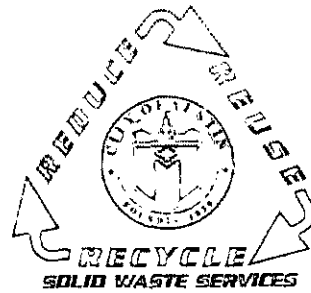


Late Backup



Long-Term Recycling Agreement

April 21, 2011

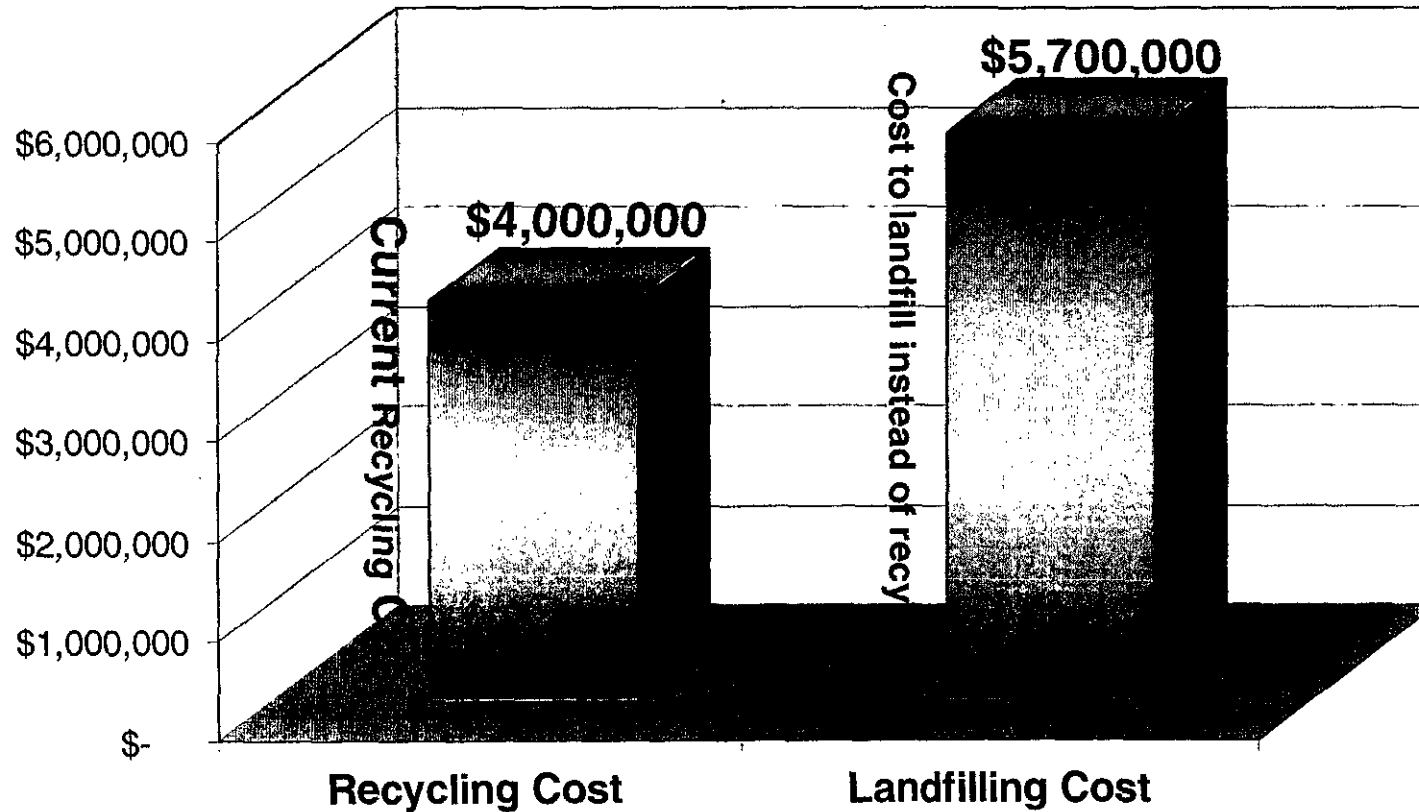
CITY OF AUSTIN

Solid Waste Services Department

Why recycle?



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



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
 - 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

Master Agreement – Main Points



- ☐ Key Contract Provisions
 - ☐ Commence Date – Oct 1, 2012 (5.1)
 - ☐ Equal Employment Opportunity (7.6.1.1)
 - ☐ Living Wage (7.6.2)
 - ☐ No Subcontracting (17.2)
 - ☐ Monthly Management Report (19.5)
 - ☐ Benchmarking Process (21.4)

Service Schedules – Main Points



- ❑ Key Schedule Provisions
 - ❑ Percentage Awarded (Exhibit A Section 1-d)
 - ❑ Minimum Award – 2,000 Tons (Exh A Sec 1-e)
 - ❑ Facility Fee (Exhibit A Sec 1-o)
 - ❑ Carbon Offset (Exhibit A Sec 1-p)
 - ❑ Most Favored Nation (Schedule 6.1)

Disposal Definition



- ***“Disposal”*** means any of the following: (i) placing in a landfill, (ii) converting to a refuse-derived fuel, (iii) use as a landfill liner fill, (iv) use as a landfill alternative daily cover, (v) biofuels conversion, or (vi) similar means that do not involve the incorporation of the material in question into useful products and **does not involve thermal destruction.**

Recyclable Material Definition



- ☐ “*Recyclable Material*” shall mean Glass, Plastics, Mixed Paper, ONP (newspaper), Steel, UBC (Aluminum Cans)
- ☐ City can add additional recyclables
 - ☐ upon 12 month advanced written notice to Vendor
 - ☐ commercially reasonable market for recycled items
 - ☐ reasonably reliable measurement of the economic value of such recycled items
 - ☐ e.g. Aseptic Containers and Scrap Metals.

Contract Negotiation Status



☐ “Most Favored Nation” Pricing

- City will receive best price offered to any similar customer
- Revised so that it will now take effect at the next re-set date...adds predictability.
- Does not apply if Vendor is awarded less than 25% of the total City SS recyclable volume
- Balcones has agreed to MFN
- TDS offered MFN but ONLY on smaller volumes than COA)...these conditions limit the value of the Most Favored Nation policy as intended.

Contract Negotiation Status



☐ Reset Dates

- Pricing and market share reset at Years 3, 8, 13, and 18. Allows both the Vendor and the City to reflect current market conditions in reset pricing.
- Added a 2,000 ton minimum that would be guaranteed throughout the life of the contract IF:
 - The pricing proposed at each reset date provides the same or better “net value” (revenue – costs) to the City.
 - Balcones has agreed, TDS has not agreed to this provision (will not guarantee “net value” to City)

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
Reset – 2,000 tons guaranteed	No****	Yes

*TDS counter offer limits the MFN to narrow conditions (volumes less than Austin's)

**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.

****TDS has agreed to the 2,000 ton guarantee but NOT to the "equal or better" Net Value to the city provision required to guarantee the 2,000 tons. BR has agreed to the Net Value provision.

Contract Evaluation - Financial



□ Financial Analysis considered all monetary factors

A = City Revenue Market Share

B = Facility / Carbon Offset Reimbursement

C = Processing Fee + Facility Fee + Living Wage

A+B-C = Annual Net Revenue to City

D = Collection and Delivery Cost

A+B-C-D = Bottom Line Program Cost

Annual Net* Revenue (A+B-C)

*Net Revenue = Gross Revenue – Processing Costs



Market Share	Market Decline (80%)	Current Market (100%)	Market Increase (120%)
TDS 100%	-\$59,000	\$580,000	\$1,219,000



BR 100%	\$112,000	\$1,156,000	\$2,201,000
----------------	------------------	--------------------	--------------------



TDS 40%	-\$571,000	-\$188,000	\$195,000
<u>BR 60%</u>	<u>\$33,000</u>	<u>\$661,000</u>	<u>\$1,288,000</u>
Total Cost	-\$538,000	\$473,000	\$1,483,000

*Most favorable Net revenue stream to the City.

