



Long-Term Recycling Agreement

March 24, 2011

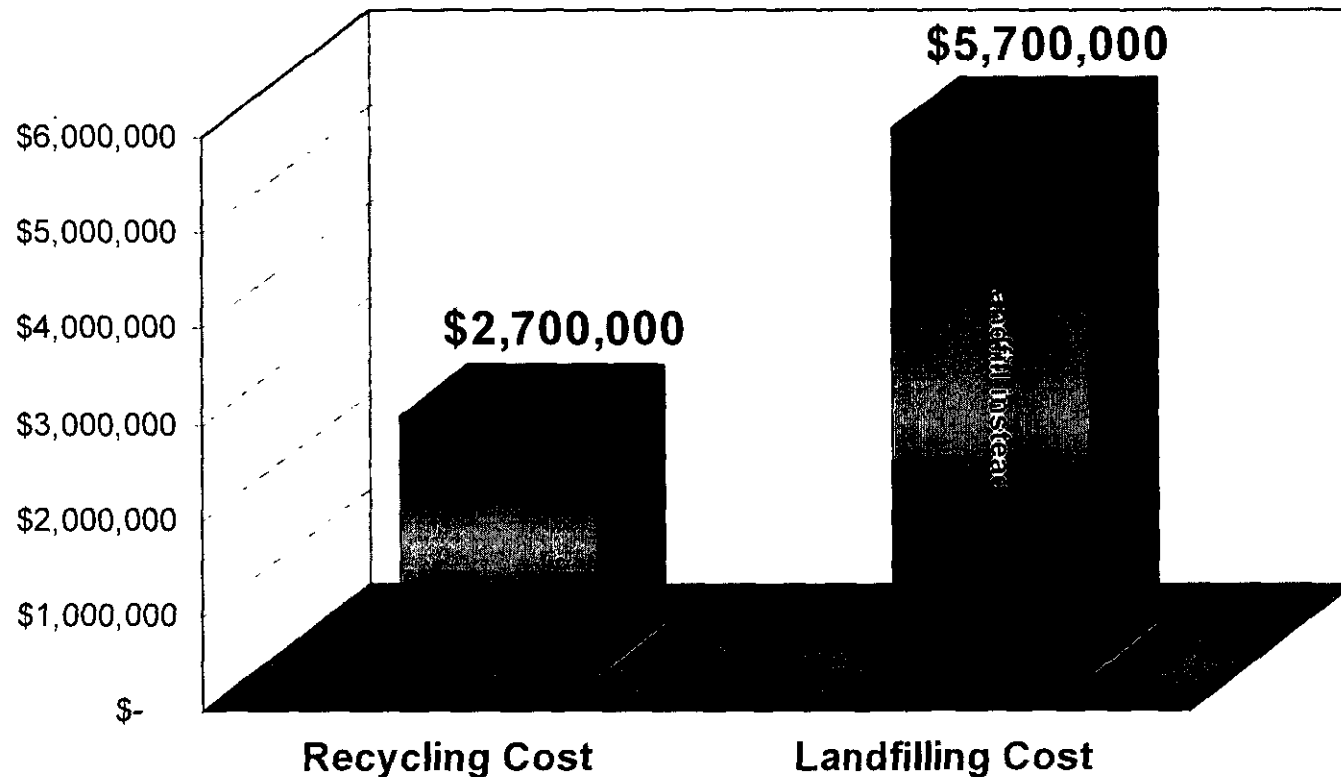
CITY OF AUSTIN

Solid Waste Services Department

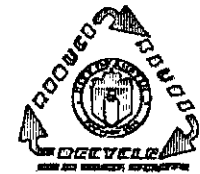
Why recycle?



- Zero Waste is a community-driven value
- Recycling reduces disposal costs
- Recycling adds resources to product manufacturers



Why are we here?



- The City of Austin has committed to aggressive municipal solid waste reduction goals through adoption of its Zero Waste Plan. Services considered are only for current single-stream collection program.

- The expiration of the previous recycling agreement provides a unique opportunity to align program goals with contractual vehicles.



Priorities in Crafting the Long Term Agreement



- Obtain most favorable pricing for rate payers
 - Best combination of processing fee and revenue share
 - Protection against long term cost escalation
 - Benefit from process improvements
 - Analyze total cost of recycling services to compare offers
- Provide adequate capacity to meet long term needs
 - Promote development of regional facilities
 - Regional demand is adequate to support two processing facilities
- Achieve objectives of the Zero Waste Plan
 - Build in flexibility to add new materials streams
 - Ensure materials are recycled and re-enter market

Contracting Strategy - Master Agreement Concept



- Contract has two parts: “Master Agreement” and specific “Service Schedules”
- Master Agreement
 - Accommodates multiple vendors; standardizes overall terms and conditions; sets quantifiable metrics and service credit schedules
 - Provide clear definitions of recycling versus diversion
 - No waste-to-energy
 - Limited use of glass for leachate systems
 - Ability to add one new material stream per year
 - Protects against cost escalation through “perpetual competition”
 - Ability to reallocate “market shares” and bring in additional vendors
- Service Schedule
 - Sets specific pricing and technical requirements for each material during the first contract period (will be “reset” at fixed intervals)

■ Process Improvement Credits

- City receives benefit of improved vendor efficiencies after Year 3

■ Living Wage

- Paid to all workers involved in processing City's materials

■ Facility Fee – Carbon Offset fund

- Vendors provide a fixed fee per ton processed that goes into a “carbon offset” fund to be used for tree planting on City property/right of way

“Best Managed” Contract Features



■ **“Most Favored Nation” Pricing**

- City will receive best price offered to any similar customer

■ **Reset Dates**

- Pricing and market share reset at Years 3, 8, 13, and 18. If contract(s) not renewed at Year 18, provides two-year window to solicit new agreement
- Provides continuing competition
- Allows both the Vendor and the City to reflect current market conditions in reset pricing.

