

City Council – Action Request Form

Date: January 10, 2022

To: Mayor, Mayor Pro Tempore, and Members of the City Council

From: Johnnie Taylor, Assistant City Manager
Helen Peplowski, Office of Sustainability Director

Council Action Requested:
Resolution Authorizing Approval To Enter Into A Contract With Waste Management of Carolinas, Inc. For Recycling Services

Strategic Focus Area: Healthy Environment
Strategic Objective: Develop Comprehensive Solid Waste Management Strategies
Strategic Plan Action Item: Yes
Key Work Item: Yes



Summary of Information:
 In June 2021, the Office of Sustainability released an RFP for city recycling program service for a five-year period beginning April 1, 2022. Two proposals were submitted in response and after evaluation, the proposal from Waste Management of Carolinas, Inc. (Waste Management), our city’s current contractor, was identified as being the strongest over Republic Services. Table 4 presents the main cost points included in each proposal.

Staff negotiated additional changes to the initial proposal, after which Waste Management adjusted their offering to include two separate contracts. One contract is for hauling where the city can choose to opt out after the first year to collect recycling in-house, and a separate one for processing for the full 5-year term.

Tables 1 and 2 below provide information on the increased costs of the recycling program under a new contract with Waste Management and the potential use of a fee to offset recycling program costs. The FY 2021/22 total budget (net of revenues) for the recycling program is \$1,935,380.

Committee Action:

Committee	Finance 1/10/22	Action	Approval
For	Unanimous	Against	
Remarks:			

Under the new contract with Waste Management, the annual net budget is estimated to be \$3,888,732, which is an increase of \$1,935,352 (+101%). The table below shows estimated revenues and expenditures under the current contract and the new contract.

Table 1

	<u>Current Program Budget¹</u>	<u>New Program Budget²</u>	<u>Difference</u>
Expenses	\$2,034,860	\$4,816,515	\$2,781,655
Revenues	99,480	927,783	828,303
Net Cost	\$1,935,380	\$3,888,732	\$1,953,352

¹Based on FY 22 budget

²Based on RFP response from Waste Management and FY 22 budget

The City currently collects recycling from an estimated 78,657 collection points. If the City were to implement a fee to cover the full cost of recycling to all 78,657 participants, that fee is estimated to be \$4.12 per month per user, or \$49.44 annually. The estimated fee per user to cover the incremental cost increase of the program under the new contract is \$2.07 per month, or \$24.83 annually. These costs could increase during FY 2022/23 budget discussions based on inflation in labor, equipment, and contract costs.

Table 2

<u>Potential Recycling Fee Comparisons</u>		
	<u>Annual</u>	<u>Monthly</u>
Fee to Cover New Cost Increment	\$24.83	\$2.07
Fee to Cover Full Recycling Program	\$49.44	\$4.12

The estimated \$1,953,352 increase to the recycling budget is the equivalent of 0.79 cents on the tax rate based on the FY 2021/22 property tax base. The tax rate equivalent for the entire recycling program under the new contract would be 1.57 cents. Stated differently, the \$24.83 annual fee per user shown above would generate the same amount of revenue as 0.79 cents on the tax rate, which both provide the additional \$1.95 million dollars in new costs for the program. Charging the full program recovery fee of \$49.44 annually would have the effect of a potential property tax rate offset of 0.78 cents.

Table 3

<u>Tax Rate Equivalency</u>		
	<u>Annual Amount</u>	<u>Tax Rate Equivalent</u>
Amount to Cover New Cost Increment	\$1,953,352	0.79 cents
Amount to Cover Full Recycling Program	\$3,888,732	1.57 cents

If the Mayor and City Council provide approval for transition to in-house collection during the second year of the contract term, the City would need to purchase 12 new recycling trucks at a cost of \$335,000 per vehicle, or a total of \$4,020,000, which would be financed through the City's internal equipment financing yielding an annual estimate lease payment of \$828,280. The first lease payment would be made in FY 2022/23 and would be included in the general fund operating budget for that year.

Table 4

	WASTE MANAGEMENT PROPOSAL	REPUBLIC SERVICES PROPOSAL
Cost per unit (carts)	\$2.70	\$6.00
Cost per unit (all other)	\$3.25	\$8.00
Fees	\$120/ton for processing; \$150/ton for contamination over 15% in year 1 and decreases each year	None specified
Rebate/Revenue Share	80% of blended value less processing and contamination*	60% revenue share of commodity value as long as that value is >\$40/ton
TOTAL ANNUAL ESTIMATED COST	\$4,187,000	\$5,100,000

*Example of rebate calculation proposed by Waste Management:

Commodity	Composition Audit %	June 2021 Commodity Value	Blended Value Contribution \$/Ton
OCC (11)	16.80%	\$141.05	\$ 23.70
MIXED PAPER (54)	36.30%	\$60.00	\$ 21.78
UBC (Aluminum Cans)	1.80%	\$1,503.35	\$ 27.06
STEEL CANS	1.40%	\$303.57	\$ 4.25
PET	4.60%	\$460.00	\$ 21.16
NHDPE	1.70%	\$2,086.84	\$ 35.48
CHDPE	1.90%	\$1,106.23	\$ 21.02
GLASS - Three Mix	7.70%	(\$22.49)	\$ (1.73)
Residue (Non Recyclables)	27.80%	(\$66.00)	\$ (18.35)
	100.00%	Blended Value	\$ 134.36

80% Customer Share of Blended Value	\$ 107.49
Processing Per Ton	\$120.00
Blended Value less Processing	\$ (12.51)
Excess Contamination over 15% - charged at \$84.00	\$ (10.75)
Net Customer (Fee) or Rebate/ton	\$ (23.26)