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*March 31, 2004*

## **Minneapolis Recyclable Materials Processing RFP Summary**

Both the Minneapolis Transportation and Public Works committee and the Ways and Means committee have reviewed this issue and cannot confirm previous recommendations to negotiate first with Waste Management for the contract to process Minneapolis' recyclables. We believe that the reason these evaluations by both the Minneapolis Public Works Staff and Finance Staff have not been accepted is due to the basis on which they were evaluated, that is historical information, rather than relevant, firm market projections and important environmental considerations. These evaluations erroneously show that WMI has offered the best deal for Minneapolis in their fixed rate proposal which deprives the city of revenue even in today's markets. These evaluations compare the fixed-rate proposal of WMI to market rate proposals of Eureka Recycling and BFI, in an apples and oranges way. And, none of these evaluations analyze other issues beyond "price" that hundreds of citizens and several councilmembers have requested deserve serious consideration, such as operational capacity, financial risk, sustainability and the environment. The following is an analysis of these issues:

### **Understanding WMI's Fixed Rate Proposal**

Newspaper is the majority of what is collected in residential recycling programs and, combined with aluminum, makes up over 80% of the total revenues that should be paid to the city of Minneapolis. WMI's proposal fixes the net revenues from newspaper and aluminum at historically average rates, even though these commodities are predicted to increase the most over the next three to five years and are already well above historic averages. On the surface, analysis shows that WMI would have paid the city the most based on the historical data from 1999-2003 (up to \$6.21 million). However, the contract at hand is for the next five years, not the last five years, and all parties agree that markets will be considerably different. Virtually everyone involved in analysis of this contract, including the Transportation and Public Works committee, has concluded that the "fixed rate" proposal will deprive the city of significant revenues. Based just on market predictions that WMI provided to city staff, their own proposal would deprive the city of approximately \$750,000 over the next three years compared to Eureka Recycling or BFI's proposal. BFI estimates that if the city selected WMI, the city "stands to lose between \$250,000 and \$1,115,000 in revenue over the next three years."

### **Where Will Markets Go?**

All three proposers provided market predictions, supported by experts, showing that the value of recyclables is expected to rise, especially for newspaper and cardboard. Industry experts, consultants, staff, BFI, WMI and Eureka Recycling all agree that newspaper will be very strong over the next three years, predicting prices at \$90-100/ton.

BFI and Eureka Recycling proposals are better than WMI's 'fixed rate' proposal whenever newspaper is over \$71/ton. As predicted, today's market prices have been over this marker for the past several months. Today, newspaper is paying at \$90/ton, but under WMI's fixed rate proposal the city would get approximately \$41/ton for that paper compared to Eureka Recycling's market rate payment of \$60/ton...and that's just the first few months of 2004 which is mild compared to where experts predict paper prices to soar this summer.

### **Comparing Floating (Market-Based) Proposals**

Eureka Recycling's and BFI's market-based proposals are not comparable to WMI's "fixed rate" proposal. WMI's proposal offers a floor prices which are one and the same as their ceiling price. Eureka Recycling offers solid floor prices to the city that assures no-risk and offers no ceiling – meaning the city would get all of the revenue.

Once you discard the "fixed rate" proposals of WMI, you see that WMI has consistently offered the city the worst market-based proposals throughout the process. The most recent "floating" offers are BFI (\$5.46 million), Eureka Recycling (\$5.39 million) and WMI "Base" (\$5.21 million).

BFI and Eureka Recycling's proposals are very close—within 1% but that is once again erroneous since it is looking backwards over the historical five year analysis. Eureka Recycling is the only vendor who has agreed to offer the city premium #8 news pricing on all of the city's paper (including magazines and mixed paper). BFI pays the city the market rate (minus processing fee) for newspaper only. They will not pay the same price for mail or magazines which comprise an additional 8% of Minneapolis' material. Eureka Recycling pays the city the market rate (minus processing fee) for all paper, including newspaper, magazines and mixed paper. The addition of magazines and mixed paper results in Eureka Recycling offering significantly higher revenues than BFI and WMI on all papers collected. So, when you look closely at the offer and the projections, again you'll see, Eureka Recycling is offering the best deal.

### **BFI and WMI Adjusted Prices to Match Eureka Recycling's Offer**

In the final round of analysis, each proposer was able to adjust their price. WMI significantly improved their fixed rate offer – which should indicate how much of the revenues WMI was planning on keeping. And, BFI, who has the current contract to process Minneapolis materials, offered a final proposal that beat our proposal by 1% (based on historic pricing). Only when Eureka Recycling inspired better pricing did these companies give Minneapolis the deal they deserve. For over 17 years, Eureka Recycling has been a trusted community resource. For 17 years we have held the contract to handle all of Saint Paul's recycling and we have provided the city council with fair and honest pricing throughout this process. This is demonstrated in the numerous letters that Saint Paul council members have sent to their peers in Minneapolis. If awarded this contract, we will continue to consistently work with the city to find and maintain the highest value for their materials – and, when it is fair, that may mean revenues would be higher than what we are required to pay in the contract.

### **Guaranteed Floor Protections**

The Finance Staff has understated Eureka Recycling's floor pricing offer, reporting that we "assured" them we could sustain floor pricing for the city if the need arose. In fact, we provided copies of contracts that guarantee floor pricing from our end markets. We are the only vendor that provided direct evidence of markets and floor pricing for materials collected in Minneapolis. These markets include Abitibi Consolidated, the world's largest newspaper manufacturer. Any of

our markets would be happy to directly contact any staff or members of the council regarding their pledge to honor floor prices.

