

TRANSMITTAL

0150-09193-0004

TO
The Council

DATE
05/20/16

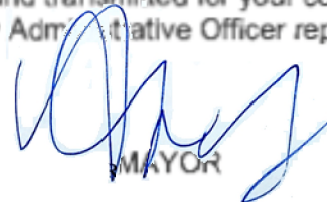
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT

**Contracts with CR&R, Inc. for the Processing and Marketing
Of Residential Recyclable Materials from the Harbor and East Valley Wastesheds**

Approved and transmitted for your consideration.
See the City Administrative Officer report attached.



(Ana Guerrero)

MAYOR

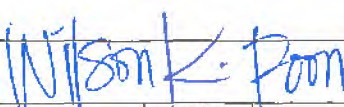
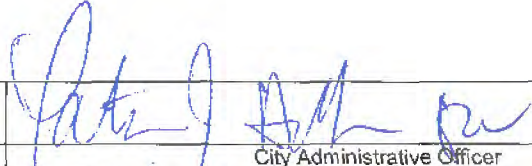
MAS:WKP:061601641

Report From
OFFICE OF THE CITY ADMINISTRATIVE OFFICER
Analysis of Proposed Contract
(\$25,000 or Greater and Longer than Three Months)

To: The Mayor	Date: 05-20-16	C.D. No. ALL	CAO File No.: 0150-09193-0004				
Contracting Department/Bureau: Public Works/Sanitation		Contact: Michael W. Lee, (213) 485-3094					
Reference: Transmittal from the Board of Public Works dated May 4, 2016; referred for report on May 5, 2016.							
Purpose of Contract: For the processing and marketing of residential recyclable materials from the East Valley and Harbor Wastesheds.							
Type of Contract: (X) New contract () Amendment		Contract Term Dates: Five years for the Harbor Wasteshed and two years with one three-year renewal option for the East Valley Wasteshed.					
Contract/Amendment Amount: \$0							
Proposed amount \$0 + Prior award(s) \$0 = Total \$0							
Source of funds: N/A							
Name of Contractor: CR&R, Inc.							
Address: 11292 Western Avenue, Stanton, CA 90680							
	Yes	No	N/A*	8. Contractor has complied with:	Yes	No	N/A*
1. Council has approved the purpose	X			a. Equal Employt. Oppty./Affirm. Action	X		
2. Appropriated funds are available			X	b. Good Faith Effort Outreach**	X		
3. Charter Section 1022 findings completed			X	c. Equal Benefits Ordinance	X		
4. Proposals have been requested	X			d. Contractor Responsibility Ordinance	X		
5. Risk Management review completed	X			e. Slavery Disclosure Ordinance	X		
6. Standard Provisions for City Contracts included	X			f. Bidder Certification CEC Form 50	X		
7. Workforce that resides in the City: 9.6%				*N/A = not applicable ** Contracts over \$100,000			

COMMENTS

In accordance with Executive Directive No. 3, the Board of Public Works (Board), on behalf of the Bureau of Sanitation (Bureau) requests authority to execute Personal Services Contracts with CR&R, Inc. (CR&R) for the processing and marketing of residential recyclable materials collected from the East Valley and Harbor Wastesheds. CR&R will also be processing and marketing recyclables collected from City facilities, proprietary departments, and Los Angeles Unified School District facilities. The East Valley contract proposes the use of the SA Recycling and Athens Services facilities in the East Valley Wasteshed to transport materials to the processing facility in Wilmington, CA. The term of the East Valley contract is two years, with one three-year renewal option and the term of the Harbor contract is five years. The execution of the three-year renewal option for the East Valley contract is conditional on CR&R constructing an enclosure for its transfer station facility as required under the City's Exclusive Franchise System. These are revenue generating contracts and the City has no financial obligations under these contracts. In accordance with Los Angeles Administrative Code Section 10.5 (a), Council approval is required as the term of the contracts exceed three years.

