

FROM: Department of Public Works

SUBJECT: AUTHORIZATION TO AMEND CONTRACT NUMBER 21587 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. Find that the proposed contract amendment is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061 (b)(3); and
2. Authorize the City Manager to exercise the first optional one year extension to contract number 21587 with Cedarwood Young Corp., dba Allan Company, reducing the amount paid to the City for recycling material collected from the City of Pasadena's Curbside Recycling Program from \$35.50 per ton to \$10.00 per ton.

MUNICIPAL SERVICES COMMITTEE RECOMMENDATION

On October 11, 2016, staff presented the proposed contract amendment with Allan Company to the Municipal Services Committee (MSC). The committee supported staff's recommendations and voted to move the item forward for City Council's consideration. MSC recommended that staff include in the agenda report information regarding historical recyclable commodity pricing trends, curbside recycling collection totals and the status of other local cities' contractual pricing. This additional information can be found in Figures 1 and 2 and in the background section of this report.

BACKGROUND:

In 1989, the California Integrated Waste Management Board adopted AB 939 as a response to diminishing landfill capacity. The bill requires 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.

In order to achieve compliance with AB 939, 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 \$261,543 in recycling revenue in FY 2016 which partially offset the cost of the program. In FY 2016, the operating cost of the City's curbside recycling program was \$919,524.

On October 28, 2013, following a Request for Proposal (RFP), the City Council authorized a contract with Allan Company for the processing and resale of recyclables. Allan Company submitted the only eligible proposal for processing curbside recycling. Under the agreement Allan Company pays the City \$35.50 per ton of curbside recycling material provided to them. The contract terms were for three years, with two optional one year extension periods subject to the approval of the City Manager.

On November 19, 2015, the Department of Public Works received a letter from Allan Company requesting a reduction in their current contract pricing from \$35.50 to \$10.00 per ton due to changes in the commodity stream and increases in processing and transportation costs. Staff met with Allan Company in December of 2015 and agreed to revisit the contract in October, 2016 which is the end of the three year term of the agreement.

Figure 1 depicts the City's recycling totals and corresponding revenue from FY 2008 through FY 2016. A dramatic drop in the recycling revenue and tonnage collected is visible in FY 2009 and this trend tracks with the economic downturn that started in FY2009. Also, the chart shows that in FY 2013 recycling quantities recovered while recycling revenue dropped due to the lower contracted price.

