

MEMORANDUM



To: Susan Young
Division of Solid Waste and Recycling
City of Minneapolis

From: Bob Craggs
Dan Krivit

Subject: **Recyclable Materials Processing - Review of Proposals**

Date: February 12, 2004

Overview

The City of Minneapolis (City), Division of Solid Waste and Recycling (Division) distributed a request for proposals (RFP) for recyclable materials processing and marketing services in October of 2003. In November 2003, proposals were received from the following vendors:

- Eureka Recycling;
- Recycle America Alliance (RAA), a subsidiary of Waste Management, Inc.; and
- Browning Ferris Industries (BFI), a subsidiary of Allied Waste;

The project team of R. W. Beck, Inc. and Dan Krivit and Associates (Project Team) reviewed the submitted technical and pricing information as related to the Special and Operating Requirements of the RFP. The results of our review of this initial information were summarized in our December 19, 2003 letter to the Division.

Following the presentation of the submitted information and review to the City of Minneapolis Transportation and Public Works Subcommittee (T&PW) on January 6, 2004, T&PW requested that the three vendors submit additional pricing information for the years of 1999, 2000, and 2003. The additional pricing information was submitted, review completed, and results presented in our January 29, 2004 memorandum to the Division.

At the T&PW February 3, 2004 meeting, the T&PW requested a "best and final" proposal from each of the proposers for the "Base Scenario" proposals. T&PW requested as part of the "best and final" proposal the pricing information for the five year period of 1999-2003. In addition, T&PW requested a narrative on recyclable materials market pricing trends for 2004, 2005, and 2006. Each of the three proposers submitted a "best and final" proposal, including both sets of requested information, to the Division by Friday, February 6, 2004.

Summary of Pricing Review

Provided below is a summary of the results of our review of the "best and final" proposal information.

MEMORANDUM

February 12, 2004

Page 2

- BFI and Eureka each submitted one proposal alternative with all commodity prices "floating" with market conditions. RAA submitted three proposal alternatives:
 - RAA "Base" - All commodity prices floating with the marketplace;
 - RAA "Fixed News" - News with fixed price only, all other commodity prices floating with the marketplace; and
 - RAA "Fixed News and Aluminum" – News and Aluminum with fixed prices only, all other commodity prices floating with the marketplace.
- The five proposal alternatives were reviewed by the Project Team. Adjustments to the final pricing were made based on minor calculation errors but were not significant to change relative ranking of the five year net revenue proposal alternatives to the City. Net revenue results of the five year period from 1999 to 2003 from highest to lowest net return were as follows:

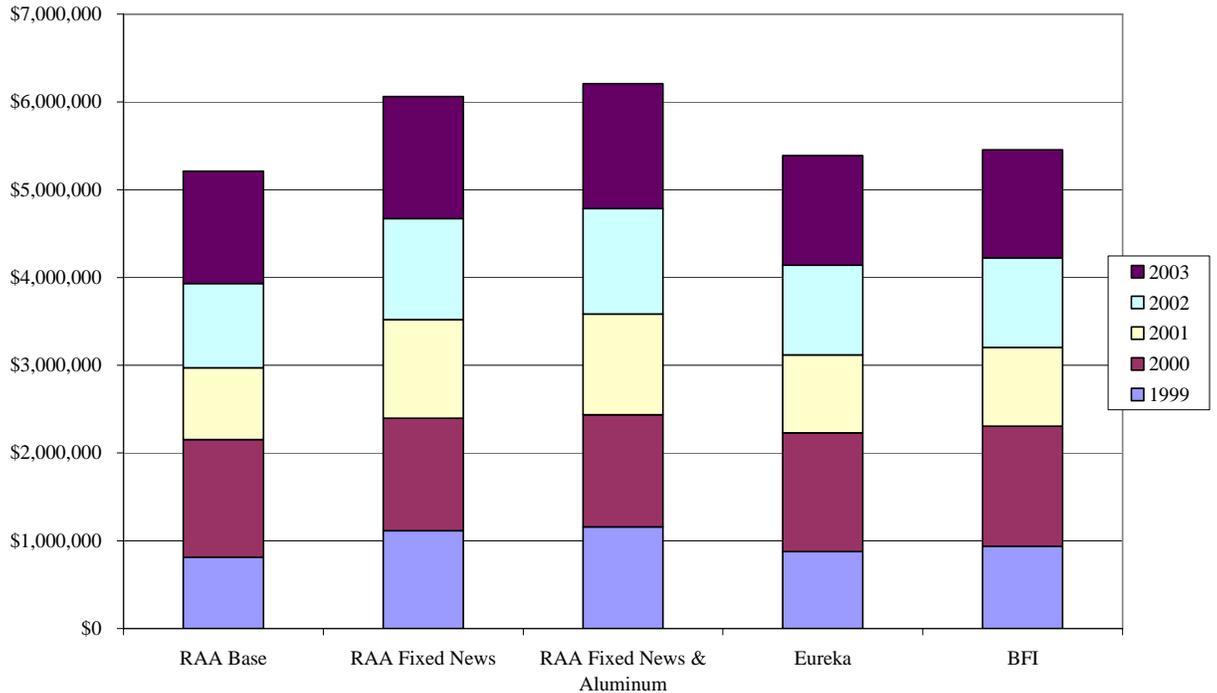
▪ RAA "Fixed News and Aluminum"	\$6.21 million
▪ RAA "Fixed News"	\$6.06 million
▪ BFI	\$5.46 million
▪ Eureka	\$5.39 million
▪ RAA "Base"	\$5.21 million
- The difference between the RAA Fixed Newspaper and Aluminum proposal alternative and the BFI-Base proposal is more than 13%. Figure 1 below graphically illustrates the comparative results.

MEMORANDUM

February 12, 2004

Page 3

Figure 1
City of Minneapolis
Solid Waste and Recycling Division
Five Year Net Revenues
Best and Final Proposals