 WKP Analyst	 City Administrative Officer	06160164
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Background

In 2014-15, the Bureau collected approximately 205,000 tons of recyclable materials from 740,000 households through the Bureau’s residential curbside collection program or Blue Bin Program. These recyclables, which include paper, plastic, aluminum, and glass materials, are processed and marketed by contracted Material Recovery Facilities (MRF). The Bureau has historically contracted with MRFs to service each of the City’s six Wastesheds (East Valley, West Valley, North Central, South Los Angeles, Harbor, and Western). This report will cover the contracts for the East Valley and Harbor Wastesheds. The Bureau is currently negotiating the contracts for the West Valley and North Central Wastesheds and will come back in a subsequent report with recommendations for contract award. The contracts for the South Los Angeles and Western Wastesheds, which are serviced by CR&R, will expire in May 2016 and the Bureau is planning to continue these services using the emergency provision in the proposed Harbor Wasteshed contract until it can advertise a new Request for Proposals (RFP) for all six Wastesheds. These contracts are essential to meeting State and City mandated waste diversion goals.

These contracts bring in revenues to the City from the sale of recyclable materials at these facilities. Revenues are deposited into the Landfill Maintenance Special Trust Fund and used to support post-closure maintenance activities of City-owned landfills in accordance with the California Public Resources Code and any other solid resources activities as the Mayor and Council may direct.

On July 24, 2013, the Board authorized the Bureau to issue a RFP for the processing and marketing of recyclables for the East Valley, West Valley, Harbor, and North Central Wastesheds and on December 4, 2013, the Bureau received eleven proposals. Bureau staff reviewed and evaluated all the proposals using the following criteria:

Evaluation Criteria	Maximum Points
Technical Requirement	15
Minimum Floor Price Requirement	20
Processing Unit Cost Requirement	20
Revenue Sharing Percentage Requirement	10
Stewardship of Recycled Material	10
Financial Performance and Past Experience	10
Facility Proximity	5
Worker Safety Requirement	10
Total	100

CR&R received the highest score for both the East Valley and Harbor Wastesheds and on May 4, 2016, the Board authorized the Bureau to execute contracts with CR&R.

Over the last five years, the Bureau reports that 1.0 million tons of recyclables have been processed by the MRFs and \$24.1 million in revenues have been collected from the sale of recyclables. These amounts are further broken down by Wasteshed as follows:

Wasteshed	Revenue/ Tonnage	2010-11	2011-12	2012-13	2013-14	2014-15
East Valley	Revenue	\$559,715	\$576,887	\$400,980	\$325,505	\$203,594
	Tonnage	43,201	41,579	40,383	40,211	41,076
Harbor	Revenue	\$628,777	\$501,156	\$353,697	\$318,291	\$251,612
	Tonnage	10,050	8,474	8,458	8,520	8,998
North Central	Revenue	\$1,431,552	\$1,433,504	\$957,802	\$864,099	\$970,766
	Tonnage	35,496	33,227	32,410	33,196	35,239
South LA	Revenue	\$87,374	\$148,939	\$150,737	\$152,673	\$167,787
	Tonnage	20,194	20,306	19,737	20,261	23,303
West Valley	Revenue	\$905,370	\$1,442,653	\$1,284,457	\$1,288,960	\$1,099,908
	Tonnage	56,541	54,305	53,375	54,932	55,310
Western LA	Revenue	\$1,779,548	\$1,959,535	\$1,375,950	\$1,288,432	\$1,219,138
	Tonnage	41,517	39,526	40,214	41,023	41,023
Total	Revenue	\$5,392,336	\$6,062,674	\$4,523,623	\$4,237,960	\$3,912,805
	Tonnage	206,999	197,417	194,577	198,143	204,949

Although total tonnage collected has remained relatively constant over the last five years, revenues from the sale of recyclables have significantly declined as a result of weak commodity markets and unstable demand for raw materials.

