

Memorandum



CITY OF DALLAS

DATE February 20, 2019

TO Honorable Members of the Quality of Life, Arts & Culture Committee: Sandy Greyson (Chair), Mark Clayton (Vice Chair), Rickey D. Callahan, Jennifer S. Gates, Scott Griggs, B. Adam McGough, Omar Narvaez

SUBJECT **Proposed Supplemental Agreement #1 – FCC Recycle Processing Services Contract**

At the February 25, 2019, Quality of Life, Arts and Culture Committee meeting, staff will request the Committee's support for a supplemental agreement to an existing vendor contract for the processing of single-stream recycling material. Based on recycling commodity market declines over the last 14 months, staff believes this contract amendment to temporarily adjust host fees on non-guaranteed/non-City material, is mutually beneficial to the City and vendor and supports the long-term success of this public-private partnership. This amendment will improve the vendor's ability to maintain and obtain contracts for non-City recycling materials and more fully utilize the recycling facility's processing capacity to help offset overall facility operating costs. In consideration for temporary host fee adjustments, the vendor has agreed to extend our current favorable contract term by 3 additional years. This amendment will not impact our residential recycling services or negatively impact the baseline revenue assumptions of the original contract, as non-guaranteed tons were not considered.

Background

On September 9, 2015, the City Council approved a 15-year contract with Fomento de Construcciones y Contratas, S.A. (FCC) to design, construct, operate and manage a new \$20M+ state of the art recycling facility at the City's McCommas Bluff Landfill. The contract also allows for conditional contract extension options from 1 to 10 years (if both parties agree). The new facility officially began operations on January 2, 2017. The City benefits from this contract because FCC processes the recyclable materials collected by the Sanitation Services Department with revenue sharing and at no cost to the City if processing costs exceed the revenue share.

Since beginning operations, the recycling commodity markets have changed considerably. The largest importer of recycling commodities in the world, China, has established tariffs on the import of recyclables, has begun banning certain recyclable imports, and is placing tougher restrictions on importing recyclables that exceed strict contamination limits. These restrictions have created an excess of available material and have caused commodity prices to tumble across the U.S. Additionally, processing costs have increased to meet new export standards. Mixed paper values have dropped by over 90% since the beginning of this contract and cardboard (OCC) has dropped 50% from its highs. These two materials alone make up over half of the City's residential stream.

Recycling commodity markets have declined in the past, but current conditions are projected to remain low for an extended period. FCC and other market analysts believe that new global markets and U.S. markets will be able to replace much of the demand for recycling commodities previously filled by China, but it could take several years for this to occur. To remain competitive during this adjustment period and stem ongoing financial losses, FCC has asked the City to

DATE February 20, 2019
SUBJECT Proposed Supplemental Agreement #1 – FCC Recycle Processing Services Contract

consider temporarily amending their contract related to a portion of the host fees paid to the City for non-City tons processed at the facility. FCC currently pays the City a \$15 per ton host fee on all non-City recycling processed at the facility and FCC guarantees specific annual quantities.

FCC has requested the City approve a temporary host fee adjustment period of three years, with two 1-year renewal options, if market conditions remained depressed. They have requested a variable, market-based host fee that would only be applied to non-City tons above contractually guaranteed tons. FCC believes that without this amendment, they may not be able to remain competitive and continue several short-term contracts that provide host fee revenues to the City above the guaranteed tons.

FCC has also requested a modified host fee that would be applied to clean pre-segregated material processed at the MRF (e.g., clean OCC that is baled and sold). Due to the current host fee requirements, FCC has not been able to pursue this market segment which could aid in offsetting facility operating costs and provide additional non-City tons above guaranteed volumes. Attached to this memo is a summary of key contract terms and proposed contract amendment changes.

In consideration for the temporary host fee adjustments, FCC has agreed to extend the current 15-year contract term for an additional three years (18 years total) without additional conditions. They also agreed to guaranteed host fee tons of 28,000 annually during the extended period. The guaranteed tons provide an additional host fee value of approximately \$1.3M to the City.

The City's contract with FCC is likely one of the most favorable recycle processing contracts to have been awarded nationwide over the last five years and certainly one of the best, if not the best, in Texas. Under current market conditions, it is estimated that all major Texas cities are currently paying for recycle processing services. Dallas' contract, with this requested amendment, remains revenue positive. Since the long-term success of this partnership is in the best interest of the City and FCC, staff requests committee support for approval of this supplemental agreement.

If you have any question, please contact Kelly High, Director of Sanitation, at 214-670-4485.



Joey Zapata
Assistant City Manager

Attachment

c: T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Carol A. Smith, City Auditor (Interim)
Billierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
M. Elizabeth Reich, Chief Financial Officer
Laila Alequresh, Chief Innovation Officer
Directors and Assistant Directors

**Proposed Supplemental Agreement #1 – FCC Recycle Processing Services Contract
(Attachment – Key Contract Terms)**

Proposed supplemental agreement #1 – proposed changes in bold

- Material Recovery Facility Background
 - FCC Recycle Processing Services Contract Approved on September 9, 2015
 - FCC to design, build, operate and manage a new material recovery facility at the City’s McCommas Bluff landfill
 - Land at McCommas Bluff Landfill made available for the facility
 - FCC invested over \$20M in building the new facility
 - The term for the operation and management of the facility commenced on January 1, 2017 for a 15-year term (to 2032) with options to renew at mutually agreed upon terms for up to an additional 10 years.