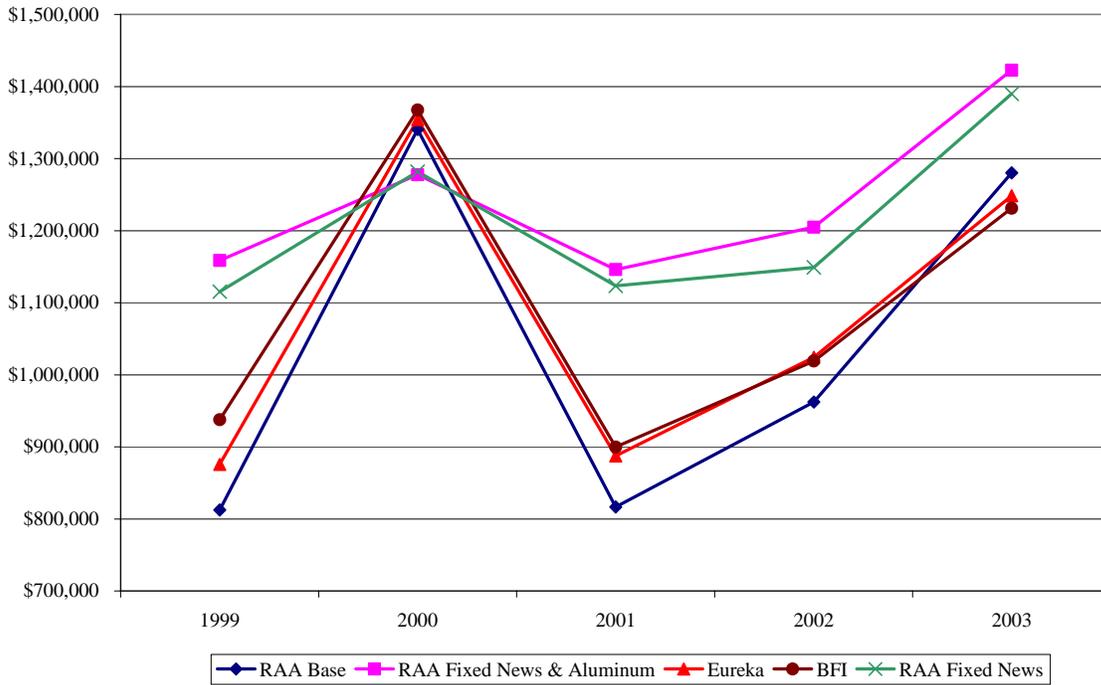
- The RAA-Fixed News and Aluminum Price proposal alternative results in the highest net revenue as compared with the other "Base" alternatives, except in year 2000. In reviewing the Official Board Markets indices for fiber grades in 2000, a price spike for news combined with other more moderate increases in commodity market prices result in more net revenue under the Eureka 100% Share proposal and the BFI-Base proposal than for the RAA-Fixed Newspaper and Aluminum proposal in 2000. This is reflected below in Figure 2 with a time-series graph for each of the alternatives over the five year period.

MEMORANDUM

February 12, 2004

Page 4

Figure 2
City of Minneapolis
Solid Waste and Recycling Division
Five Year Net Revenues
Best and Final Proposals



- RAA-Fixed Pricing proposal alternatives generate the greatest net revenue for newspaper over the five year period. The RAA-Fixed Newspaper and Aluminum proposal generated the greatest net revenue not only for newspaper, but also glass, plastics, and magazines. Eureka 100% Share proposal generated the greatest net revenue for aluminum and mixed paper over the five year period. BFI-Base proposal generated the greatest net revenue for tin, OCC and phone books over the five year period. Table 1 below depicts the net revenue by commodity by proposer over the five year period. In addition, time-series charts of the per ton net revenue by commodity are provided as attachments to this memorandum for reference.

MEMORANDUM

February 12, 2004

Page 5

Table 1
City of Minneapolis
Solid Waste and Recycling Division
Five Year Net Revenue By Commodity ⁽¹⁾
Best and Final Proposals

	RAA Base	RAA Fixed News	RAA Fixed News & Alum	Eureka	BFI
Newspaper	\$1,927,229	\$2,692,265	\$2,692,265	\$2,087,178	\$2,207,343
Cans - Aluminum	\$1,868,548	\$1,868,548	\$2,018,643	\$2,051,442	\$2,036,836
Cans - Tin	(\$78,665)	(\$78,665)	(\$78,665)	(\$157,392)	\$88,943
Glass					\$357,106
<i>41% Clear</i>	\$261,221	\$261,221	\$261,221	\$232,285	
<i>31% Brown</i>	\$149,972	\$149,972	\$149,972	\$130,410	
<i>28% Green</i>	\$17,669	\$17,669	\$17,669	(\$0)	
Plastic					\$485,733
<i>25% Natural HDPE</i>	\$299,761	\$299,761	\$299,761	\$237,434	
<i>25% Colored HDPE</i>	\$180,308	\$180,308	\$180,308	\$195,268	
<i>50% PET</i>	\$333,363	\$333,363	\$333,363	\$250,543	
Corrugated	\$121,266	\$121,266	\$121,266	\$89,955	\$126,831
Phone Books	(\$1,854)	(\$1,854)	(\$1,854)	(\$25,620)	\$10,248
Magazines	\$144,180	\$200,121	\$200,121	\$156,314	\$118,805
Mixed Paper	<u>(\$10,988)</u>	<u>\$15,750</u>	<u>\$15,750</u>	<u>\$142,358</u>	<u>\$23,338</u>
Total	\$5,212,010	\$6,059,726	\$6,209,820	\$5,390,174	\$5,455,183

Note (1) The Eureka 75% and Eureka 50% proposal are not included because no "best and final" proposals were submitted for these alternatives.

- In addition, the Project Team has compared the net revenue by commodity for the previous pricing provided by the proposers to the recently submitted "best and final" proposal pricing. As depicted, the changes made by the proposers to the processing and floor pricing resulted in significantly higher net revenues ranging from an increase of approximately \$750,450 for the Eureka 100% Share proposal to an increase of more than \$1.68 million for the RAA-Fixed Newspaper and Aluminum proposal. Table 2 below characterizes the differences in net revenue by commodity by proposal between the two sets of pricing submitted.

MEMORANDUM

February 12, 2004

Page 6

Table 2
City of Minneapolis
Solid Waste and Recycling Division
Difference in Net Revenue By Commodity (Five Year Totals) ⁽¹⁾
Between Previous Pricing and Best and Final

	RAA Base	RAA Fixed News & Alum	Eureka	BFI
Newspaper	\$438,072	\$1,181,970	\$656,650	\$317,161
Cans - Aluminum	\$140,530	\$139,293	\$0	\$800
Cans - Tin	\$206,388	\$206,388	\$0	\$0
Glass				\$378,612
<i>41% Clear</i>	(\$17,248)	(\$17,248)	(\$1)	\$0
<i>31% Brown</i>	(\$13,041)	(\$13,041)	(\$1)	\$0
<i>28% Green</i>	(\$11,779)	(\$11,779)	\$0	\$0
Plastic				\$165,264
<i>25% Natural HDPE</i>	\$16,276	\$16,276	\$0	\$0
<i>25% Colored HDPE</i>	\$16,276	\$16,276	\$0	\$0
<i>50% PET</i>	\$32,552	\$32,552	\$0	\$0
Corrugated	(\$6,430)	(\$6,430)	\$0	\$0
Phone Books	\$4,277	\$4,269	\$0	\$12,810
Magazines	\$32,235	\$87,858	\$48,810	\$0
Mixed Paper	<u>\$26,329</u>	<u>\$51,750</u>	<u>\$45,000</u>	<u>\$46,838</u>
Total	\$864,437	\$1,688,134	\$750,459	\$921,485

Note (1) The RAA-Fixed Newspaper proposal alternative was excluded because a similar previous pricing proposal was not submitted and Eureka 75% and Eureka 50% proposals were excluded because no comparative proposals were submitted as best and final.

