



County of Fresno

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Legislation Text

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DATE: September 25, 2018

TO: Board of Supervisors

SUBMITTED BY: Steven E. White, Director
Department of Public Works and Planning

SUBJECT: Present Findings on Impacts of Recycling Market Conditions

RECOMMENDED ACTION(S):

- 1. Receive presentation regarding the impacts of recycling market conditions, based on data provided by four of the nine Exclusive Service Area Program Haulers; and delay further action for approximately one year.**
- 2. Direct Department of Public Works and Planning staff to continue monitoring recycling market conditions and return to your Board periodically with additional information for consideration.**

On June 5, 2018, your Board directed Department of Public Works and Planning staff to assess the impacts of recycling market conditions on the Exclusive Service Area Program (ESAP) haulers (Haulers) in response to a request from the Haulers to address increased recycling processing costs. Only four of the nine Haulers submitted the requested data for this report, and of the remaining five Haulers - three declined to provide the data for the analysis, and two submitted data that was inapplicable or incomplete. Therefore, the report is partial and does not provide a full picture of the impacts of recycling market conditions to the local Haulers. To determine the full impact, the nine haulers must provide the data requested. Abbe and Associates, the County's consultant (Consultant) has analyzed the information provided and prepared the report included as Attachment 1. This item is countywide.

ALTERNATIVE ACTION(S):

Alternatives to Recommended Action. Your Board may choose to consider and elect to implement one of the following:

1. Determine that the finding, as summarized in the Consultant's report, would qualify as an Unforeseen Rate Adjustment circumstance, as defined by the applicable provisions of the Amended and Successor Exclusive Service Area Program Agreement.
2. Direct Department staff to negotiate a limited amendment to the agreements to add only a recycling surcharge and rebate provision, and return to your Board for consideration and approval of that amendment and amended rate tables that reflect that portion of costs associated with moving recycling materials to market that is proposed for Board approval.

FISCAL IMPACT:

There is no Net County Cost associated with the recommended actions. Costs for ongoing administration of the ESAP are funded by Assembly Bill 939 - The Integrated Waste Management Act (AB 939) service fees remitted to the County by the nine Haulers. Sufficient appropriations and estimated revenues are included in

the Department of Public Works and Planning- Resources Division, Org 9015, FY 2018-19 Adopted Budget.

DISCUSSION:

During July 2017, China announced a policy called National Sword, which limits the import of contaminated recyclable commodities and increases inspections of recyclable commodity imports. In March 2018, China began the Blue Sky 2018 enforcement campaign to prevent the import of materials outlined in their country's recycling ban. The banned materials include unsorted mixed paper, low-grade plastics, slag, residue from smelted steel and iron, as well as a variety of metal and electrical appliance scraps. In May 2018, China ceased to accept recycled product from the United States. On June 4, 2018, California Department of Resources Recycling and Recovery (CalRecycle) sponsored a Recycling Workshop to share information regarding changes in international recycling markets, receive testimony as to how those changes are affecting recycling efforts in California, and discuss potential long-term solutions. On the same day, Department staff scheduled a meeting with the Haulers to participate in the workshop and allow the Haulers to address and discuss the impact of China's policy on the County's ESAP. During the meeting, Haulers made an unofficial request that the County implement a surcharge on collection of recyclable materials to address the significant changes in market conditions that have occurred over the past year.

At the June 5, 2018, Board meeting, the Haulers updated the Board regarding China's National Sword Policy and the impact on local recycling efforts. The Board directed Department staff to collect and analyze information provided by the Haulers, and to present a report on the findings. Staff then requested that the Consultant analyze the data submitted and prepare the summary of findings, included as Attachment 1.

On June 12, 2018, Department staff requested data from all the Haulers on market prices for all recyclable materials collected in the Fresno Unincorporated Area for calendar year 2017 and for January through May 2018. On or before June 29, 2018, the Consultant and Department staff received the data requested from four of the nine Haulers: Allied Waste Services (Republic Services), Mid Valley Disposal, Miramonte Sanitation, and Waste Management. The remaining five Haulers did not provide the data requested: Tule Trash Company and Pena Disposal submitted information that was not relevant to the analysis and Industrial Waste and Salvage (IWS), Granite Disposal, and Western Waste declined to provide any data.

While the agreements with the Haulers do not identify actual costs for the services provided, the agreements do stipulate that the Haulers are entitled to all revenues from the sale of recyclable materials. The Consultant's report states that, in contracts where recycling revenues are not shared with the jurisdiction, haulers generally do not rely on recycling revenues to cover their costs, and the net recycling revenue they collect is simply treated as additional profit. In the past, haulers have not needed to budget the cost to move recyclable materials to markets, but that approach must be altered under the current landscape. The situation is exacerbated by increased costs imposed on haulers by processors of recyclables, who have been forced to purchase additional sorting equipment and hire more workers to clean up the materials to meet the new market specifications.

To provide a common basis of comparison, the Consultant utilized the information provided by the four responsive Haulers to calculate the percent of reported ESAP recycling revenues compared to the total ESAP revenues. Total ESAP revenues in 2017 were calculated to be \$20.9 million based on the 1% franchise fees those Haulers paid to Fresno County. Total recycling revenues for 2017 from both residential and commercial accounts, for those who reported data to the County for this analysis, were \$77,836. The percentage of reported recycling revenues to total gross revenues, based on those figures, is 0.4%.

The Consultant's analysis determined that the average market price for all residential recyclable materials in Fresno County reported during the first five months of 2017 was \$8.72 per ton. However, for the first five months of 2018 it was a negative cost of \$16.69 per ton, (i.e., those four Haulers have to pay approximately this amount to get the recyclable materials to market), which constitutes an overall reduction of \$25.42 per ton.