Status of Agreement on Remaining Issues



ITEM	TDS	BALCONES
Included Most Favored Nation Pricing	No	Yes
Included Facility Fee	Yes*	Yes
Agreed to No CPI Adjustment **	No	Yes

*TDS will supply a 3" caliper tree for every 1,000 tons from the City (does not include material from other entities)

**Cost adjustments addressed at reset dates.

Pricing Analysis – Market Share



■ Evaluated several market share scenarios:

- 100% TDS
- 100% Balcones
- Market share
 - 50/50 Market share
 - 60/40 Market share
 - 75/25 Market share
 - Minimum 2,000 tons

Each Market share presents different values:

- The 100%, 60/40, and 50/50 alternatives are shown for comparison purposes on following slides

Alternative Offers Not Selected



- BR submitted an alternate pricing approach based upon actual market revenues in lieu of published indexes
 - Provided greater upside potential in strong market, but also greater downside risk
 - Precluded an even (“apples-to-apples”) comparison with TDS
- TDS submitted an alternate pricing approach with \$0 processing fee but also with 0% revenue share
 - Provides protection in an extreme poor market, but no opportunity to share in revenues in current or high markets...precludes offset of internal recycling program costs
 - Did not address living wage

Contract Evaluation



■ Considered the following performance areas:

- Service Delivery
 - Facility Operations
 - Experience with Recycling Markets
 - Capacity for Growth
- Environmental impacts
 - LEED Certification
 - Facility Configuration
 - Carbon Footprint

Contract Evaluation (continued)



■ Considered the following performance areas:

- Community Values
 - Location
 - Community Outreach
 - Education Programs
 - Living Wage Provision
 - Facility Fee (Carbon Offset)

Contract Evaluation - Financial



- Revenues are contractually based upon published indexes. Standard terms and conditions and use of indexes allowed for “apples-to-apples” comparison
- Financial Analysis considered all monetary factors
 - Processing Fee
 - Facility Fee (Carbon Offset) Reimbursement
 - Revenue Share
 - Collection and Delivery Cost

Contract Evaluation – Processing Fee/Ton



MARKET SHARE	TDS	BALCONES
100%	\$47.76	\$79/\$75*
60%	\$87.86	\$79/\$75*
50%	\$98.09	\$79/\$75*
40%	\$98.14	\$79/\$75*

*first 2,000 tons = \$79, everything over 2,000 tons = \$75

Annual Processing Costs

*Includes Living Wage and Facility Fee surcharges



Market Share	Annual Costs*
TDS 100%	\$2,624,000**
BR 100%	\$4,375,000
TDS 60%	\$2,834,000
<u>BR 40%</u>	<u>\$1,796,000</u>
Total Cost	\$4,630,000
TDS 50%	\$2,624,000
<u>BR 50%</u>	<u>\$2,235,000</u>
Total Cost	\$4,859,000
TDS 40%	\$2,099,000
<u>BR 60%</u>	<u>\$2,664,000</u>
Total Cost	\$4,763,000



**Lowest Annual processing fee.

Contract Evaluation – Facility Fee (Reimbursement to City)



■ Facility Fee (carbon offset)*

* Vendors provide a fixed fee per ton processed that goes into a “carbon offset” fund to be used for tree planting and maintenance in the right of way

TDS	BR
3” caliper tree for every 1,000 tons**	\$5/\$1***

****TDS will supply a 3” caliper tree for every 1,000 tons from the City (does not include material from other Cities)**

***** BR will reimburse the City \$5/ton for all Austin material and \$1/ton for all other municipal material processed.**

Annual Facility Fee Reimbursement to City



Market Share	Annual Revenue
TDS 100%	\$9,700**
BR 100%	\$262,000*
TDS 60%	\$5,800**
BR 40%	<u>\$105,000</u>
	\$110,800
TDS 50%	\$4,800**
BR 50%	<u>\$131,000</u>
	\$135,800
TDS 40%	\$3,900**
BR 60%	<u>\$157,000</u>
	\$160,900

*Most favorable
revenue stream
to the City.

****Value of 3"
caliper trees
supplied by
TDS**

Contract Evaluation: City Revenue Share



MARKET SHARE	TDS REVENUE SHARE TO COA	BALCONES REVENUE SHARE TO COA*
100% TDS	52.5%	N/A
60% TDS - 40% Balcones	76.8%	75% + premium
50% TDS – 50% Balcones	84.0%	75% + premium
40% TDS – 60% Balcones	78.5%	75% + premium
100% Balcones	N/A	75% + premium

*Share includes 75% of market index, plus fiber premium of \$7/ton, plus 50% of differential revenue over \$100/ton of blended rate.

Pricing Analysis – Recycling Market





- Used 3 potential markets to evaluate Revenue Share pricing proposals
 - Current Market: Pricing annualized based upon last five months of operations.
 - High Market: Projected pricing using current market plus 20%.
 - Low Market: Projected pricing using current market less 20%.

Annual Gross Revenue for the City



Market Share	Low Market	Current	High Market
TDS 100%	\$2,565,000	\$3,204,000	\$3,843,000


BR 100%
\$4,501,000
\$5,561,000
\$6,621,000


TDS 60%	\$2,301,000	\$2,875,000	\$3,449,000
BR 40%	\$1,802,000	\$2,224,000	\$2,648,000
Total Revenue	\$4,103,000	\$5,099,000	\$6,097,000

Most favorable revenue stream to the City.

TDS 50%	\$2,049,000	\$2,560,000	\$3,071,000
BR 50%	\$2,251,000	\$2,781,000	\$3,310,000
Total Revenue	\$4,300,000	\$5,341,000	\$6,381,000