- The two largest revenue generating commodities are newspaper and aluminum cans and combined generate more than 70% of the total net revenues under each of the proposals. Based on review of pricing forecasts from experts in the industry, future price increases are likely in 2004 for newspaper and aluminum. An increase in the range of 3% to 9% is projected for aluminum and an increase at least equal to or greater than this range is projected for ONP. Some industry experts are projecting an increase in ONP prices in 2004 of nearly 40%.

Table 3 below characterizes future market trends as submitted by the proposers as part of their "best and final" proposals. It appears the proposers have based their narratives on comments from their own end markets and industry publications. The submitted information is consistent with industry opinion provided above.

MEMORANDUM

February 12, 2004

Page 7

**Table 3
City of Minneapolis
Solid Waste and Recycling Division
Future Market Trends
Summary of Narratives**

	BFI	Eureka	RAA
Newspaper	...very optimistic	...increase significantly	...in the \$90-\$100 range during the next 12-18 months with prices moderating in the \$65-100 range over the three year period
Aluminum Cans	...will remain strong	...slight increases	...moderately higher for the remainder of 2004 with a decline and moderation in pricing for 2005 and 2006
Tin Cans	...will remain strong	...will remain strong for the next few months	...looks strong, but at some point...in the near future, prices will ...come back in line with historical averages...
Glass	...stable	...remain steady	...very stable
Plastic (generic)	See HDPE and PET plastics below	...currently at peak pricing...current value is unsustainable...Prices will peak in 2004, before declining for 2005-2006...prices will level off at the average of 2002 and 2003 prices	See HDPE and PET plastics below
Plastic - HDPE	...will remain strong	See Plastic above	...will continue to remain at attractive levels going forward...
Plastic - PET	...will gradually drop throughout (2004 and 2005) and then remain flat (in 2006)	See Plastic above	...optimism ...will remain in its current pricing range over the next few years
Corrugated	...strong going forward...2.8% per year.... rebounding from a low base in 2002	...significant increases ...strong growth...	...in the range of \$65-100 is expected over the next three years
Phone Books	...will remain steady	...uncertain, with minimal demand...	Not specified
Magazines	...follows the newspaper pricing and will continue to be in high demand	...the same as news	...the same as news
Mixed Paper	...follows the OCC market. Pricing will remain strong...	...the same as news	...expected to moderate in the \$40-\$60 range

MEMORANDUM

February 12, 2004

Page 8

- A theoretical worst case scenario (i.e. floor prices less processing fees for all commodities) analysis was conducted to estimate the lowest possible net revenue to the City. This "worst case" analysis reflects that the RAA-Fixed Newspaper and Aluminum and Fixed Newspaper proposal alternatives offer the greatest net revenue over the five year period from 1999 - 2003. The BFI-Base proposal resulted in the next highest under this analysis. It is our opinion based upon historical pricing volatility that this scenario is not very probable. Table 4 below depicts the five year totals for the "Worst Case" for each base proposal.

Table 4
City of Minneapolis
Solid Waste and Recycling Division
Recyclable Materials Processing Proposals
Five Year Worst Case Net Revenue Comparison *
(Floor Price Less Processing Fees)

	RAA Base	RAA Fixed News	RAA Fixed News & Aluminum	Eureka	BFI
1999	\$431,858	821,958	903,663	625,550	780,561
2000	\$397,070	778,908	856,323	604,320	758,359
2001	\$383,637	733,675	812,065	584,080	738,458
2002	\$383,637	781,410	875,010	644,630	803,350
2003	\$472,834	822,684	922,719	671,640	851,616
Five Year Total	\$2,118,734	\$3,938,634	\$4,369,779	\$3,130,220	\$3,932,344

Note: The "worst case" scenario is for analytical purposes of comparing the lowest possible net revenue estimates. Based on current and forecasted market prices, this represents an unlikely scenario.

Comparison of Proposals

The following table summarizes the application of the evaluation criteria to the base proposals provided by the three vendors. Please note that during our due diligence review some mathematical errors were found in the pricing components of each proposal. These errors were corrected to ensure consistency when comparing proposals. The results reflect the benefits and drawbacks of the various "Base" proposals as submitted.

MEMORANDUM

February 12, 2004

Page 9

Table 5
Summary Review Table
City of Minneapolis Recyclable Materials Processing
Best and Final Proposal

Evaluation Criteria	BFI	RAA ^(c)	Eureka
Distance from 2710 Pacific Avenue – City Fleet Staging Location	Within 4 mile minimum distance	Within 4 mile minimum distance	Within 4 mile minimum distance
Anticipated Materials Dumping Time	Per proposed facility layout and staffing, appears acceptable	Per existing facility layout and staffing, appears preferable	Per proposed facility layout and staffing, appears acceptable
Materials Accepted	All materials presently collected, as well as the additional materials of tennis shoes, textiles, and hard cover books	All materials presently collected, as well as the additional materials of polypropylene and PVC bottle plastics	All materials presently collected, as well as the addition of textiles
Reference Facilities	Minneapolis Recycling MRF (current City recyclable materials processor)	Madison MRF Twin Cities MRF	New Brighton MRF Minnehaha (WM MRF) Recycle Ann Arbor
Strength of Marketing Agreements ^(a)	Brief discussion of marketing strategy provided, along with a list of primary and secondary markets that includes a diverse set of local, national, and international markets	Marketing plan was provided that includes strategies, list of primary and secondary markets (i.e. diverse local, national, and international), and an overview of the key contract terms (i.e. type of pricing, local volumes) of the various market agreements	Marketing plan was provided that includes description of approach, list of primary and secondary markets (i.e. diverse local, national, and international), types of pricing agreements (i.e. spot vs. contract pricing), and some actual market agreements (i.e. confidential basis)
Net Return to City (i.e. five year total highest net return for Base Scenarios Only ^(b))	\$5.46 million	\$6.21 million (“fixed news and aluminum”) \$6.06 million (“fixed news”) \$5.21 million (“market prices”)	\$5.39 million (100% share)
Organizational Experience	Significant: Multiple recycling facilities over many years	Significant: Multiple recycling facilities over many years (as WM and Peltz)	Limited experience as an organization operating a recycling facility (as Eureka Recycling)
Personnel Experience	Significant: More than adequate personnel qualifications	Significant: More than adequate personnel qualifications	Significant: More than adequate personnel qualifications
Operational Risks	Present facility layout creates traffic congestion and safety concerns (i.e. blind corners and cross-traffic)	Facility configuration adequate, includes two scales to facilitate ingress and egress	Facility still under construction; proposed final layout appears adequate although some cross-traffic questions exist
Transitional Issues	None presently required, however some traffic issues likely to arise during proposed construction	Need to familiarize City staff with location and operating procedures at the new processing facility	Need to familiarize City staff with location and operating procedures at the new processing facility, along with potential for some cross-traffic issues
Financial Risks	Agrees to provide bonds for amount of contract	Agrees to provide bonds for amount of contract	Limited annual cash flow and scope of bonds are uncertain
Completeness of Information	Adequate	Complete and well organized	Complete and well organized

Notes:

- (a) Each proposer has provided adequate documentation of sufficient end-market capacity for all commodities in the base scenario.
- (b) “Net Return to City” reflects the adjusted “best and final” proposals as submitted. The City’s RFP required respondents to use historical prices for the comparison period of 1999 through 2003 as a means of equitably comparing proposed revenue sharing formula.
- (c) RAA offered three net revenue return proposal alternatives for consideration by the City under the base (source separated) scenario: one with all commodities assuming “market floating prices” indexed to published journals, the second revenue alternative with newspaper and aluminum with “fixed prices”, and the third alternative with newspaper with “fixed” price. Under the “fixed price” alternatives, as proposed by RAA, the commodities specified would have fixed prices and other commodities would use market floating prices.

