



## STRIKING THE RIGHT BALANCE

In an era of depressed pricing, MRFs and communities need to re-frame their approach to contracts. Here's a proposed model that takes into account the long-term requirements of both parties.

**BY SCOTT MOUW AND ROB TAYLOR**

**T**here is nothing like a down market to make people sharpen pencils and reconsider business relationships. The current lingering doldrums in average blended ton revenues for recyclables have many materials recovery facilities (MRFs) doing just that, as we all contemplate the future of recycling markets and “sustainable” processing contracts.

Gone are the giddy, robust market days of 2011, when material prices spiked just as single-stream became the mainstream collection strategy. And now the additional challenge of the “evolving ton” (lighter materials overall, less paper and more hard-to-recover newer plastics in the recycling stream) lends even more unpredictability to a market picture that is forcing many collectors and processors to re-frame relationships.

This article proposes a long-term model for communities that contract with MRFs for the processing of recyclables. The model discussed here addresses the situation where communities maintain ownership of the materials collected from their public recycling programs. As such, it may not be relevant in situations where communities hire curbside recycling collectors who then own the materials collected. Still, the ideas presented here should have relevance for most readers. The goal is to present a model that accommodates uncertainty but that also offers overall stability and fairness.

Of course, “fairness” is always in the eye of the beholder. MRF contracts often cover time periods in which commodity pricing can fluctuate substantially, severely testing a sense of shared rewards and shared burdens. In these circumstances, the best hope for a reason-

able deal rests on transparency, a mutual understanding of interests, and the inclusion of contract mechanisms that help all parties successfully navigate the ups and downs of the market.

### Desires on both sides

Community recycling programs are subject to annual budget cycles that leave little room for surprises. The key needs of many communities include:

- Stability and predictability in the MRF pricing
- Consistent access to reliable materials processing
- Clear and consistent signals on material recyclability
- Protection against down markets (including protection from unanticipated processing charges) but enjoyment of rewards from a high market

MRFs should endeavor to understand and appreciate these needs as they contemplate their own. While the interests of MRFs are different, they intersect with community programs and shouldn't be lost in the equation. Some key needs for MRFs are spelled out below, with a parenthetical remark of how these needs tie back to those of a community:

- Profitability above threshold operating costs (profitability helps ensure the MRF is successful and remains available for community programs)
- Incoming material quality (quality helps increase yield and value for possible revenue sharing and controls cost associated

with management of residue)

- Long-term customer commitments and committed input of materials to support and sustain investments and upgrades (multi-year deals with committed material volumes help stabilize financing for MRFs and improve the ability to make capital improvements)
- Protection against down markets but enjoyment of rewards from a high market (the same interest as communities)

Suggestions for MRF contracts	
Contract element	Element rationale
Floor price of \$0	A \$0 floor gives communities predictability in budgeting and helps them avoid down market volatility.
Ceiling on shared revenue	In exchange for protection on the market downside with a floor, communities agree to accept a ceiling on shared revenue. As an example of this arrangement, a community and MRF might share revenue 50-50 up until \$50 per ton over the threshold MRF operating cost. The MRF keeps all revenues exceeding \$50 over the threshold (keep in mind that with a floor, the MRF has also agreed never to charge the community when revenues drop below the threshold).
Five-year contract with renewable terms or built-in options to extend	A long-term contract with the terms above helps a MRF make necessary capital investments and procure and pay debt service. This, in turn, helps ensure a community has access to a high-functioning processing facility that is able to adjust to the evolving ton and (hopefully) increases in volume. Renewable contract options allow a stable and mutually agreeable relationship to continue, avoiding disruptive re-bid processes.
Shared residue-disposal costs over a determined residue rate	Because communities have direct contact with citizens, they should acknowledge and accept responsibility for helping ensure material quality. Through negotiation, the community and MRF should set a technically determined allowable residue rate (for example, 10 percent) that the MRF agrees to handle. The community and MRF should then share the costs of disposal for any residues above the established threshold, giving communities "skin in the game" on material quality.

## A proposed framework

With those specific requirements for success laid out, we can look to find a contract model that blends and harmonizes the needs of each side. The table on this page proposes some basic elements of a MRF contract that seeks a fair balance in the relationship.

In addition to these basic contract components, an ideal community/MRF contract would include other consensus and trust-building mechanisms that embed transparency in the relationship. This includes a number of possible protocols.

For example, the partners can agree to periodic, jointly conducted formal annual audits of the incoming stream and MRF residues to assess material quality and material profiles. Further, they can establish an acknowledged mutual commitment to control the quality of the recyclable materials and to establish reasonable expectations around the responsibility for identifying, communicating about and resolving issues associated with material quality.

Formal annual reviews of market conditions and technical advances in MRF operations are also wise moves. Such steps allow the community and the MRF to be aware of possible expansions to the collection mix and to plan capital upgrades that can improve facility efficiency.

MRFs and communities may also create a system for formalized reporting of the value per ton of blended materials on a

quarterly basis. That reporting can establish hard data that will be key to moving the partnership forward. Trust in community and MRF relationships is based on information that both parties access equally. Mutually agreed-upon facts and responsibility

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ities put the conversation on a firm footing and maintain the level of accountability that both parties need to judge the fairness of the contract.

## Vested in education

There are certainly other possible angles to community and MRF contracts that could enhance fairness and stability. In large part, the goal of this article is to propose a basic equitable framework for direct community/

MRF contracts. When and if communities contract away the responsibility for collection and the ownership of recyclables, the collection contractor then becomes an additional party to this relationship. However, the community should still be vested in educating the public about proper recycling and in ensuring that public recycling programs deliver quality recyclables to MRFs.

An additional goal of this article is to encourage thinking and dialogue on this central issue, especially as single-stream collection of recyclables becomes a more permanent system in communities nationwide. The relationship between communities and their MRFs is critical to the ongoing success of that system and to the overall ability to optimize material collection and sustainable materials management. **RR**

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