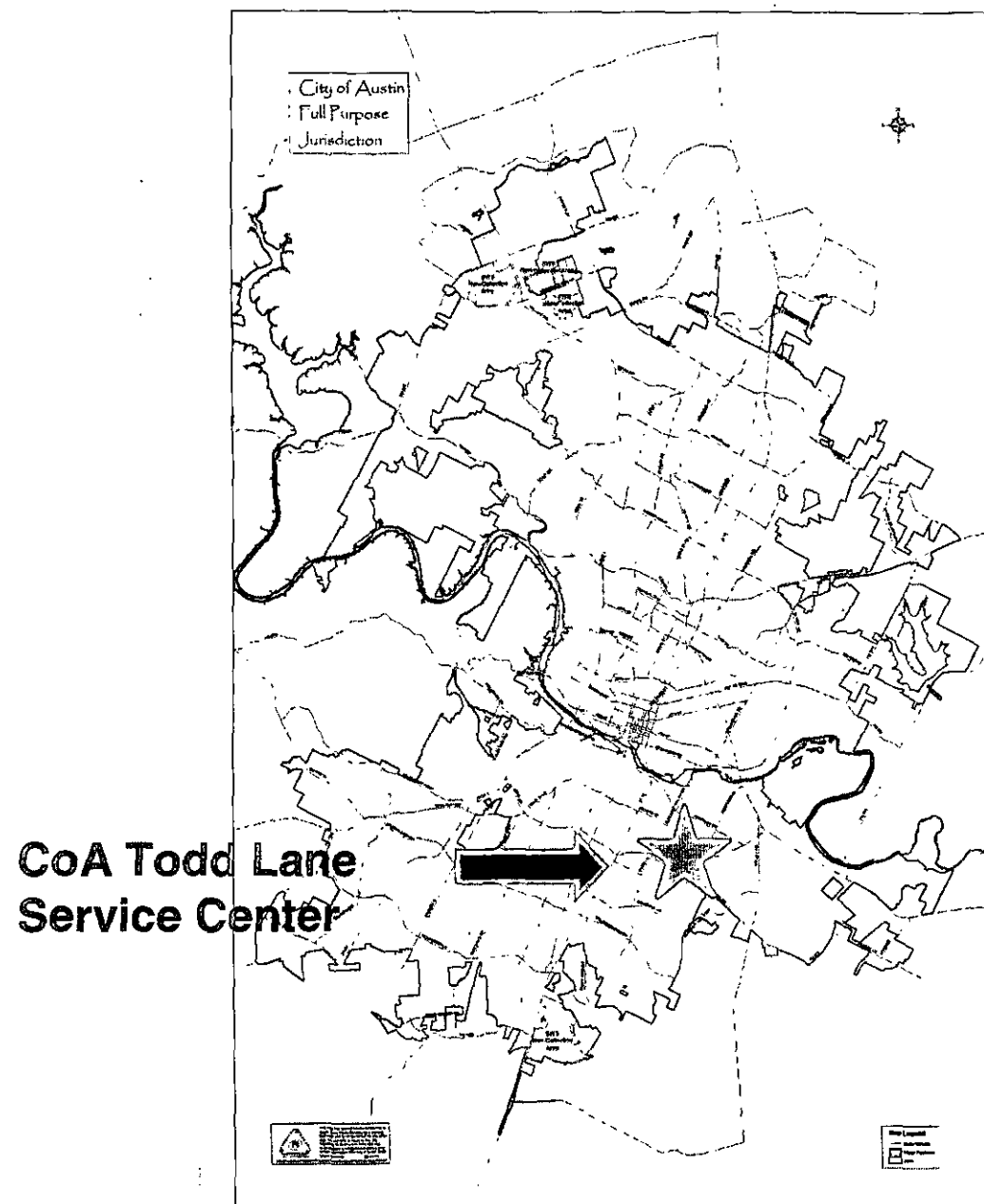
Includes first 3 elements of the Financial Analysis:

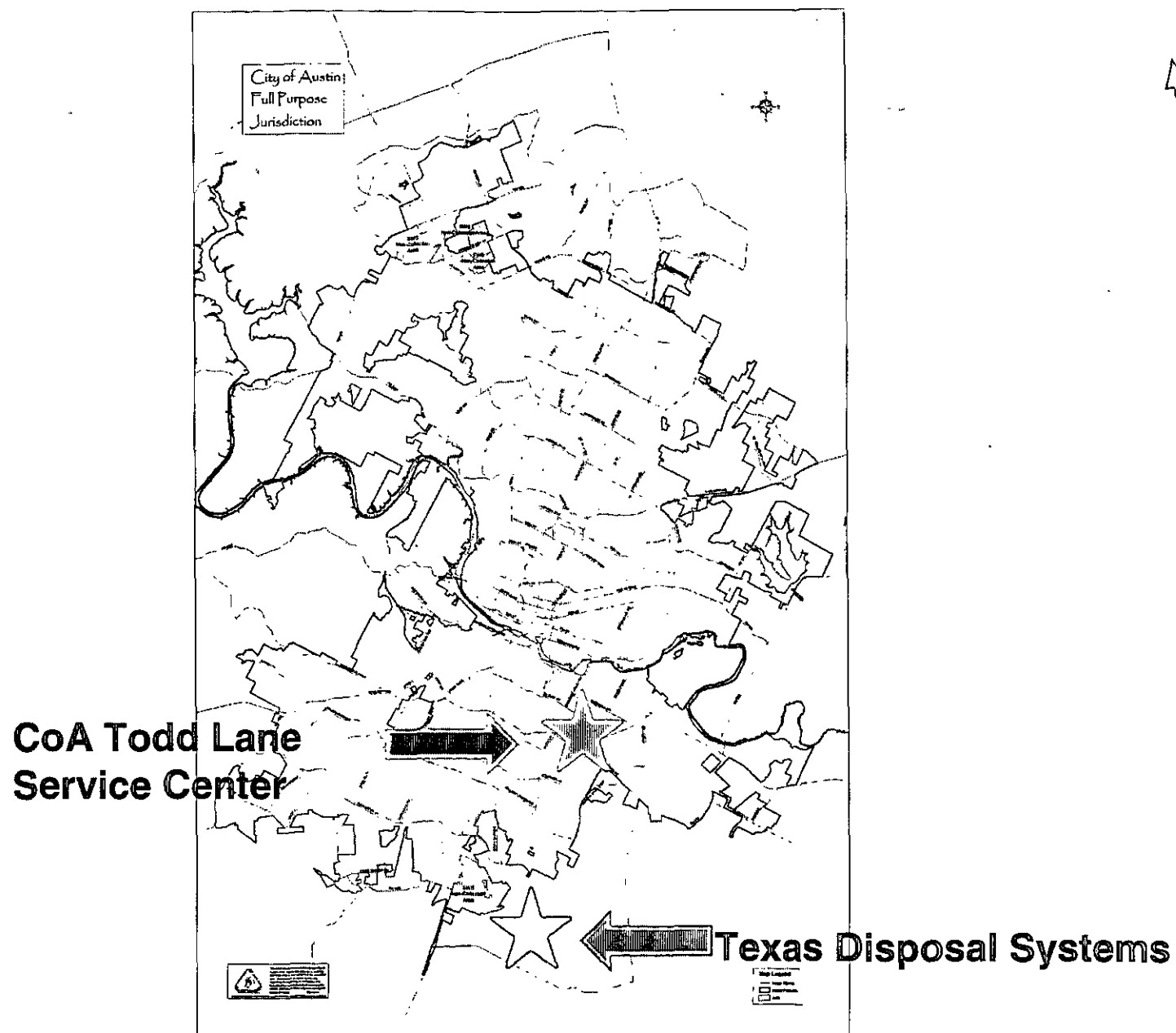
- A. Revenue Market Share**
- B. Facility Fee/Carbon Offset Revenue**
- C. Processing Fees**

