

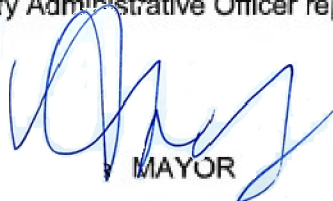
**TRANSMITTAL**

0150-08391-0005

TO The Council	DATE 6/2/17	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT

**Personal Services Contracts with City Fibers, Inc.  
To Process and Market Residential Recyclable Materials  
Collected from the West Valley and North Central Wastesheds**

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



MAYOR

(Ana Guerrero)

RHL:WKP:061701001

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

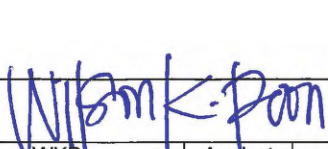
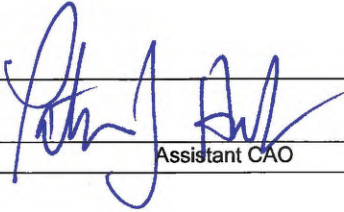

To: The Mayor	Date: 06-01-17	C.D. No. ALL	CAO File No.: 0150-08391-0005
Contracting Department/Bureau: Public Works/Sanitation		Contact: Michael W. Lee, (213) 485-3094	
Reference: Transmittal from the Board of Public Works dated February 24, 2017; referred for report on February 28, 2017.			
Purpose of Contract: To process and market residential recyclable materials collected from the West Valley and North Central Wastesheds.			
Type of Contract: ( X ) New contract ( ) Amendment		Contract Term Dates: Five years, from June 1, 2016 through May 31, 2021.	
Contract/Amendment Amount: \$11,791,250 (\$7,975,000 for West Valley and \$3,816,250 for North Central)			
Proposed amount \$11,791,250 + Prior award(s) \$0 = Total \$11,791,250			
Source of funds: Integrated Solid Waste Management Fund No. 556			
Name of Contractor: City Fibers, Inc.			
Address: 2500 Santa Fe Avenue, Los Angeles, CA 90058			
	Yes	No	N/A*
1. Council has approved the purpose	X		
2. Appropriated funds are available	X		
3. Charter Section 1022 findings completed	X		
4. Proposals have been requested	X		
5. Risk Management review completed	X		
6. Standard Provisions for City Contracts included	X		
7. Workforce that resides in the City: 72%			
8. Contractor has complied with:			
	Yes	No	N/A*
a. Equal Employmt. Oppty./Affirm. Action	X		
b. Good Faith Effort Outreach**	X		
c. Equal Benefits Ordinance	X		
d. Contractor Responsibility Ordinance	X		
e. Slavery Disclosure Ordinance	X		
f. Bidder Certification CEC Form 50	X		
*N/A = not applicable ** Contracts over \$100,000			

**RECOMMENDATION**

That the Council authorize the Board of Public Works, on behalf of the Bureau of Sanitation, to execute Personal Services Contracts with City Fibers, Inc. for the processing and marketing of residential recyclable materials collected from the West Valley and North Central Wastesheds for a term of five years, retroactively effective from June 1, 2016 through May 31, 2021, at a cost not to exceed \$11,791,250 (\$7,975,000 for West Valley and \$3,816,250 for North Central).

**COMMENTS**

In accordance with Executive Directive No. 3, the Board of Public Works, on behalf of the Bureau of Sanitation (Bureau) requests authority to execute Personal Services Contracts with City Fibers, Inc. (City Fibers) to process and market residential recyclable materials collected from the West Valley and North Central Wastesheds. The term of the contracts is five years, retroactively effective from June 1, 2016 through May 31, 2021, and the maximum allowable compensation is \$11.8 million. In accordance with Los Angeles Administrative Code Section 10.5 (a), Council approval is required to execute the proposed contracts as the term of the contracts exceeds three years.

 WVKP Analyst 06170100	 Assistant CAO	 City Administrative Officer
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CAO 661 Rev. 5/2007

**Background**

In 2015-16, the Bureau collected approximately 208,000 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, metal, 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 West Valley and North Central Wastesheds, which are currently serviced by City Fibers under a previous contract that expired on May 31, 2016. For the Harbor and East Valley Wastesheds, Council (C.F. 16-0589) recently approved five-year contracts with CR&R to service those Wastesheds. The contracts for the South Los Angeles and Western Wastesheds, which were previously serviced by CR&R, expired in May 2016 and the Bureau is using the emergency provision in the Harbor Wasteshed contract to continue services to the South Los Angeles and Western Wastesheds until a Request for Proposals (RPF) can be issued for all six Wastesheds. These contracts are essential to meeting State and City mandated waste diversion goals.