During the first five months of 2017, the average price for commercial recyclable materials was \$8.76 per ton, and for the first five months of 2018, it was a negative cost of \$4.20 per ton, for an overall reduction of \$12.96 per ton. The total potential impact of the decrease in recycling revenues and increase in costs incurred for processing and marketing is \$158,182. This is 1.45% of the estimated gross revenues of \$10.9 million for the first five months of 2017. The costs of moving recyclable materials to market was \$107,113 or 1% of estimated gross revenues for the same five-month period.

Based on the Consultant's findings, Department staff recommends the following:

Recommended Actions 1 and 2:

Staff concurs with the Consultant's recommendation that your Board delay taking action for approximately one year and direct Department staff to continue to monitor recycling markets and return to your Board periodically with additional information for consideration. Recyclable commodity prices are volatile. Alternative markets are available for most commodities that have been rejected by China. Many California processors have modified their operations to sort commodities desired by domestic or other international markets. Many California haulers have provided outreach and education to their customer base to sort materials properly to reduce contamination. Few California communities have adjusted their rates in response to market conditions identified by their haulers and processors. While it is possible that recycling revenues will not return to early 2017 levels, the estimated impact of the costs related to moving recyclable materials to markets (1.0-1.45% of gross revenues) is not so significant as to prevent its being borne through the Haulers' implementation of increased cost efficiencies in their operations.

Department staff assumes that the impacts of the recycling costs were not significant enough to warrant participation by all Haulers or were not relevant to their operations, as five out of the nine Haulers did not provide the County with the requested information (three declined to participate and two provided non-relevant or incomplete data).

Alternative Action No. 1

Your Board may find that the information provided by the Consultant describing the significant disruption in the recycling market would qualify that event as an Unforeseen Rate Adjustment circumstance. In that case, the subsequent submission of an appropriate request by the Haulers would be classified as an "Eligible Item" under Part (b) of Subparagraph 7.2 . B . 1 of the ESAP Agreement, which your Board may consider in accordance with those provisions. The extent to which substantial evidence may provide support for this request is merely one of the factors your Board, in reasonable exercise of its discretion, may consider relevant in its determination. This alternative would not require an amendment to the agreements. However, the drawback is that the rate adjustment process is designed for a one-time request and would not provide for any flexibility to address on an ongoing basis the fluctuating impacts of recyclable commodity prices. To effectuate this alternative, your Board would:

- a) Direct Haulers and Department staff to follow Sections 7 . 2 and 7.3 of the agreement to process the request of a rate adjustment due to Unforeseen Circumstances .
- b) Direct all Haulers to provide the requested data to substantiate the proposed rate increase.
- c) Upon review and verification of the submitted data, present findings to your Board for direction or appropriate action, consistent with the provisions of the Agreement.

Alternative Action No. 2

Your Board may consider a limited amendment to the agreements, to include only a recycling surcharge and rebate provision. Such an amendment would allow the Haulers to charge their customers to recover the

negative costs (or some portion thereof) currently being incurred by the Haulers in moving the recyclable materials to market. This could be done on a biannual basis, after six months of data are provided to the County. The Consultant recommends that Haulers should not be allowed to recover any costs of landfilling recyclable material, as it would cause a disincentive for Haulers to continue to recycle these materials.

The recycling surcharge and rebate provision would require that the Haulers eliminate the recycling surcharge once the average quarterly revenues for recyclables return to the levels received in early 2017 and prior to the implementation of China's latest restrictions. The amount will be determined once all haulers submit the requested data, and the amounts remain consistent for a duration of two consecutive quarters. In the event revenues recover to such an extent that they exceed that early 2017 level, the Haulers would then be required to provide their customers with a recycling rebate, in order to return to the customers any "excess" compensation received by the Haulers as a result of the surcharge. To protect the ratepayers on the downside and the Haulers on the upside, the recycling surcharge and rebate each could be limited to a percentage range (e.g., plus or minus 3%) of gross revenues. To effectuate this alternative the Board would:

- a) Direct Department staff to begin negotiations on a limited amendment to the agreements to add only a recycling surcharge and rebate provision.
- b) Direct all Haulers to provide requested data to substantiate the rate increase.
- c) All Haulers must agree to provide County revenue reports on a quarterly basis for ongoing review and assessment.
- d) Upon review and verification of the submitted data, Department staff will present findings to your Board for direction or appropriate action, consistent with the provisions of the agreements.
- e) Direct Department staff to include appropriate language in the amendment to ensure that the recycling surcharge is eliminated if the average quarterly revenues for recyclable materials return to the levels received in early 2017 for two consecutive quarters.
- f) Direct Department staff to coordinate with Haulers regarding issuance of notices to customers to address the implementation of a Recycling Surcharge, the elimination of the Recycling Surcharge, and the implementation of the Recycling Rebate.
- g) Direct Department staff to ensure that the amendment addresses increased public education and outreach efforts addressing contamination issues.

Department staff affirms its support for the recommended actions, which would provide Haulers with the opportunity to submit, at a future date, an Unforeseen Circumstances Rate Adjustment request, based on data from the Haulers in accordance with Sections 7.2 and 7.3 of the agreements.

REFERENCE MATERIAL:

BAI #11, June 5, 2018
BAI #8, February 6, 2018
BAI #10, October 31, 2017
BAI #7, January 31, 2017
BAI #6, November 15, 2016
BAI #14, January 26, 2016
BAI #8, October 27, 2015
BAI #19, April 21, 2015
BAI #18, March 24, 2015
BAI #15, March 10, 2015
BAI #23, February 24, 2015

ATTACHMENTS INCLUDED AND/OR ON FILE:

Attachment 1

CAO ANALYST:

Sonia M. De La Rosa