MEMORANDUM

February 12, 2004

Page 10

Recommendations

The Project Team's recommendations are based on a comprehensive review of the submitted proposals to address both the type of services agreement (i.e. program design, pricing formula, alternatives, length of agreement) and a preferred vendor. A combination of criteria were used including but not limited to the completeness of the proposals, vendors' materials processing experience, anticipated operational risks, proposed pricing alternatives, and financial risks. Our recommendations include the following:

- **The City of Minneapolis should continue with its “source separated” recyclable materials program.** Each of the three vendors submitted alternative proposals that included the processing of commingled recyclables (e.g., “dual stream” or “single stream”). These proposed alternatives offer less net revenue to the City than the source separated recyclable materials proposals primarily due to the higher costs of processing the commingled recyclables. City cost savings due to increased collection efficiency under these various alternative collection systems are not likely to offset the reduced revenues to the City.
- **The City of Minneapolis should negotiate a recyclable materials pricing formula based on market prices that fluctuate with changing economic conditions coupled with downside price protection.** We recommend that the City not select a formula that is based solely on “fixed” prices for all commodity quantities and/or types. Negotiating a formula that fixes a portion of the newspaper and aluminum quantities provides the benefits of downside protection, but takes advantage of potential pricing increases. The City should give some consideration to retaining the option to fix selected commodity prices during the contract term. Expert industry analysts and the proposers in their "best and final" proposals anticipate improved prices in 2004 for most commodities, including newspaper and aluminum. The anticipated improved market conditions may allow the City to not only enjoy additional revenue during the forecasted “upside” price trend, but also minimize its economic risks.
- **The City of Minneapolis should negotiate an agreement for a term of three years with the option to extend the agreement for additional years.** The recycling industry and the marketplace continue to be in a period of transition. A relatively short contract period (i.e., three years) should help promote quality service from the selected vendor while still encouraging competition.