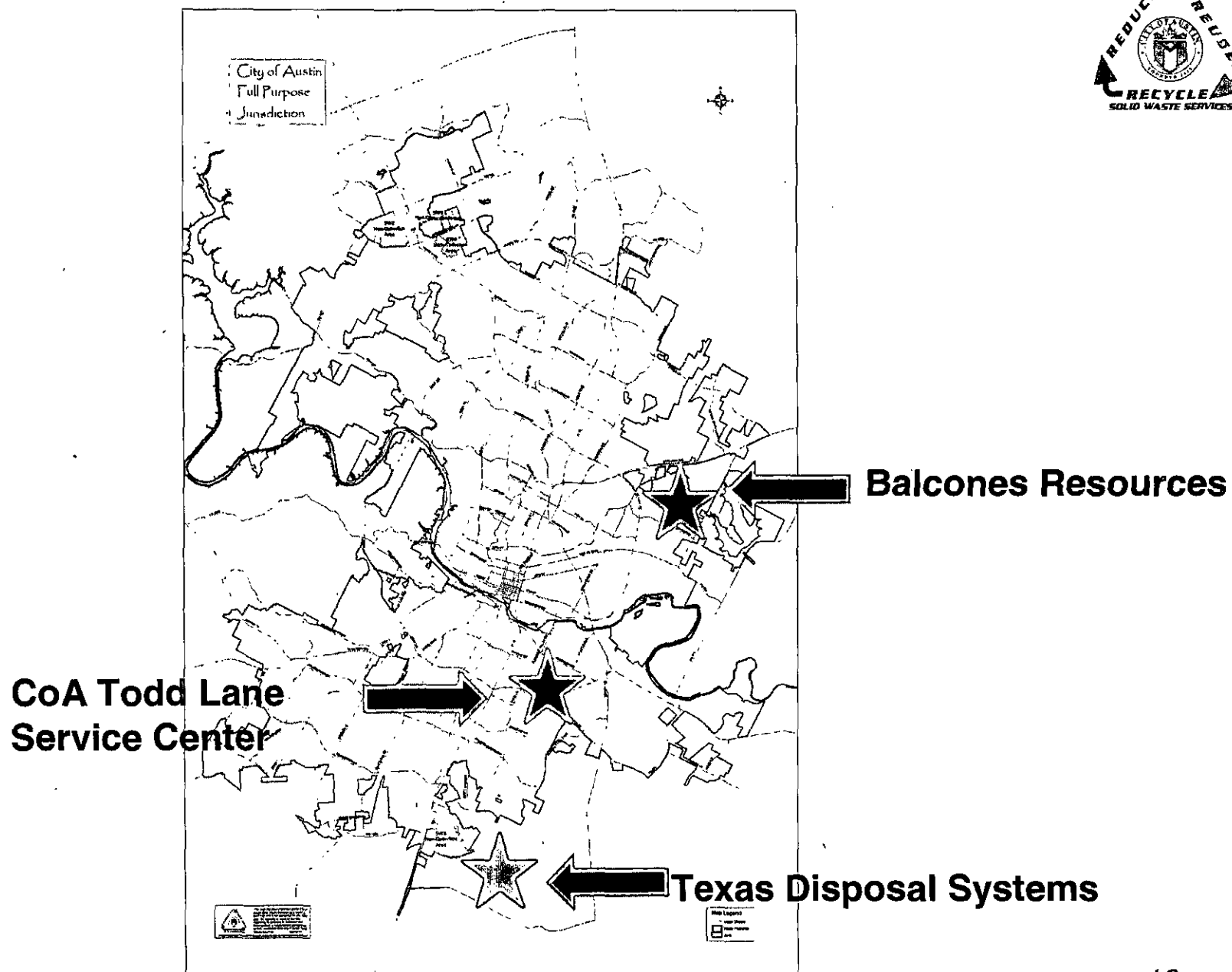
Contract Evaluation – Collection and Delivery Costs (D)

