

Responsible Recycling Task Force Meeting #3

June 18, 2018 - 10:00 a.m. to 12:00 p.m.

King Street Center 201 S. Jackson Street, Seattle, WA 98104

Members Present:

Stacey	Auer	City of Redmond
Jeff	Brown	Epicenter Services
Rika	Cecil	City of Shoreline
Julie	Colehour	C+C
Sabrina	Combs	City of Bothell
Tony	Donati	City of Kent
Susan	Fife-Ferris	SPU
Cynthia	Foley	Sound Cities
Jeff	Gaisford	KCSWD
Sego	Jackson	SPU
Jennifer	Jessen	Public Health
Phillippa	Kassover	City of Lake Forest Park, SWAC
Kevin	Kelly	Recology, SWAC Chair
Linda	Knight	City of Renton, MSWMAC Vice Chair
John	MacGillivray	City of Kirkland
Ken	Marshall	KC, SWAC
Michelle	Metzler	Waste Management
Meg	Moorehead	KCSWD
Joan	Nelson	City of Auburn
Emily	Newcomer	Waste Management
Sarah	Ogier	City of Bellevue
Yolanda	Pon	Public Health
Janet	Prichard	Republic Services
Andy	Rheaume	City of Redmond
Stephanie	Schwenger	City of Bellevue
Scott	Sevall	Washington Utilities and Transportation
Matt	Stern	Waste Management
Hans	VanDusen	SPU
Rob	VanOrsow	City of Federal Way
Mike	Weinstein	Waste Management
Mike	Young	Washington Utilities and Transportation

Consultants:

Julie Colehour, Facilitator, C+C

Colette Marien, Meeting Coordinator and Notetaker, C+C



Agenda Item #1: Welcome & Introduction (*called to order by Jeff Gaisford at 10:02 am*)

Discussion:

- *Jeff Gaisford* kicks off the meeting, welcoming the task force members and introducing *Julie Colehour*
- *Julie Colehour* shares the topic of the days meeting: Waivers, Surcharges and Contracts
- Before kicking off the official agenda, *Julie Colehour* walks the room through follow-up items from the June 1st Responsible Recycling Task Force meeting, including:
 - **Review of the Responsible Recycling Task Force Goals, Outcomes, and Role:**
 - **Short Term Goal:** To help identify near-, mid-and long-term actions in response to reduction in export markets for mixed recyclable materials due to China National Sword policies.
 - **Longer Term Goal:** To help establish commitment across the region to responsible recycling and domestic sorting/processing of curbside recyclables.
 - **Outcomes:** Prepare a report with actionable items and recommendations for future action by all; if possible, develop interim tools for communications and other topics that are more immediately available.
 - **Role of Task Force:** Not to make decisions, rather to learn about the problem, understand activities that are being implemented elsewhere and opportunities for change. They will provide guidance on next steps that will be
 - **Problem Statement Update:**
 - *Julie Colehour* reminds the room that the problem statement was updated to incorporate the feedback and comments received and sent to the task force last week. *Julie* asks the room to provide any final red flag feedback to *Colette Marien* by EOD June 20, after which the problem statement will be finalized and shared with the task force as an official document.
 - **June 1 Meeting Minutes:**
 - *Julie Colehour* informs the room that one edit was made to the June 1 meeting minutes and asks the room if there are any additional comments or edit requests.
 - The room confirms that there are no additional changes needed to the June 1 meeting minutes.
 - *Julie Colehour* approves the minutes and informs the room that the final June 1 meeting minutes will be shared with the task force along with the final problem statement.
 - **June 1 Recommendations:**
 - *Julie Colehour* revisits the recommendations identified by the task force during the June 1 meeting to remove plastic bags and shredded paper from the blue bin, with the caveat that shredded paper removal will require well-planned messaging.
 - *Julie Colehour* asks the room to confirm agreement on sharing these recommendations in the final Responsible Recycling Task Force Outcome document to be developed in October.
 - The room unanimously agrees to share the recommendation to remove plastics bags and shredded paper (with special emphasis on developing appropriate messaging) from the commingled bin.



