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Office of the City Manager

CONSENT CALENDAR
January 22, 2019

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Phillip L. Harrington, Director, Department of Public Works

Subject: Community Conservation Centers, Inc.'s Contractual Relief of its Revenue Share Obligation to the City for the Sale of Recyclable Commodities

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to provide contractual relief to Community Conservation Centers, Inc. Recyclable Processing Services Contract, Exhibit B. Section 3.1 "Contractor shall pay City 7.5 percent of annual gross revenue on a monthly basis." The remaining obligation per this Contract is $1,123,591.87.

FISCAL IMPACTS OF RECOMMENDATION

The requested amount of contractual relief has required the City's Zero Waste Fund to cover this shortfall of projected funds from June 2014 through November 30, 2018.

CURRENT SITUATION AND ITS EFFECTS

The City and Community Conservation Centers, Inc. (CCC) entered into a sole source negotiated contract for the processing of residential and commercial recyclables, effective August 1, 2011 through June 30, 2015 with two (2) one year extensions. The Contract obliged CCC to manage and operate the City's Materials Recovery Facility (MRF) and Buyback/Drop-off Center.

With the expiration of that existing Contract and in an effort to negotiate a new contract, the City and CCC agreed to extensions of the existing Contract through November 31, 2018. During which time the City Council approved a one-time funding approval of $699,815 in its June 12, 2018 agenda per CCC emergency funding request to cover its significant operation funding shortfall.

The Contract's Payment and Financial Terms provided the City 7.5% of all gross revenue from sales of recyclable commodities to be remitted by CCC on a monthly basis. The Contract provisions provided CCC 92.5% of the gross revenues of all materials received at both the Material Recovery Facility (MRF) and Buyback Center to cover the facilities' personnel and routine equipment maintenance costs and up to $100,000 annually of any capital funding needs.

From October 2011 through June 2014, CCC remitted $726,737.75 or 7.5% of gross revenue share payments to the City per the Contract. After several years of significantly depressed marketplace pricing of all recycled commodities, such as corrugated cardboard pricing plummeting from $350 per ton in 2013 to $110 per ton in 2015; decreases in the State's California Redemption Value (CRV) payments; international import restrictions; increased personnel and operational costs; and unanticipated equipment repairs, CCC was unable to continue remitting this 7.5% of gross revenue sales to the City.

Since fall of 2014, with the above noted market pricing downturn and increased personnel and operation expenses, CCC was unable to generate sufficient gross revenues to cover its personnel and operation costs of the MRF and Buyback Center or meet the Contract's 7.5% share to the City. Between 2014 and 2016 the annual shortfall in covering personnel and operating costs exceeded $200,000. This shortfall significantly increased 2017 and 2018.

Due to these market conditions and decreases in State CRV payments, CCC's negative financial situation has become the norm for Buyback Centers and MRFs throughout California. From 2013 to 2018 more than 1,000 Buyback Centers (39% of all state wide Centers) and 52 Recycling Processors (22%) closed their doors in the State[1]. For many Buyback Centers and MRFs to continue operations, cities and municipal agencies have had to reduce the types of recyclable materials and/or increase payments for these operations.

In 2016, the City hired R3 Consulting Group to conduct an audit of CCC's financial and operational performance and to develop a Strategic Action Plan based upon the results of their evaluation. R3's report (attached) recommended that the City to provide CCC relief of its unfunded liability to remit payment to the City of the revenue share amount, stating that "…the revenue share component of the current agreement between the City and CCC is not consistent with current market conditions and practices for other similar operations."

In its November 27, 2018 agenda, the City Council authorized (Resolution No. 68,681-N.S.) the City Manager to enter into new Contract between the City and CCC effective December 1, 2018 through June 30, 2020. The Contract has been assigned Contract Management System (CMS) No. FGDPW. Given that commodity market pricing is not anticipated to improve in either the near or long term, the revenue share requirement was eliminated from the new contract. CCC's operating budget for FY2019/20 projects expenses to exceed revenues throughout the duration of the contract; the shortfall in personnel and operating costs will be funded by the City to ensure CCC's continued operation through June 30, 2020.

[1] https://www2.calrecycle.ca.gov/BevContainer/RecyclingCenters?lang=en-US

BACKGROUND

CCC, a non-profit organization, has operated the City's MRF, Buyback Center and the community members' free material drop-off center since the early 1980's. The MRF processes and markets all recyclables collected by the City's commercial and residential dual-stream (fiber and containers collected separately) curbside collection programs. CCC also manages a Buyback Center which accepts CRV containers and other recyclables dropped off by community members. CCC's operation sorts, bales and markets approximately 16,000 tons of recyclables annually.

On July 12, 2011, the City Council (Resolution No. 65,390-N.S.) authorized CCC's Contract (No. R8781) for Recyclables Processing Services. At the City's request, on January 27, 2015 Council authorized a Contract Amendment to add processing of non-bottle rigid plastics to the Contract's scope of services. In addition, the City provided payments for capital and processing costs incurred in the mixed rigid plastics recycling program in FY 2014, FY 2015, FY 2016, FY 2017, and FY 2018 through Contract Amendments as follows:

Contract #	Auth. Date	Resolution No.	Amount
R8781A	January 27, 2015	No. 66,920 – N.S.	$212,380
R8781B	June 28, 2016	No. 67,602 – N.S.	$181,719
R8781C	July 29, 2016	No. 67,500 – N.S.	$160,500
R8781D	May 30, 2017	No. 67,506 – N.S.	$500,000

In June 2018, CCC requested the City Council to provide emergency operation funding to cover its negative shortfall experienced between commodity revenues and operating costs due to a sharp downturn in recycling commodity prices and urgent equipment repairs. On its June 12, 2018 agenda, the City Council directed the City Manager[2] to provide this requested emergency term funding $699,815 to CCC to continue operations until September 30, 2018, while a new contract with the City was negotiated.

On October 2, 2018, the City Council authorized the City Manager[3] to amend the existing Contract (No. R8781D) to extend the existing Contract's term through November 30, 2018 and to increase the Contract the total not to exceed amount by $466,542. This Contract Amendment allowed CCC to continue the sorting, baling and marketing of all City and contractor curbside collected recyclable materials until a new contract could be authorized by the City Council.

[2] https://www.cityofberkeley.info/Clerk/City_Council/2018/06_June/Documents/2018-06-12_Item_35_Short_Term_Contract_Extension.aspx
[3] https://www.cityofberkeley.info/Clerk/City_Council/2018/10_Oct/City_Council__10-02-2018_-_Regular_Meeting_Agenda.aspx

ENVIRONMENTAL SUSTAINABILITY

The recyclable material sorting, processing and marketing services provided by CCC are consistent with the City of Berkeley's 2009 Climate Action Plan, 2005 Zero Waste Goal, and long-standing commitment to protect the environment. The MRF, Buyback Center and free Material Drop-off services provided by CCC support the highest and best use of recyclable material and reduce waste sent to regional landfills.

RATIONALE FOR RECOMMENDATION

CCC operates the only MRF and Buyback Center located within the City that provides material recycling processing and marketing services to Berkeley community members, to surrounding communities, and to the City's commercial and residential curbside collection programs. CCC stated in a letter to the City Manager dated October 30, 2018 (attached), "…the (financial) obligation became commercially impractical during the contract term, and forgiveness of the debt will be a benefit to the City by ensuring that the City and its citizens will have a viable recycling program through the contract extension period to help achieve its Zero Waste Goal." With expenses exceeding revenues, CCC does not have the funds to pay the City the 7.5% revenue share amount obligated by the previous contract, and the market conditions that contributed to this shortfall are expected to continue throughout the term of the contract.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

Heidi Obermeit, Recycling Program Manager, Zero Waste Division - Public Works, (510) 981-6357

Attachments:
1: Resolution
2: R3 Consulting Group, Inc. Letter Report of Audit Findings and Strategic Action Plan
3: October 30, 2018 Request by Community Conservations Centers, dba Berkeley Recycling, for Forgiveness from Current Financial Obligation to the City of Berkeley

RESOLUTION NO. ##,###-N.S.