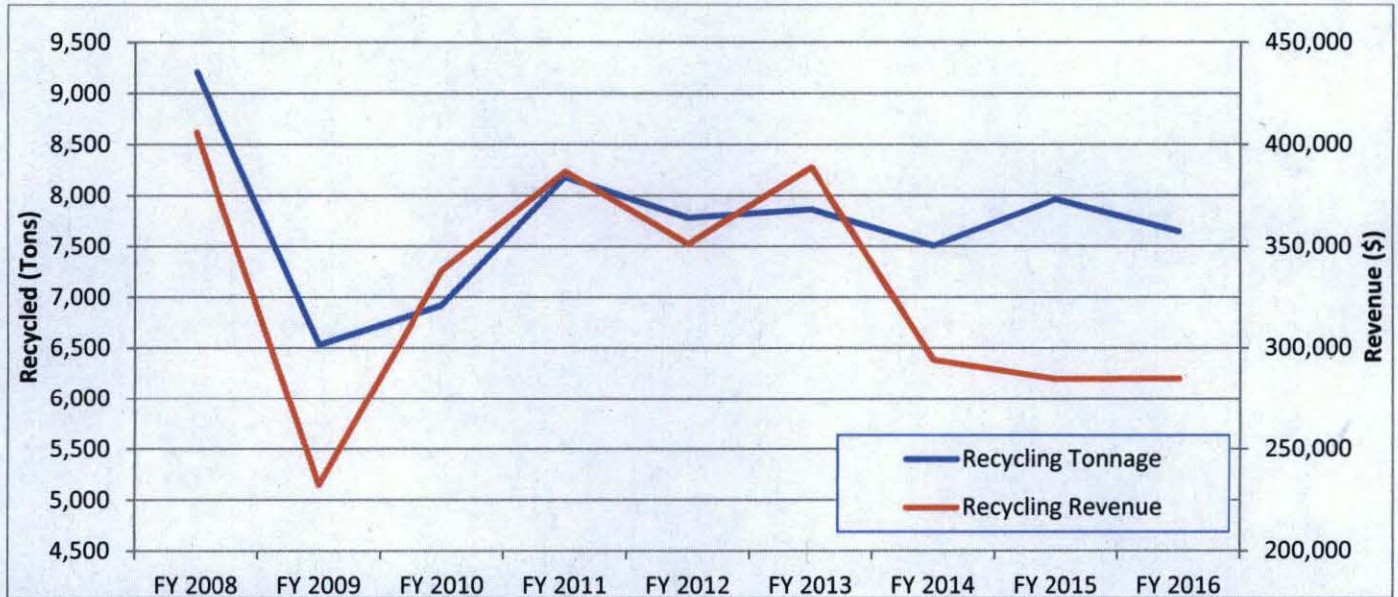


Figure 1 Recycling Tonnage vs. Revenue

Recycling commodity prices are at their lowest level since 2009. Factors which have sent prices for U.S. recyclables plummeting worldwide include falling oil prices, the strong dollar and the weakened economy in China. Oil prices are so low it's more economical for manufacturers to buy new plastic than recycled plastic.

Figure 2 illustrates the municipal curbside recycling index for the past two years, showing a weighted group of recyclable commodities that includes benchmark grades of scrap metal, waste paper, scrap glass and recycled plastic. The chart shows that the curbside recycling commodity pricing has trended downward for the past two years.