- *Phillippa Kasso* asks for clarification on whether messaging for shredded paper will specify continued inclusion in the green compost bin.
- *Julie Colehour* replies, stating that we can amend the recommendation to specifically touch on the continued inclusion of shredded paper in the green compost bin.
- *Cynthia Foley* lets the room know that Sound Cities is slated to work on whether shredded paper should be in the bin in July.
- *Jeff Gaisford* asks the room whether recommendations from the “What’s in the Bin” discussion should be shared with the King County Advisory Committees for further discussion before October.
- *Janet Prichard* notes that a conversation should be had with Cedar Grove about shredded paper before recommendations are shared to ensure the compost recipe will still work.
- *Jeff Gaisford* confirms that there is a Cedar Grove representative in the advisory groups
- *Andy Rheume* asks whether the entire list of yes, no, and caution materials discussed during the June 1 meeting would be shared with the advisory committees.
- *Jeff Gaisford* confirms that the same list of materials and same context presented during the June 1 meeting would be brought to the advisory committees.
- *Stephanie Schwenger* raises the questions as to whether both recommendations need a qualifying phrase, such as “given existing implemented technology at local MRFs...” or some other phrase to let people know that these are recommendations based on current conditions.
- *Julie Colehour* affirms that exact wording is still to be worked out and any caveats or phrases needed will be incorporated into the recommendation.

Action Items:

- Task Force members to send final red flag feedback on the problem statement to *Colette Marien* by EOD June 20
- *Colette Marien* to send out finalized problem statement on June 21
- Send out final approved June 1 meeting minutes to task force
- Share the recommendation to remove plastics bags and shredded paper (with special emphasis on developing appropriate messaging) from the commingled bin with King County Advisory Committees.

Agenda Item #2: Waivers Panel (called to order by Jeff Gaisford at 10:12 am)

Presentation:

- *Jeff Gaisford* introduces the topic of waivers for disposal materials by providing an overview on the status of waivers in King County.
- *Jeff Gaisford* shares the following details as part of the overview:
 - The first waiver request to cities was in March from Republic Services and, as far as King County can tell, six cities have granted waivers for their contracts since.
 - Most waivers granted were for a one-month period and most have ended



- One of the waivers does not have an end date and another waiver is for 180 days (through September)
- Since March, King County has seen various approaches from cities to waivers, noting that there is not one uniform approach.
- King County would like to keep track of the number of waivers being approved and has sent a message to cities asking them to inform King County if/when they are doing so.
- *Jeff Gaisford* hands out a sheet listing a series of questions to ask before granting waivers, which he directs the room to look through together. Questions include:
 - Look at current city contracts to understand if a waiver is allowed
 - Consider a MRF site visit to assess processing operations firsthand.
 - Look at the MRF recycling requirements in the city contract and identify whether best practices are utilized:
 - Is there a threshold for residuals listed in the contract and is the MRF meeting that level?
 - Are there any upstream changes or tagging that can be done at the curb to reduce contamination before materials arrive at the MRF?
 - Do monthly updates from MRFs that show what has been recycled indicate any issues?
 - Once the contract has been reviewed, the next step is to talk to your local MRF. *Jeff Gaisford* highlights the following questions to ask:
 - Are there any potential changes either short-term or long-term that can help minimize contamination?
 - Can materials be stored in a different way that supports market-ready bales?
 - Is there a different market elsewhere where materials can be moved?
 - If the contract looks good and the materials are stored without contamination, the next step is to:
 - Identify whether the waiver request is due to safety risks
 - Ask what kind of documentation can be provided to support request
- *Meg Moorehead* continues, first asking the room for questions on the overview or if any cities have found information in their contracts that has been particularly useful.
- There are no comments or questions from the room.
- *Meg Moorehead* continues, stating that King County is proposing a more standard reporting structure for waiver requests.
- Before presenting the reporting structure for granting waivers, *Meg Moorehead* notes that ideally contract review and MRF best practices will help to avoid waivers all together and get materials to market.
- *Meg Moorehead* shares the following steps of the proposed standard reporting structure:
 - Put the waiver request in writing and have the right person from local government approve it
 - Check for a start and stop date for the waiver so if temporary fixes are found, the waiver can be adjusted.
 - *Meg Moorehead* notes that short waivers allow the city and hauler to continue conversations about alternate market opportunities
 - Look for agreement about what materials are covered by the waiver
 - *Meg Moorehead* notes that not all waivers reviewed included these details