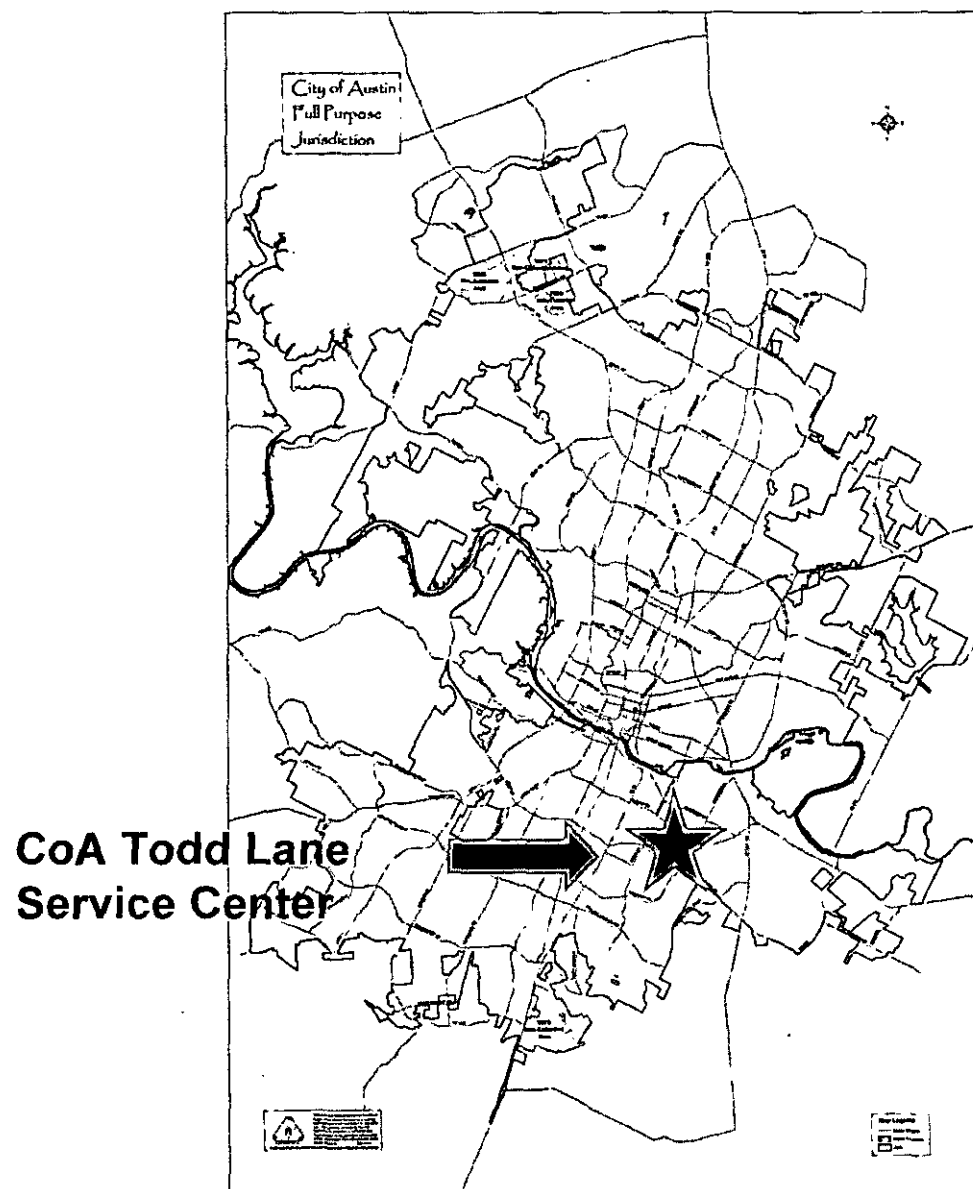
TDS 40%	\$1,532,000	\$1,914,000	\$2,296,000
BR 60%	\$2,701,000	\$3,337,000	\$3,972,000
Total Revenue	\$4,233,000	\$5,251,000	\$6,268,000

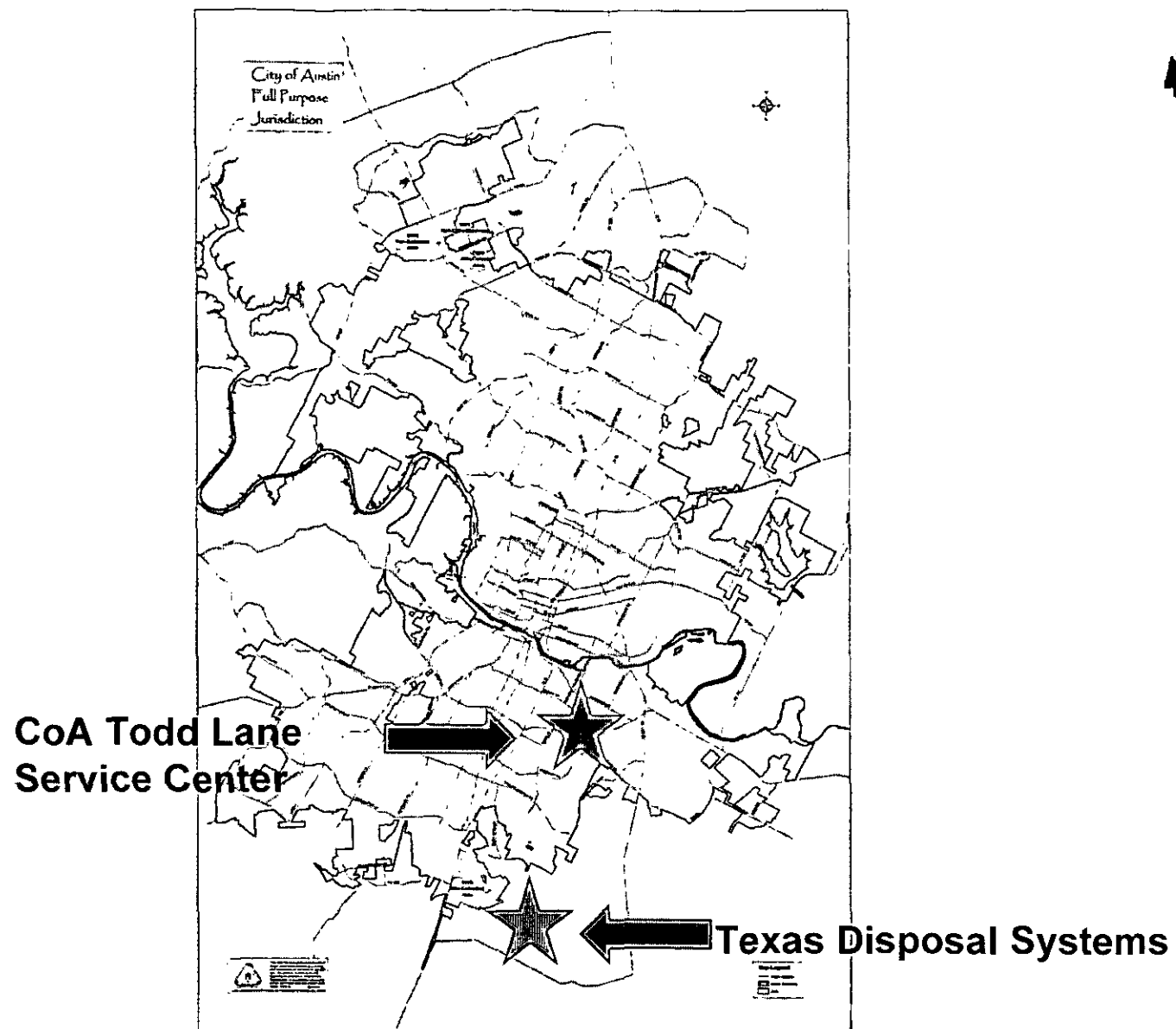
Contract Evaluation – Collection and Delivery Costs

