

Amendments to Processing Fees Due to LCBO Deposit Return Program

Date:	October 29, 2008
To:	Public Works and Infrastructure Committee
From:	General Manager, Solid Waste Management Services
Wards:	All
Reference Number:	p:/2008/swms/Nov. /018PW

SUMMARY

The purpose of this report is to request authority to amend the single stream recycling processing fees with Metro Municipal Recycling Services Inc. and Canada Fibers Ltd. to account for the impact on the processing operations caused by the decrease in the mixed broken glass tonnage resulting from the implementation of LCBO deposit return program by the Province of Ontario which became effective February 2007.

RECOMMENDATIONS

The General Manager, Solid Waste Management Services recommends that:

1. Council approve the increase in 2008 fees for single stream recycling processing with Metro Municipal Recycling Services Inc. and Canada Fibers Ltd. as follows:
 - a. for single stream recycling processing with Metro Municipal Recycling Services Inc. by \$5.46 per tonne from the current fee of \$64.91 to \$70.37 per tonne retroactive to January 1, 2008; and,
 - b. increase the single stream recycling processing fees with Canada Fibers Ltd. by \$4.12 per tonne from the current fee of \$68.90 to \$73.02 per tonne retroactive to January 1, 2008.

2. Council approve the increase in 2007 fees for single stream recycling processing with Metro Municipal Recycling Services Inc. and Canada Fibers Ltd. as follows:
 - a. the 2007 single stream recycling processing fee at Metro Municipal Recycling Services Inc. during the period of March 2007 to December 2007 be increased \$5.46 per tonne from \$63.95 to \$69.41 per tonne with retroactive compensation for a total of \$450,990.54.
 - b. the 2007 single stream recycling processing fee at Canada Fibers Ltd. during the period of March 2007 to December 2007 be increased \$4.12 per tonne from \$67.59 to \$71.71 per tonne with retroactive compensation for a total of \$248,720.28.
3. Council authorize the General Manager, Solid Waste Management Services to enter into any necessary amending agreements with both Metro Municipal Recycling Services Inc. and Canada Fibers Ltd., on terms and conditions satisfactory to the General Manager, Solid Waste Management Services to reflect Recommendations 1 and 2 and in a form satisfactory to the City Solicitor.
4. Council direct the General Manager of Solid Waste Management Services to request that the Ontario Minister of the Environment take immediate steps to reinstate the LCBO as a Waste Diversion Ontario Blue Box Plan steward for all wine and spirit containers captured and processed through municipal blue box waste recycling systems

Financial Impact

The 2008 approved budget for single stream recycling processing costs at Metro Municipal Recycling Services Inc. (MMRSI) is \$9,980,094.71 (Cost Centre SW0742-MRF: Single Stream - Scarborough) and at Canada Fibers Ltd. (CFL) is \$7,974,581.39 (Cost Centre SW0751-MRF: Single Stream - Dufferin) for a total of \$17,954,676.10.

The 2008 year-end projection is currently \$8,265,224.00 at MMRSI and \$6,876,547.00 at CFL for a total of \$15,141,771.00. The forecast variance is due to delayed implementation of diversion programs which reduced the budgeted tonnage and cost increases associated with these programs.

The proposed increase in processing fees will result in an estimated annual increase of \$552,218.94 for MMRSI and an increase of \$329,880.16 for CFL for a total annual estimated processing cost increase of \$882,099.10. Calculations are shown below in Table 1.

TABLE 1 - 2008 Estimated Costs of Proposed Fees for Projected Tonnage

	2008 Fee	Proposed Fee	Annual Increase
Metro Municipal	101,139 T X \$64.91 = \$6,564,932.49	101,139 T X 70.37 = \$7,117,151.43	\$552,218.94
Canada Fibers	80,068 T X \$68.90 = \$5,516,685.20	80,068 T X \$73.02 = \$5,846,565.36	\$329,880.16
Total	\$12,081,617.69	\$12,963,716.79	\$882,099.10

In the 2008 budget, \$875,000.00 was allocated to cover the expected fee increase attributable to the LCBO deposit return program impact. The higher proposed processing fees exceed the 2008 budget by \$7,099.10, however, given projected year-end savings and under-spending, the proposed increased processing fees can be accommodated with the approved 2008 Operating Budget (Cost Centres SW0742-4403 and SW0751-4403).

Furthermore, the implementation of the LCBO's deposit return system has actually resulted in net savings in 2008. Total savings of \$1,263,225.00 is comprised of \$869,975.00 for processing cost savings and \$393,250.00 is attributed to glass disposal savings. When the proposed fee increase of \$882,099.00 is applied, the result is a net savings of \$381,126.00 for 2008. Calculations are shown below in Table 2.

TABLE 2 – 2008 Estimated Operating Savings Resulting from LCBO Program

	Calculation	Annual Savings
Processing Cost Savings	13,000 T X \$66.90	\$869,975.00
Disposal Cost Savings	6,500 T X \$49.00 6,500 T X \$11.50	\$318,500.00 <u>\$74,750.00</u> \$393,250.00
Total Savings		\$1,263,225.00
Less fee increase		(\$882,099.00)
Net Savings		\$381,126.00

Similarly, the actual retroactive costs as a result of the 2007 processing fee increase (between March 2007 and December 2007) are \$699,710.82 in total, of which \$450,990.54 is for MMRSI and \$248,720.28 is for CFL. Calculations are shown below in Table 3.