- Check whether any unmarketable materials under King County's flow control provision code are included, as such materials must be sent through the county's disposal system if not being recycled.
 - *Meg Moorehead* notes that, in such cases, one of the reasons King County should be notified of waivers is so they can plan for materials entering King County landfill and transfer stations.
- Send King County the waivers themselves or reporting documentation
 - *Meg Moorehead* notes that there were not specific reporting elements built into all reviewed waivers.
- Include the following reporting requirements for haulers on the waiver:
 - Weekly reporting on amount and types of materials disposed of
 - *Meg Moorehead* adds that this information should be shared with both the city and county so that amount of recyclables disposed can be tracked
 - Provide receipts documenting where materials end up
 - Provide longer term subsequent reporting in order to track affect to overall system overtime

Discussion:

- *Linda Knight* notes that these are great tips and shares that she was blindsided by the waiver requests and felt that the company requesting the waiver did not follow protocol, making it difficult to present all of this criterion.
- *Linda Knight* continues, noting that messaging in the waiver request was unclear and did not state that the contractor had to go through the county system, and that there was not an opportunity to have a reasonable discussion.
- *Linda Knight* asks whether the county would like to weigh in on where specifically the materials have to be disposed of, noting that there seemed to be a difference of opinion between the contract, cities and county.
- *Jeff Gaisford* replies, stating that providing the county with more info on waivers granted will allow the county to have better discussions with haulers about disposal of materials, including where the material is coming from and where it is going to. *Jeff* adds that if we have a standard approach to waivers, it will be easier to figure out at what point the county needs to come into the process.
- *Linda Knight* notes that it is a messy situation because the public health permit does not state that materials need to go through the county's system.
- *Meg Moorehead* replies, stating that letters have been sent to the haulers letting them know that materials need to come through the county system.
- *Stephanie Schwenger* shares an example of how Bellevue grants waivers, noting that Bellevue has granted permission to Republic three times that allows disposal of unmarketable mixed paper.
- *Stephanie Schwenger* highlights that Bellevue refers to waivers as written permission and that the original request from Republic was for contract variance. *Stephanie* continues, sharing the elements included in the permission granted through June:
 - Includes start and end date
 - Specifies inclusion of mixed paper only
 - Specifies Cedar Hills as disposal location



- Requires reporting on amount of material generated and amount withheld during the period of permission
- *Tony Donati* shares that the City of Kent granted a variance last week that will run through the end of July and that follows the same standards as Bellevue to ensure that all materials go through Cedar Hills. *Tony* add that they are also receiving monthly reports.
- *Janet Prichard* states that the China Sword restrictions happened quickly and that they've been trying to do the right thing and feels that they have done so. *Janet* continues noting that Republic's permit directs materials to different landfills and they've been working closing with King County to understand what disposal through the county system means and how to identify the right way to handle materials.
- *Sarah Ogier* raises the question as to how it all works, specifically asking if Republic has mixed paper that can't be recycled, is that paper considered special waste, where should that material be taken to, and in what vehicle?
- *Jeff Gaisford* replies, stating that these are all questions that need to be discussed and that, depending on the size and amount of the materials, the county can figure out where and how to deliver special waste to the landfill.
- *Sarah Ogier* asks for if materials are considered special waste is they are large enough.
- *Jeff Gaisford* replies, stating that they may not refer to large quantities of material as special waste, but if it's a large volume it may be handled like special waste, meaning they need to schedule it and may not allow it at certain transfer stations due to size restrictions.
- *Yolanda Pon* clarifies that, under the permit it states that the facility is to operate under King County's system and that only residuals left after processing can go to the facility's own landfill, anything else is a violation of the permit. *Yolanda* adds that she's happy to review any permit language that alludes cities to believe otherwise.
- *Sabrina Combs* asks whether it's possible to receive a copy of the letter that the county sent to haulers.
- *Jeff Gaisford* confirms that he will share the letter sent to haulers.
- *Julie Colehour* asks the room whether they think waivers should even occur or if we need to look for another solution.
- *John MacGillivray* states that he is not in favor of waivers and believes that we need to look for other ways to move materials.
- *Julie Colehour* notes that *one of the things that may come out of the Responsible Recycling Task Force is our group opinion on waivers.*
- *Rob Van Orsow* affirms *John MacGillivray's* statement, adding that he would like more transparency from the haulers on what these materials are. *Rob* continues, asking whether these are materials fresh out of the processing facility that we don't have markets for, or if these are materials like wet, hardened mixed paper that we can no longer do anything with.
- *Phillippa Kassover* agrees that we don't have enough information to understand if the waivers are the right solution to the problem and feels it's premature for the task force to make this type of decision.
- *Scott Sevall* notes that unmarketable commodity is often defined differently and suggests that having one definition may make it possible to apply a standard process.
- *Ken Marshall* shares an image of signage from a private transfer station that reads: "recyclable commodities that have a positive market value will be recycled. All other materials will be landfilled," using this example to state the possibility that cities may think just paper is being landfilled when it may also be 3-7 plastics that are being landfilled.