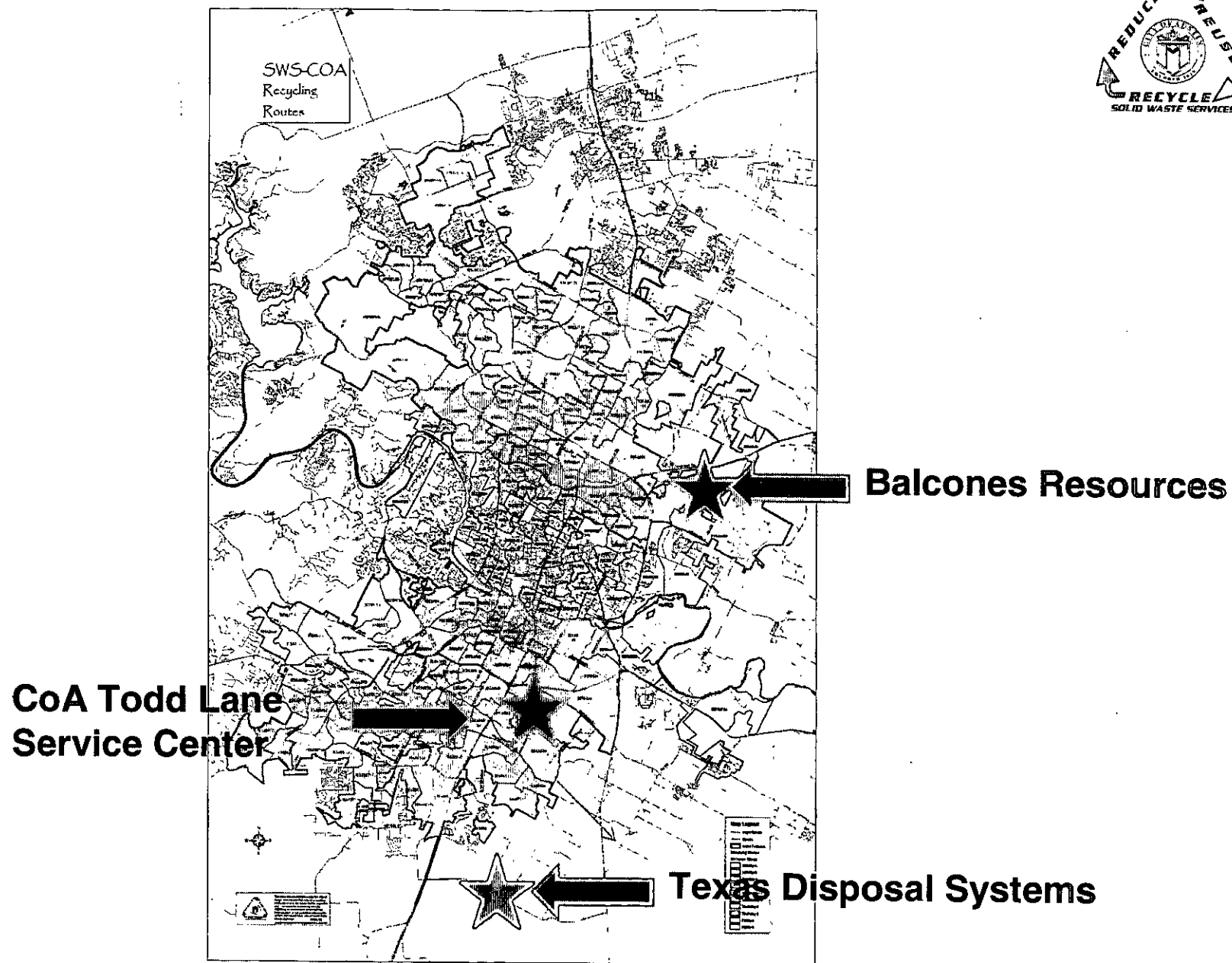


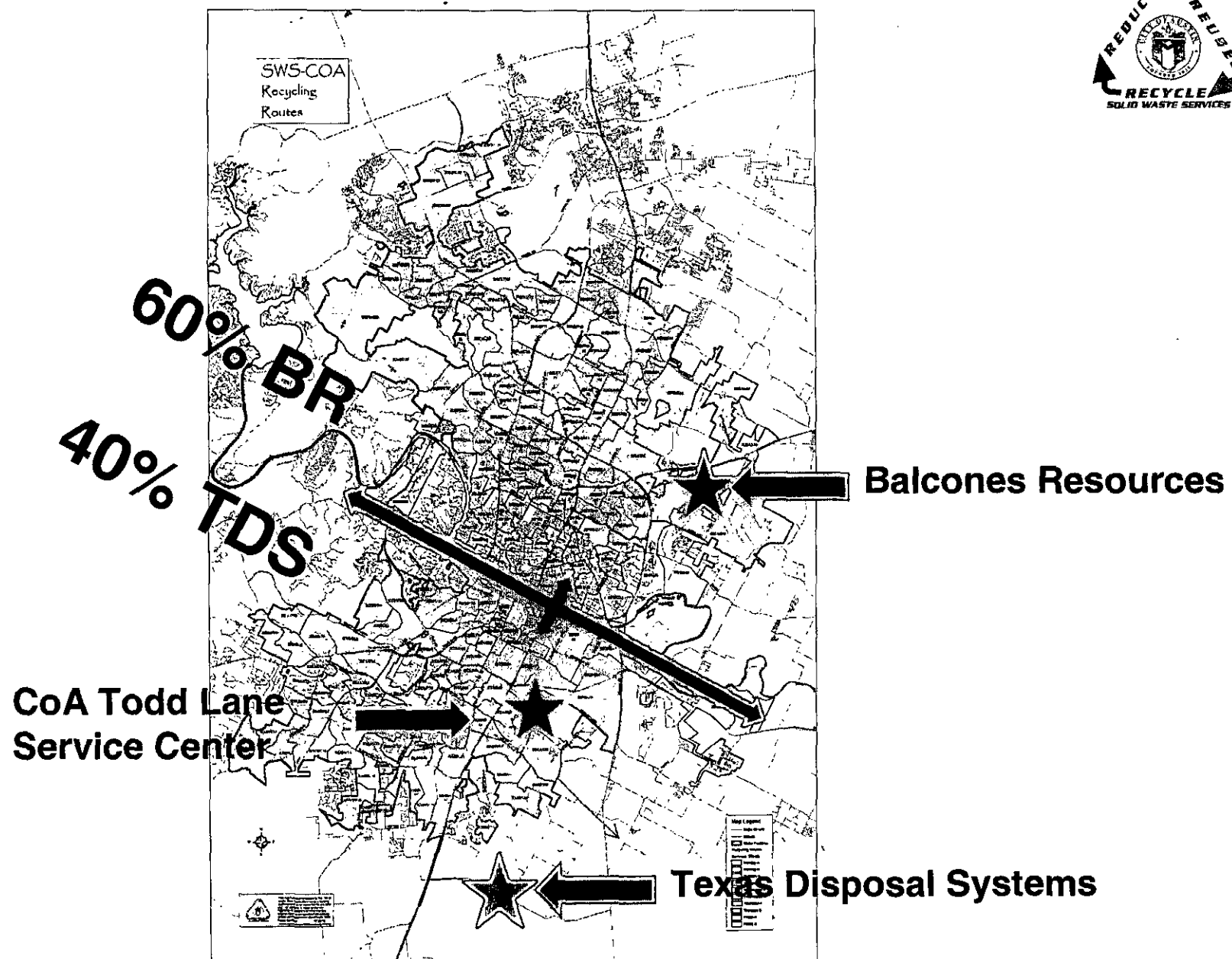
- Analyzed each route
- Designed each market share alternative to minimize costs (assigned routes to the processing facility closest to each route)
- Determined “fully loaded” costs
 - Personnel
 - Equipment
 - Fuel
 - Maintenance

