

DATE ISSUED: April 23, 2003 REPORT NO. 03-086

ATTENTION: Natural Resources & Culture Committee
Agenda of April 30, 2003

SUBJECT: Modification and Extension of Curbside Recyclable Materials Processing
Contract

REFERENCE: City Manager's Report 98-138, dated June 24, 1998
City Manager's Report 98-205, dated October 14, 1998
City Manager's Report 99-131, dated June 17, 1999

SUMMARY

Issue - Should the City modify and extend its current agreement with IMS Recycling Services and the Allan Company for the processing and marketing of materials collected in the City's curbside recycling program?

Manager's Recommendation - Authorize the City Manager to modify and extend the current agreement with IMS Recycling Services and the Allan Company to process and market the materials collected in the City's curbside recycling program.

Other Recommendations - None

Fiscal Impact – Per Municipal Code Section 66.0135, revenues derived from the sale of recyclable commodities shall be paid into the Recycling Fund. The revised contract would provide the City's Recycling Fund a guaranteed price of \$17.50 for each ton of recyclable material delivered to IMS Recycling Services and the Allan Company for the first year of the revised agreement, and would increase the price by \$0.25 per ton each year for the remainder of the agreement. At current annual tonnages, the new revenue structure would increase guaranteed annual revenue to the City from \$612,000, under the current agreement, to \$1.19 million in the first year of the new agreement and increase its revenue by approximately \$17,000 per year for the remainder of the agreement. This would result in a total increase in guaranteed revenue of \$6,545,000 over the ten year term of the proposed agreement. The

revised contract also provides for the City to receive 50% of additional revenues when the material's aggregate per ton value exceeds \$102. The contractors would also provide an additional \$25,000 per year for contamination reduction education programs.

BACKGROUND

The Environmental Services Department (ESD), currently provides single stream automated collection of curbside recyclables to 275,000 residences on a bi-weekly schedule. Single stream collection and processing of recyclables is becoming the national standard in curbside recycling collection because it provides greater collection efficiency, allows residents to place all recyclables in one container, discourages scavenging of materials and minimizes driver injuries.

On October 19, 1998, upon completion of a competitive RFP process, the City Council approved a contract with IMS Recycling Services and Allan Company (Contractors) for processing, transporting and marketing commingled curbside recyclables collected by City forces. The current contract consists of a five-year base-term, which expires December 13, 2003, and includes five, one-year extension options that can be exercised at the City's option. The first option has been exercised, extending the contract expiration date to December 13, 2004.

To ensure that the current agreement is being administered effectively and that the Contractors are acting in good faith and keeping accurate records, ESD requested both internal and external audits. The audits were conducted by Eugene Ruzzini, Fiscal Advisor to the City's Public Works Business Center and Doug Enger, of the City's Auditor and Comptroller's Audit Division. After reviewing how the Contractors' payment information is reviewed, verifying the mathematical accuracy of payments, confirming the accuracy of commodity sales prices reported, and testing the accuracy of purchase orders reported for the aggregate ton value calculations, audit findings indicated ESD is effectively administering the contract and the City's interests are being protected.

DISCUSSION

In discussions with the current contractors regarding the five one-year extension options allowed within the existing contract, the Contractors submitted a proposal for the City's consideration that would provide additional benefits and revenue to the City. This proposal is recommended at this time for the following reasons:

Optimal Working Relationship: To date, ESD has been favorably impressed with the professionalism, service response and marketing skills exhibited by the Contractors. This public/private partnership has contributed to making the City of San Diego's curbside recycling program one of the premier programs in the nation.

Guaranteed Revenue: Best-in-class comparisons done by an external consulting firm indicated that the City's current agreement results in receipt of between 2.4% and 86.6%

more revenue than comparative cities in similar circumstances. Modifications described below and in the proposed contract amendment would further improve the agreement and make it even more favorable to the City.

Dual Facilities: IMS Recycling Services operates a processing facility in the south/central part of the City (28th Street and Boston Avenue) and Allan Company operates a processing facility in the north part of the City (Miramar Road and Consolidated Way), which allows for more efficient routing of City trucks.

Central Facility: The Allan Company facility is especially convenient because it is located just a short distance (less than one mile) from ESD's Miramar Place Operations Station, the home base for the City's Collection Services fleet.

Local Technology: IMS Recycling Services' sister company, CP Manufacturing, supplies the processing and sorting equipment for the two facilities. CP Manufacturing is recognized world-wide for its single stream curbside processing equipment. This synergy allows for optimal equipment operation and minimization of down time.

Material Marketing: Allan Company is recognized throughout southern California for the volume of recyclable material it markets domestically and overseas, as well as the favorable pricing resulting from this high volume. In December 2002, the Allan Company was recognized by *Recycling Today Magazine* as the largest paper recycler in California.

ESD retained the services of Hilton, Farnkopf and Hobson (HF&H) to provide a best-in-class benchmark of our current agreement and to outline the opportunities to strengthen the current contract.

HF&H compared the City's agreement with five other current agreements that are fully operational. The cities in the comparisons were Phoenix, Arizona and the California cities of Burbank, Los Angeles, San Bernardino, and Santa Monica.

When HF&H modeled our current agreement under the revenue structures of the other agreements, they found that San Diego's Contractor's had out-performed all other cities' contractors in similar circumstances operating similar programs. The City currently receives between 2.4% and 86.6% more revenue than the benchmark cities. This analysis confirmed ESD's confidence in the Contractors' performance to date.

The proposed amended contract would further increase revenues by raising the base payment from \$9.00/ton to \$11.50/ton and would increase an additional \$0.25/ton in each subsequent year. In addition, the City would continue to share 50% of the revenue over \$90/ton aggregate value. The Contractor would guarantee an aggregate ton value of \$102/ton which would provide the City with an additional \$6/ton guaranteed payment. This new revenue structure would increase the guaranteed annual revenue to the City from \$612,000 under the current agreement to \$1.19 million in the first year of the proposed amendment, increasing by approximately \$17,000 per year after that for an estimated total increase of \$6,545,000 over the proposed ten-year agreement. This revenue is necessary for the continued financial viability of the Recycling Fund thereby helping to ensure the continued provision of curbside commodity collection and greenery collection programs to benefit San Diego Residents.

In addition to base revenue and revenue sharing, the Contractors agree to deposit \$25,000 annually

into the Recycling Fund for contamination reduction efforts. High contamination rates are undesirable and could put the curbside recycling program in jeopardy by causing the Contractors to have to secure a different type of operational permit from the California Integrated Waste Management Board.

In return for these increases in revenue to the City, the performance period would be modified to reflect a new six-year base term, with two, two-year extension options, for a maximum term of ten years. The term for the proposed revised Agreement would be tied to the City's Fiscal Year, which runs from July 1 to June 30.

Approval of this recommendation will allow the new contract terms to commence on July 1, 2003 thus putting the more favorable revenue structure into place significantly sooner than the current contract's expiration date of December 13, 2004.

ALTERNATIVE

1. Continue operating under the existing agreement. This could result in the City receiving less guaranteed revenue and less overall revenue.
2. Open the process to competitive bidding, which is not recommended given the results of the "best-in-class" comparison analysis and the current economic uncertainties.

Respectfully submitted,

Richard L. Hays
Environmental Services Director

Approved: George I. Loveland
Senior Deputy City Manager

HAYS/KPP