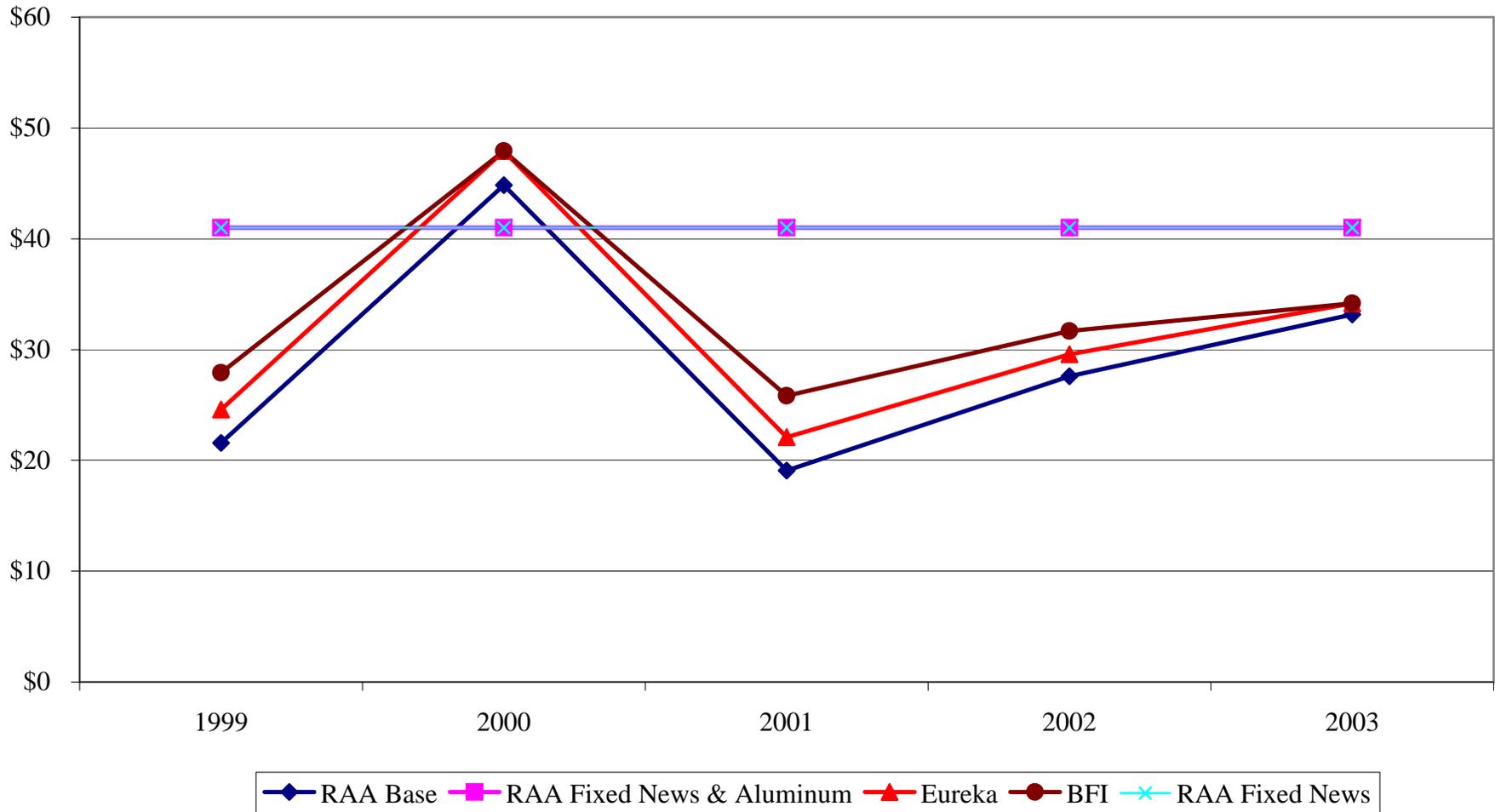
MEMORANDUM

February 12, 2004

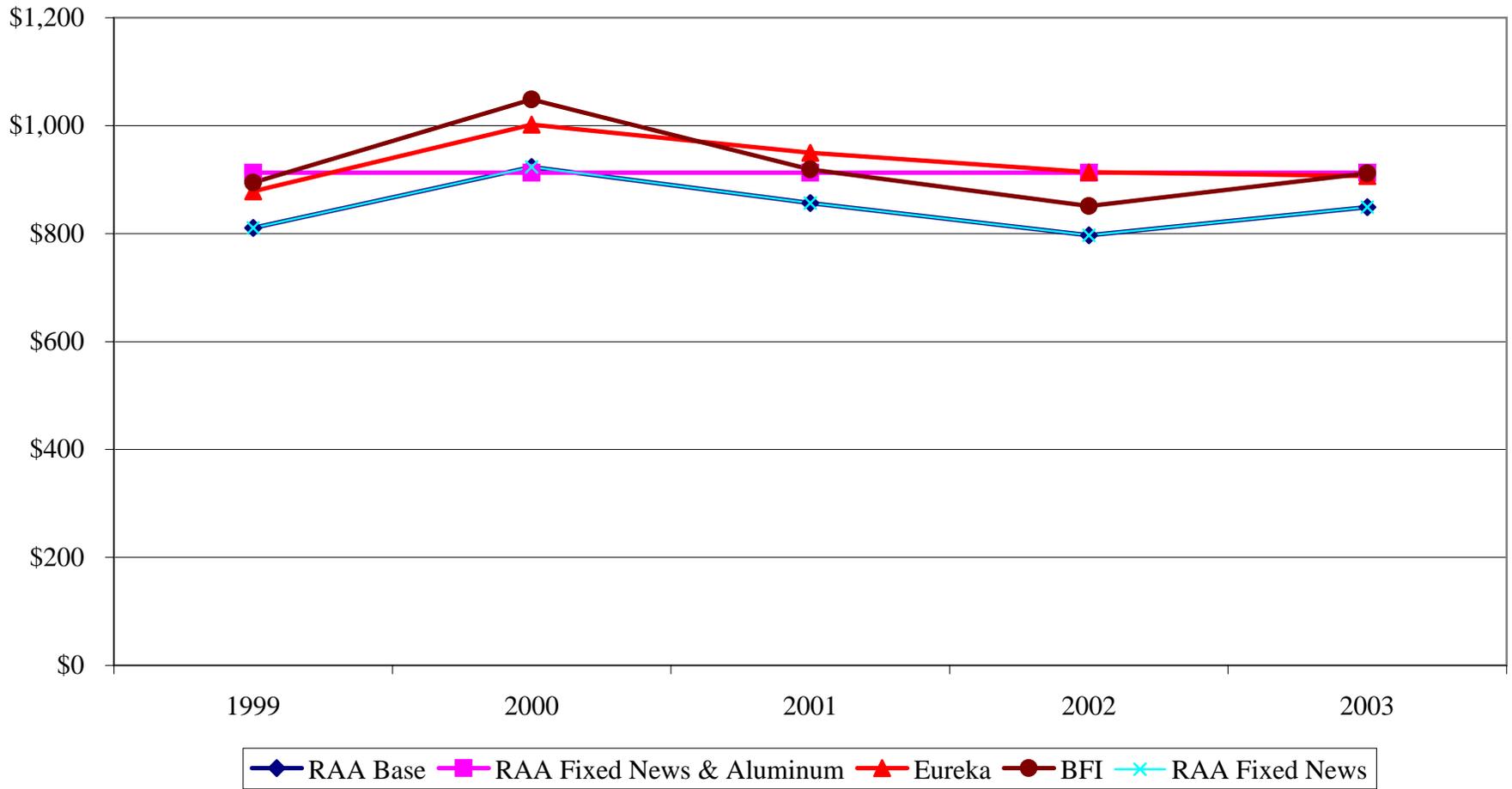
Page 11

- **The City of Minneapolis should specifically rank the preferred order of its vendor selection. The City should first negotiate exclusively and in good faith with the top-ranked vendor to the execute a services contract.** However, if negotiations fail, the process should specify that the City will then initiate exclusive negotiations with its second vendor of choice. If negotiations fail with the second vendor, the City should then initiate negotiations with its third vendor of choice. This practice is recommended to reflect best management practices within the industry.
- **The City of Minneapolis should rank its vendor selection in the following order of preference:**
 - #1 Recycle America Alliance (RAA)**
 - #2 Eureka Recycling, Inc.**
 - #3 Browning Ferris Industries (BFI)**

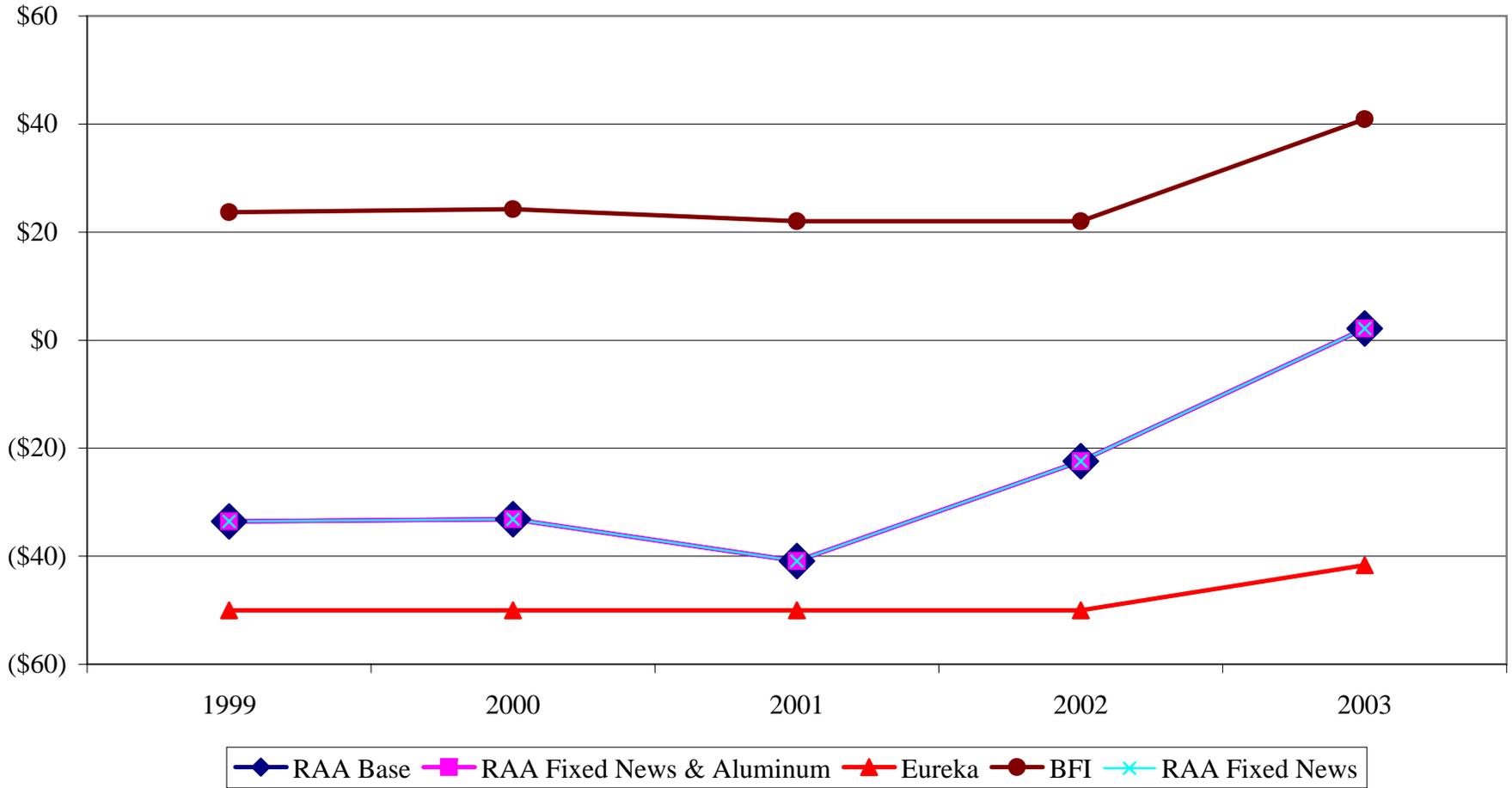
Attachment 1
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Newspaper