- *Sarah Ogier* asks where the sign is located
- *Ken Marshall* replies that the sign is located at a company owned transfer station
- *Sarah Ogier* notes that, in general, people don't like the idea of waivers, but that the notion of standardizing the decision-making process for granting waivers is an interim measure she could support. *Sarah* asks the room if others are also interested in supporting a standardized process.
- *Phillippa Kassoover* asks *Sarah* to restate her question.
- *Sarah Ogier* restates, asking if the room is in support of the standards and steps proposed by the county
- *Phillippa Kassoover* refers back to *Meg Moorehead's* statement that it's best if a contract doesn't need a waiver. *Phillippa* asks *Meg* to confirm that this is what she meant.
- *Meg Moorehead* clarifies that her statement was that if you grant a waiver you should put it in writing and have the appropriate official sign it.
- *Sarah Ogier* shares that her understanding of *Meg's* statement was that before permission is granted for a waiver, there needs to be consistency with the contract.
- *Jeff Gaisford* affirms *Sarah's* statement and adds that someone who is familiar with the contract should be working on the waiver.
- *Andy Rheume* notes that one of the requirements of a waiver should be that the haulers notify residents that they are no longer paying for the materials to be recycled.
- *Linda Knight* replies, noting that it will depend on how payment works between a hauler and city, since cities handle payment differently.
- *Sarah Ogier* adds that she couldn't want to discourage people from recycling
- *Julie Colehour* affirms that we've previously discussed not shaking public trust in recycling, urging that we think through if and how to communicate this to residents.
- *Jeff Gaisford* notes that it sounds like the group is not in agreement that waivers are the best approach and that the minority opinion is to standardize the process and sort through the definitions of unmarketable materials and reminds the cities to let the county know if they have or had a waiver in place
- *Julie Colehour* asks the room to raise their hands if they prefer to avoid waivers and want to find a different path
- About half the room raises their hands in agreement
- *Julie Colehour* suggests that a subcommittee to discuss waivers further and that we review the findings and close out the conversation during the next meeting on July 18.
- *Linda Knight* cautions that there will be a difference of opinion on both variance and waivers depending on your role
- *Phillippa Kassoover* shares that it seems like the Metropolitan Solid Waste Management Advisory Committee's decision to debate and come to an agreement on waivers and that the Responsible Recycling Task Force should just be collecting and passing on information for the committees to use
- *Stephanie Schwenger* states that it is her understanding the Responsible Recycling Task Force is supposed to make recommendations
- *Phillippa Kassoover* replies, stating that cities will have a different opinion than others in the room on how to move forward and that the issue of waivers is something cities should advise
- *Meg Moorehead* clarifies that the Responsible Recycling Task Force does not have a formal advisory role but that we want to make recommendations to the advisory committees.



- *Julie Colehour* adds that there are some issues that we may come to a decision on and others that we won't
- *Sarah Ogier* adds that the definition of unmarketable materials is confusing and asks if a waiver subcommittee will address the in the July 18 meeting
- *Jeff Gaisford* replied that because Republic cities have dealt with waiver requests, we'll speak with Republic about what is and is not marketable.
- *Sarah Ogier* adds piece needing to be resolved is the notion that Public Health has provided landfill guidance counter to what the county has asked haulers to do.
- *Julie Colehour* states that if a subcommittee is developed, *Jeff Gaisford* will pull together a group to address these issues.
- *Rob Van Orsow* shares additional points of confusion, including how MRF operators know what tonnage is being disposed of, who is getting the waivers, and if all cities have not granted a waiver, how can the haulers dispose of anything?
- *Sarah Ogier* confirms she would also like to see that information
- *Julie Colehour* states that a smaller group will be compiled to deal with waivers and will report back at the next meeting
- *Linda Knight* notes that she hopes that cities in addition to Republic cities will be included in the conversation as well.
- *Jeff Gaisford* agrees, stating that so far it has only been Republic cities that have received waiver requests, therefore they can share information on how they have been dealing with them.