COMMUNITY CONSERVATION CENTERS, INC.'s CONTRACTUAL RELIEF OF ITS REVENUE SHARE OBLIGATION TO THE CITY OF BERKELEY FOR THE SALE OF RECYCLABLE COMMODITIES

WHEREAS, Community Conservation Centers, Inc. (CCC), a non-profit organization, has operated the City's Municipal Recycling Facility (MRF), Buyback and Drop-off Center since the early 1980's; and

WHEREAS, CCC operates the only MRF and Buyback Center located within the City that provides material recycling processing and marketing services to Berkeley community members, to surrounding communities, and to the City's commercial and residential curbside collection programs; and

WHEREAS, On July 12, 2011 by Resolution No. 65,390-N.S., City Council authorized Contract No. R8781 with CCC for recyclables processing services from August 11, 2011 to June 30, 2015, and subsequently amended by Council authorization; and

WHEREAS, the Contract's Payment and Financial Terms provided the City 7.5% of all gross revenue from sales of recyclable commodities to be remitted by CCC on a monthly basis; and

WHEREAS, from October 2011 through June 2014, CCC remitted $726,737.75 or 7.5% of gross revenue share payments to the City per the Contract; and

WHEREAS, since 2014, CCC was unable to generate sufficient gross revenues to cover its personnel and operation costs of the MRF and Buyback Center or meet the Contract's 7.5% share to the City due to a sharp decline in international market prices for recyclable commodities; decreases in the State's California Redemption Value (CRV) payments; international import restrictions; increased personnel and operational costs; and unanticipated equipment repairs, with the market pricing downturn and increased personnel and operation expenses; and

WHEREAS, due to market conditions and decreases in State CRV payments, CCC's financial situation has become the norm for Buyback Centers and MRFs throughout California. From 2013 to 2018 more than 1,000 Buyback Centers (39% of all state wide Centers) and 52 Recycling Processors (22%) closed their doors in the State. For many Buyback Centers and MRFs to continue operations, cities and municipal agencies have had to reduce the types of recyclable materials and/or increase payments for these operations; and

WHEREAS, on November 27, 2018, by Resolution No. 68,681-N.S., the Berkeley City Council authorized the City Manager to execute a new contract with Community Conservation Center, Inc. to provide recyclables processing services including rigid mixed plastics for an amount not to exceed $4,000,000 from December 1, 2018 to June 30, 2020 without the revenue share requirement.

THEREFORE, with expenses exceeding revenues, CCC does not have the funds to pay the City the 7.5% revenue share amount obligated by the previous contract, and the market conditions that contributed to this shortfall are expected to continue throughout the term of the new contract; and

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to relieve Community Conservation Centers, Inc. of its unfunded revenue share obligation of 7.5% of gross revenues from recyclable commodity sales. The remaining obligation per this Contract is $1,123,591.87. A record signature copy of said amendment to be on file in the Office of the City Clerk.

CONSULTING GROUP, INC.
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September 30, 2016

Mr. Phillip Harrington
City of Berkeley Public Works Department
2180 Milvia Street, 3rd Floor
Berkeley, CA 94704

Subject: Letter Report of Audit Findings and Strategic Action Plan

Dear Mr. Harrington:

R3 Consulting Group, Inc. (R3) is pleased to submit this Letter Report to the City of Berkeley (City) detailing the findings of our audit of Community Conservation Centers (CCC). This Letter Report includes our proposed Strategic Action Plan to guide CCC and the City towards more effective and efficient recyclables processing in Berkeley.

Overall, R3 found CCC's operations to be largely effective and well-managed. CCC processes the City's recyclables efficiently given limitations of available space, aging equipment, and constrained configuration of the materials recovery facility and buyback/drop-off operations. Outside of the potential for the City to collect and deliver new commercial tons to CCC in the future, there are very limited opportunities for CCC to increase the tons it processes and thereby increase economies of scale and efficiency. There are a number of potential areas where CCC could reduce its expenses, which we have discussed and shared with CCC, and have included in the Strategic Action Plan.

The Strategic Action Plan includes a number of recommendations regarding the next iteration of the contractual relationship between the City and CCC for operation of the MRF and Buyback Center. Foremost among these is our recommendation to change the compensation structure such that both the City and CCC share in the risk and reward of changing recyclables markets in the future.

Should you have any questions regarding this Letter Report, or need any additional information, please contact me by phone at (510) 292-0853 or by email at gschultz@r3cgi.com.

Sincerely,

R3 CONSULTING GROUP

Garth Schultz

Garth Schultz | Principal

Attachment: A – CCC Strategic Action Plan Implementation Worksheet

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Background

The City engaged R3 to conduct an audit of CCC's financial and operational performance, and to develop a Strategic Action Plan based upon the results of our evaluation.

CCC's Operations

CCC has operated the City's materials recovery facility (MRF) and recyclables buyback/drop-off operations (Buyback Center) since the 1980's. CCC is currently operating the MRF and Buyback Center under a contract that is due to expire on June 30, 2017. Per the terms of the contract, CCC is to cover its expenses – and annual revenue sharing payments to the City – using only the revenues from the sale of recyclable materials received at the MRF and Buyback Center.

The MRF accepts, processes and markets dual-stream recyclables (containers and fiber) delivered by the City of Berkeley and the Ecology Center, totaling approximately 11,500 tons of recyclables per year. CCC operates two MRF sorting lines (one for containers and one for fiber) which are housed in separate buildings. Recyclable materials collected from residents and businesses are separated via largely manual means into fibers – including mixed paper and old corrugated cardboard (OCC) – and containers – including glass, plastic, and cans. Several employees and pieces of equipment are shared between the two sorting lines. Employees that are utilized between both sorting lines include loader and forklift operators, sorters, and supervisors; shared equipment includes loaders, forklifts, and, most notably, the facility's sole baler, which bales materials from both sorting lines.

The Buyback Center accepts source separated materials delivered by members of the public and small businesses. Materials are either donated to CCC (via the "drop-off" portion of the operation) or bought by CCC. Overall, the Buyback Center accepts approximately 3,500 tons of recyclables per year. CCC issues approximate $1,000,000 in payments to the public in approximately 30,000 transactions annually; most of these payments are for California Redemption Value (CRV) materials, the payments and operations of which are regulated by California State Law.[1]

The MRF and Buyback Center receive CRV revenue from the State for qualifying beverage containers, including administrative revenue associated with the CRV program. CCC also receives a quality incentive payment from the State associated with the quality of the glass processed by CCC.

In recent years, CCC has not been able to meet its expenses – or make required payments to the City – due to significant downturns in markets for recyclable materials. As discussed in the Operations Audit section of this Letter Report, both CCC's Buyback Center and MRF operations do not generate revenues sufficient to meet expenses, resulting in an annual shortfall of approximately $200,000 on average between 2014 and 2016. Shortfalls in 2015 and 2016 average over $310,000 per year.

Buyback Centers Closing in Large Numbers Statewide

CCC's shortfall situation is commonplace for buyback centers in California; it is now the standard for similar buyback operations to have expenses that exceed revenues for materials sold. This situation is due to an overall decline in recyclable materials values and decreases in CRV payments over the course of the

[1] http://www.calrecycle.ca.gov/BevContainer/

past several years. In the past year alone, one-fifth of all buyback centers (about 450) have closed in California[2] and 800 buyback centers have closed State-wide over the course of the last three years.

CCC Similar to Other MRF's

Given current market conditions, MRFs are similarly unable to cover expenses with the revenue from material sales alone. R3 conducted interview surveys of several Bay Area MRF's (including both publicly and privately owned facilities) and found that revenues from recyclable materials cover anywhere between 20% and 90% of operational expenses.[3] MRFs that continue to operate under these conditions generally stay afloat by using profits from other associated operational units (collection operations, transfer stations, landfill operations, etc.) to cover shortfalls in their MRF operations.

With declining materials sales, it is becoming common for MRF operators to charge customers on a "per-ton" basis to cover the costs of processing recyclable materials. Several MRFs charge an up-front per ton cost and then remit some of the revenues from the sales of the recyclable materials back to the customer. This insulates MRF operators from fluctuations in market prices, while ensuring that customers also benefit from increases in recyclable materials values.