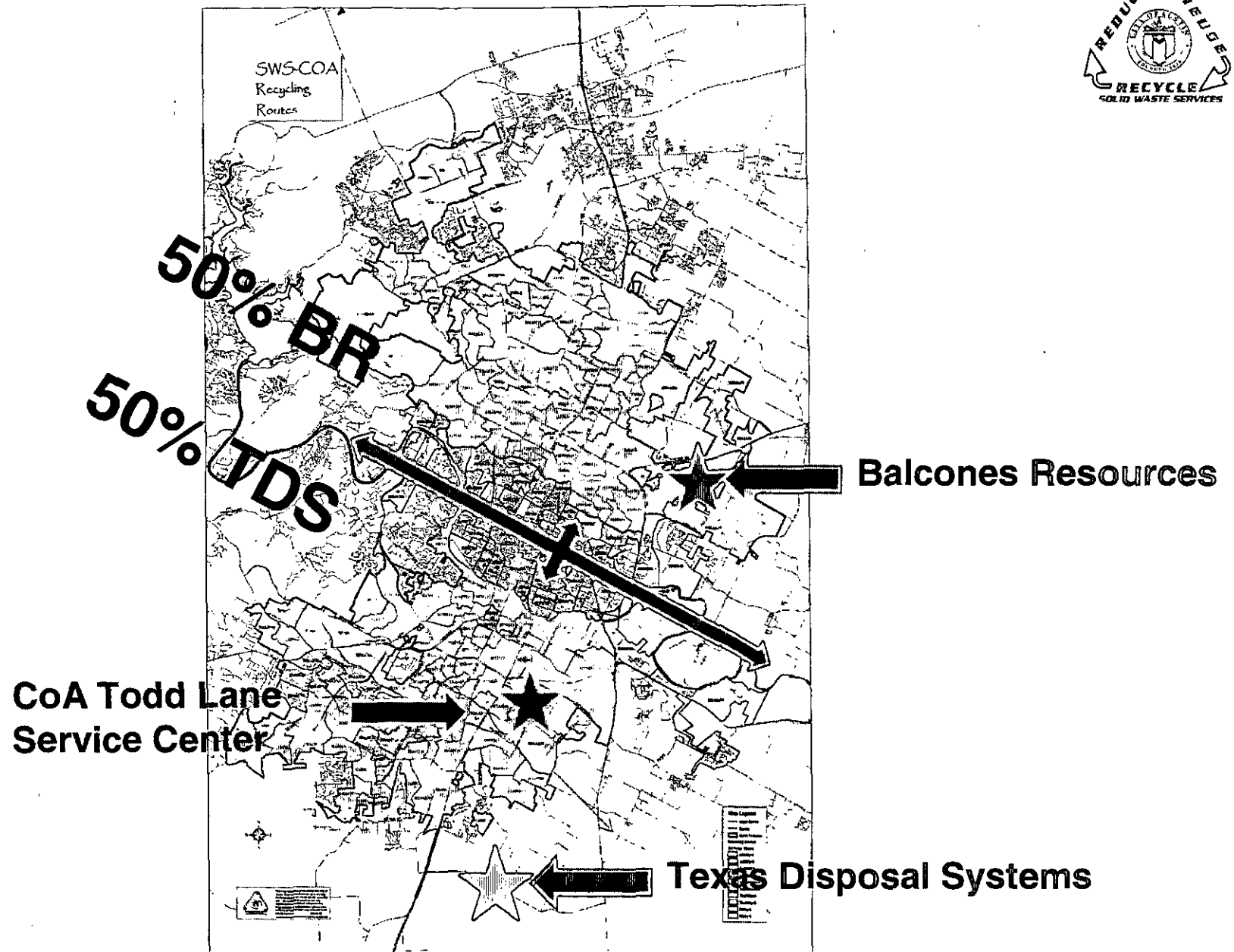


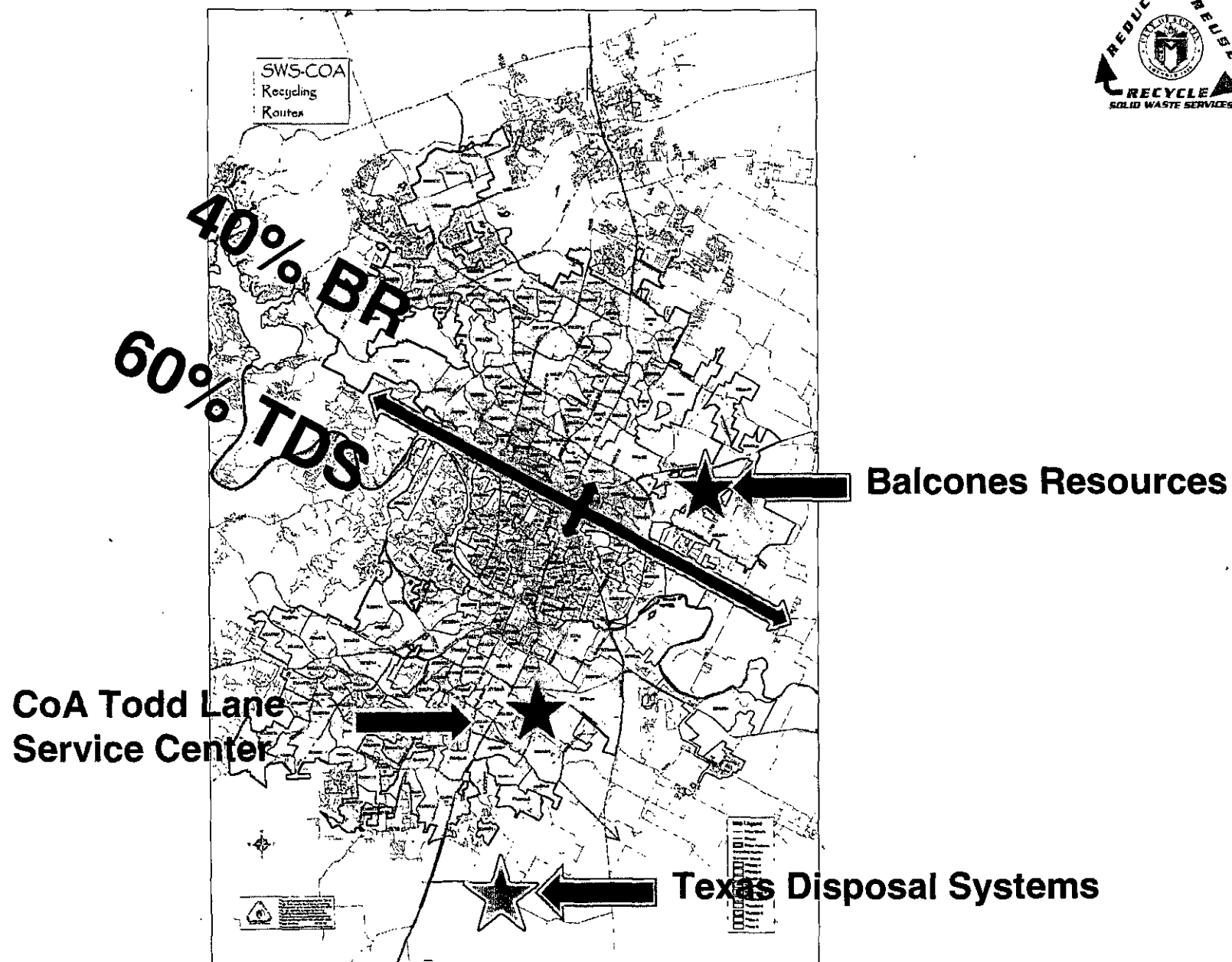












Annual Collection/Delivery Costs (D)

*Includes Personnel, Equipment, Fuel, Maintenance Costs



Market Share	Annual Costs*	Annual Mileage
TDS 100%	\$4,600,000	533,300
BR 100%	\$3,891,000	451,084
<i>TDS 40%</i>	<i>\$1,391,000</i>	<i>256,100</i>
<i>BR 60%</i>	<i>\$2,209,000</i>	<i>161,200</i>
Total Cost	\$3,600,000	417,300


 Lowest
 Collection/
 Delivery
 Costs

Bottom Line - Annual Program Costs

$$A+B-C-D = \text{Total Program Costs}$$



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

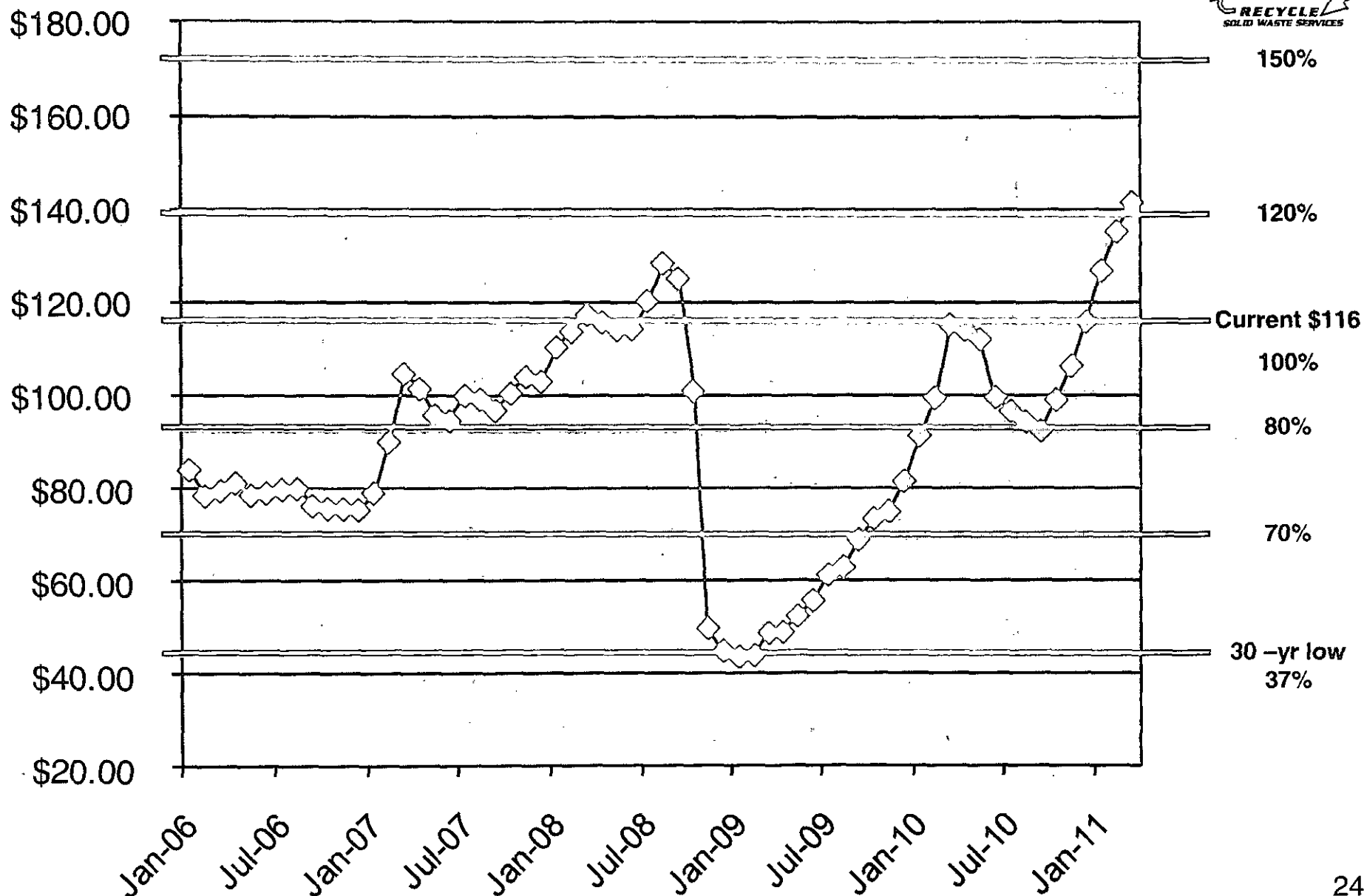
Market Share	Low Market (80%)	Current (100%)	High Market (120%)	
TDS 100%	\$4,659,000	\$4,020,000	\$3,381,000	
⇒ <i>BR 100%</i>	<i>\$3,779,000</i>	<i>\$2,735,000</i>	<i>\$1,691,000</i>	←
				Lowest Program Costs
TDS 40%	\$1,965,000	\$1,584,000	\$1,201,000	
BR 60%	<u>\$2,180,000</u>	<u>\$1,553,000</u>	<u>\$927,000</u>	
Total Program Cost	\$4,145,000	\$3,127,000	\$2,128,000	