Action Items:

- Cities to share previous, current and future waivers with King County
- Send cities a copy of the letter that was sent to haulers
- Compile a smaller group of Republic cities to discuss how to handle waivers. Subcommittee to report back at the next meeting.

Agenda Item #3: Surcharges (called to order by Julie Colehour at 10:54 am)

Discussion:

- *Julie Colehour* introduces *Mike Young* who will present on "UTC Rate Setting for Recycling Collection"

Presentation:

- *Mike Young* introduces himself as the Section Supervisor, Water and Transportation, Regulatory Services Division at the Washington Utilities and Transportation Commission, noting that it is the Regulatory Services Division's job to process all filings received from UTC regulated haulers
- *Mike Young* shares the topic of his presentation is surcharges and how the commission is handling changes that have occurred due to China Sword restrictions
- *Mike Young* presents on the following:
 - The commissions legislative authority:



- RCW 81.77.030: The Commission shall supervise and regulate every solid waste collection company in this state,
 - (1) by fixing and altering its rates, charges, classifications, rules, and regulations.
 - (5) By requiring compliance with local solid waste management plans and related implementation ordinances
- RCW 81.77.130 and 81.77.020-this authority does not apply to cities that undertake themselves, or contract for, the collection of garbage and/or recyclable materials.
- Rate Setting Concepts:
 - All rates are set on a “cost plus return” basis
 - Garbage rates cannot subsidize recycling rates (recycling must pay for itself)
 - The person generating the solid waste or recycling is responsible for the cost to collect and process or dispose of the material
 - Revenue generated from the materials belongs to the customer
- Traditional Rate Setting:
 - Cost of collection is reflected in the rate billed to customers
 - Rates are adjusted through a General Rate Case, which includes:
 - Audit of company financials
 - Determination of rate base-value of assets used in collection process
 - Calculation of rate of return
 - Price-out to apportion costs to appropriate lines of service
 - Determine revenue needed to continue service. Typical costs include:
 - Driver and labor hours
 - Truck operating and repair costs
 - Recovery of capital equipment costs
 - Processing or disposal of material costs
 - Separate analysis is done for garbage, recycling and yard waste to determine the isolated costs
 - Commodity Credit is amount returned to customers reflecting the value of the commodities when sold at market
 - Monthly bill “credit” that off-sets collection costs
 - Adjusted yearly in a filing with the commission
 - Utilizes simple tracker formula with true-up for regulatory lag
- Unstable Recycling Markets
 - Due to recent China restrictions there is reduced revenue received for sale of commodities
 - Commodity credits take a downward trend
 - Company continues to give customers credits while receiving zero revenue



- Increased processing costs for contamination reduction, storage, transportation, and disposal
 - Processing charges passed to collection company fluctuate monthly or weekly
 - Disposal costs increase as more contaminants removed
 - Transportation, storage and disposal costs increase for materials not marketable
- Netting revenue received, and costs incurred, now results in additional cost to the collection company
- How can UTC alleviate the cost burden?
 - General Rate case
 - Company can file to update costs for recycling collection and change tariff rates
 - Typically updated every 12 months
 - Commodity credits
 - Adjusted to include additional processing costs
 - Alternate to updating general rate structure every 12 months
 - Surcharges
 - Customers receive an additional charge on their bill for processing recyclable commodities
- Commodity
 - “Commodity Credits” become “Commodity Debits”
 - Monthly charge to customers in addition to collection rate
 - Can be calculated using same tracker methodology already in place
 - Can alter the projection period for commodity credits
 - Allows the company to be more reactive to market changes
 - Prevents overpayment of credits
 - Requires the company to file more often
- Surcharges
 - Surcharges to recover the incremental changes in processing cost
 - Applicable to collection companies utilizing affiliate-owned MRFs
 - Based on previously audited costs from a general rate case
 - Only covers variable operating costs affected by market volatility
 - Surcharge is a temporary monthly charge to customers appearing on their bill as a separate line item
 - Commission is allowing 90 days currently
 - Separate from commodity credit/debit and collection rate; now 3 lines on billing for recycling
 - Based on costs incurred by the MRF to reduce contamination until longer-term solutions can be sought.