Financial Audit

R3's subconsultant, Armanino, is preparing a financial statement for CCC for the period ending August 31, 2016. This financial statement is being prepared under GAAP accounting for non-profit companies. The financial statement, associated report and management letter will be finalized after completion of Armanino's separate process that will include review of the above with CCC and the City.

The Financial Audit was designed to determine whether, in Armanino's professional opinion, CCC management has prepared and fairly presented financial statements, in accordance with accounting principles generally accepted in the United States, that are free from material misstatement whether due to fraud or error. Findings and recommendations relating to the Financial Audit will be communicated by Armanino via a separate report. This Letter Report does, however, includes Strategic Action Plan elements identified by Armanino during the course of the Financial Audit.

Operational Audit

Overview

In conducting the Operations Audit, R3 focused on answering the following questions:

- What key metrics does management use to determine efficiency, cost effectiveness and responsiveness of operations to the fluctuating materials recovery markets?
- How does CCC evaluate and fill resource and equipment needs?

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[2] Costello, Darcy. "Hundreds of California recycling centers shut down." http://www.scpr.org/news/2016/07/20/62796/hundreds-of-california-recycling-centers-shut-down/

[3] For CCC in 2015 and 2016 (projected), sale of materials from the MRF covered about 86% of MRF operational costs.

In answering these questions, R3 evaluated CCC's performance in four best management practice areas, including:

- Having systems and procedures in place to identify and minimize contaminants in the source separated materials that are delivered to the MRF for processing;
- Incorporating operational efficiencies to achieve processing of commodities in the most economical manner;
- Maintaining operational effectiveness to ensure that commodities are recovered to meet market specifications; and
- Having operational adaptability to adjust processing systems and procedures to process and market commodities to sustain operational efficiencies and effectiveness.

Findings

<u>Overall</u>

1. CCC has effective systems and procedures in place to identify and minimize contaminants in the recyclable materials that are delivered to the MRF for processing. Recyclable commodities resulting from CCC's sorting processes are high quality and meet or possibly exceed specifications for marketing and recovery.
2. CCC strives to minimize contamination and residual materials in its recycling streams, and works with the City and Ecology Center to do so. Given the low residual rate[4] reported by CCC (less than 5%) these processes appear to be highly effective.
3. CCC appears to be incorporating operational efficiencies to achieve processing of commodities in an economical manner. A number of alternatives considered and evaluated by R3 during this Audit had already been evaluated by CCC in the past, with largely similar conclusions.
4. CCC actively evaluates and adjusts operations to account for operational efficiencies and effective processing of materials. However, current site conditions (facility layout, structures and equipment) are barriers to more efficient processing, especially for the container stream. The container sorting line is small and largely manual, with some materials (PET, HDPE, and cans) requiring double or triple handling prior to baling of materials. Baling of those materials also requires manual labor inputs at the baler, which is not required for the more efficient and single-handled fiber material stream.
5. There are limited opportunities to increase CCC's revenues. This is because CCC is currently sorting a full range of recyclable materials, including some materials such as colored glass that are not commonly sorted. There are virtually no opportunities to increase revenue by processing additional materials from other jurisdictions or clients; most, if not all, of the "flexible" recycling streams that could potentially be directed to CCC are collected as "single-steam" recycling, which cannot currently be processed at the MRF.

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[4] "Residuals" are the materials that are not captured via the sorting process, and include contaminants such as garbage and other non-recyclable materials as well as materials that are recyclable but were not sorted appropriately. The "residual rate" is the percentage of such materials compared to the total amount of materials that were sorted; most MRF's typically operate with a residual rate between 5% and 15%.

6. CCC's site configuration, structure, equipment, and dual-stream recyclables processing systems make it challenging for CCC to adapt to changing market conditions. There appears to be no incoming recyclable materials that CCC is failing to capture, and (as is further discussed below) opportunities to increase operational cost-effectiveness – which are essentially limited to reducing labor – would limit CCC's ability to produce high quality marketable commodities with a low overall residual rate.
7. The City's plans to transition away from its non-exclusive commercial franchise system and take over collection of commercial recyclables will result in additional recyclables tonnages delivered to CCC. R3 estimates that 2,500 to 4,000 tons of recyclables per year could be directed to CCC following this change, resulting both in increased revenues and expenses. Based on R3's initial assessment of the material types that could be directed to CCC, it appears that the addition of these tonnages could result in an overall annual net increase in revenue over expenses of approximately $115,000 to $180,000.[5]

<u>MRF Operations</u>

There are three primary phases to the flow of materials through a MRF, including those through CCC's facility, with best practices associated with each phase:

- Receiving and preparing materials for the sorting process;
- Sorting the materials into their individual material streams; and
- Inspecting, baling, storing and shipping sorted materials.

R3 has reviewed each of these phases of CCC's operations, and has found them to be adequate, with the caveat that the MRF site has constraints in terms of space and equipment. These result in some operational inefficiencies such as double handling of materials from the container sorting line, which could be addressed via a reconfiguration of the site and equipment (which is proposed in the Strategic Action Plan).

Table 1, on the following pages, provides an overview of our assessment of CCC's sorting processes.

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[5] Based on R3's field observations of Berkeley commercial recycling tons that are currently not collected by the City, we believe that the most of the new tonnage that would be processed by CCC would be mixed paper and OCC. Both of these material types are cheap to process and yield high prices on the recyclables market.

TABLE 1: Assessment of CCC's Sorting Processes	
Process	**Assessment**
Receiving and preparing materials for the sorting process.	Adequate; covered drop-off area needed for containers.
Sorting the materials into their individual material streams.	Effective; high quality, low residual.
Inspecting, baling, storing and shipping sorted materials.	Adequate; more storage space for bales would be beneficial.
Traffic control.	Effective.
Vehicle unloading.	Effective.
Load checking policy and procedures for identifying contaminated loads.	Effective; low contamination observed in delivered recyclables.
Storage capacity (number of days of incoming material storage capacity).	Adequate; limited overall by facility footprint and layout.
Effectiveness of segregation of incoming materials.	Effective; simple systems in place to maintain segregation.
Movement of containers from tip floor to processing line.	Adequate; faster container line would reduce/eliminate periodic backlog.
Processing system design.	Minimally adequate; better design would eliminate double handling and yield marginal increases in efficiency.
Conveyor widths, configurations and belt speeds.	Adequate; improvements to both sorting lines could increase speed and thus efficiency.
Material metering systems and burden depth of materials.	Adequate.
Sorting approach (which materials are sorted when and how).	Effective; contaminants are positively sorted from both streams yielding low residual.
Sorter ergonomics (e.g., forward throw vs. backward pull, belt height and width).	Adequate; upgraded lines could provide more room for sorter operations, and better ergonomics.
Current and historical recovery rates.	Excellent; high quality, low residual.

TABLE 1: Assessment of CCC's Sorting Processes	
Process	**Assessment**
Mechanical sorting systems.	Limited; sorting line configuration and throughputs limit cost-effectiveness of mechanical sorting systems.
Housekeeping.	Adequate; more housekeeping at shipping container loading area needed.
Maintenance.	Limited; basic preventative maintenance is addressed, but not long-term capital needs. Some maintenance has been deferred.
Pre-baling storage.	Adequate.
Baler operation.	Limited; baler is not ideal for containers, yielding additional handling inputs. Baler is old and in need of replacement.
Bale density, bale wire usage.	Adequate.
Bale handling and storage.	Adequate.
Residuals management.	Excellent; low residual compared to industry.
Loading and transport of recovered materials.	Adequate; loading area is adjacent to processing operations. Some materials are not able to meet weights for shipping containers.

Revenue Shortfalls: MRF and Buyback Center

Evaluating how expenses and revenues compare for CCC's operations requires allocation of expenses and revenues between CCC's two main operational functions (MRF and Buyback Center).

CCC allocates labor expenses associated with each operational unit based on the amount of overall staff time utilized via each operations. Using CCC's staffing allocations as well as CCC's budgeted line-item expenses for the last three years, R3 estimated the expenses (including labor, supplies, overhead and other expenses) associated with the MRF and Buyback Center.[6] Based on our analysis, approximately $1.38 million in annual expenses are attributable to the Buyback Center – including $1 million in payments to buyback patrons – accounting for approximately 44% of CCC's overall operational expenses. Allocated expenses for MRF operations are approximately $1.79 million per year, and 56% of overall operational expenses.