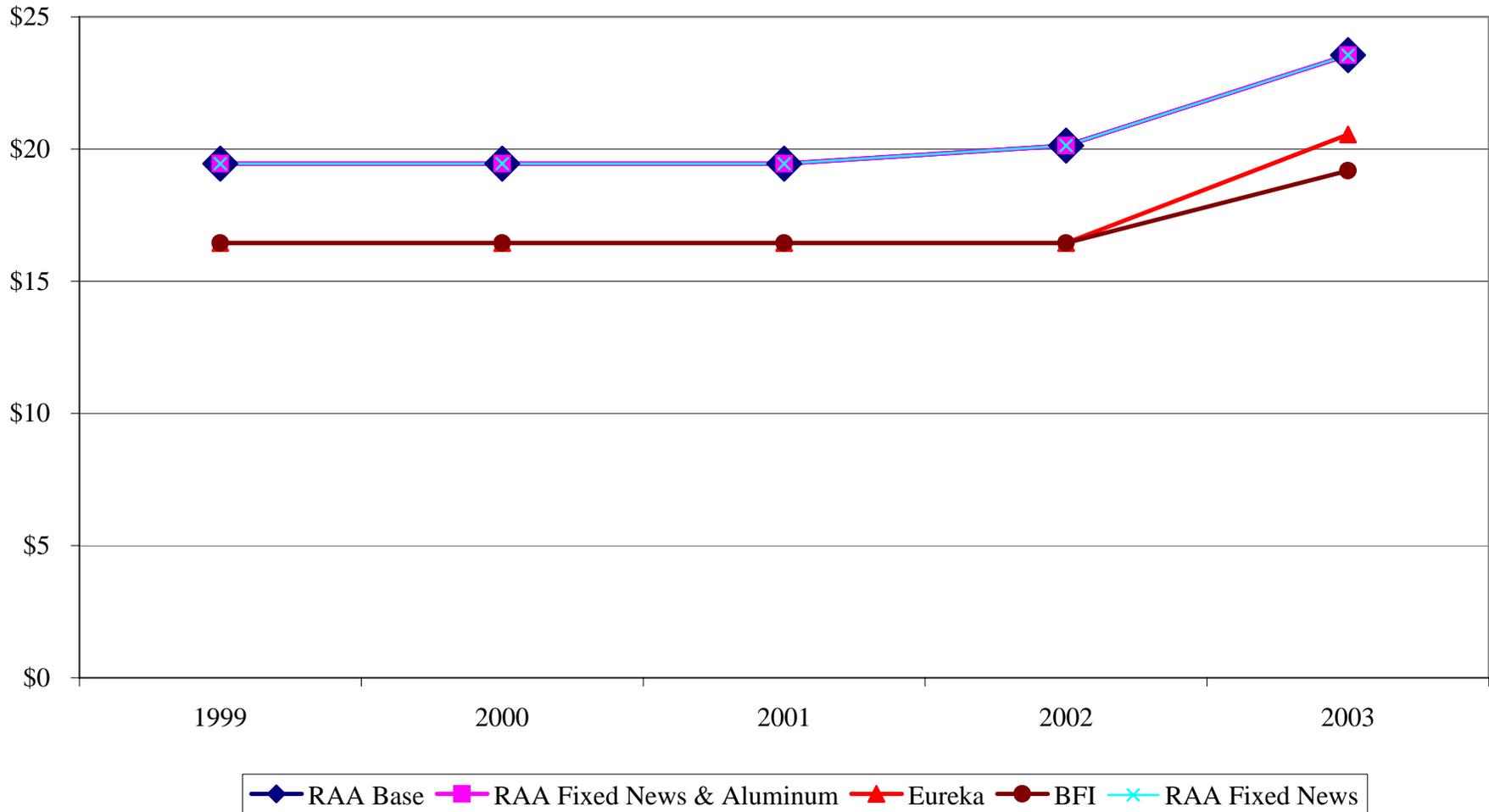
Attachment 2
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Aluminum



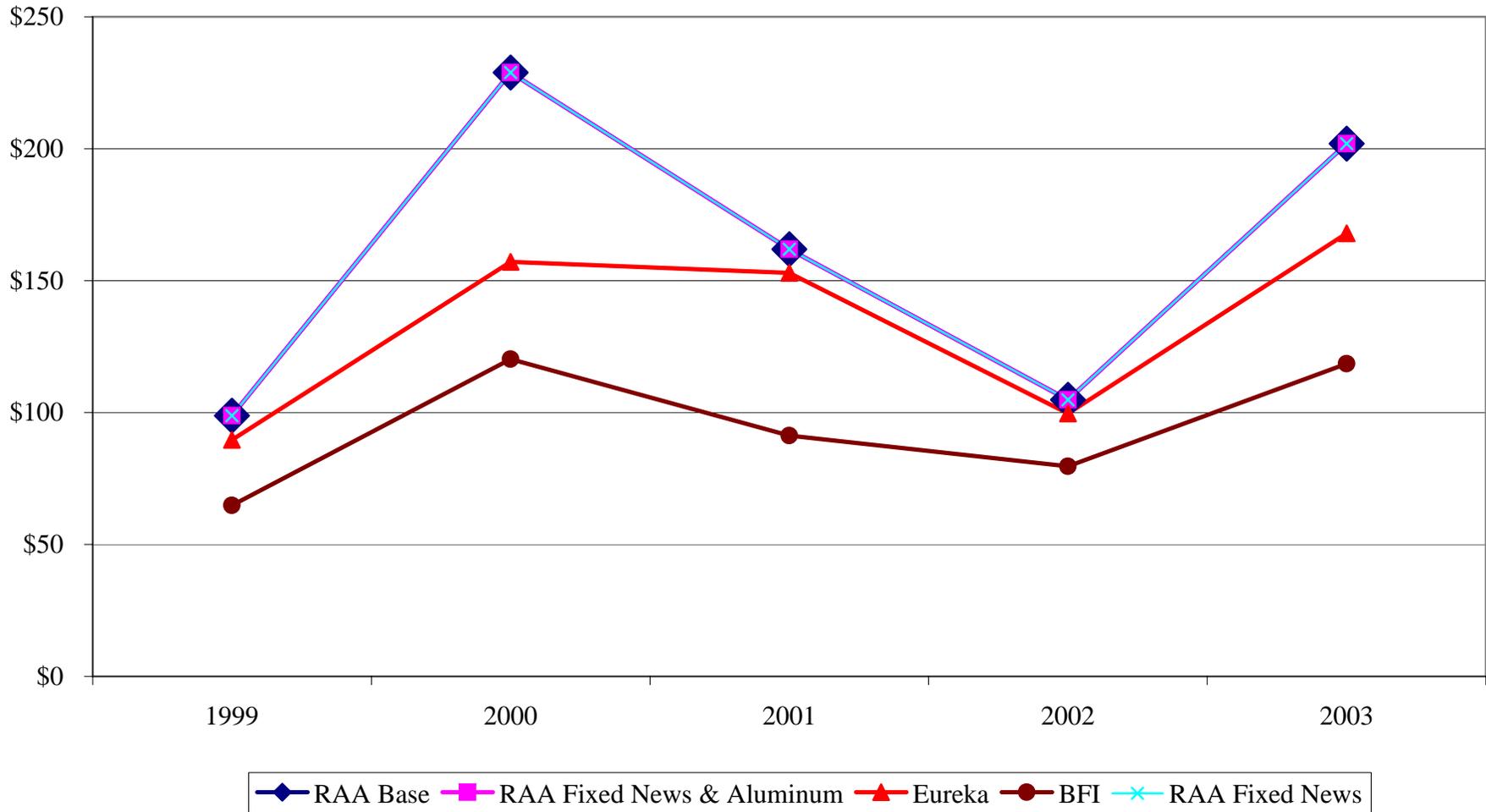
Attachment 3
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Tin



