



Shoreway Environmental Center Operations Agreement Approval Staff Recommendation

SBWMA Board of Directors
November 17, 2022



Procurement Timeline: 2022 to 2023

Description	2022												2023
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1 Phase 1: Review Proposals													
2 Phase 1: Identify Proposers to Advance to Phase 2													
3 Phase 2: Conduct Parallel Negotiations with Proposers													
Negotiations - Conduct negotiations; request information													
AHBSC meeting - Negotiations update; seek guidance													
Board meeting - Negotiations update; seek guidance													
Board meeting - Select operator; approve contract													
4 Execute Contract and Mobilization/Transition Plan (if applicable)													
Support contractor mobilization/transition plan													

Highlights

- Two qualified proposals
- Final cost proposals show large increase over current costs due to increased staffing, current contract limitations on cost increases, other factors
- Negotiations
 - Total fourteen meetings completed
 - Contract modifications to balance risk
 - Differences between proposers
- Staff recommendation to approve Agreement with ACI



Both Proposers are Qualified & Experienced

- Relevant qualifications operating similar facilities
- Sound technical approach + transition plans
- Use of new technology + innovations at their facilities
- Direct experience with Teamsters Local 350 + commitment to retain staff
- Successful regulatory compliance and safety records
- Strong municipal references
- No areas of financial concern
- Comparable financing strategies, primarily using CPCFA financing
- \$1.5 million in funding for stormwater system improvements

SBI (ACI) Highlights

- ✓ Lower cost proposal/rate impact
 - ✓ Higher commodity revenue sharing offer (100% to SBWMA)
 - ✓ Historical marketing results stronger than SBR's five-year results
 - ✓ Discounted service fees, which may benefit SBWMA \$210,000 per year compared to SBR
 - ✓ Value in no affiliation with collection company (manage contamination, checks/balances on reports)
 - ✓ Access to off-site maintenance facility for transfer vehicles
 - ✓ New hybrid technology vehicles for haul to Ox Mountain Landfill
-
- x CBA wage/benefit "pass-through" likely to result in higher future cost increases compared to SBR
 - x No commodity revenue guarantee; no obligation to pay SBWMA if revenues do not meet market-high pricing
 - x Expanded special circumstances that may results in opening the Agreement in more circumstances
 - x SBWMA obligation to buy contractor's equipment due to termination that is not contractor's default
 - x Change in contractor introduces transition risk and higher potential for conflict with collector

SBR Highlights

- ✓ Annual commodity revenue guarantee of \$4.7 million with 90% of all commodity revenues to SBWMA
 - ✓ CBA wages and benefits held through term of the CBAs; annual CPI adjustment thereafter
 - ✓ Lower transition risk, current operator, known management team, and lower risk of conflict with collector
 - ✓ Relative to the industry, commodity revenues are historically strong
 - ✓ Used transfer vehicles for first four years to reduce their costs
 - ✓ Option to use of LNG transfer vehicles starting in Year 5
 - ✓ Potential to direct additional volumes of recyclable materials to the MRF to provide SBWMA with revenues
-
- x Higher cost proposal and rate impact
 - x Used transfer vehicles for first four years
 - x Alternative LNG fuel option may not be viable given SEC site limitation and potential additional capital costs

Cost Proposals (10-year Term)

Estimated 2024 Annual Increase Over Current*

<u>ACI</u>	<u>SBR</u>
+\$10.6 million	+ \$13.2 million
+52.0%	+64.3%

Significant Cost Drivers

- Increased profit level – ACI: 13% vs. SBR: 15%
- Significant increase in headcount
- Alignment of wages/benefits to match current Collective Bargaining Agreements (CBA)
- Labor cost increases due to increased staff tenure
- Depreciation cost increases reflecting purchase of new rolling stock and equipment
- Operation and maintenance cost reset to match current market conditions
- Repair/maintenance cost increases due to aging equipment
- Fuel cost reset since historical compensation did not keep pace with actual price
- Stormwater capital improvement
- SB 1383 sampling costs to comply with regulations
- Pricing reflecting aggressive inflation

* Proposers' costs were compared to current costs, where annual current costs were calculated based on 2023 transfer, MRF, and transportation service fees projected to 2024 dollars costs applied to annual tonnage consistent with tonnage in the cost proposals.

