



## Legislation Text

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Resolution to Approve a Services Agreement and Land and Building Lease with Recycle Ann Arbor (RAA) for Materials Recovery Facility (MRF) Transloading, Re-Equipping and Recyclables Processing (10-Year term, with two Potential 3-Year Extensions)

Attached for your approval is a resolution to approve a Services Agreement and Land and Building Lease ("Lease") with Recycle Ann Arbor (RAA). The Lease will allow RAA to occupy and use the City's MRF building which it will use for providing materials recovery services to the City. Under the Services Agreement RAA will provide these services by initially continuing to transload the City's recyclables for processing in Oakland County while it redevelops the building as a functioning MRF, at its own expense, by removing the obsolete processing equipment and re-equipping and installing updated recyclables processing equipment in the building, and then transitioning to processing the City's recyclables materials on-site at the MRF. The Services Agreement and Lease are each for an initial concurrent 10-year term which includes the initial transloading and re-equipping phases, with two potential 3-year extensions.

RAA is a non-profit based in Ann Arbor, MI with a mission to develop and operate innovative reuse, recycling, and zero-waste programs that improve the environmental quality of our community.

Ann Arbor has historically provided local processing capacity for recyclables collected from residences and businesses, as well as outside third-party materials. However, in 2016, the City ceased processing operations at the MRF because the City's contracted vendor was not providing or maintaining a safe work environment or equipment condition. RAA currently operates the City's MRF structure as a materials transfer station and transports the City's recyclable materials for processing at a MRF in Cincinnati, Ohio. The City's existing contract with RAA for Recyclables Processing expired on June 30, 2020, and the City has extended that contract for a short period to allow for consideration of this new proposed Recyclable Materials Services Agreement and Land and Building Lease.

In the past, recycling contracts have incorporated the value of recovered materials into the pricing structures. However, more recently, MRF operators seek to mitigate their risk due to the volatile recycling market and move to a cost of service reimbursement model. While these investments, and recycling overall, is now often a net cost, this investment is in support of the community's values of sustainability and environmental stewardship.

On December 2, 2019, staff presented City Council with a proposed Services Agreement with Emterra Environmental USA to operate the City's MRF as a transfer facility as a result of the procurement process associated with RFP #19-28. City Council passed a replacement resolution (R-19-538) directing, authorizing, and supporting the City Administrator in negotiation of an agreement with RAA to rebuild and operate the Ann Arbor MRF for an initial period of ten (10) years.

Since January 2020, the City of Ann Arbor and RAA engaged in numerous, extensive and detailed negotiations with the joint goal of executing and implementing a ten-year MRF Services Agreement

and Land and Building Lease that provides the City with a needed service, to be provided locally after re-equipping and transition, at an appropriate cost while sharing risk and optimizing measurable economic and environmental community benefits.

RAA's re-equipping of the MRF includes: re-conditioning of some of the existing processing equipment; removal and replacement of other pieces of equipment; and, purchase of the existing City baler based on its appraised value. The transfer of ownership of the MRF equipment-including the baler, as well as two fully-depreciated forklifts, a depreciated excavator, and an almost fully-depreciated loader currently in use at the MRF-to RAA for their re-equipping will be completed through a Bill of Sale associated with the Services Agreement and Lease.

The MRF Services Agreement and Lease, with nominal rent, will allow RAA to continue transloading the City's recyclables elsewhere while it completes building modifications and re-equipping, and transitions to processing recyclable materials on site. The initial term of the Services Agreement and Lease will start upon execution and end December 31, 2030 with the option to mutually extend them for up to two additional 3-year terms.

Budget/Fiscal Impact: Through this 10-year Services Agreement and Lease, RAA will be making capital investments in the MRF facility and equipment, at its own expense, and retaining ownership of the equipment. In exchange for the services RAA will charge the City an all-inclusive cost per ton processing fee to cover all of its operating and capital costs. The City will receive revenue share for the City's recyclable materials, a per ton host fee for any outside third-party material brought to the MRF, and a reduced per ton processing fee if tonnage exceeds specified thresholds. Funding for recyclables processing services will be provided in the annual approved Solid Waste Operating Budget, if so approved by City Council.

The below breakdown of the estimated annual costs for this work is based on the processing charge for City-only tonnage, and does not include potential revenue share from commodity values or potential host fee revenues from third-party tonnages:

Fiscal Year	Anticipated Processing Cost*	Estimated Annual Cost
FY21	\$147.38/ton**	\$2,092,796
FY22	\$151.98/ton	\$2,158,116
FY23	\$155.02/ton	\$2,201,284
FY24	\$158.12/ton	\$2,245,304
FY25	\$161.28/ton	\$2,290,176
FY26	\$164.51/ton	\$2,336,042
FY27	\$167.80/ton	\$2,382,760
FY28	\$171.15/ton	\$2,430,330
FY29	\$174.58/ton	\$2,479,036

FY30	\$178.07/ton	\$2,528,594
<b>TOTAL</b>		<b>\$23,144,438</b>

\*Based on average of 14,200 tons per year of City recyclables; annual increases to be based on CPI, capped at 2%; 2% max increases shown in estimated annual cost.