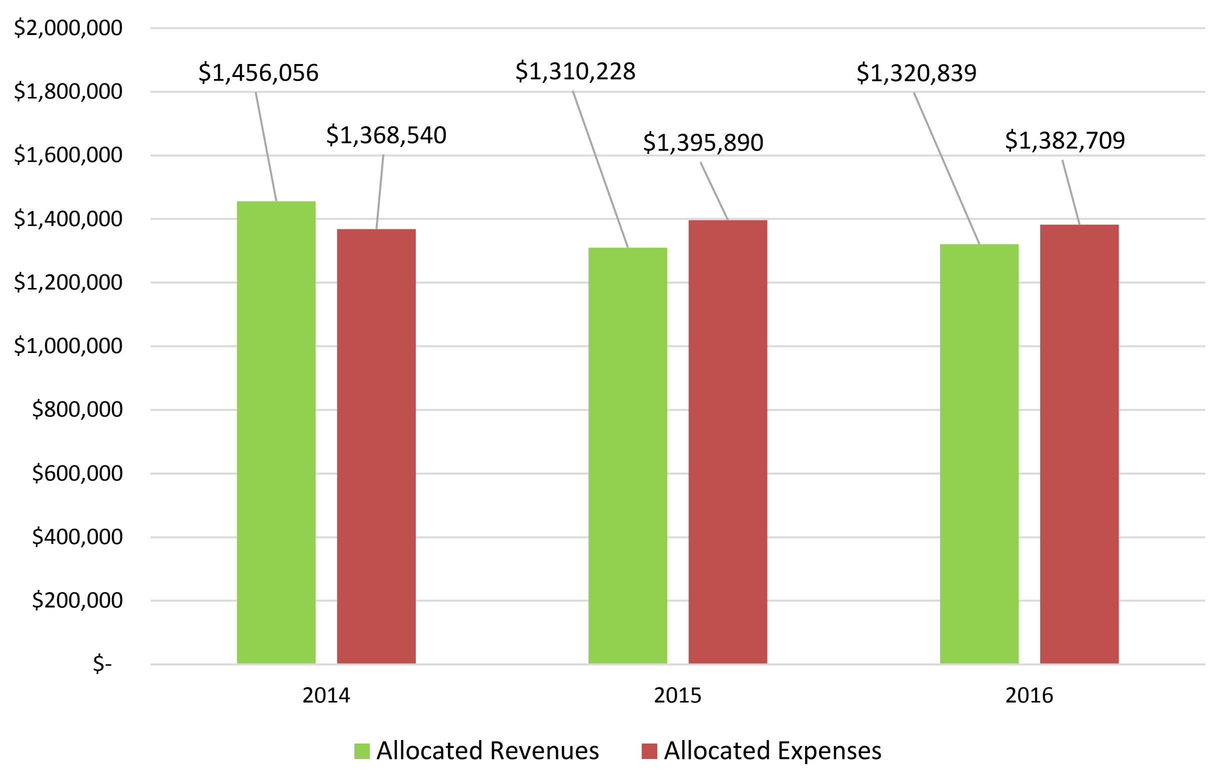
[6] Note that this analysis only includes operational expenses, and as such it does not include expenses such as amortization of capital expenditures or deferred maintenance.

Similarly, allocated revenues for the Buyback Center operations total to approximately $1.36 million annually (46% of overall revenues) and allocated revenues for the MRF total to approximately $1.60 million annually (54% of overall revenues). Buyback Center tonnage is only 23% of the total tonnage, but revenues associated with the Buyback Center are disproportionately higher than material processed by the MRF because the value of the materials received via that operation is significantly greater than the materials processed by the MRF.

Overall, from 2014 through 2016 (projected), CCC has annual revenues of approximately $2.96 million, annual expenses (including payments to public patrons) of $3.16 million, and an average annual shortfall of $200,000. The annual average shortfall attributed to the Buyback Center is approximately $20,000 year, or approximately $18 per ton. The annual average shortfall attributed to the MRF is approximately $182,000 year, approximately $15 per ton on average. In 2016 these amounts will be approximately $18 per ton for the Buyback Center (a $62,000 shortfall) and $19 per ton for the MRF (a $230,000 shortfall).

Figures 1 and 2, below and on the following page, demonstrate the results of this analysis.

FIGURE 1: CCC Buyback Center Revenues vs. Expenses



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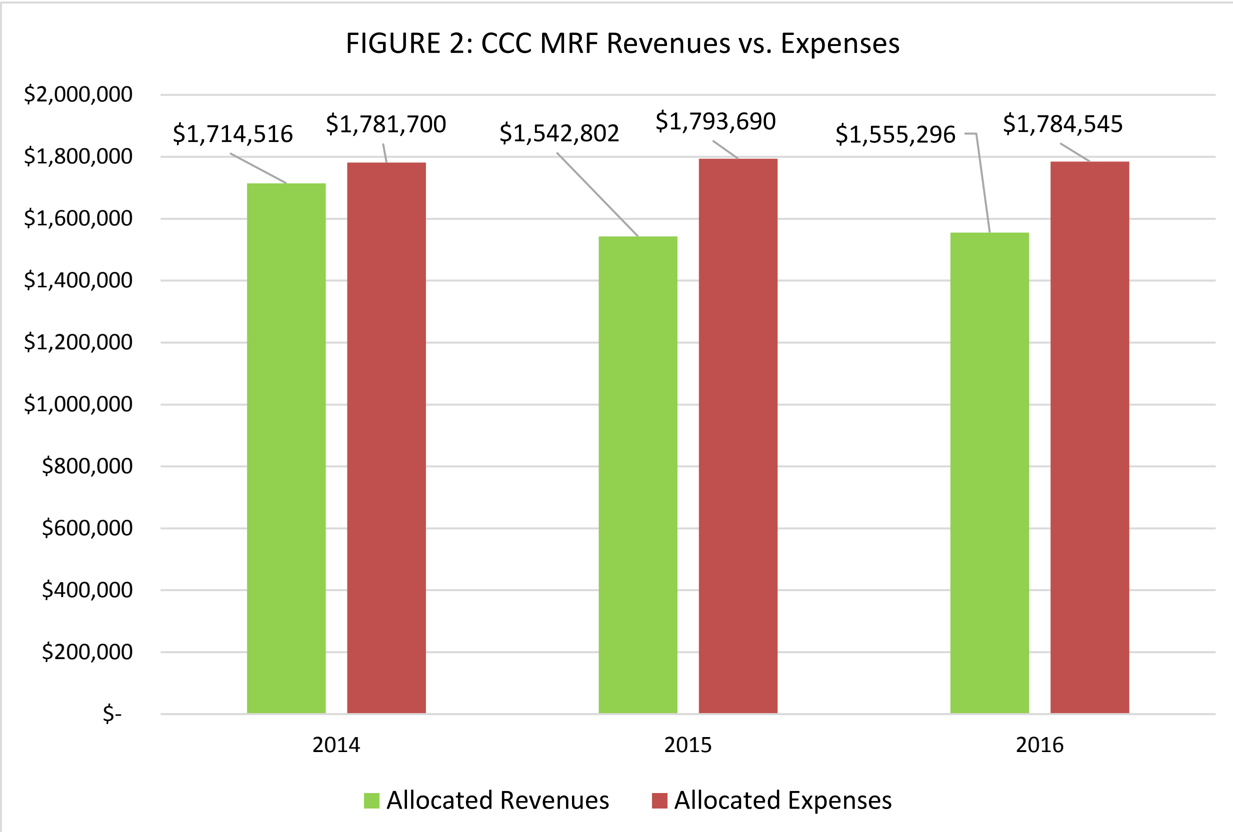

Deferred Maintenance

CCC has been running a "lean" operation at a net shortfall for the past two years, and as such preventative of equipment has been deferred. The following is a brief list of deferred maintenance items that have been identified by CCC:

- Containment barriers for commingled paper and container storage piles;
- Pot hole repair;
- Asphalt replacement;
- Vehicle replacement;
- Office equipment replacement and upgrades; and
- Baler repair.

