

Supplemental Pricing Information on the Results of the Request for Proposal No. 0401-07-0059 Contract for Recycling and Garbage Carts to Single-Family Households

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| Date: | June 26, 2007 |
| To: | Public Works and Infrastructure Committee |
| From: | Geoff Rathbone, General Manager, Solid Waste Management Services Lou Pagano, Director, Purchasing and Materials Management Division |
| Wards: | All |
| Reference Number: | (p:/2007/swms/June/022PW.doc) |

SUMMARY

When a significant cost element of long-term City contracts is linked to volatile oil and natural gas prices, independent indicators are used to adjust pricing based on actual market prices at the time of consumption.

Based on the assumption that the majority of the carts will be produced/delivered in 2008 and based on the forecasted resin price index value for 2008, increased resin prices will result in an increased cost of approximately \$0.78 (US) per cart on average over baseline pricing. This can be accommodated within the approved budget estimates.

Financial Impact

Any change (up or down) to the baseline resin price beyond the guaranteed six month period will result in a change to the unit cart prices.

The plastic industry index forecast for 2008 is \$0.67 (US) per pound, \$0.03 (US) higher than the baseline price of \$0.64 (US).

A \$0.03 (US) increase in resin prices would result in an average \$0.78 (US) per cart price increase. At a US/Canadian exchange rate of 1.045 and 1,080,000 carts this result in an

overall price adjustment of approximately CDN \$880,000 plus applicable taxes. This could be accommodated with the approved budget estimates.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting on May 30, 2007, the Public Works and Infrastructure (PWI) Committee approved the recommendations in the report PW6.16 entitled “Results of the Request for Proposal No. 0401-07-0059 Contract for Recycling and Garbage Carts to Single-Family Households”. This report was forwarded to the June 19, 20, and 22, 2006, Council meeting.

Council requested that the item PW6.16 be referred back to the Public Works and Infrastructure Committee and the Acting General Manager, Solid Waste Management Services and the Director of Purchasing and Materials Management Division be requested to report to the Committee with a more accurate estimate of the value of the contract.

COMMENTS

Resin Price Adjustment

Prior to release of the Request for Proposals (RFP) for the purchase of the recycling/garbage carts, Solid Waste Management Services (SWMS) staff met with several cart manufacturing companies to discuss issues and concerns. All companies interviewed stated that due to the volatile nature of plastic resin pricing, guaranteed pricing could not be fixed over a long period of time. Based on these interviews and experience in prior contracts it was determined that six months was an acceptable maximum amount of time for fixed prices.

The City estimates that 1,080,000 recycling and garbage carts will be required for the initial distribution in 2008 and an additional 100,000 carts will be required for new resident deliveries over the ten-year term contract term. Therefore, the majority of the carts will be produced for the initial distribution during the first year of the contract.

The RFP closed on April 30, 2007 and the six month fixed pricing period ends on October 31, 2007. After October 31, 2007, the resin price adjustments will be reviewed on a monthly basis and will be adjusted if the quoted base price for plastic resin changes (i.e., raises or lowers). It is anticipated that it will take approximately 9 months of production time to produce the 1,080,000 carts required for the initial distribution.

At the time of closing of the RFP Rehrig Pacific Company's base resin price was \$0.64/lb (US). The Chemical Data monthly Petro-Chemical and Plastics Analysis Index forecasts that the average price for 2008 will be \$0.67/lb (US). The resin price adjustment formula is based on the weight of the plastic resin in each cart. Therefore, the larger the cart the greater the resin weight per cart. Based on the anticipated quantities of each cart size required it is estimated that for every one cent change in resin price, the average change in price per cart is \$0.26 (US).

If the 2008 actual resin price is \$0.67/lb (US) as was forecast, this would translate into an increase of approximately \$0.78 (US) on average per cart. This can be accommodated within the approved budget estimates.

Consumer Price Index

To account for inflation, the City will adjust the bid price for cart deliveries for new residents and exchanges annually by 100% of the change in the Consumer Price Index (CPI) for Toronto. The CPI inflation adjustment for the City of Toronto for the period of April 2006 to April 2007 was 1.91 %.

The CPI adjustment does not apply to the initial 1,080,000 carts.

CONTACT

Kevin Vibert
Senior Analyst, Waste Diversion
Solid Waste Management Services
City Hall, 25th floor, East Tower
Phone: 416-397-0203
Fax: 416- 392-4754
E-mail: kvibert@toronto.ca

SIGNATURE

Geoff Rathbone
General Manager
Solid Waste Management Services

Lou Pagano
Director
Purchasing and Materials Management
Division