Staffing Levels

	Headcount	Increase over 2023 Compensation Application		Increase over Minimum Required	
		Headcount	% Increase	Headcount	% Increase
1 2022 SBR compensation application	92.1	---	---	---	---
2 Minimum required by SBMWA	96.0	3.9	4%	---	---
3 ACI proposal	112.5	20.4	22%	16.5	17%
4 SBR proposal	127.0	34.9	38%	31.0	32%

5 Additional SBR headcount (above ACI's headcount)	14.5
--	------

Note: A minimum headcount of 96 was specified for proposers; current staffing level is approximately 100 people.

Estimated Average Rate Increase

New Slide:
Figure 3 of
the Board
Report

	Annual Cost (2024 dollars)	2023 (Projected to 2024)	ACI	SBR	Difference (SBR - ACI)
1	Contractor compensation	\$20,440,000	\$31,070,000	\$33,590,000	\$2,520,000
2	Commodity revenues, SBWMA share (estimated)	(\$5,910,000)	(\$6,310,000)	(\$5,680,000)	\$630,000
3	SBWMA MRF residue disposal (estimated)	\$0	\$600,000	\$600,000	\$0
4	SBWMA shared cost of extra MRF sorters	\$150,000	\$0	\$0	\$0
5	Annual revenue requirement	\$14,680,000	\$25,360,000	\$28,510,000	\$3,150,000
	Variance to 2023 Projected to 2024		\$10,680,000	\$13,830,000	\$3,150,000
6	Estimated rate impact for a 32-gallon account		+8.4%	+10.9%	+2.5%

Notes: Commodity revenues are estimated based on 2020 commodity revenues, which was the lowest revenue from 2018 through 2021. Numbers may not total due to rounding.

Potential Impacts on Base Proposals

Annual Cost (2024 Dollars)	2023 Projected to 2024	ACI	SBR	Variance SBR - ACI
1 Annual SEC contractor compensation	\$20,440,000	\$31,070,000	\$33,590,000	\$2,520,000
2 ACI 12-year term cost savings	\$0	(\$230,000)	\$0	\$230,000
3 ACI service fee discount (maximum amount) (estimated)	\$0	(\$210,000)	\$0	\$210,000
4 SBR materials from outside SBWMA service area (estimated)	\$0	\$0	(\$200,000)	(\$200,000)
5 Commodity revenue, SBWMA share (2020 market low) (estimated)	(\$5,910,000)	(\$6,310,000)	(\$5,680,000)	\$630,000
6 ACI CBA wage/benefit cost pass-through (estimated)	\$0	\$1,150,000	\$0	(\$1,150,000)
7 Annual revenue requirement	\$14,530,000	\$25,470,000	\$27,710,000	\$2,240,000
8 Variance to 2023 Projected to 2024		\$10,940,000	\$13,180,000	\$2,240,000
9 Estimated rate impact for a 32-gallon account		+8.6%	+10.4%	+1.8%
10 LNG transfer vehicles		\$0	(\$360,000)	(\$360,000)
11 Total annual cost net revenue offsets		\$25,470,000	\$27,350,000	\$1,880,000

Notes: SBR proposed LNG transfer vehicles starting Year 5 (2028); however, the SBWMA does not think this is a likely a viable option given space constraints at the SEC to accommodate a fueling station and traffic reconfiguration. Numbers may not total due to rounding.

Rate Impact (10-year Term)

Estimated Monthly 32-Gallon Customer Rate Impact (2024)*

<u>ACI</u>	<u>SBR</u>
+8.4%	+10.9%

Increases to rates

- Increased SEC contractor compensation
- Increased disposal costs due to SBWMA paying a portion of MRF residue disposal costs historically paid by SEC contractor

Decreases to rates

- Increased commodity revenue sharing
- Reduced SBWMA costs for MRF sorters it was paying above current contractor's compensation, which are integrated in future contractor's compensation

* Monthly rate impact varies depending on Member Agency-specific rates and Member Agency use of reserves, if any, to offset rate impact.

Staff Recommendation

- Approve Agreement with ACI with 12-year term as it offers best overall value
 - ACI's cost proposal and related estimated rate impact are less than SBR's
 - ACI's commitment to provide SBWMA 100% of commodity revenues has the potential to provide more revenue to SBWMA
 - ACI is a qualified facility operator
 - ACI has experience with Local 350 and will retain employees
 - ACI will use hybrid transfer vehicles, resulting in environmental benefits
- Alternatively, approve Agreement with SBR