- Types of costs allowed:
 - Increase in labor to operate MRFs
 - Increase in maintenance costs to keep facility running
 - Increase in utility costs to keep facility running
 - Increase in disposal costs of contaminants
- Costs not allowed:
 - Capital costs for new equipment
 - Increased overhead or managerial costs
 - Other costs not directly associated with processing material
- What we've seen since China Sword Restrictions:
 - Commodity credit adjustments
 - Eleven companies utilizing alternate projection periods for calculation
 - Most credits have become debits, and the cost continues to increase
 - Surcharges
 - The largest operations (King and Snohomish Counties) utilize affiliate MRFs and have requested surcharges
 - The commission is encouraging general rate filings to update costs and eliminate confusing extras on customers' billing statements
- What we expect to see next:
 - The commission expects companies filing surcharges to file general rate cases within the next year or so, once markets have stabilized or longer-term solutions are implemented
 - The surcharges will either be rolled into collection rates or into commodity credit calculations
 - The commission will continue to work with companies, counties and other stakeholders to seek solutions, and adjust to the "new norm"
- *Mike Young* wraps up, stating that the UTC has received more media inquiries lately and are hoping that exposure will lead to more discussion and dialogue

Discussion:

- *Jeff Gaisford* asks what kind of documentation does the UTC receive that supports/proves the need for increased costs?
 - *Mike Young* replies that documentation is not regulated, therefore is not always as detailed as the info received from the haulers. *Mike* adds that companies they work with have been pretty good about supplying employee salary info, statements, etc., and that MRF info tends to be detailed since the UTC does not have the authority to audit MRFs.



- *Scott Sevall* adds that the UTC statute says that the companies bear the burden of the costs so if they are not satisfied the commission can say no.
- *John MacGillivray* asks if that means they don't allow a margin on the surcharge.
- *Mike Young* clarifies that they do allow a margin on the surcharge.
- *John MacGillivray* asks if they allow surcharges on marketing.
- *Mike Young* states that if marketing costs have increased and the company can demonstrate that, they will take surcharges on marketing into consideration, noting that this is a temporary approach and they are hoping to develop a better solution, at which point they will readjust the costs.
- *Sarah Ogier* asks what percentage is generally approved by UTC compared to the state?
 - *Mike Young* replies that they regulate 51 haulers in the state, 33 who have curbside recycling services, and of those 33 there are 2 who have a commodity credit.
 - *Sarah Ogier* asks whether *Mike* is seeing a geographic trend.
 - *Mike Young* replies that the two haulers utilizing the surcharge are in King County, that Thurston and Pierce Counties use third party companies so they simply pay a bill, and that Eastern Washington has less recycling in general.
- *Meg Moorehead* asks if the UTC is taking the net of the revenue received from the sale of recyclables and the cost increase.
 - *Mike Young* replies that they allow whatever the net is into the commodity credit and are either giving that back or billing the customers more. The commodity credit is only the credit from sale of recyclables.
 - *Meg Moorehead* asks if they take cost of all materials in account or just those restricted by China.
 - *Mike Young* confirms that the cost of all materials is taken into account.
- *Sego Jackson* asks what qualitative standards are applied to expensive domestic processing compared to the cheaper cost of shipping overseas; and what else is received from a surcharge other than the cost for additional employment.
 - *Mike Young* replies that they look for prudence of the cost and that the company has to identify why those costs are important to be recovered, adding that one of the things the UTC looks at is how much of the money is recovered elsewhere.
 - *Sego Jackson* asks whether this is public information.
 - *Mike Young* replies that haulers are allowed to file confidentially so not all of it is.

Action Items:

- Send the presentation to Responsible Recycling Task Force Members

Agenda Item #4: Contract Panel (called to order by Julie Colehour at 11:19 am)

Discussion:



- *Julie Colehour* introduces Hans Van Dusen, who will present on Seattle's contract
- *Hans Van Dusen* begins, stating that Seattle has separate landfill contracts and that the current recyclables processing contract, which started in 2016 is with Republic.
- *Hans Van Dusen* explains the relevancy of risk sharing in Seattle's processing contract and notes that the following facility standards are built into the contract:
 - Marketing the commodity, for example, half the glass has to go back into glass, half the PET has to go back to PET, all paper, cardboard, newspaper has to be sold and remanufactured as paper commodities.
 - Disposal of recycling is ground for termination.
- *Hans Van Dusen* notes that it's often an interactive bidding process and that Republic asked for variance in their contract bidding interaction. *Hans* shares the two elements that went into this:
 - Seattle did not authorize the disposal of Seattle recyclables
 - Seattle was aware that some disposal was authorized for incoming loads and agreed not to enforce the relative facility cost for the period from March – May 2018. *Hans* notes that residual threshold and commodity destination were not strictly enforced during this time.
- *Stephanie Schwenger* asks whether there are any insights on whether the city plans to move forward on its processing contract enforcement now that the period has ended.
- *Hans Van Dusen* replies that the city has not granted any extension to the facility standards and he expects the city will look at approaches for enforcing standards after Q2.
- *Hans Van Dusen* presents on the risk sharing element of Seattle's contracting, specifically:
 - Seattle takes on 100% of the marketing risk related to the material
 - Seattle does not cover actual financials occurring in the market, rather tracks regional indexing as a proxy for that.
 - Seattle looks at largest scale indexes of commodities to see how the index shifts over time, enabling the contracted MRF to market as strongly as they can.
 - Seattle covers the regional trend of the value, meaning they gain and lose based on the strength of the commodity. In 30 years, Seattle has typically seen good value and profit out of this approach.
- *Hans Van Dusen* presents a graph of SPU's Processing Payments & Market Credits, explaining that Seattle pays \$90 a ton for Republic to sort contract recyclables.
 - Based on market index, Seattle's index gains or loses value, with revenue that Seattle makes typically hovering around \$0 (between April 2016 – current)
- *Hans Van Dusen* presents a graph of SPU's Processing Payments & Market Credits, showing what Seattle's 90,000 tons of recycling looks like on a monthly financial basis
 - The graph shows that currently Seattle is covering the cost of commodities and that there are around \$600,000 a month spent on processing costs.
- *Hans Van Dusen* presents a graph on SPU's Commodity Credits, showing the components that make up the \$600,000 a month costs, including:
 - Mixed paper, newspaper, cardboard, PET HDPE, aluminum, glass and tin
 - *Hans* points out that these are just the materials that Seattle tracks and that the value of China materials have been dropping since the end of 2017.



- *Hans Van Dusen* presents an aggregate graph of SPU's Market Index between 2006-2016 in order to provide a longer period view, noting that occasionally the index being tracked shifts, but in a contract cycle.
- *Hans Van Dusen* notes that the graphs are meant to provide a sense of the total basket of commodities.
- *Matt Stern* asks if the index includes residuals and whether the value of glass takes into account that glass is sold in three different colors.
- *Hans Van Dusen* replies that the index does not include residuals and that the cost of glass includes the price of the three different colors.
- *Matt Stern* points out that Seattle is the only place in the Northwest that offers free disposal of residuals, reminding the room that because of this the values on the graph do not include two large negative values in the equation (glass and residuals).
- *Hans Van Dusen* adds that, to some degree, the index is really about what the trends look like and that when a city bids on a contract it's not because of the weighted average, rather because of the trend.
- *Meg Moorehead* asks whether Seattle has come out positive in most years, which *Hans* affirms.
- *Meg Moorehead* asks what tons of materials Seattle is running into problems with compared to King County.
- *Hans Van Dusen* replies that King County likely has twice as many problem materials as Seattle.
- *Julie Colehour* thanks *Hans* for his presentation and introduces *Jeff Brown* from Epicenter Services, LLC, who will present on the Collection Contract Commodity Value Approaches.

Presentation:

- *Jeff Brown* begins by stating that he works for most of the cities in King County and asks the room to bear in mind that many cities don't have someone managing their contracts and that these contracts are meant to deal with a lot of different situations
- *Jeff Brown* presents on the differing approaches utilized in collection contracts and the pros and cons of each:
 - Early Revenue Sharing Approach
 - Percentage revenue split
 - Floor/ceiling approach
 - Seattle approach – pay for processing, City get revenue
 - Based on market index, Seattle receives value
 - Pros:
 - Risk management, benefit to city or ratepayer
 - Cons:
 - Auditability, monitoring, processing level
 - Current Risk/Reward Approach
 - Contractor gets all revenue
 - Contractor makes processing level and marketing decisions, such as whether or not to sort materials out or sell it as a different material
 - Pros:



- No city auditing or involvement in decisions/specs, allowing for advantages such as improved operations and contractor ability to make their own investment decisions.
- Cons:
 - Contractor must accurately forecast average revenues over term and plan for risk, a process which is currently invisible to anyone aside from the contractor.
 - Contracts are designed not to be open and opening them up can often be a disaster for cities.
- Potential Future Approach: Indexing:
 - Use Seattle market monitoring as a basis for indexing
 - Mercer Island contract with new approach recently sent out for industry review
 - Track variations in reported market values to provide credit/debit for revenues above or below baseline set in contract.
 - Does not track what people are actually selling materials for, and on averages processors beat the value of the index
 - Point is to provide another reference point that is objective
 - Debits/credits go to customer or City quarterly or annually and provide some risk sharing
 - Pros:
 - No city auditing
 - No involvement in decisions or specs
 - Continued contractor incentive to minimize contamination
 - Much lower risk to contractors
 - Cons:
 - Tracking index needs to be managed (many cities don't have dedicated staff to manage)
 - Actual revenues don't necessarily match index values
- Existing Contract Modification Issues:
 - Don't know assumptions at start of a contract
 - What average value of recyclables was assumed
 - What average cost of processing was assumed
 - Contracts were generally not designed to be easily opened.
 - City can't second guess decisions by contractor (long term relationships vs. spot markets, local vs. export, etc.)
- Existing Contract Model – Questions:
 - How much market variance is within the normal bandwidth of business risk?
 - How are costs and revenues audited?
 - Who gets to make marketing and processing level decisions?
 - If input stream improves, who benefits?



- When markets improve, who decides whether operations should be modified to lower costs?
- Should profit be allowed on additional investment & processing costs?
- Are there offsetting reductions in contract or business conditions that should be considered?
- Where to from here?
 - Individual or collective city evaluation/negotiation?
 - Framework to determine contract opening, reasonableness of costs, triggers to start/adjust/discontinue, etc.
 - Move forward with implementing contamination protocols
 - Overall materials management: what was lost when drop-off was replaced by curbside.

Discussion:

- *Linda Knight* states that both *Jeff Brown* and *Hans Van Dusen* spoke about the risk in terms of financial risks, noting that this particular situation is not complete about the cost but about the ability to actually move the materials and the volume of materials. *Linda* asks *Jeff Brown* to speak on the structure of the city contracts and the assumption of risk when not just about the financial.
- *Jeff Brown* replies, stating that that is a lot of risk that is presumably priced into the contract. Furthermore, *Jeff* states that the contract was originally designed to be provide strong incentive for the haulers to run everything from pick up to processing and to adjust their process appropriately.
- *Meg Moorehead* notes that the UTC makes recycling pay for recycling and asks if there is a potential for subsidies with this contract model.
- *Jeff Brown* notes that people have different definitions of what recycling pays for recycling means and that in the contracts they don't get into defining that
- *Julie Colehour* notes that one of the ideas from the June 1 meeting was contracts for the sake of recycling and *Susan Fife-Ferris* brought up the environmental responsibility that should be included in the conversation. Is there a way to acknowledge that assurance in contracts?
- *Jeff Brown* replies that this gets at the same issue of who is going to do all the work and who has the staff to ensure that materials are going to the right place.
- *Hans Van Dusen* adds that the facility criteria piece in Seattle's contract is meant to address.
- *Jeff Brown* notes that for many cities, there is just no way they can track that.

Agenda Item #5: Action Items and Wrap Up (*called to order by Julie Colehour at 11:59 am*)

Discussion:

- *Julie Colehour* reviews the action items from the days meeting, which include:
 - Sharing recommendation with King County Advisory Committees to remove plastic bags and shredded paper from the blue bin (with emphasis on appropriate messaging for shredded paper in particular)



- Cities to share any previous or current waivers with King County
- King County to share the waiver letter written to haulers with city representatives
- Forming a subcommittee to discuss waivers in advance of the next Responsible Recycling Task Force meeting on July 18, during which the committee will share next steps.
- Determining best way to share information on waivers and contracts discussed today.
- Sending out the finalized June 1 meeting minutes, problem statement and June 18 presentation to task force members by Thursday, June 21 (final red flag feedback on problem statement due by EOD Wednesday, June 20)
- Sending out the draft June 18 meeting minutes on Monday, June 25.
- *Julie Colehour* wraps up the meeting by reminding everyone that the next Responsible Recycling Task Force meeting will take place at the following time and location:
 - July 18
 - 9:00 – 11:00 am
 - Bothell City Hall, Council Chambers Room
 - 18415 101st Ave NE, Bothell, WA 98011