The costs associated with these deferred maintenance items are estimated by CCC at one-time costs of about $80,000. These and other deferred maintenance costs (still to be identified and evaluated) should be considered when entering into new contractual relationship and forming a financial plan for the MRF and Buyback Center moving forward.

Management & Administration Review

Overview

Our review of CCC's management and administration was designed to answer the following questions:

- What are the major factors driving CCC's costs and what opportunities are there to reduce those costs?
- Does CCC use performance metrics that measure the efficiency and effectiveness of its operations?
- Are there clear and established performance standards (benchmarks)?
- Is performance tracked against those benchmarks?
- Is performance regularly communicated to staff (does staff know how they are performing related to established standards)?
- Is staff held accountable for performance (both good and bad)?

In answering these questions, R3 assessed the extent to which CCC has in place effective management structure and management systems necessary to support effective operations, track and evaluate performance, and identify, realize and sustain available opportunities for improvement.

Findings

Overall

8. The major factors driving CCC's costs are labor inputs in the MRF container sorting line, followed by the MRF fiber sorting line and the Buyback Center. Opportunities to reduce those costs would largely involve reduction in labor, facilitated by increases in efficiency and/or reduction in service (e.g. limited days of operation for the Buyback Center). As discussed on the following page, these types of opportunities are in conflict with CCC's main operational goals.
9. CCC management measures performance in terms of how quickly and effectively materials are processed after they are delivered by the City, Ecology Center, and the public. This is largely done via visual observation of material stockpiles, and assessment of production reports from the container sorting line.[7] The container sorting line is frequently operating at maximum capacity, sometimes requiring overtime shifts to process enough material that accumulation does not limit operation effectiveness.
10. CCC management tracks and monitors performance related to the visual observations of material stockpiles and the production reports in order to make necessary operational changes to keep material stockpiles at a minimum. Overall performance is communicated to staff, and management makes staffing changes (e.g., hiring, firing, re-assignment) as needed to increase productivity. CCC management tracks the daily output of the container line by recyclable material type, including sorting staff assignments. Management reviews these logs when material

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[7] The fiber sorting line and Buyback Center do not generate similar reports, as these portions of the operation are more leanly staffed and also not subject to the same backlog of materials that is often present for the container sorting line.

processing appears to be lagging behind, and has indicated that staff performance is assessed based on these logs and other observations. Poor performance has resulted in termination of non-productive employees in the past.

CCC Operational Goals

Our on-site interviews and observations indicate that CCC operations are structured to meet three primary goals:

- Produce high-quality recyclable commodities for sale on the recyclables market;
- Keep a very low residual rate by capturing as much of the incoming recyclables materials streams as possible; and
- Employ people to achieve the above goals.

These goals are not entirely compatible with achieving maximum operational efficiency or adaptability in a changing market place. MRF operators that strive to maximize efficiency and cost-effectiveness generally make strategic decisions to reduce costs by reducing labor, which for CCC would likely also result in declining material quality and increased residual rates.

Strategic Action Plan

Overview

Development of the Strategic Action Plan (Plan) was a collaborative effort between R3 and CCC management staff. Draft Plan elements were shared and discussed with CCC management prior to finalization in this Letter Report. CCC management has been open to considering options to improve operations, and management worked hand-in-hand with R3 to identify recommendations for improvement.

The following Strategic Action Plan elements focus on opportunities to:[8]

- Increase revenues;
- Decrease expenses;
- Better position CCC for changes in recycling markets; and
- Facilitate a new contract between the CCC and the City that more appropriately addresses the risk inherent in recyclables processing operations.

[8] R3 had previously suggested evaluating Strategic Action Plan "alternatives" with respect to the cost per ton of materials, changes in the capture and diversion of recoverable materials, and changes in greenhouse gas (GHG) emissions. The proposed Strategic Action Plan elements described in this Letter Report do not evaluate these factors because the Plan itself is not discussing alternatives, but rather a set of recommended steps that will reduce the per ton cost of CCC's processing of materials without material impacts to diversion levels and GHG emissions. These latter two factors would be important in terms evaluating alternatives to a new contract with CCC, which is not the subject or intent of this Letter Report.

Each Plan element is discussed below. Plan elements are organized via three main categories: contractual relationship between the City and CCC; changes to MRF and Buyback Center operations, and; accounting changes.

Attachment A (CCC Strategic Action Plan Implementation Worksheet) provides additional detail for each Plan element, including: required resources, responsible parties, implementation schedule and cost estimates.

Contractual Relationship between the City and CCC

The following Strategic Action Plan elements should be addressed in the next iteration of the contractual relationship between the City and CCC.

1 New Compensation Arrangement for Materials Delivered to the MRF

The current contractual relationship between the City and CCC places all of the risk (and reward) of changes in the recyclables markets on CCC. As stated earlier in this Letter Report, CCC is required to meet its operational expenses (and annual payments to the City) through the revenues received from the sale of recyclables materials. This is generally not possible for MRFs given the current state of recyclables markets. As a result, CCC has experienced annual shortfalls and has been unable to make payments to the City.

Going forward, the compensation arrangement between the City and CCC should mirror the arrangements offered by other MRFs; that is, the cost of operations should be decoupled from the revenue from material sales. This could be achieved through a variety of means, though R3 recommends that the arrangement be based on:

- A negotiated per ton cost of processing recyclables through the MRF, based on actual MRF operational expenses per ton, less adjustments for cost savings such as those suggested in this Strategic Action Plan; and
- A rebate on the per ton cost proportional to the amounts of revenue actually recovered from the sale of recyclable materials.

Such an arrangement would ensure sustainable funding that meets the operating expenses of the MRF, while also providing for a mechanism for the City and its rate-payers to share in the risks and rewards related to changes in the recyclables marketplace. The compensation arrangement should also have mechanisms to incentivize greater cost-effectiveness for CCC, in terms of reduced costs and/or increased revenues, which are elements of the current contractual relationship that have provided benefit to the City and its rate-payers. One such mechanism would be for CCC to keep a share of the materials sales above a certain annual threshold, though there are other mechanisms that could be considered. A number of example arrangements are available to use as a basis for a new contractual arrangement moving forward.

2 Separately Fund Buyback Center Operations

The current contractual relationship between the City and CCC does not distinguish between MRF and Buyback Center operations. However, as discussed in this Letter Report, there are distinct (yet related) factors contributing the operational effectiveness of each operational unit. The City's prime concern should be establishing contract terms for MRF processing and marketing of the recyclable materials collected by the Ecology Center and the City from Berkeley residents and businesses, in the same way that the City does for organics and garbage collected within the City. The Buyback Center, though a valued and well-used community resource, does not provide a core service for City residents and businesses in the same way that the MRF does. Rather, the Buyback Center provides a convenient place for Berkeley and non-Berkeley residents and businesses alike to drop off (and be paid for) recyclable materials. Given this distinction – and the fact that the Buyback Center operations contribute to CCC's overall shortfall – future contractual terms should distinguish the MRF and Buyback operations from one another. Revenues and expenses related to each operation should be tracked and reported separately by CCC, and funding of future Buyback Center shortfalls (if any) should be treated separately from the MRF operation, and at the City's discretion.

To achieve this, CCC should provide a detailed report of the specific revenues and expenses for both operations to the City on a regular basis (i.e. quarterly). If CCC continues to experience a shortfall in Buyback Center revenues vs. expenses, then CCC could request funding of the shortfall amount in order to continue Buyback Center operations. Likewise, surplus revenue generated from the Buyback Center could be used to offset shortfalls in the MRF operations.

If materials revenues and/or CRV revenues increase (and other proposed elements of this Strategic Action Plan relating to Buyback Center operations are implemented and successful), the shortfall could likely be less than the projected shortfall of $62,000 in 2016. Given the rate of buyback centers closing in the State, the City may wish to continue to fund the Buyback Center shortfall in the future (which it could likely do with Measure D funds from StopWaste or other sources), but should have the discretionary ability to do so, separate from the MRF operations.