Supplemental Slides

Key Operations Agreement Modifications

Agreement Section	Current Agreement	ACI	SBR
2.02, Term	<ul style="list-style-type: none"> • 10-year base term. • Up to 3 extension years. 	<ul style="list-style-type: none"> • Option for 12-year term (in addition to required 10-year term). • Up to 2 extension years, at SBWMA sole discretion. 	<ul style="list-style-type: none"> • 10-year term as required. • Up to 2 extension years, at SBWMA sole discretion, plus additional 2 years at mutual discretion.
2.04, Guarantee and Performance Bond	<ul style="list-style-type: none"> • \$2 million performance bond. 	<ul style="list-style-type: none"> • No corporate guarantee given structure of corporation. • \$6.2 million performance bond. 	<ul style="list-style-type: none"> • Corporate guarantee by Recology Inc. and Potential Industries. • \$3.3 million performance bond.
4.02/Attachment 29, MRF Phase II Equipment Improvement	MRF Phase I equipment improvement addressed; required to provide support during installation and testing.	<ul style="list-style-type: none"> • Require contractor involvement in design process and support during installation and testing. • Specify future negotiation of change in MRF service fee (reduced operating costs). 	<ul style="list-style-type: none"> • Require contractor involvement in design process and support during installation and testing. • Specify future negotiation of change in MRF service fee (reduced operating costs and change in Commodity Revenue Guarantee).

Key Operations Agreement Modifications

Agreement Section	Current Agreement	ACI	SBR
4.05, Stormwater Compliance Costs	Sole responsibility of contractor.	Secure \$1.5 million to SBWMA for improvements; additional capital to be provided by SBWMA.	Same as ACI.
7.04, Commodity Revenue Sharing and Guarantee.	\$4.7 million commodity revenue guarantee then 75% of revenues to the SBWMA.	Arrangement to provide SBWMA with 100% of revenues; however, no commitment to provide a commodity revenue guarantee.	Arrangement to provide 90% of revenues to the SBWMA with a \$4.7 million annual guarantee to SBWMA.
7.04, Unusual Market Circumstances For Recyclable Commodities	Not covered.	<ul style="list-style-type: none"> • Subject to SBWMA approval, allow for reduced sales prices, changes in materials grades, payments to processors (when commodity value is negative), and, as a last resort, disposal. • Future California Redemption Value (CRV) program changes considered. 	Same as ACI.

Key Operations Agreement Modifications

Agreement Section	Current Agreement	ACI	SBR
7.05, MRF Residue Transport And Disposal Costs	Sole responsibility of contractor; financial incentive (in the form of increase commodity revenue share for contractor) included for reduced MRF residue levels.	Contractor pays costs for all MRF residue transport and disposal, except for contaminants and targeted recyclable materials that do not have viable markets; removed commodity revenue sharing incentive for reduced residue levels.	Same as ACI except for: Transport and disposal costs as contractor expense for targeted recyclable materials that are not recovered.
7.08, Special Circumstances	Contractor may apply for adjustment in limited circumstances.	Expanded list of circumstances beyond those in the Current Agreement; relatively broader scope of special circumstances (compared to SBR) in that two events may be combined to meet the financial threshold that triggers consideration of a special circumstance's request for change in compensation.	Expanded list of circumstances beyond those in the Current Agreement; relatively more narrow scope of special circumstances (compared to ACI).
Previously 7.08, Transfer Station Diversion Program	Incentive to Contractor to divert Self-haul materials from disposal.	Eliminate existing diversion requirement (which Board suspended), as space for diversion in the transfer station is very limited	Same as ACI.

Key Operations Agreement Modifications

Agreement Section	Current Agreement	ACI	SBR
11.09, Force Majeure	Includes defined excuses for nonperformance.	Same as current with addition of pandemic and epidemic within this definition.	Same as ACI.
Attachments 8-A and 8-C, Compensation	Structure multi-index annual adjustments with changes to cost indices to reflect national indices.	<ul style="list-style-type: none"> • Multi-index annual adjustments with changes to cost indices to reflect Bay Area indices. • Annual changes to CBAs wage and benefit costs to match then-current CBA wage and benefit rates, which “pass-throughs” CBA costs subject at a 12% annual cap • O2E cost-plus-profit compensation during the O2E pilot program, then shift to a service fee arrangement for the full-scale O2E permanent program. • Profit level of about 13%; profit on equipment depreciation; no profit on interest. 	<p>Same as ACI except for:</p> <ul style="list-style-type: none"> • Annual CBA wages and benefit costs to match changes in existing CBAs until expiration of those CBAs and then limit to annual changes in consumer price index (CPI) for subsequent years with exceptions for adjustments to costs match CBA wages and benefits when setting Year 4 (2027) compensation and compensation for one additional year (to be selected by SBR). • Profit level of about 15%; equipment lease without profit.