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 six proposals for the West Valley and North Central Wastesheds. On May 28, 2015 and December 2, 2015, two proposers withdrew their proposals. Bureau staff reviewed and evaluated the remaining four proposals using the following criteria:

<b>Evaluation Criteria</b>	<b>Maximum Points</b>
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
<b>Total</b>	<b>100</b>

City Fibers received the highest score for both the West Valley and North Central Wastesheds and on February 24, 2017, the Board authorized the Bureau to execute contracts with City Fibers.

Historically, these contracts generate revenue for the City as the revenue from the sale of recyclable materials exceeded the MRF’s costs to process the recyclables. Revenues were deposited into the Landfill Maintenance Special Trust Fund and used to support post-closure maintenance activities of City-owned landfills. However, due to increasing labor costs for the MRFs and declining value of recyclable materials driven by the reduced demand from overseas markets, the MRF’s processing costs have exceeded the revenue from the sale of recyclables. As such, the Bureau negotiated new contracts with the MRFs that include a sliding payment schedule to account for fluctuations in the commodity markets. Therefore, when the value of recyclables are higher than the MRF’s processing costs, the MRFs will remit revenues to the City and when the MRF’s processing costs are higher than the value of recyclables, the City will remit payment to the MRFs.

Over the last five years, the Bureau reports that over one million tons of recyclables have been processed by the MRFs and \$21.4 million in revenues have been collected from the sale of recyclables. These amounts are further broken down by Wasteshed as follows:

<b>Wasteshed</b>	<b>Revenue/ Tonnage</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
East Valley	Revenue	\$576,887	\$400,980	\$325,505	\$203,594	\$254,534
	Tonnage	41,579	40,383	40,211	41,076	48,450
Harbor	Revenue	\$501,156	\$353,697	\$318,291	\$251,612	\$203,584
	Tonnage	8,474	8,458	8,520	8,998	9,881
North Central	Revenue	\$1,433,504	\$957,802	\$864,099	\$970,766	\$332,962
	Tonnage	33,227	32,410	33,196	35,239	34,712
South LA	Revenue	\$148,939	\$150,737	\$152,673	\$167,787	\$142,305
	Tonnage	20,306	19,737	20,261	23,303	21,620
West Valley	Revenue	\$1,442,653	\$1,284,457	\$1,288,960	\$1,099,908	\$661,922
	Tonnage	54,305	53,375	54,932	55,310	51,830
Western LA	Revenue	\$1,959,535	\$1,375,950	\$1,288,432	\$1,219,138	\$1,081,715
	Tonnage	39,526	40,214	41,023	41,023	41,054
<b>Total</b>	<b>Revenue</b>	<b>\$6,062,674</b>	<b>\$4,523,623</b>	<b>\$4,237,960</b>	<b>\$3,912,805</b>	<b>\$2,677,022</b>
	<b>Tonnage</b>	<b>197,417</b>	<b>194,577</b>	<b>198,143</b>	<b>204,949</b>	<b>207,547</b>

Although total tonnage collected has increased 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. As the table illustrates, the West Valley and North Central Wastesheds experienced the most significant revenue reductions.

### Scope of Work

Under the terms of the contracts, City Fibers will provide the following services:

- Accept residential recyclable materials from City vehicles (no guaranteed minimum tonnage);
- Sort recyclables into respective commodity streams and prepare materials for shipment;
- Market recyclables and arrange the sale of recyclable materials, including transportation to end users, processors, ports, or other points of sale;
- Ensure that turnaround times for City vehicles delivering materials to its facilities do not exceed 20 minutes;
- Provide certified weight tickets and ensure that weigh stations are accurate and calibrated;
- Remove and properly dispose of contaminants;
- Comply with health and safety requirements required by the Occupational Safety and Health Administration (OSHA) as it relates to providing a safe work environment;
- Conduct quarterly waste characterization studies to determine the breakdown percentage of each recyclable commodity in the recycling stream;
- 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**

City Fibers will make monthly payments to the City or receive monthly payments from the City based on the gross tons of recyclables delivered to its facilities multiplied by the Minimum Floor Values (MFV) that correspond to the following average market price for fibers (newspaper, mixed paper, and cardboard):

<b>Average Market Price of Fibers (\$/ton)</b>	<b>West Valley Wasteshed MFV (\$/gross ton)</b>	<b>North Central Wasteshed MFV (\$/gross ton)</b>
< \$49.99	(\$49.00)	(\$39.00)
\$50.00 – \$69.99	(\$39.00)	(\$29.00)
\$70.00 – \$89.99	(\$29.00)	(\$21.50)
\$90.00 – \$109.99	(\$19.00)	(\$14.00)
\$110.00 – \$119.99	(\$9.00)	\$ --
\$120.00 – \$129.99	\$ --	\$11.00
\$130.00 – \$149.99	\$16.00	\$21.00
\$150.00 >	\$26.00	\$31.00