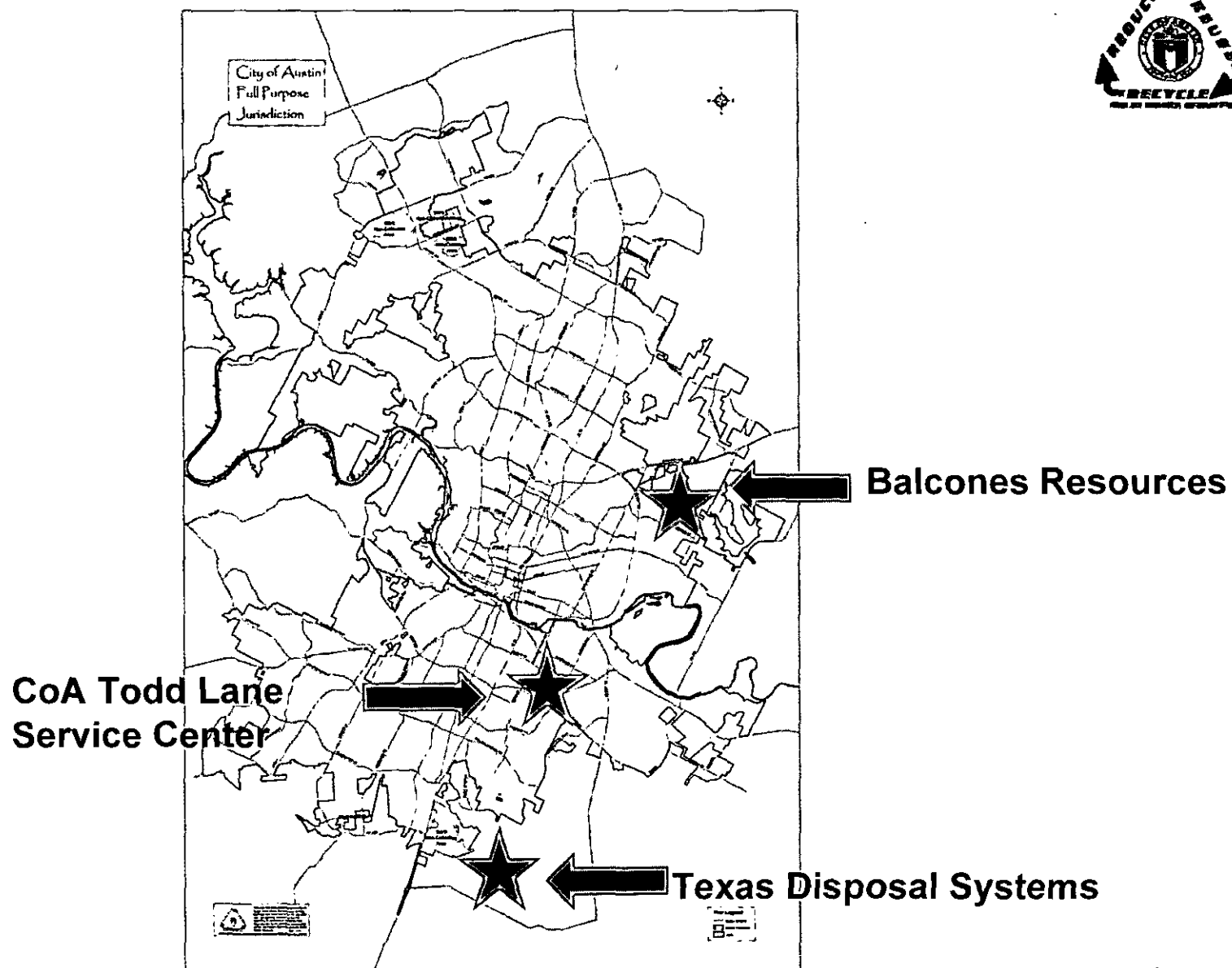


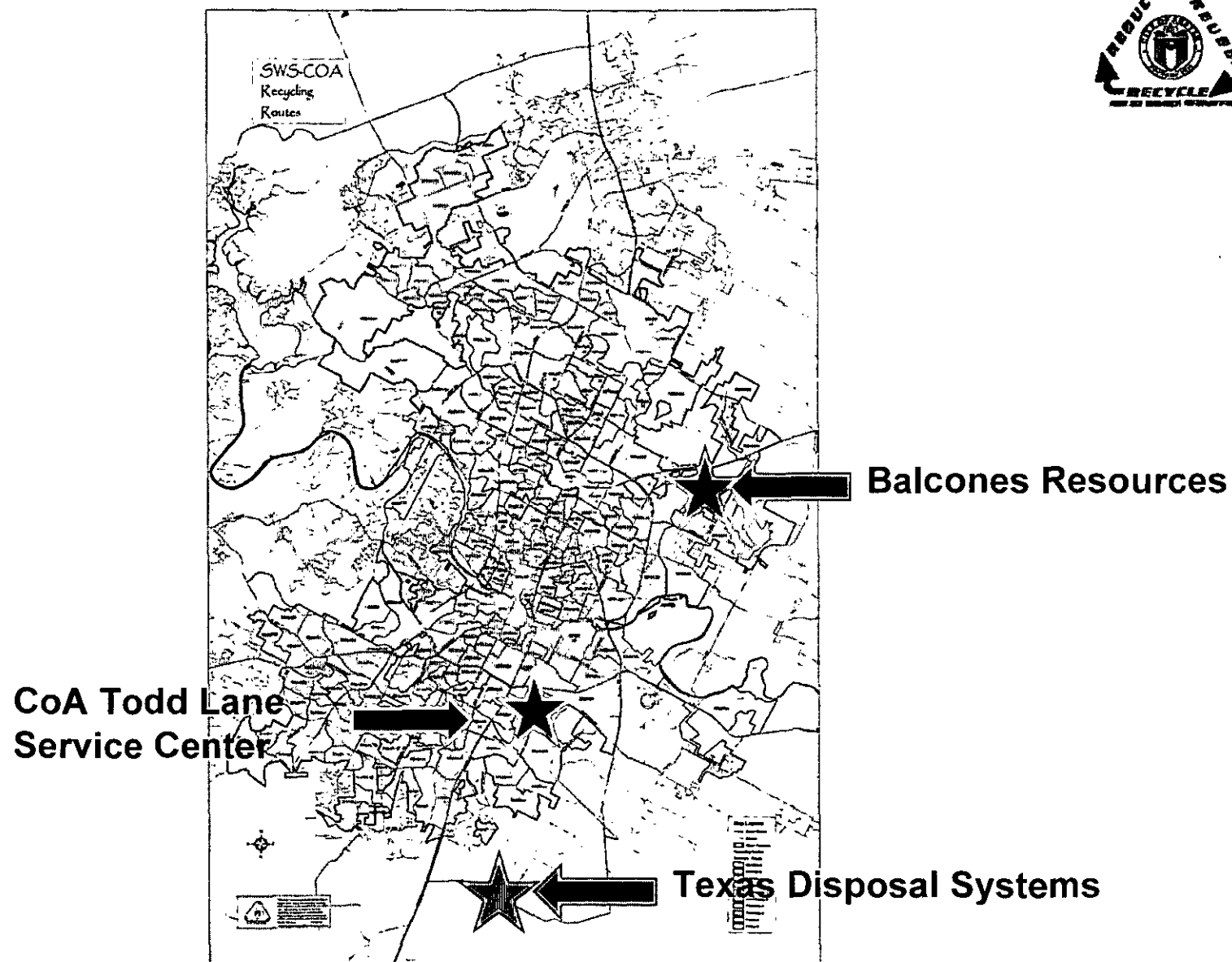
- Analyzed each route
- Designed each market share alternative to minimize costs (assigned routes to the processing facility closest to each route)
- Determined “fully loaded” costs
 - Personnel
 - Equipment
 - Fuel
 - Maintenance