Scope of Work

Under the terms of the contracts, CR&R will provide the following services:

- Ensure that turnaround times for City vehicles delivering materials to its facilities does not exceed 20 minutes;
- Provide certified weight tickets and ensure that weigh stations are accurate and calibrated;
- Process and market recyclable materials (no guaranteed minimum tonnage is applied);
- Sort recyclable materials into respective commodity streams and prepare for shipment;
- Remove and properly dispose of contaminants and residue at no cost to the City;
- Arrange the sale of recyclable materials, including transportation to end users, processors, ports, or other points of sale;
- Collect and account for revenue from such sales;
- Make payment to the City for materials accepted at the MRFs per established profit sharing formulas;
- Provide well-maintained facilities and equipment, including those of any subcontracted operators;
- Comply with all federal, state, county, and local rules, ordinances, laws, and permit terms applicable to the facilities, services, and operations pertaining to contracted services; and
- Accept recyclable materials from other Wastesheds in emergency situations.

Invoicing and Payment from Sale of Recyclables

CR&R will make monthly payments to the City based on the gross tons of recyclables delivered to its facilities. The rate per ton consists of a fixed Minimum Floor Price (MFP) and a profit sharing formula based on the market rate of commodities, which is adjusted monthly, less the contractors' cost of processing the recyclables (also known as the Processing Unit Cost or PUC). The MFP provides a guaranteed baseline rate in the event that the cost to process the recyclables exceeds the market rate of commodities, which fluctuates monthly.

The monthly payment rate for the proposed East Valley contract is less than the previous contract, but the monthly payment rate for the Harbor contract is higher than the previous contract. A comparison of the fixed costs for both contracts is provided in the table below:

Harbor Wasteshed	Previous Contract	Proposed Contract
Minimum Floor Price (MFP)	\$25/gross ton	\$35/gross ton
Processing Unit Cost (PUC)	\$85/gross ton	\$125/gross ton
Revenue Sharing Percentage	50%	50%
Average Net Revenue	\$28.75/gross ton*	\$35/gross ton at minimum

East Valley Wasteshed	Previous Contract	Proposed Contract
Minimum Floor Price (MFP)	Average of \$10.21/gross ton**	\$8.81/gross ton
Processing Unit Cost (PUC)	\$105/gross ton	\$130/gross ton
Revenue Sharing Percentage	50%	50%
Average Net Revenue	\$10.21/gross ton*	\$8.81/gross ton at minimum

* Represents the two year average prior to contract expiration.

** The previous contract adjusted the MFP based on the contamination rate of materials.

For the proposed Harbor contract, although the PUC is higher than the previous contract, the MFP is higher than the previous contract and it is projected that revenues will increase by a minimum of \$6.25 per gross ton, from \$28.75 to \$35 per gross ton. For the East Valley contract, the PUC is higher than the previous contract and higher than the Harbor contract as a result of the additional costs of utilizing the transfer station facility to transport materials to the Harbor processing facility. In addition, the MFP in the previous contract was reduced based on contamination rates in the recyclables delivered to its facilities. In the proposed contract, the MFP is not reduced based on contamination levels and CR&R pays for the costs to dispose of any contamination. Although the monthly payment amount is lower than the previous contract for the East Valley Wasteshed, CR&R's proposal was more competitive than the second highest scoring bidder. The second highest scoring bidder required the City to pay for transportation and tip fees for the disposal of contamination and proposed higher processing costs, which reduced monthly revenue payments.

The payments due to the City will be processed and validated as follows:

- The contractors will provide certified weight tickets of accepted material delivered from each City collection vehicle to the MRF.
- Weight tickets with any missing information and/or weigh scale malfunction will assume six gross tons of accepted material for use in calculating City payment.