The MFV represents the revenues from the sale of recyclables minus City Fiber’s costs to process and market the recyclables. Revenues are calculated based on variable market prices of fibers, fixed market prices for non-fiber materials (such as glass, metal, and plastics), and fixed California Redemption Value (CRV) for eligible beverage containers. Since fibers make up half of the total recyclables waste stream and declining market prices have significantly impacted profit margins for the MRFs, the proposed contracts include a sliding payment scale based on the average market price of fibers to compensate for market fluctuations. City Fiber’s costs to process and market recyclables is fixed at \$119 per ton.

The different rates for the West Valley and North Central Wasteshed contracts are attributed to different costs for City Fiber to haul contaminated materials. For the West Valley Wasteshed, contaminated materials are hauled to the Sunshine Canyon Landfill, which is approximately 10 miles from City Fiber’s processing facility whereas for the North Central Wasteshed, contaminated materials are hauled to the City’s Central Los Angeles Recycling and Transfer Station (CLARTS), which is less than one mile from City Fiber’s processing facility. A credit was applied to the North Central rates to reflect these savings in hauling costs.

The cost ceiling was calculated based on an average market price of fibers of \$77.60 (or \$29.00 per gross ton for West Valley and \$21.50 per gross ton for North Central), which was the average market price of fibers in April 2016 when the contracts were negotiated. In addition, the cost ceiling was based on 55,000 and 35,500 annual tons of recyclables for the West Valley and North Central Wastesheds, respectively. The costs to haul and dispose of contaminated materials is not included in the cost ceiling. As City Fibers will be using the Bureau’s account when delivering contaminated materials to Sunshine Canyon Landfill or CLARTS, the costs to dispose of contaminated materials will be incurred by the Bureau. Annual disposal costs are estimated at \$865,810 (\$467,500 for West Valley and \$398,310 for North Central). City Fibers has agreed to pay 10 percent of the disposal cost for contamination when the average market price of fibers is above the \$120 per ton for West Valley and \$110 per ton for North Central. It should also be noted that since the contracts were negotiated in April 2016, the average market price of fibers has steadily increased to \$106 as of April 2017.



In 2007, the Bureau launched the Ambassador Program (Contamination Reduction Program) to reduce contaminants and non-recyclable materials within the blue bins. The program includes public education and community outreach with the goal of reducing contamination levels below 10 percent. The average contamination rate among all the MRFs is currently 30 percent. In previous contracts, the MRFs pledged annual contributions to support the Ambassador Program. However, in these new contracts, City Fibers will not be making an annual contribution to the Ambassador Program, but will assist the City in supporting educational program activities.

The term of the contracts is retroactive to June 1, 2016 because, at the request of the Bureau, City Fibers has continued to provide services after the expiration of the previous contracts. Execution of the proposed contracts would ratify the services that have been provided to date.

### **Source of Funds**

In the event that the MFV is greater than \$0 and the City is required to compensate City Fibers for the cost of processing its recyclables, funding is provided from the Integrated Solid Waste Management (ISWM) Fund No. 556. The ISWM is an off-budget fund and expenditures from the ISWM are not allocated through the City's annual budget process, which is subject to Mayor and Council approval. Instead, expenditures from the ISWM are authorized by the President of the Board of Public Works. The ISWM receives revenues from the franchise fee derived from the Sunshine Canyon Landfill and funds are used to support programs and activities that reduce landfill disposal. As of May 2017, there is a \$31 million cash balance in the Fund and sufficient funds are available to support the first year costs of the contracts. Future year funding for these contracts will be subject to the approval of the President of the Board of Public Works.

### **Contract Compliance**

In July 2016, the Personnel Department determined that City employees do not have the expertise to perform the work that is proposed to be contracted. City Fibers has complied with all remaining City contracting requirements.

### **FISCAL IMPACT STATEMENT**

There is no fiscal impact to the General Fund as sufficient funds are available within the Integrated Solid Waste Management Fund to support the first year costs of these contracts. Future year funding will be subject to the availability of funds and will be programmed through the City's annual budget process. The contracts include a Financial Liability Clause which limits the City's annual financial obligation to the amount approved in the budget. Therefore, the recommendation in this report complies with the City's Financial Policies as ongoing revenues will support ongoing expenditures.

*RHL:WKP:06170100*