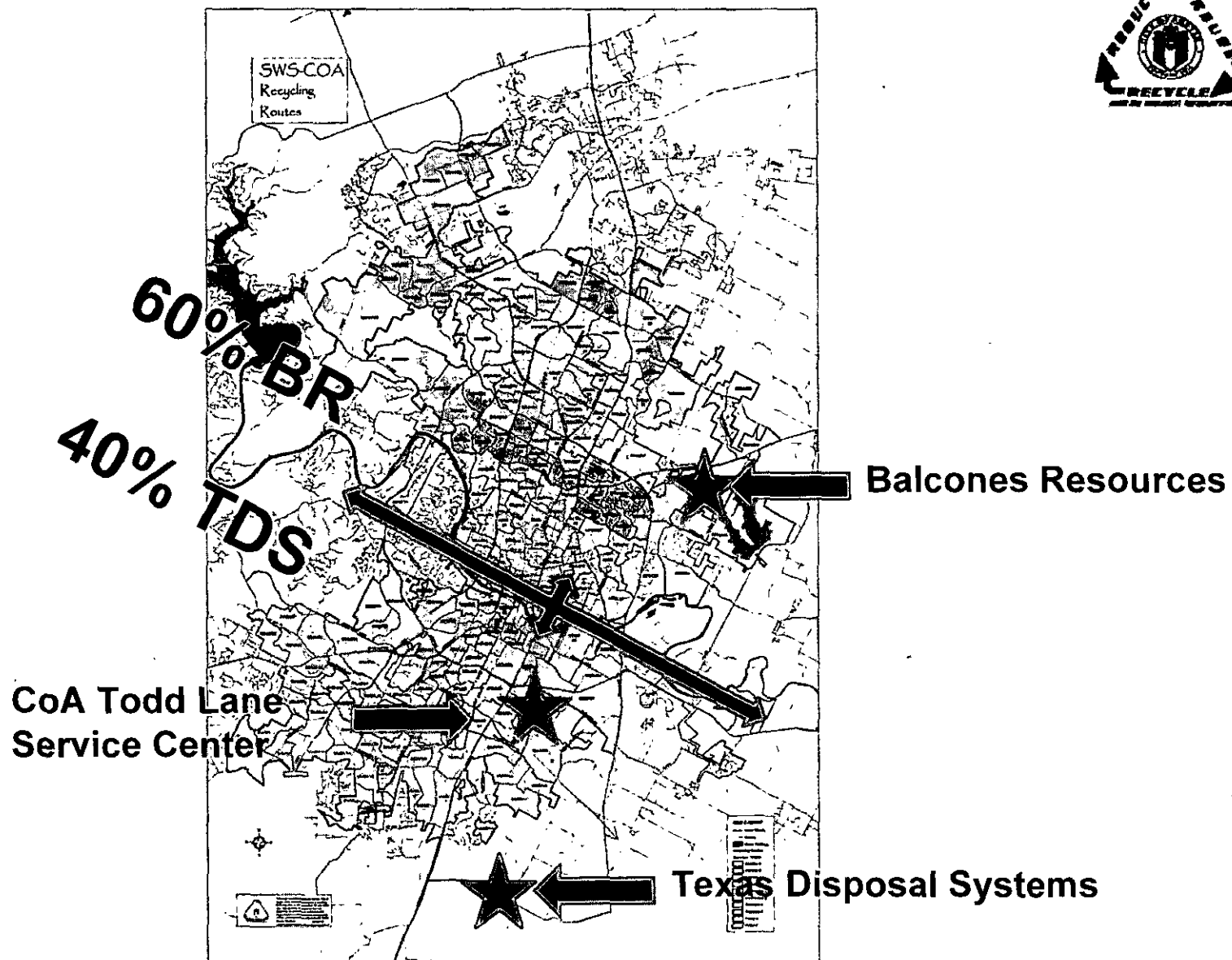


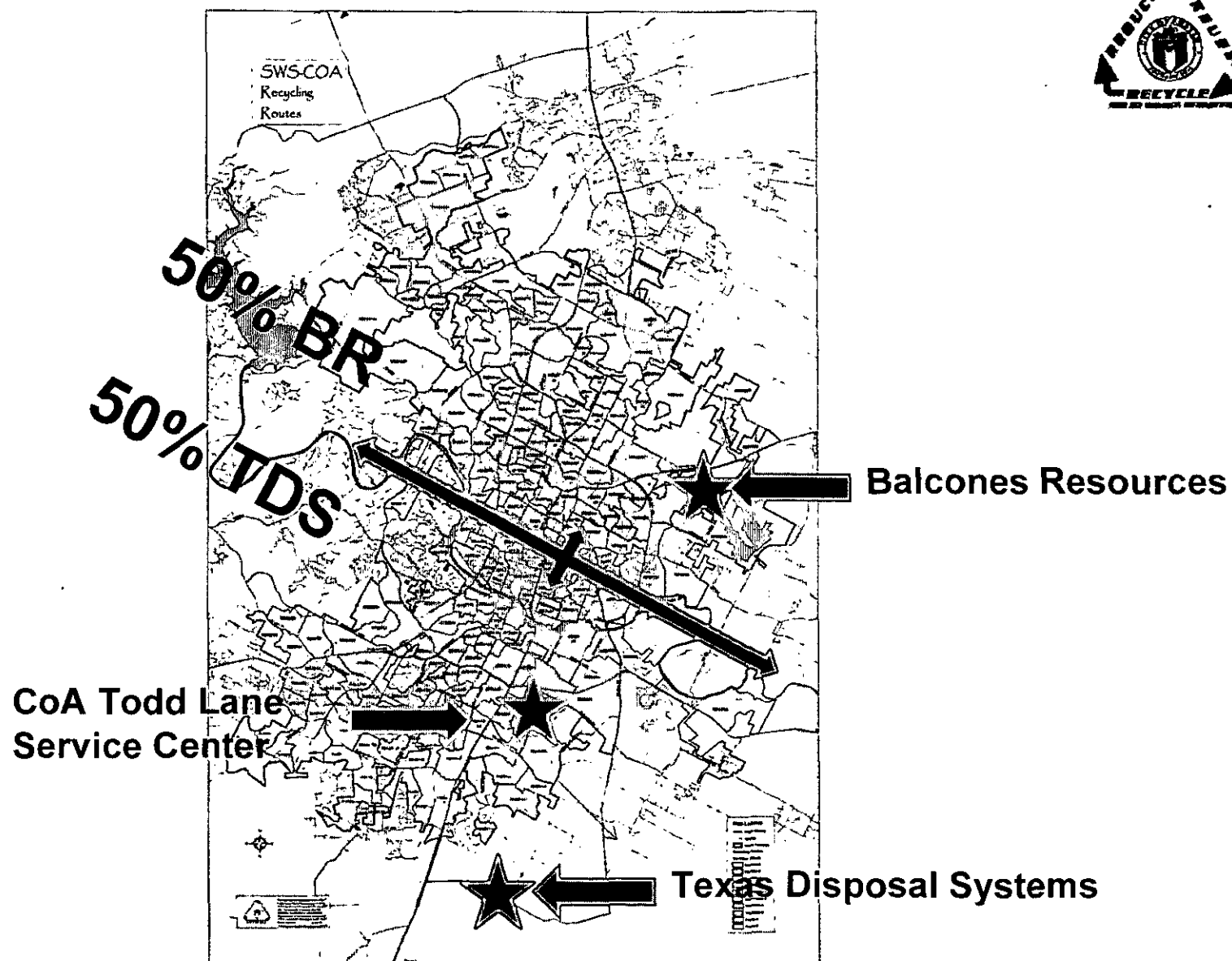


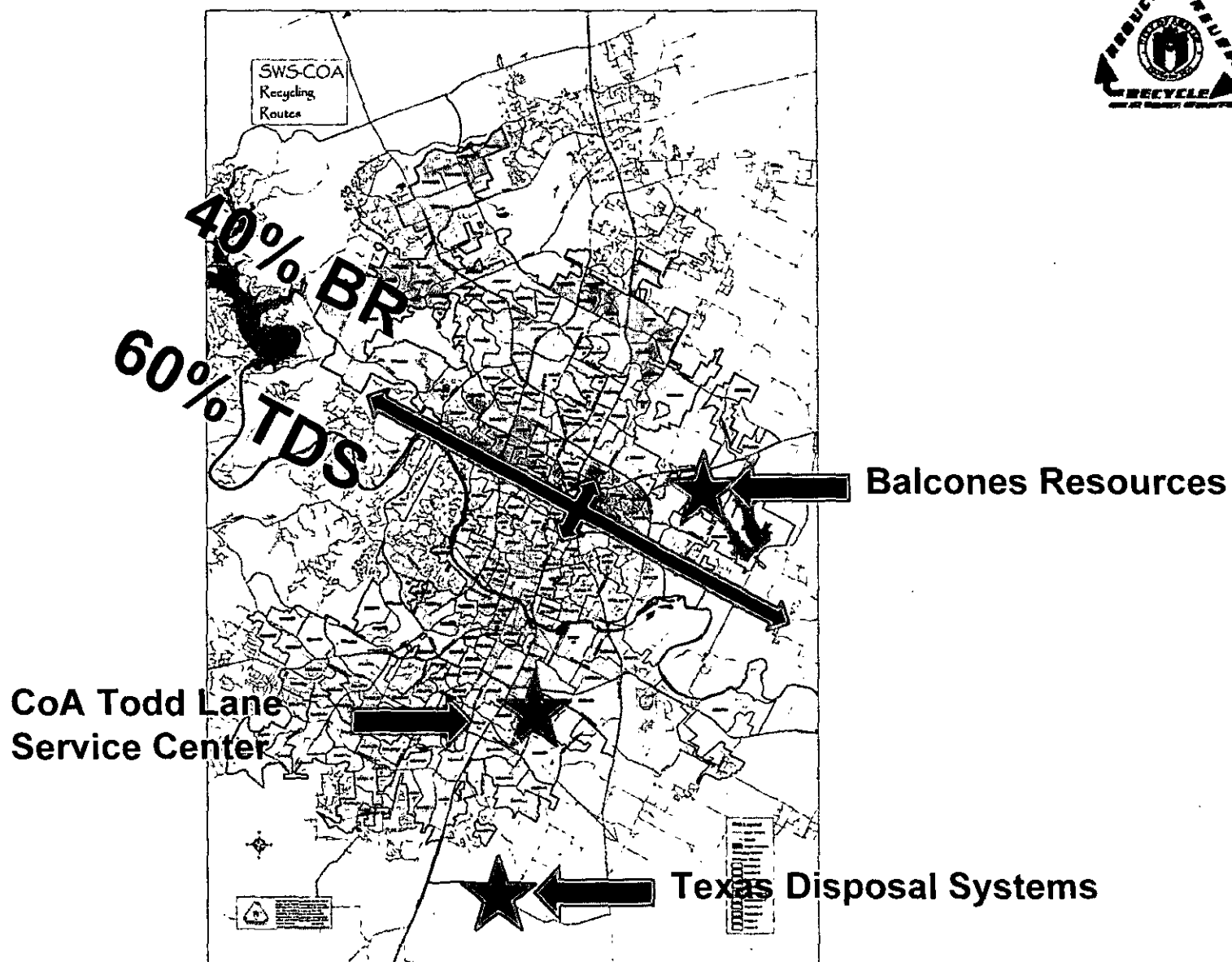












Annual Collection/Delivery Costs*

*Includes Personnel, Equipment, Fuel, Maintenance Costs



Market Share	Annual Costs*
TDS 100%	\$4,586,000
BR 100%	\$3,879,000
TDS 60%	\$2,317,000
<u>BR 40%</u>	<u>\$1,491,000</u>
Total Cost	\$3,808,000
TDS 50%	\$1,818,000
<u>BR 50%</u>	<u>\$1,851,000</u>
Total Cost	\$3,669,000
<i>TDS 40%</i>	<i>\$1,387,000</i>
<i><u>BR 60%</u></i>	<i><u>\$2,202,000</u></i>
<i>Total Cost</i>	<i>\$3,589,000</i>