\*\* First year of contract to be Transloading Operation during re-equipping with different rate schedule

Another financial aspect of this proposed Services Agreement and Lease arrangement is related to the existing City-owned MRF facility and equipment. We currently have \$5.8 million in depreciating assets, which are now obsolete, related to past MRF operations on the books through 2049. As noted in resolution R-19-538 and above, RAA's proposal is to provide these services with no up-front capital costs to the City as RAA will make all necessary capital investments (in excess of \$5.1 million), thus removing long-term capitalization obligations for future MRF operations from the City. However, this will result in a one-time write-off (impairment) to the Solid Waste Fund estimated to be \$2.0 million for the remaining depreciation on the obsolete MRF equipment. The City will maintain ownership of the Materials Recovery and along with its various improvements and upgrades will continue to depreciate the asset at approximately \$167,500.00 annually through 2049.

Prepared by: Eileen Naples, Resource Recovery Manager

Reviewed by: Craig Hupy, Public Services Area Administrator

Approved by: Tom Crawford, Interim City Administrator

Whereas, The City of Ann Arbor has contracted for processing of the City's recyclable materials since 1993;

Whereas, Initially these services were provided through a long-term contract to design, construct and operate a City-owned Materials Recovery Facility (MRF);

Whereas, In July 2016 the City took the MRF offline as a processing facility because of safety concerns due to the condition of the equipment;

Whereas, The contracted services since that time have been to receive recyclable materials at the City's MRF structure, transload the recyclables to an offsite MRF for processing and subsequent marketing to end markets;

Whereas, Recycle Ann Arbor currently operates the City's MRF structure as a materials transfer station and trucks the City's recyclable materials for processing at a MRF in Cincinnati, Ohio;

Whereas, The existing contract for these services has been extended for a short period to allow for consideration of the proposed Services Agreement and Lease;

Whereas, In addition to the need to replace the existing contract when it expires, the City desires to again process recyclable materials locally at the City's MRF;

Whereas, On December 2, 2019 City Council approved Resolution R-19-538 directing, authorizing, and supporting the City Administrator in negotiating an agreement with Recycle Ann Arbor to rebuild and operate the Ann Arbor MRF for an initial period of ten (10) years, and that the contract would include requirements that Recycle Ann Arbor submit timely and detailed reports as required to assess performance and that the City receive a host municipality fee for all non-City materials processed and that the City receive the best terms offered to any other entity processing materials through the MRF;

Whereas, The City and Recycle Ann Arbor have negotiated a Services Agreement to have Recycle Ann Arbor redevelop the City's MRF building and operate it as a MRF and provide recyclables recovery services to the City for an initial period of ten (10) years, and this Agreement includes: requirements that RAA submit timely and detailed reports as required to assess performance, including progress toward completion of the redevelopment and transition to on-site processing; the City receives a host municipality fee for all non-City materials processed; and, the City receives the best terms offered to any other entity processing materials at the MRF;

Whereas, The City and Recycle Ann Arbor have negotiated a 10-year Land and Building Lease with nominal rent for Recycle Ann Arbor to occupy, re-equip, use and maintain the MRF to operate their recyclable materials processing and provide the services to the City;

Whereas, The City and Recycle Ann Arbor have negotiated a Bill of Sale to transfer ownership of obsolete Materials Recovery Facility equipment, and one baler, two forklifts, one excavator, and one loader from the City to Recycle Ann Arbor; and

Whereas, Funding for the services will be available in the approved Solid Waste Operating Budgets, if so approved by City Council.

**RESOLVED**, That City Council approve a 10-year Recyclable Materials Transloading, Redevelopment And Re-Equipping Of The Materials Recovery Facility, And Recyclables Material Recovery Processing Services Agreement, subject to annual appropriations, and Land and Building Lease with Recycle Ann Arbor, including provisions that the Agreement and Lease may be extended

administratively for up to two additional 3-year periods of time if desired by the City and upon agreement of the Parties, with the total estimated cost of the Services Agreement being \$23.2 Million over the 10-year term;

RESOLVED, That City Council approve and authorize the sale of Materials Recovery Facility equipment and the execution of a Bill of Sale as necessary;

RESOLVED, That the Mayor and City Clerk be authorized and directed to execute said Agreement and Lease, after approval as to form by the City Attorney and approval as to substance by the City Administrator;

RESOLVED, That City Council authorizes the City Administrator to approve two 3-year extensions of the Agreement and Lease subject to annual appropriations; and

RESOLVED, That the City Administrator be authorized to take the necessary administrative actions to implement this resolution.