TABLE 3 – 2007 Actual Retroactive Costs (March 2007 – December 2007)

	2007 Fee	Proposed Fee	Annual Increase
Metro Municipal	82,599 T X \$63.95 = \$5,282,206.05	82,599 T X \$69.41 = \$5,733,196.59	\$450,990.54
Canada Fibers	60,369 T X \$67.59 = \$4,080,340.71	60,369 T X \$71.71 = 4,329,060.99	\$248,720.28
Total	\$9,362,546.76	\$10,062,257.58	\$699,710.82

In anticipation of retroactive compensation caused by the impacts of the LCBO deposit return program from March 2007 to December 2007, year-end liabilities were set up to cover this impact (Cost Centres SW0742-4403 and SW0751-4403).

The implementation of the LCBO's deposit return program has also resulted in savings of \$1,147,700.00 in 2007. This total is comprised of \$657,700.00 for processing cost savings and \$490,000.00 is attributed to glass disposal savings, resulting in a net savings of \$447,989.18 for 2007. Calculations are shown below in Table 4.

TABLE 4 – 2007 Actual Savings (March 2007 – December 2007)

	Calculation	Annual Savings
Processing Cost Savings	10,000 T X \$65.77	\$657,700.00
Disposal Cost Savings	10,000 T X \$49.00	\$490,000.00
Total Savings		\$1,147,700.00
Less fee increase		(\$699,711.00)
Net Savings		\$447,989.00

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

DECISION HISTORY

At its meeting held on July 30, 31 and August 1, 2002, City Council considered Clause Number 24 of Report Number 12 of the Policy and Finance Committee and awarded a recycling processing contract to Metro Waste Paper Recovery Inc. The report and Council's decision can be viewed at:

<http://www.toronto.ca/legdocs/2002/minutes/council/cc020730.pdf>

At its meeting held on January 27, 28 and 29, 2004, City Council considered Clause Number 4 of Report Number 1 of the Works Committee and approved assignment of the contract with Metro Waste Paper Recovery to Metro Municipal Recycling Services Inc. The report and Council's decision can be viewed at:

<http://www.toronto.ca/legdocs/2004/agendas/council/cc040127/wks1rpt/cl004.pdf>

At its meeting held on September 22, 23, 24, and 25, 2003, City Council considered Clause Number 34 of report Number 9 of the Policy and Finance Committee and awarded a recycling processing contract to Canada Fibers Ltd. The report and Council's decision can be viewed at:

<http://www.toronto.ca/legdocs/2003/minutes/council/cc030922.pdf>

ISSUE BACKGROUND

In February 2007, the Province of Ontario implemented a deposit return program for wine and spirit containers sold through the LCBO. This has resulted in a reduction of approximately 10,000 tonnes of glass received in the City of Toronto's recycling program in 2007 and an additional reduction of 13,000 tonnes of glass in 2008. This has led to a decrease of 8,000 tonnes of glass being processed by MMRSI and a decrease of 5,000 tonnes of glass being processed by CFL.

COMMENTS

The City's blue bin recycling processing contracts with MMRSI and CFL allow for the contractors to request a renegotiation of the processing fees if there has been a significant change in the mix of recyclable materials. The LCBO deposit return program has significantly changed the mix of recyclable materials sent to both contractors by the reduction of the volume of glass in the mix and the increased proportion of non-glass materials.

The design of the single stream recycling processing system is such that the non-glass material passes over a series of screens with subsequent manual sorting of the individual material types, while the heavier glass component falls through the screens and requires little, if any, manual sorting to achieve the finished product.

The reduction in glass has resulted in an increased proportion of lighter weighted non-glass materials in the single stream recycling mix, which led to a need for more manual sorting of the non-glass items on the sort lines, resulting in slower processing capability and increased sorting costs.

Extensive discussions with both MMRSI and CFL have resulted in the rate increases recommended in this report. Staff believes that these rates fairly reflect the increased processing costs.

Since the inception of the LCBO deposit return program in February 2007, the LCBO are no longer subject to steward fees for wine and spirit containers under the Waste Diversion Ontario Blue Box Program Plan (the LCBO still pays stewardship fees for other materials such as fibre). However, 2007 and 2008 municipal blue box recycling system audits conducted by Stewardship Ontario demonstrated that significant amounts of LCBO containers remain in municipal blue box systems. The key finding from the audits was that approximately 36,500 tonnes of wine and spirit containers continue to be managed in the municipal Blue Box system - about 4% of all material. At an average Steward contribution of \$85.00 per tonne, this represents lost funding to municipalities of approximately \$3.2 Million per year. Therefore, it is recommended that the City of Toronto request the Province to require that wine and spirit containers once again be subject to Blue Box Program stewards' fees and will request the Minister of the Environment to resolve this situation.

CONTACT

Steven Whitter, Director, New Infrastructure Development and Contracted Services,
Solid Waste Management Services, Telephone: 416-396-4771, Fax: 416-396-4156
E-mail: swhitter@toronto.ca

SIGNATURE

Geoff Rathbone
General Manager
Solid Waste Management Services