



Memorandum

08/03/2018

To: Steve Giesbrecht, Borough Manager
Mayor Jensen and Members of the Borough Assembly
From: Chris Cotta, Public Works Director
Re: Recycling Program Update

As you may know, there has been some volatility in the recycling markets starting last year. The major market for most of the recyclable commodities generated by Petersburg was China, and the Chinese have recently made sweeping government policy changes that have effectively closed their markets to most American recyclables at this point. This has affected recycling markets nationwide and caused many recycling vendors to begin taking measures to deal with the extra inventory of recyclables, since alternative markets have thus far been unable to absorb the previous volume accepted by the Chinese.

What this has meant to us locally, is that the value of most of our recyclables has dropped dramatically over the past several months. Petersburg's commingled recycling program gets much of its revenue from the value of the commingled recyclables collected weekly via the blue cart recycling program. The value of these commingled recyclables has dropped from a high of \$136/ton in March of 2017 to a low of \$21/ton in March of 2018. Although prices have started to recover, at present the commingled recyclable price is still only \$27/ton.

Along with the drop in value, recyclers have started increasing processing fees for recyclable materials in order to stem some of their losses. Petersburg's recycling processing fees are going up over 50%, from a current \$32.45/ton to the new rate of \$49.84/ton. In combination with the drop in commodity values, this has resulted in a disposal cost per ton that is slightly higher than municipal solid waste (MSW). At present, we pay approximately \$115/ton to dispose of MSW. With the drop in value and increase in fees, commingled recyclables are presently costing us around \$126/ton.

Petersburg's MSW and recyclables together total approximately 2400 tons annually, with roughly 300 tons of recyclables and 2100 tons of MSW (trash). If we disposed of the 300 tons of recyclables as trash instead of recycling, it would cost us approximately \$3,300 less on an annual basis – calculated using present commingled value of \$27/ton and processing fees of \$49.84/ton. There are, of course, other program costs for the Borough's recycling program. However, one major cost – the 3rd collection truck – has recently dropped since we have opted to extend the life of one collection truck beyond its anticipated replacement date.

In the past, Petersburg's recycling program has, most of the time, not paid for itself. When Petersburg Indian Association (PIA) was providing the service using grant money to fund their operations, the program was having a positive impact on the Borough's bottom line since a grant was absorbing the

program costs. Once PIA's grant funding ran out, the Borough decided to continue the program but realized that recycling would lose money without major program changes. This resulted in the gradual evolution of the program from PIA-provided services to a private contractor and ultimately to Borough collection. A transition in collection methods also took place - from blue bags to a cart system, again with the goal of eventually having a net positive effect on the Borough's bottom line.

Starting in 2016 with the full implementation of the blue cart program, the recycling program balance sheet was looking better and recyclables were costing much less per ton for disposal than MSW. It was anticipated that the program would start paying for itself and actually make some money, in addition to the other benefits of recycling. However, with the recent unexpected collapse of commingled commodity values, this disposal cost picture has reversed, and recyclables are now costing more per ton than MSW as described above.

Whether this is a short term or long term outlook, no one is certain at this time. Our recycling vendor – Republic Services - has let us know that their expectations are for prices to continue to be depressed for possibly 3-5 years, to allow the markets to “reset”. Whether this means a slow climb back to previous values, dramatic ups and downs, or further loss of value is unclear. We are hopeful that values have reached their low point and will slowly recover, but that remains to be seen.

For the time being, we are trying to minimize our program costs until a future direction becomes clear. We have put off replacing one of our collection trucks that was scheduled for replacement this fiscal year. This will not only save the capital expense of a new truck but will decrease monthly expense by reducing replacement contributions to a level commensurate with inflationary costs only. Since we did not hire any additional staff to implement the commingled recycling program, we are still utilizing the same number of full time personnel as we did prior to putting this program in place. And we will be looking at various other ways to minimize recycling program costs and increase program revenues as long as the program continues to be active.

Hopefully this memo has given the community a snapshot of what our recycling costs and challenges are at present. The big question is: What does the future hold for this program? It really all depends on what the community wants to do. There are both pros and cons to continuing forward with recycling in some fashion, as well as to just eliminating the program entirely. That discussion is a broader one than what is covered in this memorandum, however the Public Works Department is looking forward to getting some input from the Assembly and the community. It might be a little bit of work to sort this out, but we're ready to have the conversation and assist with providing the details needed in order to make an informed decision. I'll be happy to take questions at this time. Thank you.