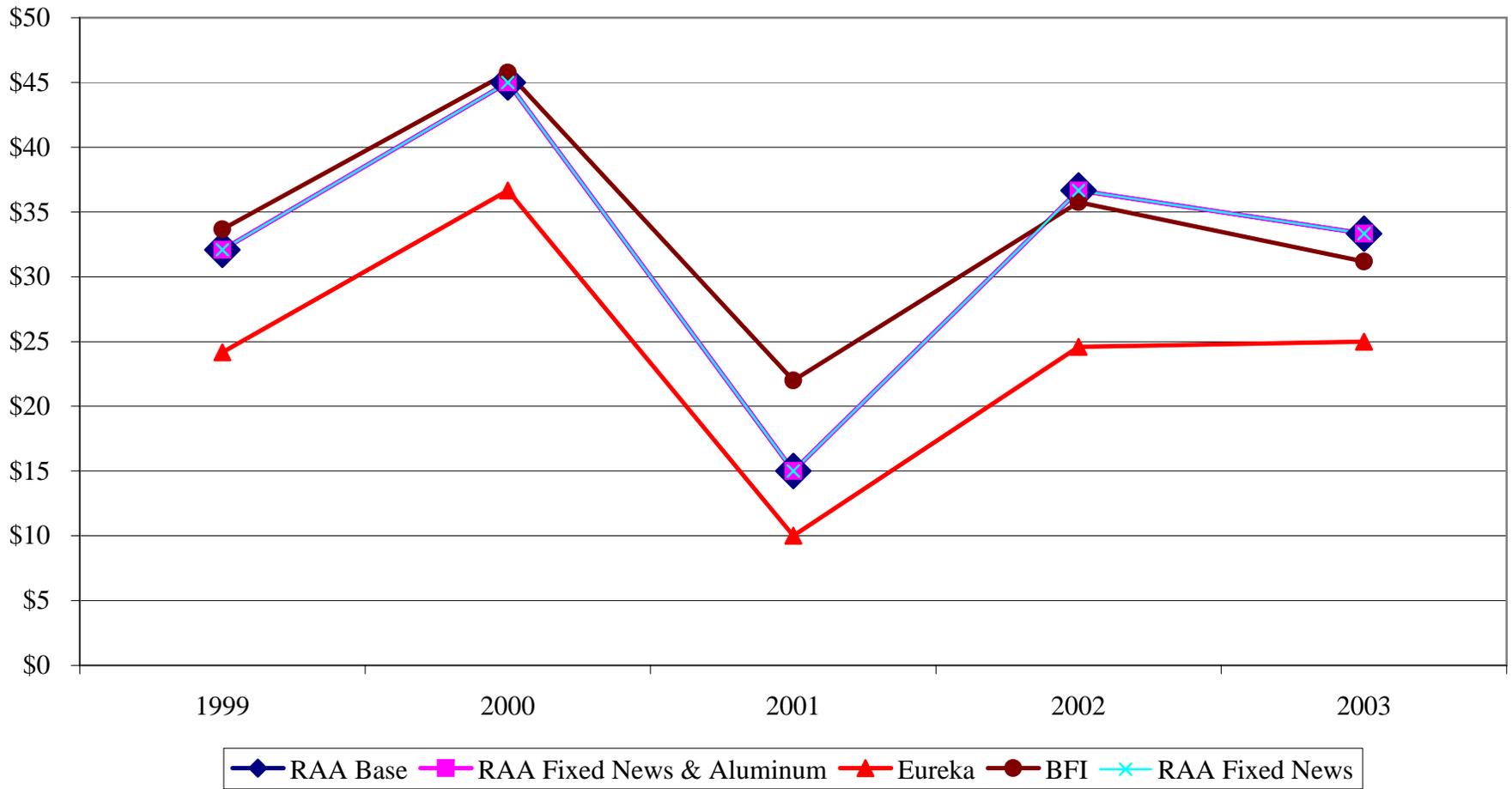
Attachment 4
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Glass