3 Clarify Roles and Responsibilities between the City and CCC

There is currently a lack of clarity between the City and CCC regarding the roles and responsibilities of each party as they relate to the ownership and operation of the MRF and Buyback Center. For example, the City has historically funded the purchase of equipment that, from an accounting standpoint, now appear to be owned by CCC. Likewise, over time the City has viewed the MRF and Buyback Center as "CCC's program", while CCC reportedly sees itself as the operator of the "City's program".

In R3's opinion, and based on our understanding of other similar and successful relationships, the City should be fully responsible for ownership of the site, structures, equipment, and capital investment plan. CCC, on the other hand, should be responsible for the operation of, and preventative maintenance for, the site, structures and equipment.

As the municipal owner with a private (non-profit) operator, the City should set the programmatic requirements, and CCC should be responsible for implementing and meeting them. In part due to changes over time and the current contractual relationship, these distinctions have not been made fully clear; going forward, both the City and CCC would benefit from greater clarity and a mutual understanding of each party's role in providing for recycling processing services for the City's rate-payers.

Of particular importance in clarifying these roles and responsibilities going forward include, but are not limited to:

For the City:

- A capital investment plan and overall financial plan for MRF and Buyback Center operations, showing capital investments and deferred maintenance expenses and financing as well as the cost of operations (e.g. payments to CCC);[9]
- Engagement of CCC as the operator in gathering feedback on the capital investment and deferred maintenance plan;
- A commitment to provide funding, design and construction services for deferred maintenance and capital investment elements that are identified in the capital investment plan; and
- A clear description of programmatic and performance requirements for CCC as the operator, and a mechanism for addressing failure to meet those requirements.

For CCC:

- A commitment to operate the MRF at agreed upon compensation rates;
- A preventative maintenance plan for all facilities and equipment; and
- A commitment to meet programmatic and performance requirements, and acceptance of administrative charges or other agreed-upon penalties for not meeting those requirements.

Changes to MRF and Buyback Operations

The following Strategic Action Plan elements involve operational and capital changes for the MRF and Buyback Center.

4 Install OCC Screen on Fiber Line

An OCC screen should be added to the fiber line to reduce manual labor needs on that sorting line. Rather than the OCC being sorted manually, as is done now, the OCC screen would mechanically sort the OCC from the mixed paper. This would also potentially increase the amount of material the fiber line could process in a given shift. This screen and associated equipment installation expenses would cost approximately $350,000, and will likely require some reconfiguration of the fiber sorting line.

Labor expense savings associated with this option are estimated at $92,000 per year for two sorting laborers. Including amortization of the equipment over 10 years, installing the OCC screen would result in a net decrease in expenses of approximately $55,000 per year, assuming that only one sorter remains on the fiber sorting line to remove contaminants.

5 Install New Baler for Fiber Line

The baler used for both the MRF fiber and container sorting operations is in need of replacement. The current baler was purchased used, is approximately 15 to 20 years old, and is nearing the end of its useful lifetime. The baler is designed to process fiber materials, but CCC also uses it to bale containers. Going forward, the each line should have its own baler, which will reduce double handling of containers and also maximize opportunities for meeting shipping container weights for containers.

[9] Table 3 in this Letter Report serves as example of such a financial plan for the MRF and Buyback operations.

A new (or potentially used) baler for the fiber line is estimated to cost $250,000. At a minimum 10-year depreciation, this would add $25,000 per year to the cost of MRF operations. There may be short term efficiencies gained from a new baler; however, for the purposes of providing conservative estimates, these efficiencies are not included in our analysis. A separate baler for the container line is addressed in Plan element #10, on the following page.

6 Investigate Options for Additional Revenues from Mixed Plastics and Mixed Glass

During the course of the Operational Audit, R3 verified that CCC is receiving competitive pricing for the recyclable materials that it markets. However, pricing comparisons for mixed plastics and mixed glass were inconclusive; it may be the case that CCC could receive marginally increased revenues by modifying its processes and/or marketing for mixed plastics and mixed glass. R3 has conservatively estimated that CCC might be able decrease its annual shortfall by approximately $10,000 via possible increases in revenue, pursuant to future research and identification of processes/markets for these materials.

7 Pilot Reduction of Buyback Payments for OCC and Mixed Paper

R3 has reviewed the Buyback Center's prices paid to the public for materials including mixed paper and OCC (not CRV, which is regulated by the State). R3 believes that CCC could decrease the amounts paid out to the public for OCC and mixed paper, thereby increasing the marginal difference between what CCC pays out for those materials vs. what it is paid for them.

CCC currently pays out $100,000 to $125,000 per year for these materials. Marginal decreases (e.g. 10%) in the amounts paid out for those materials (currently $75 per ton for OCC and $50 per ton for mixed paper) could result in greater retained revenue for CCC, if payments were set such that CCC patrons continue to drop off those materials at CCC and don't sell their materials elsewhere.

R3 recommends that CCC develop a plan and pilot appropriately reduced payments to the public for these materials. If material volumes do not change, and CCC pays out 10% less per ton, CCC could retain upwards of $10,000 to $12,500 per year in revenues. We further recommend that CCC closely monitor the effects of the price change to ensure that net revenue is retained from this shift, and establish estimates regarding the price sensitivity of CCC's buyback customers.[10]

8 Pilot Closure of Buyback Center One Day per Week

The Buyback Center is currently open to the public six days per week, and is a well-utilized element of CCC operations. As mentioned earlier in this Letter Report, CCC pays out $1,000,000 annually to Buyback Center patrons, writing over 30,000 checks per year.

Theoretically, CCC could save $5,000 to $10,000 per year by closing the Buyback Center during the least busy day of the week. R3 estimates that this would not result in any changes in tonnages delivered to the facility; because very few options for buyback of materials remain in the area, patrons would likely deliver these materials to CCC on other open days. However, this assumption would also mean greater patronage on the remaining open days, potentially resulting in longer wait times at the Buyback Center and greater usage of staff time addressing customer concerns for that portion of the operation.

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[10] CCC could, in addition to piloting a reduction in payments to the public, also provide a plan to pilot increases in payments to the public; this could be a viable option for increasing overall Buyback Center revenues in the event that CCC would collect more tonnage a result of more favorable buyback pricing.

9 Process New Tons from Berkeley Commercial Accounts

The City has non-exclusive franchise agreements with a three waste haulers to service commercial accounts in the City. The City is currently planning to cease these agreement and provide commercial collection services to accounts that are currently served by non-exclusive haulers. When this occurs, the City will be in the position to direct this material to the MRF.

R3 has conducted a brief visual waste audit on commercial accounts not currently serviced by the City and has concluded that these accounts produce primarily fiber materials for recycling. At an estimated tonnage of 10 to 15 tons per day, processing such material would add approximately 2,500 to 4,000 tons of material yearly to the MRF. Accounting for increases in operating expenses as the fiber line, including implementation of Plan element #4, R3 estimates that these additional tons could yield net increases in revenues over expenses of $115,000 to $180,000, at current average annual market rates for mixed paper and OCC.

10 Plan Future Replacement of Container Line and Building

From a building and equipment standpoint, the container sorting line is the major factor affecting CCC's overall efficiency. As noted elsewhere in this Letter Report, the container line is labor-intensive and inconveniently configured, resulting in double handling of materials and other inefficiencies. The building itself is not large enough to house and cover unsorted container stockpiles delivered by the City and the Ecology Center. The container line cannot continue to operate effectively into the future without significant upgrades.

It is important to note that the amount of material available for the MRF to process is limited by the fact that the amounts of inbound materials delivered to the MRF is relatively fixed; because of the size of the site, the dual-stream processing approach, and lack of ability to accept tons from surrounding communities (because these are generally collected single stream), there is a limit to the economies of scale that can be achieved at the MRF. As such, replacing the container line and building may not increase overall MRF efficiency by an amount significant enough to fully counteract the cost of replacement and reduce overall operation expense.[11]

Table 2 on the following page provides a ballpark estimate of the cost of replacing the container line, installing a separate baler, and constructing a new 18,000 square foot building to house all container sorting operations, including stockpiles of unprocessed materials. The total capital cost is estimated at approximately $5.8 million.

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[11] It is for these same reasons that R3 is not recommending construction of a complete new MRF that would replace both the current container and fiber lines. Ultimately, whether via a dual-stream or single-stream system, it is very unlikely that enough tons could be directed to the MRF to facilitate cost-effective operations given the high investment cost in a complete new MRF facility.