Lowest Collection/
Delivery Costs

Bottom Line - Annual Program Costs

*Includes Revenue, Facility Fee, Processing Costs, Collection/Delivery Costs

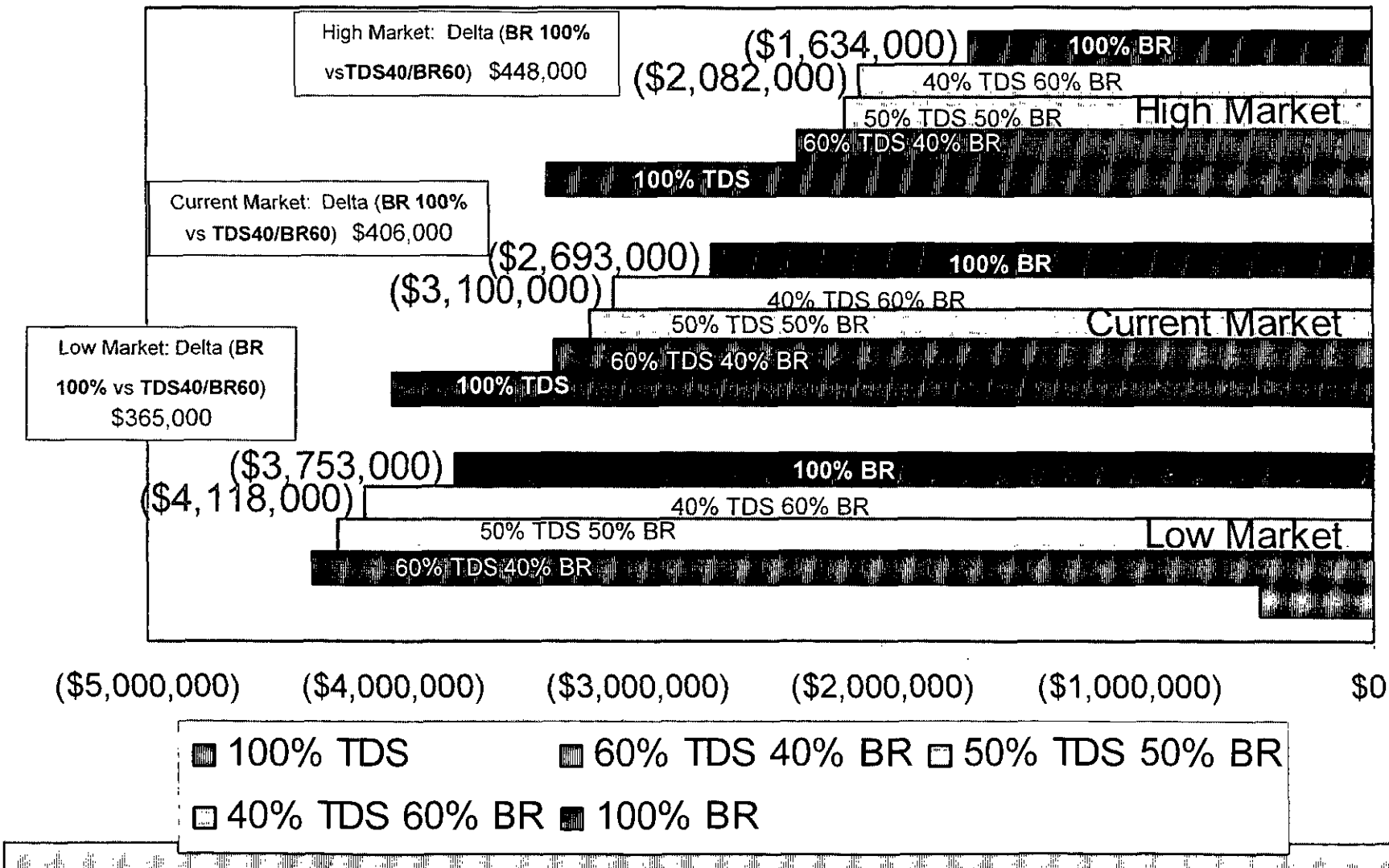


Market Share	Low Market	Current	High Market
TDS 100%	\$4,645,000	\$4,006,000	\$3,367,000
<div> <div>➔</div> <div>BR 100%</div> <div>\$3,753,000</div> <div>\$2,693,000</div> <div>\$1,634,000</div> <div>←</div> </div>			
TDS 60%	\$2,849,000	\$2,276,000	\$1,702,000
BR 40%	<u>\$1,486,000</u>	<u>\$1,062,000</u>	<u>\$638,000</u>
Total Program Cost	\$4,336,000	\$3,338,000	\$2,340,000
TDS 50%	\$2,393,000	\$1,882,000	\$1,371,000
BR 50%	<u>\$1,835,000</u>	<u>\$1,305,000</u>	<u>\$775,000</u>
Total Program Cost	\$4,228,000	\$3,187,000	\$2,146,000
TDS 40%	\$1,953,000	\$1,571,000	\$1,189,000
BR 60%	<u>\$2,165,000</u>	<u>\$1,529,000</u>	<u>\$893,000</u>