- Host Fee on Non-City Tons (**proposed amendments**)
 - FCC pays a \$15 per ton host fee on all non-City tons processed at the facility
 - Subject to annual CPI increases
 - Year 1 guarantee of 5,000 tons
 - Year 2 guarantee of 10,000 tons
 - Year 3 guarantee of 15,000 tons
 - Year 4 - 15 guarantee of 28,000 tons per year

 - **For a period of three years, beginning this contract year (year 3), any mixed recycling tons above the guaranteed host fee tons, will be paid based on monthly recycling commodity market conditions.**
 - **This amendment would allow for two additional 1-year extensions based upon market conditions at the end of the 3-year period**
 - **City Manager’s approval required for annual extensions of the reduced rates**

 - **Variable host fee rates established based on monthly blended values**
 - **Host fee would range from \$3.00 - \$17.50 per ton**

Monthly Blended Value for such month (based on average monthly actual sales price)	Applicable Host Fee for such month (Per Ton)
\$110.00 or more	\$17.50
\$105.00 - \$109.99	\$15.00
\$100.00 - \$104.99	\$12.50
\$95.00 - \$99.99	\$10.00
\$90.00 - \$94.99	\$7.50
\$85.00 - \$89.99	\$5.00
\$80.00 - \$84.99	\$4.00
Below \$80.00	\$3.00

- **For a period of 3 years, beginning this contract year (year 3) any clean pre-segregated material could be processed at the facility with a host fee of \$2.50 per ton. Clean pre-segregated material (e.g., clean warehouse cardboard) is minimally process, essentially baled and sold by FCC.**
 - **This amendment would allow for annual renewals for processing of this new commodity for the term of the contract**
 - **City Manager’s approval required for annual renewal**

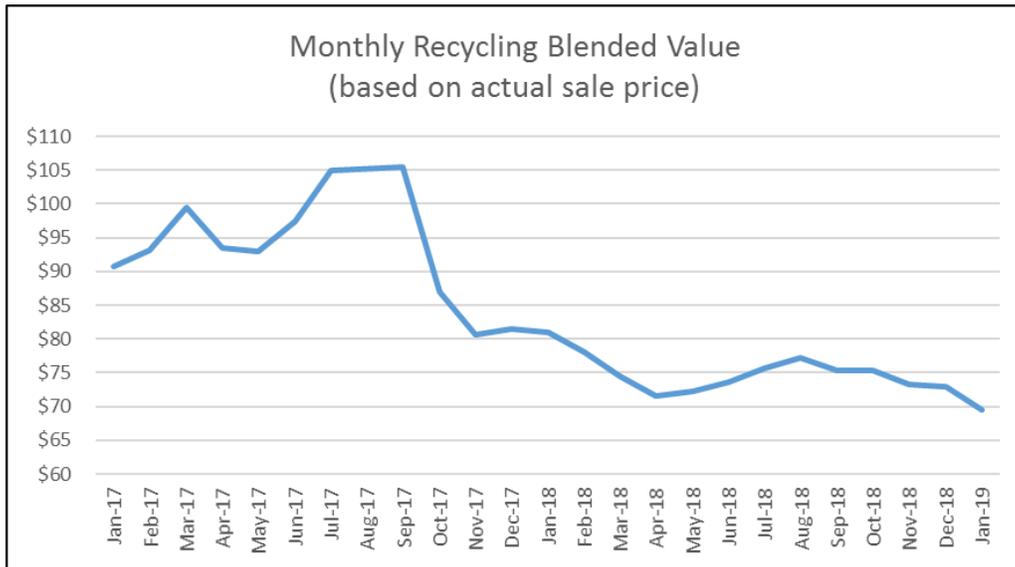
**Proposed Supplemental Agreement #1 – FCC Recycle Processing Services Contract
(Attachment – Key Contract Terms)**

Proposed supplemental agreement #1 – proposed changes in bold

- Contract Term (***proposed amendments***)
 - 15-year primary contract term, with concurrent ground lease
 - Extension options from 1 - 10 years. No more than 10 years total
 - At the termination of the contract, the building ownership transfers to the City. Equipment ownership is maintained by FCC
 - Estimated \$22.8M in revenue over the 15-year contract term
 - Based on revenue share to City, education contribution and guaranteed host fee revenues (non-guaranteed host fee tons not included)
 - ***3-year extension of primary contract term with no changes in base contract***
 - ***FCC has agreed to guarantee 28,000 tons of non-City tons for each year of the 3-year contract extension***
 - ***Estimated additional revenue - \$1.3M***
 - ***For any extension options related to processing mixed recyclables, in addition to the proposed three years, the primary contract term will be extended by an equal amount with continued guaranteed annual tons and no other base contract changes***
- Processing cost and Revenue Share (*no proposed changes*)
 - \$70.84 per ton processing fee (subject to annual CPI increases)
 - 50/50 revenue share on sale of commodities
 - If processing costs exceeds revenue share, the City does not pay
- Public Education Contribution (*no proposed changes*)
 - FCC pays \$1 per household per year (based on 250k homes) to be used for the City's outreach and education efforts

Proposed Supplemental Agreement #1 – FCC Recycle Processing Services Contract (Attachment – Key Contract Terms)

Changes in blended value since January 2017



Fiber market changes since January 2017