Pricing Analysis – Recycling Market



- Used 18 potential markets to evaluate Revenue Share pricing proposals
 - Current Market: Pricing annualized based upon last five months of operations.
 - Wide range of scenarios from the 30-year market low (Jan '09) which is 37% of current to a high of 150% of current.

Historical Blended Value Data

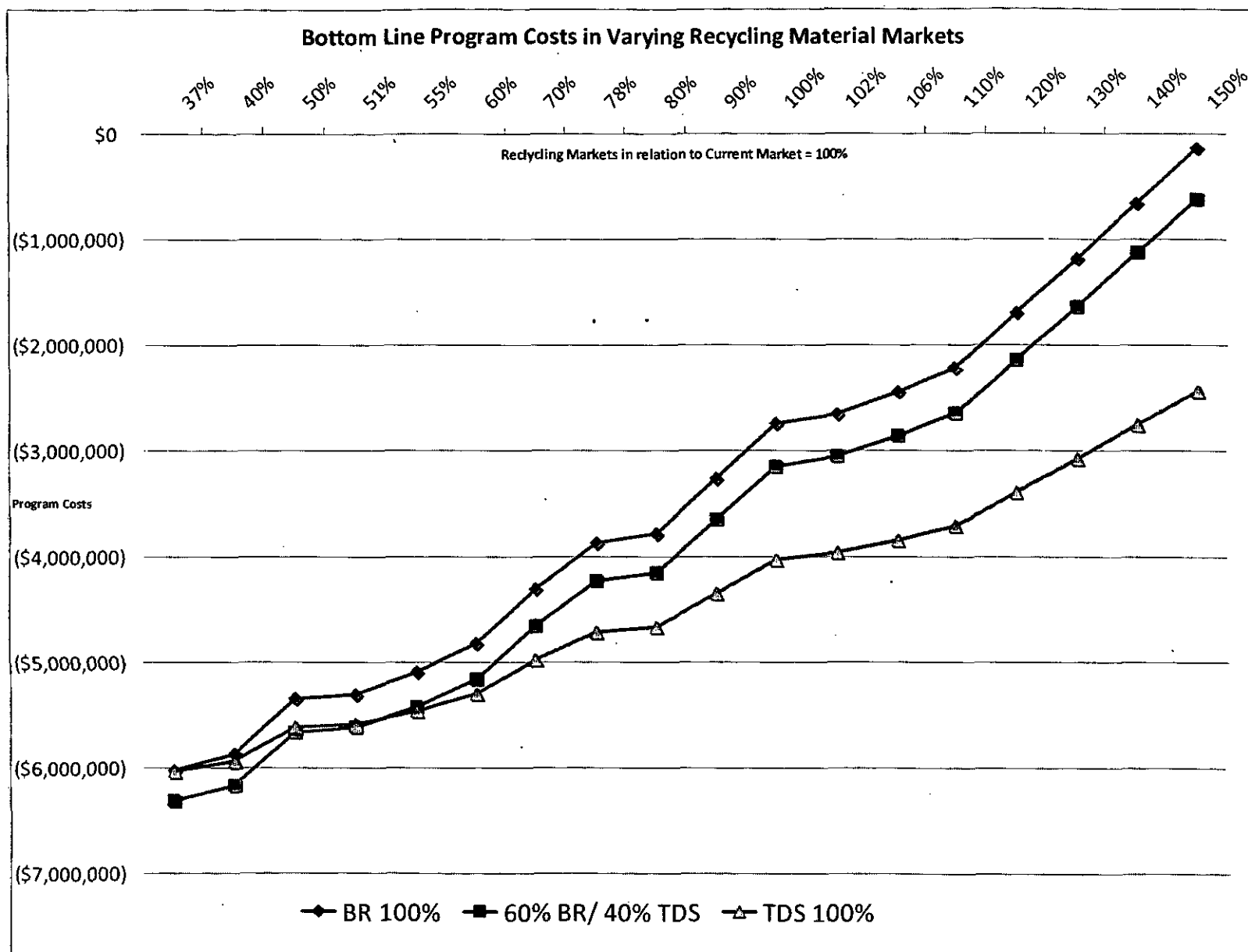


Market Scenario (compared to Current - 100%)	100% Balcones (BR)	Best Financial Offer	Delta 100% BR vs 100% TDS	100% Texas Disposal Systems (TDS)
37% (Jan '09-50 year low)	(\$6,023,688)	100% BR	\$8,965	(\$6,032,653)
40%	(\$5,867,074)	100% BR	\$69,747	(\$5,936,820)
50%	(\$5,345,027)	100% BR	\$272,351	(\$5,617,378)
51% (TDS scenario TDS4/BR4)	(\$5,299,087)	100% BR	\$288,264	(\$5,587,351)
55% (TDS scenario TDS5/BR5)	(\$5,094,445)	100% BR	\$367,365	(\$5,461,810)
60%	(\$4,822,980)	100% BR	\$474,956	(\$5,297,936)
70%	(\$4,300,934)	100% BR	\$677,560	(\$4,978,494)
78% (TDS scenario TDS6/BR6)	(\$3,868,679)	100% BR	\$842,122	(\$4,710,802)
80%	(\$3,778,887)	100% BR	\$880,165	(\$4,659,052)
90%	(\$3,256,840)	100% BR	\$1,082,769	(\$4,339,610)
100% (CURRENT MARKET)	(\$2,734,794)	100% BR	\$1,285,374	(\$4,020,168)
102% (TDS scenario TDS7/BR7)	(\$2,642,392)	100% BR	\$1,317,402	(\$3,959,793)
106% (TDS scenario TDS8/BR8)	(\$2,438,271)	100% BR	\$1,396,301	(\$3,834,572)
110%	(\$2,212,747)	100% BR	\$1,487,979	(\$3,700,726)
120%	(\$1,690,701)	100% BR	\$1,690,583	(\$3,381,284)
130%	(\$1,168,654)	100% BR	\$1,893,188	(\$3,061,841)
140%	(\$646,607)	100% BR	\$2,095,792	(\$2,742,399)
150%	(\$124,561)	100% BR	\$2,298,397	(\$2,422,957)