TABLE 2: Estimated Capital Costs for New Container Building and Line		
New Building		
Steel structural	$	510,000
Roof/exterior	$	360,000
Bldg. Foundation	$	640,000
Mechanical Exhaust	$	110,000
Plumbing	$	50,000
Misting and fire suppression	$	80,000
Building Electrical	$	280,000
Mechanical/Electrical	$	270,000
Contingency (15%)	$	350,000
Subtotal New Building	*$*	*2,650,000*
Equipment		
Sorting Lines	$	1,500,000
Baler	$	250,000
Other Equipment	$	700,000
Subtotal Equipment	*$*	*2,450,000*
Engineering and Permitting Costs		
CEQA/Permits/Bonds (8%)	$	210,000
Design (10%)	$	270,000
Construction Admin. (8%)	$	210,000
Subtotal Engineering and Permitting	*$*	*690,000*
Estimated Total Capital Costs	***$***	***5,790,000***

If the City chooses to proceed with replacing the container sorting line and building there would likely be an interruption in container processing service that could last one year or more. During that time, the City and CCC would need to make alternative arrangements for the processing of containers, which would come at an additional cost above the costs discussed elsewhere in this Letter Report. These costs could potentially be avoided if the current container line were to continue operation while a new container line and building were constructed on a separate portion of the site.

Accounting Changes

The following Strategic Action Plan elements have been identified by subconsultant Armanino via the separate Financial Audit.

11 Full Examination of All Assets Maintained by CCC for Operations owned by the City and CCC

Due to prior accounting practices by the City and CCC, MRF and Buyback Center assets are not clearly and consistently addressed in City and CCC accounting records. In keeping with Plan element #3, the City should be the responsible party for all MRF and Buyback assets. Going forward, the City and CCC should conduct a full assessment of the value of these assets in order to determine their current depreciable lifetime, a capital costs and maintenance plan, and accurate recording on the City's books. There is not a specific cost impact associated with these accounting actions; however, they are important in terms of clarifying the roles and responsibilities of each party in the future.

12 Conduct Competitive Procurement Process for Outsourced CCC Accounting Services

CCC's current expenses for outsourced accounting services are approximately $94,000 per year. Based on Armanino's experience with other similarly sized operations, we believe that these costs could be reduced by 30% to 50% as a result of a refined program and competitive bidding for these outsourced services. We recommend that CCC conduct a competitive procurement process for these services, as refined subject to the recommendations in the separate Financial Audit report to be provided by Armanino. R3 conservatively estimates a net annual shortfall reduction of $30,000 as a result of competitive procurement and programmatic changes.

13 Reduce Liability Expense from CCC's Vacation Policy

CCC's current union agreement states that any employee with over 100 hours of accrued vacation can request payout of up to 100 hours of accrued vacation leave. This has resulted in a potential payable liability of approximately $42,000. We recommend that CCC consider negotiating with the union to change this policy and encourage vacation to be taken by employees in order to reduce this liability expense. R3 conservatively estimates a net annual shortfall reduction of $3,000 as a result of implementing a change in this policy.

14 Eliminate CCC Expense for Revenue Share

CCC is currently carrying a liability $446,128 in unpaid revenue share due to the City. As discussed elsewhere in this Letter Report, the revenue share component of the current agreement between the City and CCC is not consistent with current market conditions and practices for other similar operations. We recommend that the liability for the unpaid revenue share through the end of the current agreement be eliminated and not carried forward in CCC's books in the future.

Projection of Overall Impact of Strategic Action Plan Elements

Table 3, on the following page, provides a conservative projection of the overall impact of implementing the Strategic Action Plan elements described in this Letter Report. It should be emphasized that this is a conservative planning level projection that will require further analysis and refinement as the City and CCC work towards implementation of Strategic Action Plan elements. Key assumptions in Table 3 include:

- Implementation of Strategic Action Plan elements per the schedule in Attachment A;
- Implementation of City collection of commercial recyclables, and delivery to CCC, starting in 2018;
- Range of possible recyclables revenues ranging from 95% to 110% of 2016 revenue projections;
- City funding of capital investment items with reserves (financing is also available, but not modeled in Table 3); and
- Rate payer impacts for MRF shortfalls distributed to residential and commercial rate-payers in proportion to tonnages from each of these sectors.

TABLE 3: Projection of Overall Strategic Action Plan Financial Impacts							
Line Items	2014 (Actual)	2015 (Actual)	2016 (Projected)	2017 (Forecast)	2018 (Forecast)	2019 (Forecast)	2020 (Forecast)
Revenues							
MRF (Low)	$1,714,516	$1,542,802	$1,555,296	$1,470,000	$1,750,000	$1,750,000	$1,750,000
MRF (High)				$1,710,000	$2,170,000	$2,170,000	$2,170,000
Buyback Center (Low)	$1,456,056	$1,310,228	$1,320,839	$1,250,000	$1,250,000	$1,250,000	$1,250,000
Buyback Center (High)				$1,450,000	$1,460,000	$1,460,000	$1,460,000
Subtotal Revenues (Low)	$3,170,572	$2,853,031	$2,876,135	$2,720,000	$3,000,000	$3,000,000	$3,000,000
Subtotal Revenues (High)				$3,160,000	$3,630,000	$3,630,000	$3,630,000
Expenses							
MRF Operations	$1,781,700	$1,793,690	$1,784,545	$1,790,000	$2,000,000	$2,000,000	$2,000,000
Deferred Maintenance	$ -	$ -	$ -	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Capital Depreciation (20 years)	$ -	$ -	$ -	$ -	$ 290,000	$ 290,000	$ 290,000
Buyback Center Operations	$1,368,540	$1,395,890	$1,382,709	$1,390,000	$1,380,000	$1,380,000	$1,380,000
Subtotal Expenses	$3,150,240	$3,189,580	$3,167,255	$3,200,000	$3,690,000	$3,690,000	$3,690,000
Surplus (Shortfall)							
MRF (Smaller Shortfall)	$ (67,185)	$ (250,887)	$ (229,249)	$ (100,000)	$ (140,000)	$ (140,000)	$ (140,000)
MRF (Larger Shortfall)				$ (340,000)	$ (460,000)	$ (460,000)	$ (460,000)
Buyback Center (Smaller Shortfall)	$ 87,516	$ (85,662)	$ (61,871)	$ 60,000	$ 80,000	$ 80,000	$ 80,000
Buyback Center (Larger Shortfall)				$ (140,000)	$ (130,000)	$ (130,000)	$ (130,000)
Subtotal (Smaller Shortfall)	$ 20,331	$ (336,549)	$ (291,120)	$ (40,000)	$ (60,000)	$ (60,000)	$ (60,000)
Subtotal (Larger Shortfall)				$ (480,000)	$ (590,000)	$ (590,000)	$ (590,000)
MRF Rate-Payer Impact (Monthly)							
Residential (Low)	$ (0.20)	$ (0.60)	$ (0.60)	$ (0.30)	$ (0.40)	$ (0.40)	$ (0.40)
Residential (High)				$ (0.90)	$ (1.20)	$ (1.20)	$ (1.20)
Commercial (Low)	$ (0.50)	$ (1.80)	$ (1.60)	$ (0.70)	$ (1.00)	$ (1.00)	$ (1.00)
Commercial (High)				$ (2.40)	$ (3.20)	$ (3.20)	$ (3.20)
MRF Per Ton Costs							
Low	$ (6)	$ (22)	$ (20)	$ (9)	$ (9)	$ (9)	$ (9)
High				$ (30)	$ (30)	$ (30)	$ (30)

Funding Options

R3 recommends that the City adjust the solid waste collection, processing and disposal rates charged to Berkeley customers to provide funding for the future costs of processing recyclables through the MRF (as estimated in Table 3, above. Although annual Measure D funding provided to the City by StopWaste could be used for these purposes, in our opinion those funds are better utilized for making one-time improvements in Berkeley's diversion of solid waste materials from landfill. For example, those funds could be utilized by the City to fund capital investments at the MRF, and/or fund Buyback Center shortfalls.

