



Date: June 5, 2023

To: Wanda S. Page, City Manager
Through: Bertha T. Johnson, Deputy City Manager
From: Wayne Fenton, Acting Director, Solid Waste Management Department
Subject: Contract with WM Recycle America, L.L.C. for Recycling Processing and Marketing of Recyclable Materials

Executive Summary

The Department of Solid Waste Management (SWM) issued a Request for Proposals (RFP) to solicit one or more firms to process and market recyclable materials collected via the City's single stream recycling program. WM Recycle America, L.L.C. in Morrisville, NC (WM Recycle) received the highest scores from the RFP review panel.

SWM recommends the City enter into the contract with WM Recycle. The initial term is three years, with three one-year options to renew. Sonoco Recycling, LLC in Raleigh (Sonoco) is currently providing this service for the City, and that contract expires June 30, 2023.

Motion

To authorize the City Manager to execute the Contract Between the City of Durham and WM Recycle America, L.L.C. for Processing and Marketing Recyclable Materials for an amount not to exceed \$4,500,000.

Background

The City operates a single stream recycling program, which means recyclable materials can be commingled and do not have to be sorted by consumers or collections staff. Residents of Durham in single family homes are provided with at least one cart and curbside collection of recyclables every other week. Residential recyclables may also be delivered to the Waste Disposal and Recycling Center (WDRC) located at 2115 E. Club Boulevard in Durham for free. The City charges commercial entities recycling fees so that the City recoups costs associated with handling that recycling. The City's transfer station contractor subcontracts with a hauler, so all recyclables are loaded into transfer trailers and hauled to a Materials Recovery Facility (MRF) where they are unloaded, sorted, baled, and sold to markets as raw materials for recycling into products. The City delivers approximately 18,000 tons of recycling per year to the MRF for processing.

The Chinese National Sword policy changed the recycling industry in July 2017. The Chinese government significantly limited what it was willing to import. Until then, between one-third and one-half of old corrugated cardboard and mixed paper, respectively, were traditionally exported out of the United States, much of it going to China. China no longer accepts these materials, which significantly disrupted global markets for them. These two materials make up a significant portion of the recycling stream, and recycling processors responded to this market disruption by changing their financial models.

The processors' old models enabled the processors to fully recover their costs and to realize revenue through the sale of commodities like corrugated cardboard and mixed paper. With markets not supporting those models anymore, processors across the country changed the cost structure to recover processing costs fully from customers and to provide some credit for the market value of commodities. A new emphasis was placed on contamination levels as well. China had been tolerant of high levels of contaminants found in the commodities, but local markets are much less so. Disposal costs for contaminants were now also being passed on from processors to customers, giving customers much more incentive to limit contamination.

The City's current processor, Sonoco, entered into the original contract with the City July 1, 2013. Since its inception, the original contract has been amended twice, once in July 2018 and again in July 2020. The Second Amendment allows SWM to extend the contract for up to an additional two years, but because there is a new MRF in the region that opened in early 2021, SWM decided instead to issue an RFP.

SWM is a member of the Triangle Regional Solid Waste Consortium (TRSWC), which is coordinated by the Triangle J Council of Governments. The focus of this group during the past two years has been to coordinate on waste related issues, especially recycling. TRSWC explored the possibility of a joint recycling processing RFP to better leverage negotiating options with processors, but in early 2023 it became apparent that this would not be possible before the City's current contract with Sonoco expires in June 2023. The City of Raleigh faced the same time constraint and also issued an RFP at that point. TRSWC will continue to coordinate efforts and look for ways to continue to cooperate to get better outcomes with recycling and other waste related issues.

The City's RFP was issued January 23, 2023 and closed March 1, 2023. A pre-bid conference was held at SWM's administration building February 1, 2023. After the pre-bid conference, SWM issued three addenda to the RFP in response to questions posed by prospective bidders. SWM received three proposals. All three proposals were deemed responsive by the Underutilized Business Compliance Office within the Finance department. Panelists from SWM, Finance, and Transportation reviewed and scored the three proposals. Prior to the submission of scores, the panelists participated in interviews with the three respondents March 20, 2023 and March 21, 2023. Scores were submitted, and a summary was submitted to Purchasing March 24, 2023 with the results.

Issues and Analysis

After recyclables are delivered to the City's transfer station, several additional steps occur. The City's transfer station contractor has the recyclables loaded into trailers and hauled to the MRF. There are per-ton fees associated with loading and hauling those recyclables, and the longer the distance they are hauled, the higher the hauling costs become. These costs are compounded when fuel prices are high because there are then fuel surcharges added to the hauling rate. The MRF in Morrisville is currently the closest MRF to the City's transfer station, so those costs are minimized as much as possible. The City also has several collection routes near Morrisville, and City collection vehicles will be able to deliver some loads directly to the MRF, creating more efficient use of time and saving loading and hauling costs.