- The contractors will provide weight and commodity reports of all City accepted materials on a monthly basis, which is used as the basis for determining payment.
- The contractors will perform special characterization studies on a quarterly basis to track characteristics of material delivered by the City to: 1) ascertain the composition of the recycling stream (recyclables recovery rate) and to verify contractors' monthly commodity reports; 2) determine the basis of any profit and revenue sharing payments; and 3) evaluate the overall efficiency of the recycling program.
- The contractors will submit an itemized payables statement with a weight ticket summary and other required documentation together with payment to the City as per the scheduled established in each contract.
- The City reserves the right to inspect facilities and financial and operational records and perform audits at any time.

In 2007, the Bureau launched the Ambassador Program (Contamination Reduction Program) to reduce contaminants and non-recyclable materials within consumer blue bins. The program includes public education and community outreach with the goal of reducing contamination levels at MRF deposits to less than 10 percent. The average contamination rate among all the MRFs is currently 29.1 percent. The MRFs have worked closely with the City to reduce contamination rates and CR&R has annually pledged \$1.00 per gross ton (or approximately \$9,000) for the Harbor Wasteshed and \$50,000 for the East Valley Wasteshed to support the Ambassador Program. Therefore, a total of \$59,000 is projected to be deposited into the Solid Waste Resources Revenue Fund for these efforts.

In previous Energy and Environment Committee meetings, the Committee raised questions regarding the City's practice of shipping its recyclable materials overseas and whether the City verified if these recyclables were being processed in an environmentally responsible manner. The previous contracts did not require the MRFs to disclose where its recyclables were being sold or processed, but the RFP for these contracts required potential MRFs to disclose such information. In addition, the Bureau sent a team to China and South Korea in September 2014 to tour numerous processing and recycling facilities. The team verified and reported that all of the recyclables sold to China and South Korea were recycled into another feedstock for manufacturing and nothing was being disposed of into water bodies.

Contract Compliance

On December 28, 2011, the Personnel Department determined that these contracts are exempt from Charter Section 1022 provisions as these are revenue generating contracts and there is no incidental labor component included in these contracts. CR&R has complied with all remaining City contracting requirements and the City Attorney has reviewed and approved the contracts as to form.

RECOMMENDATIONS

That the Council:

1. Authorize the Board of Public Works, on behalf of the Bureau of Sanitation, to execute the proposed Personal Services Contracts with CR&R, Inc. for the processing and marketing of residential recyclable materials from the East Valley and Harbor Wastesheds;
2. Authorize the Bureau of Sanitation to accept receipts from CR&R for the sale of recyclable materials collected from the East Valley and Harbor Wastesheds;
3. Authorize the Controller to deposit receipts from CR&R for the sale of recyclable materials into the Landfill Maintenance Special Fund No. 558/50, Revenue Source Code 442201 or other established Revenue Source Codes within Fund No. 558/50 at the discretion of the Director of the Bureau of Sanitation or appointed designee;
4. Authorize the Director of the Bureau of Sanitation to accept, on behalf of the City, contributions of \$1.00 per gross ton annually (or approximately \$9,000 annually) for the Harbor Wasteshed and \$50,000 annually for the East Valley Wasteshed, over the life of the contract to be used for contamination reduction activities;
5. Authorize the Controller to deposit contributions from CR&R for contamination reduction activities in the Solid Waste Resources Revenue Fund No. 508/50, Revenue Source Code 510100 or other established Revenue Sources Codes within Fund 508/50 at the discretion of the Director of the Bureau of Sanitation or appointed designee; and
6. Authorize the City Administrative Officer to make technical corrections as necessary to implement the Mayor and Council intentions.

FISCAL IMPACT STATEMENT

There is no General Fund impact. The execution of these contracts will generate approximately \$686,510 in annual revenue for the Landfill Maintenance Special Fund to support post-closure costs and \$59,000 in annual revenue for the Solid Waste Resources Revenue Fund to support the Ambassador Program. The expenditure of these revenues is restricted to the eligible uses of these special funds. The recommendations in this report are consistent with the City's Financial Policies in that new revenues will support existing programs prior to funding new programs.

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