New capital investments in the MRF and/or the Buyback Center could be provided via financing options available via the CalRecycle Revolving Loan Program (http://www.calrecycle.ca.gov/RMDZ/Loans/) and the California Pollution Control Financing Authority (http://www.treasurer.ca.gov/cpcfa/calcap/).

ATTACHMENT A CCC Strategic Action Plan - Implementation Worksheet								
#	**Description**	**Annual Net Shortfall Reduction (Increase)**	**Labor Impacts**	**Associated Impacts**	**Required Resources**	**Implementation Tasks**	**Responsible Party**	**Completion Schedule**
1	**New Compensation Arrangement for Materials Delivered to the MRF**	$ -	None.	CCC financial stability.	Staff time for negotiations.	Negotiation of terms and execution of agreement.	City and CCC.	June 2017.
2	**Separately Fund Buyback Center Operations**	$ -	None.	CCC tracking and reporting.	Tracking and reporting systems.	Negotiation of terms and execution of agreement.	City and CCC.	June 2017.
3	**Clarify Roles and Responsibilities between the City and CCC**	$ -	None.	Capital and maintenance investment.	Capital and maintenance funding.	Negotiation of terms and execution of agreement.	City and CCC.	June 2017.
4	**Install OCC Screen on Fiber Line**	$ 55,000	2 FTE reduction.	Reconfiguration of fiber line components.	Financing for $350,000 capital investment.	Design, financing, procurement, installation.	City and CCC.	September 2017.
5	**Install New Baler for Fiber Line**	$ (25,000)	None.	Short-term marginal cost reductions.	Capital for $250K baler over 10 year period.	Design, financing, procurement, installation.	City and CCC.	September 2017.
6	**Investigate Options for Additional Revenues from Mixed Plastics and Mixed Glass**	$ 10,000	None.	None.	Staff time for investigations.	Investigate, evaluate, and implement as feasible.	City and CCC.	June 2017.
7	**Pilot Reduction of Buyback Payments for OCC and Mixed Paper**	$ 10,000	None.	Potential reduction in materials received.	Staff time for analysis, outreach and education.	Design, analyze, implement and monitor.	CCC.	June 2017.
8	**Pilot Closure of Buyback Center One Day per Week**	$ 5,000	0.17 FTE reduction.	Potential reduction in materials received.	Staff time for analysis, outreach and education.	Design, analyze, implement and monitor.	CCC.	December 2017.
9	**Process New Tons from Berkeley Commercial Accounts**	$ 115,000	Potential increase in FTE, TBD.	Increased site congestion and backlog.	Additional staffing and implementation of #4 & #5.	Analyze, plan, and prepare.	CCC.	December 2017.
10	**Plan Future Upgrades to Container Line and Building**	$ (290,000)	TBD.	Potential ability to process additional materials.	~$5.8M principal capital investment over 20 years.	Design, financing, procurement, construction.	City and CCC.	December 2017.
11	**Full Examination of All Assets Maintained by CCC for Operations owned by the City and CCC**	$ -	None.	Impacts to City / CCC accounting systems.	Staff time for processing accounting changes.	Analyze, plan, and execute transactions.	City and CCC.	December 2017.
12	**Conduct Competitive Bidding Process for Outsourced CCC Accounting Services**	$ 30,000	None.	Improvement to accounting systems.	Staff time for conducting procurement process.	Conduct procurement process and transition.	CCC.	December 2016.
13	**Reduce Liability Expense from CCC's Vacation Policy**	$ 3,000	Benefit reduction.	Reduction in gross liability.	Staff time to implement new policy.	Negotiate, draft and implement new policy.	CCC.	June 2017.
14	**Eliminate CCC Expense for Revenue Share**	$ -	None.	Impacts to City / CCC accounting systems.	Staff time for processing accounting changes.	Analyze, plan, and execute transactions.	City and CCC.	June 2017.

Community Conservation Centers

Berkeley's
Multi-Material
Recycling Center

October 30, 2018

Ms. Dee Williams-Ridley, City Manager
City of Berkeley
2180 Milvia Street
Berkeley, CA 94704

RE: Request by Community Conservation Centers, dba Berkeley Recycling, for Forgiveness from Current Financial Obligation to City of Berkeley

Dear Ms.Williams-Ridley:

I am writing to you in my capacity as President of the Board of Community Conservation Centers, dba Berkeley Recycling (CCC), to respectfully request that the City relieve CCC of its obligation to pay the City the amounts due and owing as a result of CCC's past commitment to pay the City 7.5% of its gross revenues to the City.

As this letter explains, the obligation became commercially impractical during the contract term, and forgiveness of the debt will be a benefit to the City by ensuring that the City and its citizens will have a viable recycling program through the contract extension period to help achieve its Zero Waste Goal.

CCC is a local, non-profit organization that has operated a full-service recycling program under contract with the City for more than 35 years. The program components are a drop-off; a buyback; a collection area for household hazardous wastes; and a dual-stream Materials Recovery Facility (MFR). Support for these programs by Berkeley citizens, together with the Ecology Center's dual-stream collection system and CCC's dual-stream MRF, provides the Berkeley community with a strong foundation for achieving the City's Zero Waste goal.

In 2011, CCC entered into a contract with the City that, in Section 2, required that it pay the City 7.5% of its gross revenues to the City. For several years when the prices for recycled goods were high, CCC was able to meet this obligation and operate the City's program. Over the years, CCC paid the City $726,737.75 consistent with this obligation. As market prices fluctuated and operational costs increased, CCC was unable to meet this obligation. This situation made the obligation "commercially impractical."

In 2016, R3 Consulting Group advised the City the obligation was impractical in the attached "Letter Report of Audit Findings and Strategic Action Plan" concerning CCC in the following terms:

Recycling Facility
669 Gilman Street
Berkeley, CA 94710
(510) 524-0113
(510) 559-8001 fax

Financial Office
1717 Fourth Street
Berkeley, CA 94710
(510) 526-9326
(510) 526-9327 fax

City Manager Williams-Ridley, page 2

> "CCC is currently carrying a liability $446,128 in unpaid revenue share due to the City. As discussed elsewhere in this Letter Report, the revenue share component of the current agreement between the City and CCC is not consistent with current market conditions and practices for other similar operations. We recommend that the liability for the unpaid revenue share through the end of the current agreement be eliminated and not carried forward in CCC's books in the future."

CCC has been transparent about this issue. The City has been generously providing emergency funding to CCC. In 2016, the City allocated $181,719 to CCC so that its operations would not be interrupted. On May 30, 2017, the City again acted and allocated $500,000 to CCC. Most recently, at its June 12, 2018 meeting, the City Council "provide[d] short term funding in the amount of $699,815 for Community Conservation Centers Inc. to continue operations until September 30, 2018, while a long-term contract with the City is negotiated." (See attached "June 12, 2018 Resolution".)

We are pleased to report that those negotiations are complete. The contract extension CCC has signed with the City reflects the recommendations made by R3.The financial terms are designed to ensure that the City's program can be sustained over the next 19 months. The extension gives the City ninety percent of the benefit of sales CCC achieved on recycled goods in markets.

The June 12, 2018 Resolution outlines the many public benefits achieved through the City's programs operated by CCC. In addition to all the benefits outlined here and detailed in the June12, 2018 Resolution, CCC has invested $1,372,826.30 in capital that will become the City's property upon termination of the contract. As of November 30, 2018, CCC estimates that it will owe the City $1,123,732,01.

Notwithstanding these benefits, achievement of the benefits as embodied in the Zero Waste Goal depends upon CCC's financial viability throughout the contract period. CCC's costs will continue to rise and the Trump Administration's trade policy has contributed to further deterioration of the market for recycled products. Thus, in the context of the work done by CCC and the City's staff in achieving the contract extension, CCC respectfully requests that the accrued obligation under Section 2 of the 2011 contract be recognized as commercially impractical and CCC be forgiven of the obligation.

Respectfully submitted, Nancy Gorrell

Nancy Gorrell, President, Board of Directors
Community Conservation Centers

cc: Phillip Harrington, Director of Public Works
Greg Apa, Solid Waste and Recycling Manager
Heidi Obermeit, Recycling Program Manager
Michael Woo, Deputy City Attorney/Risk Manager