Municipal Recyclables Contracting: Where Are We Now? Where Are We Going?

October 23, 2018
Connecticut Solid Waste Advisory Committee
SWANA’s Underlying Principles

• **Purpose:** to advance the responsible management of solid waste as a resource (adopted 2015)

• **Integrated solid waste management**
  • Local governments are responsible for solid waste management but don’t need to own or operate all, or any part of the system
  • Competitive processes by local governments
  • Evaluate cost, quality of service and the long term protection of public health, safety and environmental quality
  • Public, private, or a combination of public and private service providers
In other words

- There’s a role for both the public and private sector
- We have to be partners
- Good contracts solidify good partnerships

Except it hasn’t always worked that way in reality
An Old Approach to Contracting

• Contracts could be more one-sided when:
  • Residential recyclables were relatively straightforward: OCC, ONP, glass, PET, PET, tin, aluminum
  • A lot of collectors to compete for work
  • Processors could build for stable material types
  • Even mixed materials paid revenues

• Cities expected revenue sharing

• Change factors were often limited to CPI and fuel surcharges
2015: Recycling is Losing Money

• Strong US dollar and weaker Chinese economy drop prices paid for recyclables

• Changing waste stream affects quantity of recyclables

• More contamination in recycling bins:
  • Packaging evolves to more compound products
  • Move to single-stream collection - glass fragments in paper
  • Aspirational recycling rather than “Recycle Right”

• Some collections and processing contracts haven’t been updated for years
Public & Private Consensus Points

• 2015 Joint Advisory on Designing Contracts for Processing of Municipal Recyclables
  • National Waste & Recycling Association (NWRA)
  • SWANA
  • A lot of SWANA individual members work for companies that belong to NWRA

• The membership of both organizations believes in the importance of recycling to our national waste infrastructure
Good Contracts Are Always Essential

- What do you want to accomplish?
- How can it be done – your wants met by the contractor’s abilities
- Hand-offs are critical
  - What is the city responsible for?
  - What is your contractor responsible for?
  - Do the contractor’s services have to mesh with other contractors, too?
- Feedback loops
Meanings are Defined Locally

What do you and the contractor specifically mean by:

• Recyclable
• Non-Recyclable
• Contamination
• Residue
• Uncontrollable Circumstance
Set Performance Standards

- Be clear about responsibilities
- Public education should be part of the system
- Back-up plans for downtime – collections & processing
- Systems understanding and feedback loops
  - Example: If public education fails and contamination increases, it causes more downtime in facility operations, which increases operating costs, which can lead to a request for fee increases
  - Record-keeping, documentation, regular reviews
Build Detail into Compensation

• It isn’t enough to ask for $/HH/month in bids and contracts

• Document assumptions related to processing and marketability of materials:
  • Value of materials sold – actual or indices
  • Disposal fees and who is responsible
  • Allowable percentage of recyclables vs. non-recyclables
  • Changes in materials generated
  • Changes in market specifications

• If you ask to share the market revenue, expect also to share the market risk
Good Contracts Are Dynamic

• Regular updates are needed to address:
  • Changes in material
  • Changes in volume or weight
  • Material value
  • Service area demographics
  • Changes in participation

• Regular updates don’t prevent the need to accommodate unscheduled changes
  • Disaster
  • Sale of business
  • Other?
Term

• Standard: term of contract covers a period of years
• Standard: Number and length of renewals available
• Needed: Language that allows both parties to revisit dynamic factors on a regular basis within the term of the contract without jeopardizing the entire contract
But Wait, There’s More

• Two attachments added to the Joint Advisory
  • Understanding Material Composition
  • Determining the Value of Recyclables Handed at Processing Facilities

• Good data helps in developing good contracts
• Updating the data helps keep the contracts good for all parties
Understanding Material Composition

- Audit waste and recyclables streams before soliciting proposals to set assumptions and performance expectations
- Plan for routine audits within the contract term
  - Mandatory
  - Discretionary
- Use ongoing audit findings to:
  - Document changes
  - Trigger changes in performance requirements
  - Document changes in material value expectations
Determining Recyclables Value

• When contracts include recovered materials revenue sharing or rebate requirements:
  • Have a process for setting recyclables valuations
  • Have a process and pre-set timeline for updating valuations to reflect changing material and market conditions

• Attachment discusses
  • Actual Sales Value
  • Indexed Sales Value
  • Blended Values
    • floating prices
    • fixed prices
2018: China Changes the Market

• Cuts off mixed paper and mixed plastic shipments
• Establishes 0.5% contamination standard for other materials
• Shipments ripple to other east Asian countries that:
  • Lack equivalent market demand
  • Are beginning to establish their own contamination standards
Preface to the Joint Advisory

• From 2015’s “best practices” intention to a need to re-examine practices at their root

• Success continues to rest on “strong partnerships among the entities that collect materials, those that process materials, and the proactive participation of the communities served.”

• Changes in Chinese markets are not Force Majeure (an act of God) leading to the end all existing recycling contracts
Recycling is NOT in Crisis

A definite period of challenge and opportunity for part of our national ISWM infrastructure

SWANA is advising:

• Address your contracts – bring them up-to-date and sustain good partnerships

• Address public education – **recycle right**, not **recycle everything**

• Address processing systems – slow down, add sorters, make investments to update equipment
Resources


https://www.nlc.org/resource/rethinking-recycling-how-cities-can-adapt-to-evolving-markets
Thank you.

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