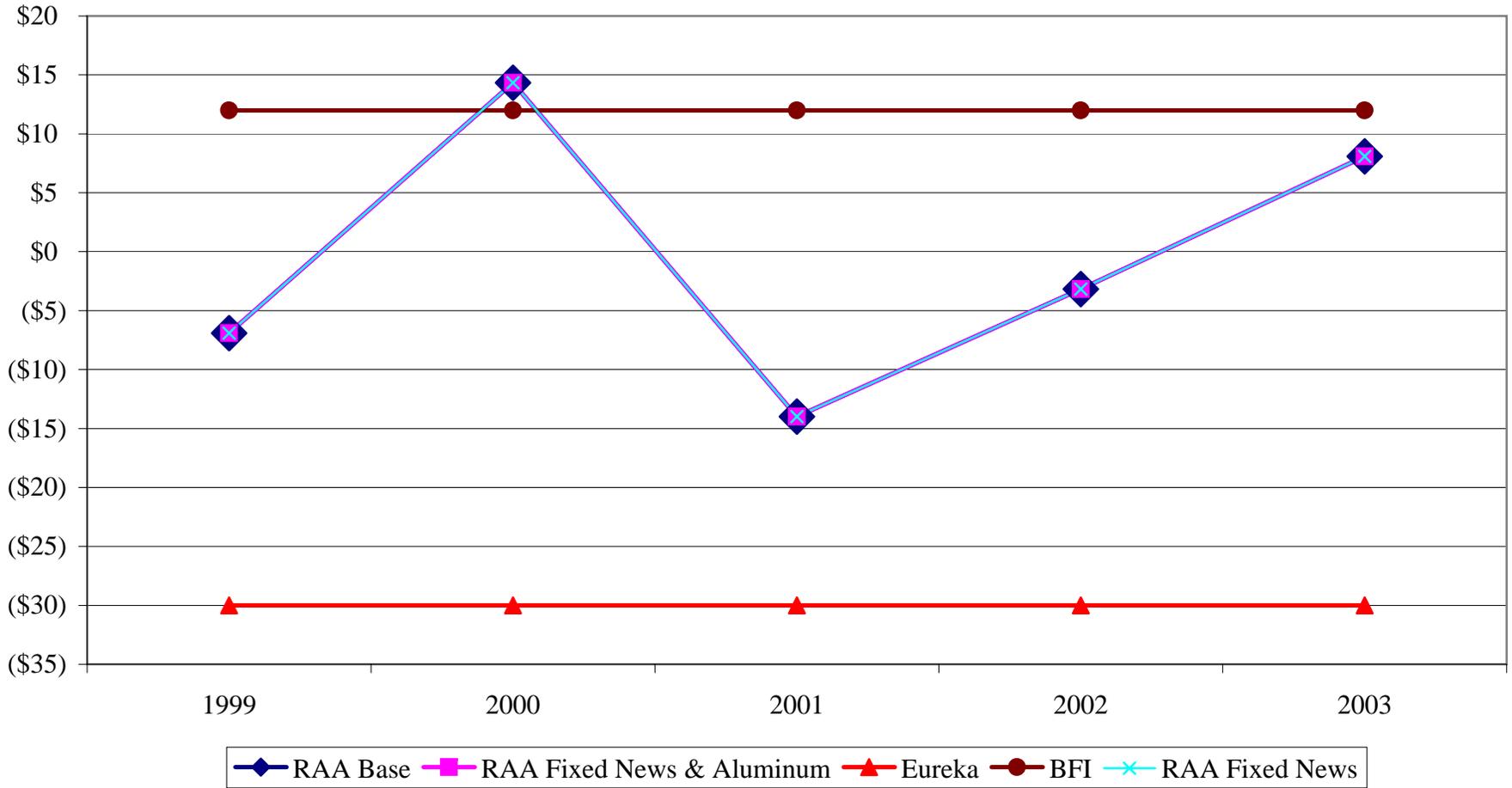
Attachment 5
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Plastic



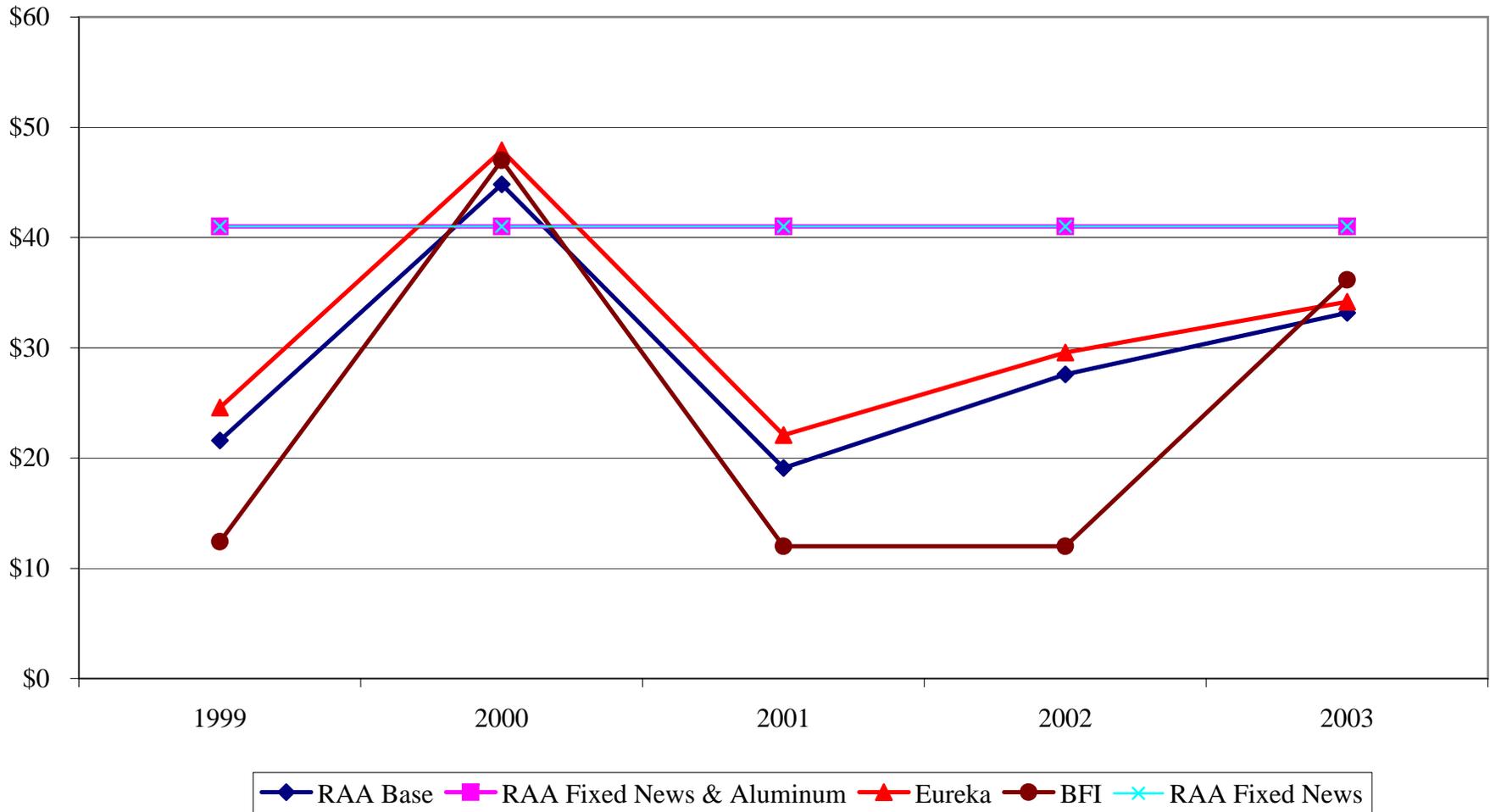
Attachment 6
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Corrugated



Attachment 7
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Phone Books



Attachment 8
City of Minneapolis
Solid Waste and Recycling Division
Vendor Net Revenue Per Ton - Best and Final Proposal
Magazines



**Attachment 9
 City of Minneapolis
 Solid Waste and Recycling Division
 Vendor Net Revenue Per Ton - Best and Final Proposal
 Mixed Paper**