Market Scenario (compared to Current - 100%)	60% BR/ 40% TDS	Delta 100% BR vs 60 BR/40 TDS	100% Balcones	Best Financial Offer
37% (Jan '09-50 year low)	(\$6,313,882)	\$290,195	(\$6,023,688)	100% BR
40%	(\$6,162,597)	\$295,523	(\$5,867,074)	100% BR
50%	(\$5,658,312)	\$313,285	(\$5,345,027)	100% BR
51% (TDS scenario TDS4/BR4)	(\$5,612,789)	\$313,702	(\$5,299,087)	100% BR
55% (TDS scenario TDS5/BR5)	(\$5,414,918)	\$320,473	(\$5,094,445)	100% BR
60%	(\$5,154,027)	\$331,047	(\$4,822,980)	100% BR
70%	(\$4,649,743)	\$348,809	(\$4,300,934)	100% BR
78% (TDS scenario TDS6/BR6)	(\$4,230,284)	\$361,605	(\$3,868,679)	100% BR
80%	(\$4,145,458)	\$366,571	(\$3,778,887)	100% BR
90%	(\$3,641,173)	\$384,333	(\$3,256,840)	100% BR
100% (CURRENT MARKET)	(\$3,126,888)	\$402,094	(\$2,734,794)	100% BR
102% (TDS scenario TDS7/BR7)	(\$3,045,337)	\$402,946	(\$2,642,392)	100% BR
106% (TDS scenario TDS8/BR8)	(\$2,847,971)	\$409,699	(\$2,438,271)	100% BR
110%	(\$2,632,603)	\$419,856	(\$2,212,747)	100% BR
120%	(\$2,128,319)	\$437,618	(\$1,690,701)	100% BR
130%	(\$1,624,034)	\$455,380	(\$1,168,654)	100% BR
140%	(\$1,119,749)	\$473,142	(\$646,607)	100% BR
150%	(\$615,464)	\$490,904	(\$124,561)	100% BR

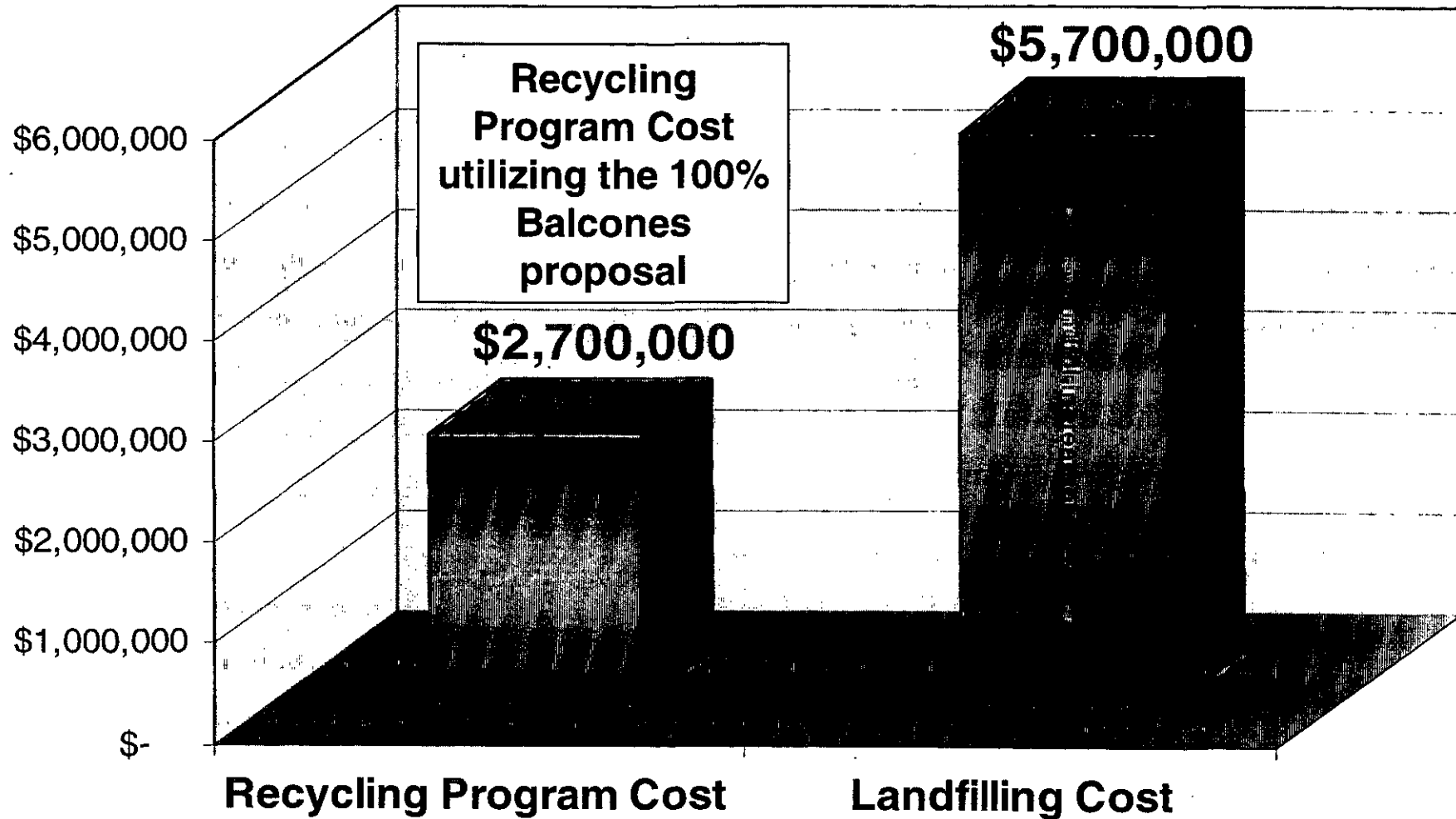


Evaluation Summary



- ☐ Best financial proposal = 100% Balcones
 - ☐ Best Bottom Line cost package...saves the City \$1,200,000 over the first 3 years of the contract (compared to the second lowest alternative – 60%BR/40%TDS)
- ☐ Balcones has agreed to all Master Agreement and Service Schedule contract terms
 - ☐ Most Favored Nation
 - ☐ Re-set dates
 - ☐ No CPI adjustment
 - ☐ “Net Value” to retain minimum 2,000 tons

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)
- ☐ Minimum 2,000 tons (about 40%) for first 8 years of the contract to Vendors that agree to the contract terms
- ☐ Evaluate new pricing proposals and market share from both TDS and Balcones at the re-set
- ☐ Continue the short term contract with TDS until the Balcones plant is completed (Oct 1, 2012)

Next Steps



- ☐ SWAC Action on April 18th
- ☐ Present recommendation for contract award to Council on April 21st