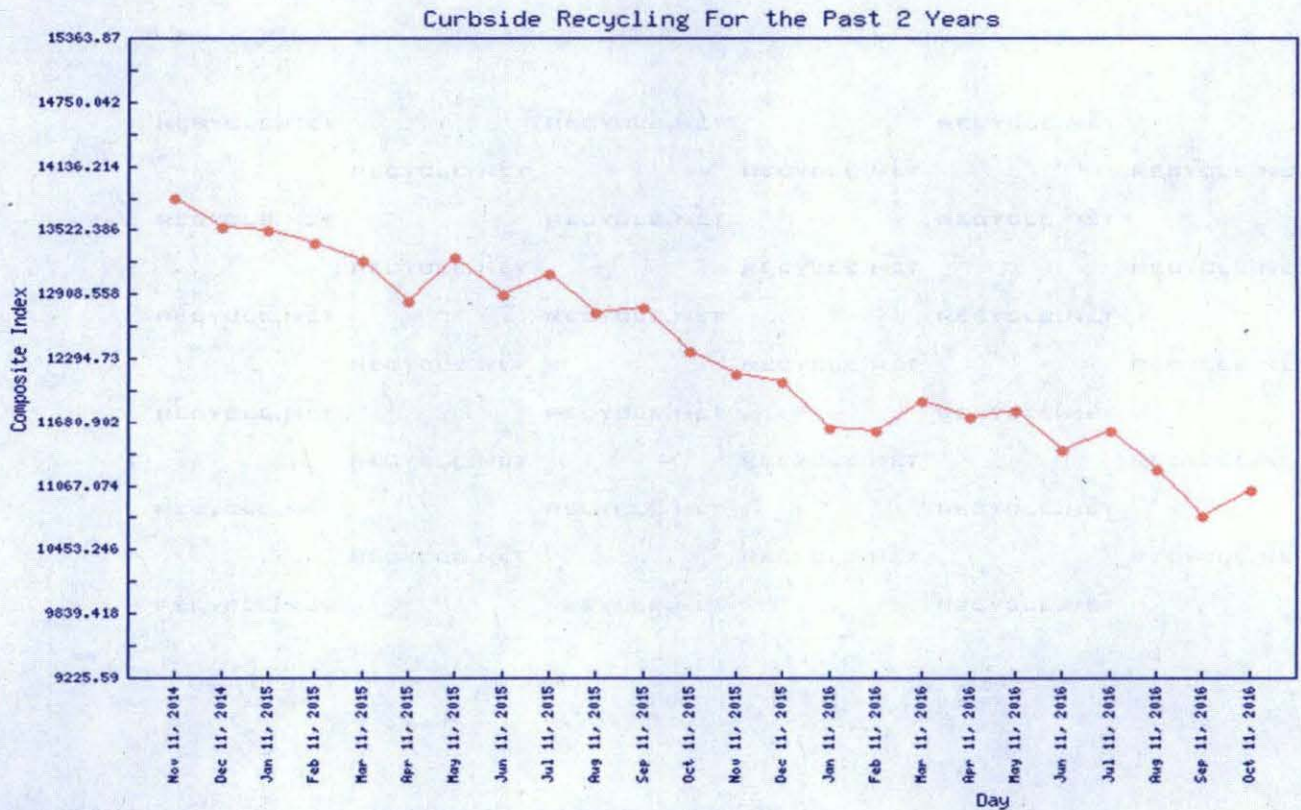


Figure 2 Curbside Recycling Commodity Pricing For the Past 2 Years

The composition of the curbside recycling material stream has changed which lowered its unit value. Newspaper content has almost disappeared as many now obtain it through on-line sources and beverage container quantities have dropped as residents take their CRV eligible containers directly to recycling centers for cash. Also, manufactures are using lighter and thinner packaging, tin cans have been replaced with vacuum packed bags, and beverage containers are made thinner. While these changes have gradually occurred over the past few years, the financial impacts are significant for recycling commodity processors.

Further, Allan Company's operating costs have increased due to the increase in the minimum wage effective January 1, 2016 and transportation costs have almost doubled due to delays at the ports. Trucks that once took three loads to the port in a shift can only take one or two loads due to time associated with added security, congestion, and labor disputes.

Staff has contacted the cities of Burbank, Glendale and Santa Monica. These cities have different recycling contractual arrangements for processing curbside recycling

material. All the cities are facing financial challenges with processing their material and are at different stages of resolving this issue. The City of Burbank has shared that over the last two fiscal years their recyclables were processed at a loss to the City. Allan Company has arrangements with Santa Monica and Glendale to operate their City owned sorting facilities. These cities also received a request from Allan Company for a reduction in the amount paid for their recyclables.

The City's options are to exercise the first of two optional one year extensions with Allan Company at the reduced rate or issue a new RFP for processing the City's recyclable material. Since the recycling commodity market is at a historic low, it is not a good time to pursue a long term contract for the processing of the City's recyclables. Staff's recommendation is to exercise the first optional one year extension of the contract at the proposed reduced rate and monitor the recycling commodity market to readjust or increase the rate if warranted. Staff will also monitor the market to decide the appropriate time to advertise a new RFP.

COUNCIL POLICY CONSIDERATION:

This proposed contract amendment is consistent with the City Council's goal of increasing conservation and sustainability. It also supports the United Nations Urban Environmental Accords of 2005 Action 4 of achieving zero waste to landfills and incinerators by 2040. The proposed ordinance supports the Zero Waste Strategic Plan adopted by Council in October 2014.

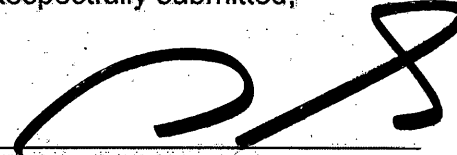
ENVIRONMENTAL ANALYSIS:

The proposed contract amendment is exempt from the California Environmental Quality Act (CEQA) pursuant to the State CEQA Guidelines Section 15061 (b) (3), the General Rule. Since it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

FISCAL IMPACT:

In Fiscal Year 2016, the City received \$261,543 in recycling revenue. Based upon the projected amount of material to be collected and the rate reduction, this amount will be reduced in FY 2017 to approximately \$73,000. A sufficient balance exists in the Refuse Collection Fund (Fund 406) to offset this reduced recycling revenue.

Respectfully submitted,



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STEVE MERMELL
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