The City's most recent waste characterization study, which examined waste streams to determine the percentages of specific contents, was performed in late 2015. WM Recycle will be able to perform audits on the City's materials being delivered, providing the City with updated information on the contents of the recycling stream. These audits can be focused on particular routes to look for opportunities to educate specific areas on proper recycling and about keeping

contaminants out of the recycling stream. This data will allow for more effective education outreach efforts.

WM Recycle’s MRF is relatively new (2021) and has new equipment capable of more effectively capturing and sorting various recyclables. For example, many processors combine all mixed paper into one commodity. WM Recycle is able to separate higher grades of paper from some lower grades and consequently market it for higher rates. Maximizing the value of commodities is beneficial to the City because the pricing structure is based on the actual sales of those commodities.

The cost / revenue model for the proposed contract uses the same methodology most processors use today. The flat processing fee is \$103.50 per ton of recyclables. That is partially or completely offset by the per-ton weighted average value of the mix of recyclable commodities. For this proposed contract, the City gets credit for 80% of that weighted average value. For example, if the weighted average value for a month is \$100.00, the City would get an \$80.00 credit off of the processing fee, making the net cost to the City \$23.50 per ton. If the weighted average value for a month is \$200.00, the City would get a credit for \$160.00, and WM Recycle would pay the City \$56.50 per ton for that month. There are other factors in costs and revenues, but this is the primary driver of the model each month.

The initial assumption for the mix of commodities in the recycling stream was derived from the 2015 Waste Characterization Study. This mix will be refined and could change significantly as actual audits are performed by WM Recycle of the City’s delivered materials. This will be the initial mix used in the cost / revenue model:

Composition Percentage	Commodity
20.60%	# 11 OCC
37.00%	Mixed Paper
6.20%	PET
2.10%	HDPE Pigment
1.80%	HDPE Natural
0.60%	PP#5
12.20%	Glass
2.50%	Steel
2.10%	UBC
14.90%	Residue
100.00%	

Alternatives

The City could renew the current contract with Sonoco. This would result in higher costs for the City and a smaller revenue share percentage.

Financial Impact

The funds needed for the proposed contract is budgeted in the Solid Waste Fund in 5400MM31-728600. Based on estimated tonnage, commodity values, contamination rates, and CPI adjustments over the next 3 years, the payments for this proposed contract are not expected to exceed \$4,500,000. The market values of commodities have been very volatile. Actual costs could be lower, and some periods may actually result in revenues to the City instead of costs.

Equal Business Opportunity Summary

The Underutilized Business Compliance Division reviewed the proposal submitted by WM Recycle America of Morrisville, NC and have determined that they are in compliance with the Equal Business Opportunity Program Ordinance.

UBE REQUIREMENTS:

This is a project in which there were no subcontracting opportunities identified by the department. In the absence of subcontracting opportunities and the inability to identify UBE firms who might provide the services, there were no **MUBE** or **WUBE** goals set.

Contractor Workforce Diversity & Hiring Practices

According to the contractor’s responses to the “Contractor Workforce Diversity Questionnaire,” the contractor is a small employer (less than 50 employees) consisting of a mix of 30 professional/skilled and unskilled workers. The contractor believes it has a diverse workforce because more than 70% of their workforce at the Morrisville MRF are minorities. The contractor did list many examples of efforts it makes to have a more diverse workforce.

The breakdown of local employees is as follows:

Employment Category	Total Employees	Total Males	Total Females	Males					Females					
				White	Black	Hispanic	Asian or Pacific Islander	Indian or Alaskan Native	White	Black	Hispanic	Asian or Pacific Islander	Indian or Alaskan Native	
Project Manager	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Professional	5	4	1	2	1	1	0	0	0	0	0	0	1	0
Labor	24	21	3	4	15	2	0	0	0	2	1	0	0	0
Clerical	1	1	0	0	1	0	0	0	0	0	0	0	0	0
Total	30	26	4	6	17	3	0	0	0	2	1	1	0	0

The breakdown of corporate employees is as follows:

Employment Category	Total Employees	Total Males	Total Females	Males						Females					
				White	Black	Hispanic	Asian or Pacific Islander	Indian or Alaskan Native	Two or More Races	White	Black	Hispanic	Asian or Pacific Islander	Indian or Alaskan Native	Two or More Races
Project Manager	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Professional	9093	5909	3184	4478	459	692	217	15	48	2066	440	480	141	15	42
Labor	31124	29490	1634	14684	6486	7436	424	209	251	552	564	424	44	19	31
Clerical	5071	1239	3832	650	220	322	23	7	17	2075	842	766	66	27	56
Total	45288	36638	8650	19812	7165	8450	664	231	316	4693	1846	1670	251	61	129

Attachments

Contract Between the City of Durham and WM Recycle America, L.L.C. for Processing and Marketing Recyclable Materials