Questions/Discussion

Collection/Delivery Costs – Sensitivity Analysis



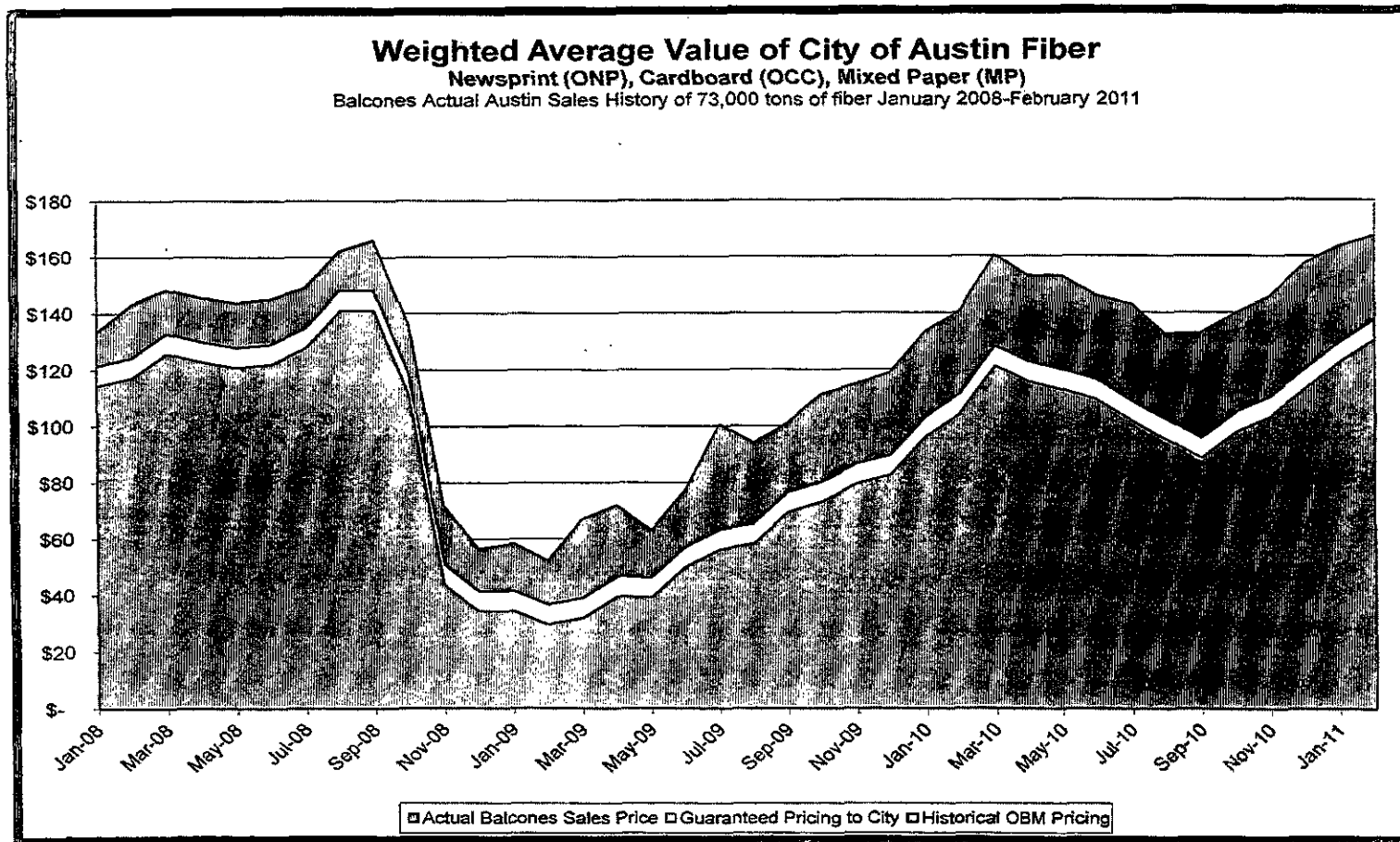
Market Scenario (compared to Current - 100%)	\$6.00 (30% lower)	\$6.50 (25% lower)	\$7.00 (19% lower)	\$7.50 (13% lower)	\$8.00 (7% lower)	\$8.50 (1% lower)	\$8.63 (actual costs)
37% (Jan '09-50 year low)	100% TDS	100% TDS	100% TDS	100% TDS	100% TDS	100% TDS	100% BR
40%	100% TDS	100% TDS	100% TDS	100% TDS	100% BR	100% BR	100% BR
50%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
51%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
55%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
60%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
70%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
78%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
80%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
90%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
100% (CURRENT MARKET)	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
102%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
106%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
110%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
120%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
130%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
140%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR
150%	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR	100% BR

**Lowest
Program
Cost:**

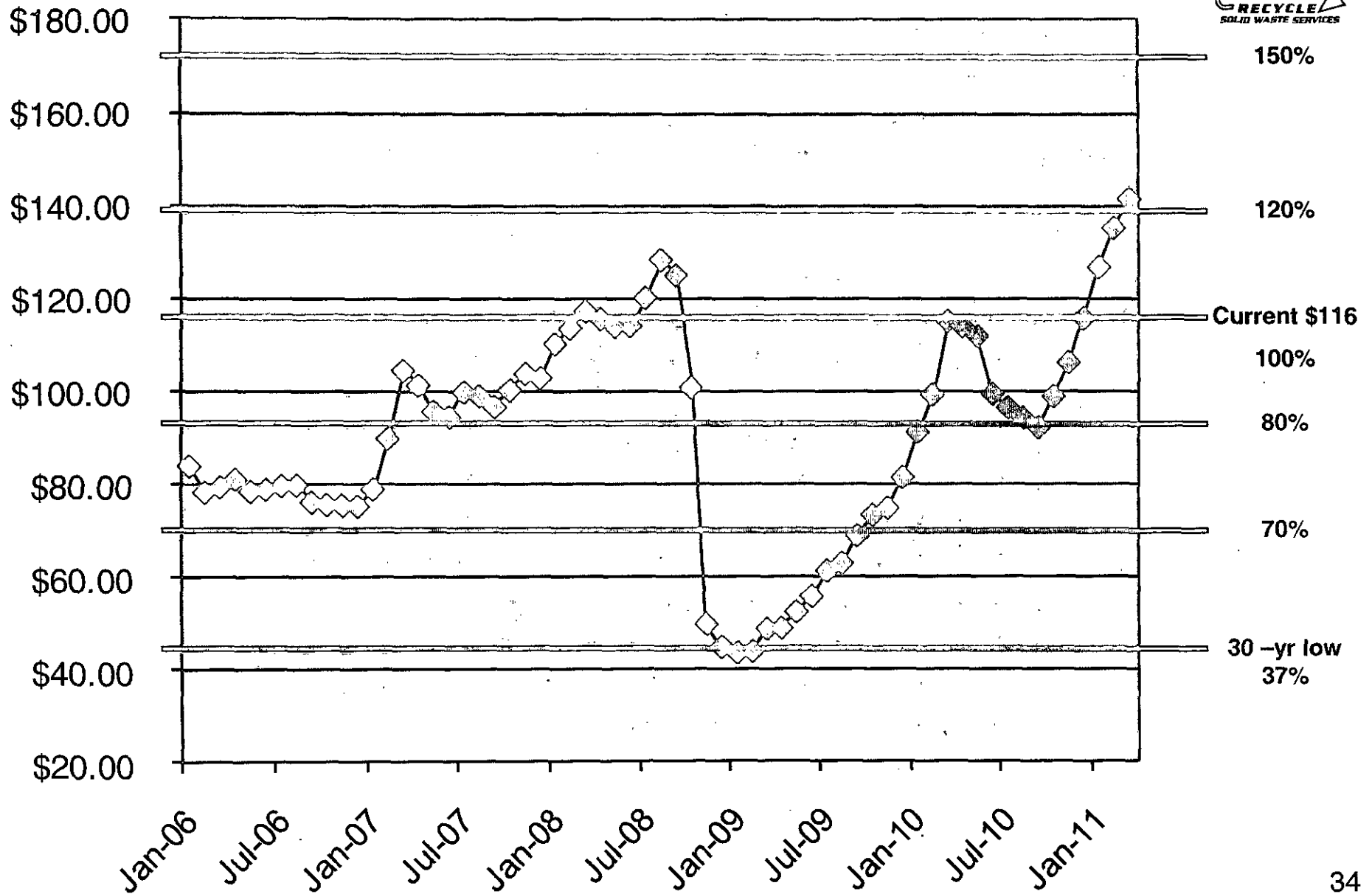
100% BR

100% TDS

Balcones Historical Fiber Sales



Historical Blended Value Data





Bottom Line Program Costs in varying Recycling Markets (with new 100% TDS offer)