Total Program Cost	\$4,118,000	\$3,100,000	\$2,082,000

Lowest
Program
Costs

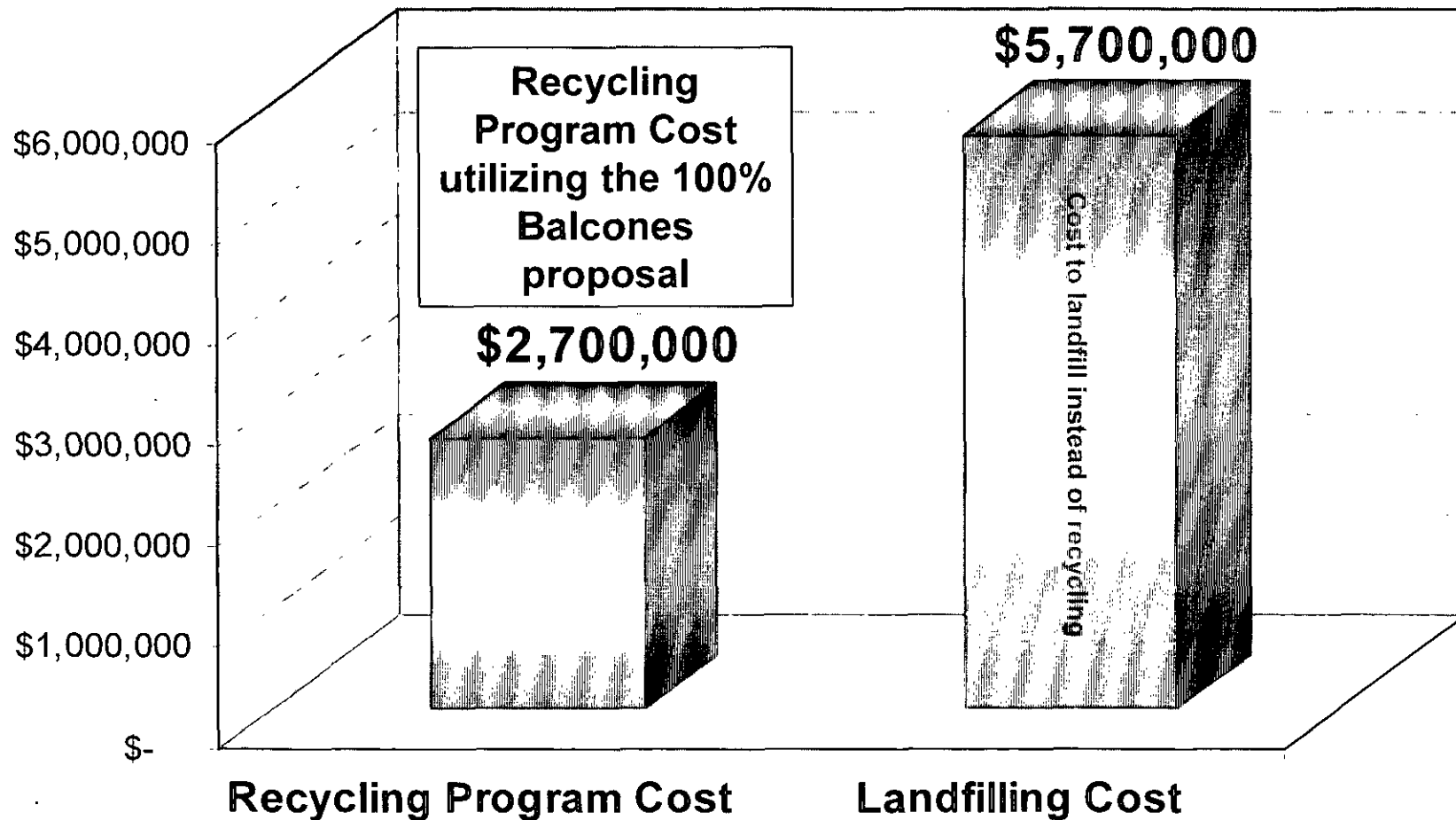
Financial Analysis – Bottom Line Annual Program Cost

(Includes Revenue, Facility Fee, Processing Costs, Collection/Delivery Costs)



- 32

Balcones 100% Proposal saves the City
\$9,000,000 over the first 3 years of the contract
in comparison to landfilling this same material

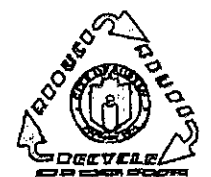


Staff Recommendation



- Execute the Master Agreement with Balcones (TDS has not agreed to all terms and conditions)
- Allocate 100% of the volume to Balcones for the first 3 years (until the first re-set date)
- Evaluate new pricing proposals and market share from both TDS and Balcones at the re-set date
- Continue the short term contract with TDS until the Balcones plant is completed

- 35



Questions/Discussion