### **Seventeen-Year Partnership with the City of Saint Paul**

Eureka Recycling, formerly the recycling department of the Saint Paul Neighborhood Energy Consortium, was granted the recycling contract for the city in 1986. This contract includes all recycling collection, processing and public education. For many years, we executed Saint Paul's award-winning education program while subcontracting with several local, independent recyclers to collect materials and process them at the publicly-owned Ramsey County Recycling Center. In 1999, Ramsey County decided to close this facility. Faced with delivering materials to its competitor's facility at inflated prices, our largest subcontractor SuperCycle, sold to WMI in April 1999. Due to the rapid consolidation in the industry, there were no other vendors that were able to provide services so we were backed into a contract with WMI. As the end of our contract with SuperCycle/WMI neared we asked vendors for pricing to again subcontract some of the work that we had with the city of Saint Paul. At that time WMI and BFI provided pricing that was 30-35% higher and provided no where near the revenues for the city that we are talking about in this process. So our board decided to assure sustainable recycling in the metro area by forming Eureka Recycling to launch a collection fleet and a Material Recovery Facility (MRF) that would create an atmosphere of honest pricing and revenues.

Furthermore, during the brief contract with Waste Management, we struggled with their poor customer service (which led to declines in participation), poor reporting and inability to keep Saint Paul's materials separate at their single stream facility. WMI paid our organization approximately \$16,000 liquidated damages for failure to perform just in the last year of our contract. They paid many tens of thousands more in the year before.

These are the reasons why we invested over 6 million dollars in our MRF at 2828 Kennedy St. NE in Minneapolis and a collection fleet. In April 2003, Eureka Recycling began collecting and processing materials from Saint Paul's program—with no interruption in service.

### **Eureka Recycling's Fully-Operational Facility**

Eureka Recycling has been handling approximately 160-200 tons a day (approximately 20,000 tons per year) of Saint Paul's material at its Minneapolis facility since January 29, 2004. The facility has the capacity to handle 60,000 tons per year. Prior to operating at the Minneapolis facility, Eureka Recycling processed materials at a temporary facility in New Brighton with Weyerhaeuser beginning in April 2003.

Unlike a competitor, Eureka Recycling's facility is designed and engineered to handle source separated material. Along with environmental issues, there are legitimate public policy concerns in asking residents to separate materials for recycling that will later be commingled. Source separated programs (like the one in Minneapolis) result in the least materials that are collected for recycling subsequently being landfilled where single stream programs can result in up to 30% loss in those materials. According to a recent report from the American Forest & Paper Association, many paper mills refuse to accept the material that comes out of single stream facilities because it is littered with glass. This is more than a public policy concern, it is a significant environmental loss resulting from a contract that is designed to enhance Minneapolis' environmental efforts.

## **Experience**

Eureka Recycling has demonstrated success as a national model for curbside recycling programs by operating an award-winning, revenue-generating program for the city of Saint Paul and recycling over 250,000 tons of material over the last 17 years. Eureka Recycling's staff has vast experience in recycling operations, a fact consistently acknowledged by Minneapolis Public Works Staff and their consultants in their analysis. Eureka Recycling's facility manager, Carolyn Loper, has over ten years of experience operating and managing MRFs including three years managing what WMI then referred to as their largest MRF east of the Mississippi. The baler and equipment operators have over ten years of experience. Mr. Brownell, COO, and Ms. Hubbard, CEO, have each developed, financed and managed recycling operations including MRF operations for over 15 years. The organization has won numerous local, state and national awards for its recycling programs.

## **Performance Bond & Financing**

Eureka Recycling will provide sufficient bonding for the contract. This has been acknowledged by the Finance Staff. Eureka Recycling is the only vendor that has consistently had a positive net worth throughout its entire 17 year history. Staff acknowledged that as a nonprofit organization, Eureka Recycling reserves only enough cash to sufficiently cover obligations. This dedication to investing proceeds back into the community, rather than sending it to corporate bank accounts out of state, is precisely the reason that Minneapolis City Council should choose Eureka Recycling for the contract. Eureka Recycling's mission is to demonstrate the sustainability of recycling and to that end all our proceeds are invested back in the community through profit sharing or new environmental programs and education.

## **The Environment**

Recycling collection and processing are the tip of the iceberg of environmental efforts that can and must be made if we are serious about conserving resources for future generations. Any proceeds that Eureka Recycling generates provide important programs like the Free Market, a residential exchange program in which residents can find or give away usable home items, or the Recycled Paper Coop that offers residents and small businesses with an opportunity to purchase 100% postconsumer recycled content copy paper and other environmentally designed office supplies at wholesale prices, or our free backyard and worm composting workshops that provide information and tools for residents to reduce the amount of organics that end up in the trash, or recycling at community events like the Living Green Expo and the Bike Classic where we have been able to work with participants to set the standard for virtually "waste-free" events with ten thousand participants. We use the community's profits from the recycling program to share and promote the community's vision to reduce waste and protect the environment.

## **Community-Based Recycling**

Our mission is not to simply win contracts and recycle material. Our mission is to demonstrate that recycling is sustainable, that recycling can be cost-effective, that recycling is one of the many tools we have to prevent waste. To do this effectively, the entire community should be involved in the process as it is their recycling program. This involves educating recyclers about the simple—and not so simple—facts about their community's recycling program. Often these are difficult and complicated issues, but they are not incomprehensible. On the contrary, they are necessary issues for public debate. Residents use the information that we provide via our website and other methods to inform their neighbors and sometimes their elected officials. This is a role we have played for nearly two decades and one that we will continue to play in the future. We can all be inspired by the passion Minneapolis residents have shown about recycling and the environment. It is clearly their wish to see the city construct a sustainable recycling program.