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NEW BUSINESS



STAFF REPORT

To: SBWMA Board Members
From: Kevin McCarthy, Executive Director
Marshall Moran, Finance Manager
Date: June 27, 2013 Board of Director's Meeting
Subject: Discussion on Third Party (i.e., Non-Franchise) Pricing Approach for New Tonnage Into Shoreway Environmental Center

Recommendation

This staff report is for discussion purposes only and no formal action is requested of the Board of Directors. Staff requests feedback on the current pricing policy for additional MRF tonnage.

Analysis

The SBWMA is closely following an RFP for Post Collection Processing services released by Daly City on June 18, 2013 which provides an opportunity for new tonnage into the Shoreway MRF. Given that RFP responses are due on August 2, 2013, staff is requesting Board feedback on the potential pricing approach in concert with SBR, our Shoreway facility operator, which will likely be responding to the RFP. Based on Board feedback, a recommended pricing approach will be brought back for Board consideration for approval at the July 25, 2013 Board meeting.

Currently, the SBWMA receives a host fee of \$10 per ton for third party MRF tons delivered from Recology's San Bruno transfer station. SBR has a pricing arrangement in place with Recology for the recyclables and in turn SBR remits, a credit in their monthly invoice to us, a host fee payment of \$10 per ton for each of the tons delivered by Recology. The fee is meant to cover our associated Shoreway costs (i.e., equipment depreciation and interest expense, and some small portion of MRF building depreciation) with allowance for some profit.

Background

On July 23, 2009 the Board approved the Shoreway Operations Agreement with SBR effective January 1, 2011. Section 5.03 of this Agreement requires SBWMA prior written approval of receipt of any new materials accepted into the Shoreway facility by SBR or affiliated companies from Recology or other large third party customers if not charged at the published gate rates.

On October 28, 2010 the Board approved amendments to the Shoreway Operations Agreement with South Bay Recycling. One of the Amendments was to Section 5.03 and would clarify that acceptance of third party tons into the Shoreway facility would require a written agreement including "pricing terms and conditions." This would also apply to the SBWMA sourcing new tons as a MRF processing fee would need to be agreed upon with SBR.

On January 27, 2011, a staff report was presented outlining various pricing approaches for new tonnage into the Shoreway MRF. Staff shared various pricing models (e.g., fixed price approach, market based approach, etc.) and sought Board feedback on the degree of comfort with stated pricing models and/or the degree to which the

SBWMA would be involved in quoting pricing to third parties (e.g., Republic Services). The consensus opinion from the Board was twofold: ensure any third parties pay their fair share of facility costs; and minimize the risk to the SBWMA of any new tonnage.

From December 2011 through August 2012, the Shoreway MRF was processing contracted recyclable tons from Republic Services Newby Island facility. Starting in October 2012, contract recyclable tons from Recology's San Bruno transfer station have been received for processing.

Fiscal Impact

The SBWMA currently collects a host fee of \$10 per ton for every third party MRF ton delivered to Shoreway; the fee is paid by SBR to the SBWMA with such fees estimated at \$56,000 in FY13. FY14 fees are estimated to increase to approximately \$75,000 per year.

Depending on the tonnage scenarios, our current variable costs for handling such third party MRF tons range from approximately \$7.50 to \$8.50 per ton.