

Amendments to Recycling Processing Fees Related to Residue Percentage

Date:	January 20, 2009
To:	Public Works and Infrastructure Committee
From:	General Manager, Solid Waste Management Services
Wards:	All
Reference Number:	p:/2009/swms/Feb./002PW

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 an increase in the percentage of residue in the single stream recycling mix.

RECOMMENDATIONS

The General Manager, Solid Waste Management Services recommends that:

1. Council approve an increase in the July 1, 2008 to December 31, 2008 processing fees for single stream recycling 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 \$13.90 per tonne to \$90.91 per tonne which will result in retroactive compensation of \$760,000;
 - b. for single stream recycling processing with Canada Fibers Ltd. by \$14.65 per tonne to \$91.15 per tonne which will result in retroactive compensation of \$367,670.

2. Council approve the 2008 proposed rate schedule for additional residue rates between 14.01 and 28%, adjusted by Toronto All Items in Consumer Price Index changes effective January 1, 2009, for single stream recycling processing with Metro Municipal Recycling Services Inc. and for Canada Fibers Ltd. as set out in Table 1 and 2, respectively, in the Financial Impact Section.
3. The 2009 Approved Operating Budget for Solid Waste Management Services be adjusted to increase expenditures in Cost Centre SW0742-(MRF: Single Stream – Scarborough) by \$1,283,976 and Cost Centre SW0751 (MRF: Single Stream – Dufferin) by \$338,692 and that these increased expenditures be offset by reducing the budgeted contribution to the Waste Management Reserve Fund in Cost Centre SW0762-(Multi Unit Waste Reduction Levy) by \$511,334 and by an increase in WDO funding of \$1,111,334 in Cost Centre SW0703 Waste Diversion and Planning.
4. This report be forwarded to Budget Committee for consideration.
5. 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.

Financial Impact

The 2008 Approved Operating Budget for Solid Waste Management Services for single stream processing costs at Metro Municipal Recycling Services Inc (MMRSI) was \$9,980,094 (Cost Centre SW0742-MRF: Single Stream – Scarborough) and at Canada Fibers Ltd. (CFL) was \$7,974,581 (Cost Centre SW0751-MRF: Single Stream – Dufferin) for a total of \$17,954,675. The actual processing fees for MMRSI is approximately \$7, 647,181 and at CFL is approximately \$6,335,935 for a total of \$13,983,116. The additional residue processing costs at MMRSI was \$760,000 and at CFL \$367,670 for a total of \$1,127,670. These additional costs have been accrued in 2008.

The 2009 Approved Operating Budget for Solid Waste Management Services for single stream processing costs at Metro Municipal Recycling Services Inc.(MMRSI) is \$8,010,060 (Cost Centre SW0742-MRF: Single Stream - Scarborough) and at Canada Fibers Ltd. (CFL) is \$6,290,595. (Cost Centre SW0751-MRF: Single Stream - Dufferin) for a total of \$14,300,655.

An additional \$2,222,668 is required to process residue based on % residue rates of 18.01-19%. These additional fees are eligible for reimbursement from the WDO Blue Box program for up to 50% (totalling (\$1,111,334) of operating costs related to residential blue box program. In addition, an estimated increase of \$600,000 for the higher residual impact has been included in the 2009 Approved Operating Budget for Solid Waste Management Services. Hence the net cost increase to the City is estimated to be \$511,334 (See Table 3a below).

It can also be noted that as reported in the October 29, 2008 staff report entitled “Amendment to Processing Fees Due to LCBO Deposit Return Program”; the Provincial implementation of a deposit-return program for wine and spirit containers sold through the LCBO contributed to a total increase in processing fees of \$882,099.10 in 2008 for both MMRSI and CFL, however the deposit return program actually resulted in a net savings of \$381,126.00 due to reduced tonnages managed by the City. These savings should continue to be produced annually.

The recommended 2008 proposed rate schedule for additional residue rates between 14.01 and 28% is shown below in Table 1 for MMRSI and Table 2 for CFL.

TABLE 1: MMRSI Proposed Additional Residue Related Processing Fee Increases

Residue %										
Cost Category	14.01-15%	15.01-16%	16.01-17%	17.01-18%	18.01-19%	19.01-20%	20.01-21%	21.01-22%	22.01-23%	
Residue Premium Over 14%	\$7.02	\$8.58	\$10.92	\$13.92	\$16.39	\$17.68	\$20.26	\$21.63	\$24.33	
Residue %										
Cost Category	23.01-24%	24.01-25%	25.01-26%	26.01-27%	27.01-28%					
Residue Premium Over 14%	\$25.81	\$27.33	\$28.91	\$30.54	\$32.22					

Note: The above noted residue rates are subject to Toronto All Items in Consumer Price Index changes effective January 1, 2009.

TABLE 2: CFL Proposed Additional Residue Related Processing Fee Increases

Residue %									
Cost Category	14.01-15%	15.01-16%	16.01-17%	17.01-18%	18.01-19%	19.01-20%	20.01-21%	21.01-22%	22.01-23%
Residue Premium Over 14%	\$4.20	\$5.19	\$6.21	\$7.25	\$8.31	\$9.40	\$10.52	\$11.67	\$14.65

Residue %									
Cost Category	23.01-24%	24.01-25%	25.01-26%	26.01-27%	27.01-28%				
Residue Premium Over 14%	\$15.88	\$17.14	\$18.44	\$19.77	\$21.14				

Note: The above noted residue rates are subject to Toronto All Items in Consumer Price Index changes effective January 1, 2009.

The proposed estimated 2009 increase in processing fees based on 18.01-19% residue range will result in an estimated annual increase of \$1,635,216 for MMRSI and an increase of \$587,452 for CFL for a total annual estimated processing cost increase of \$2,222,668 as shown below in Table 3.

TABLE 3 - 2009 Estimated Additional Costs of the Recommended Fees for 18.01 to 19% Residue

	2009 Fee Assumes 2% CPI Increase over 2008 Fee	2009 Recommended Fee Assumes 2% CPI Increase over 2008 Fee	Estimated Total Annual Increase
Metro Municipal	97,800 tonnes x \$78.53 = \$7,680,234	97,800 tonnes x \$95.25 = \$9,315,450	\$1,635, 216
Canada Fibers	69,275 tonnes x \$82.23 = \$5,696,483	69,275 tonnes x \$90.71 = \$6,283,935	\$587,452
Total	\$13,376,717	\$15,599,385	\$2,222,668

The proposed estimated 2009 increase in processing fees of \$2,222,668 is partially offset as follows:

TABLE 3a - 2009 Required Budget Adjustment

Contract	Estimated Total Annual Increase	Approved 2009 Budget Provision	Required Annual Increase
Metro Municipal	\$1,635,216	(\$351,240)	\$1,283,976
Canada Fibers	\$587,452	(\$248,760)	\$338,692
Total	\$2,222,668	(\$600,000)	\$1,622,668
Less: Waste Diversion Ontario Funding			(\$1,111,334)
Total			\$511,334

The additional fees at MMRSI are proposed to be between \$7.02 for residue in the range of 14.01-15% to \$32.22 for residue in the range of 27.01-28%. It is estimated that the 2009 residue rate at MMRSI will fall within the range of 18.01-19%, which equates to \$16.72. Therefore, the base rate of \$78.53 plus the residue range of 18.01-19% plus 2% CPI increase less the existing budget provision would result in a \$1,283,976 increase for MMRSI.

The additional fees at CFL are proposed to be between \$4.20 for residue in the range of 14.01-15% to \$21.14 for residue in the range of 27.01-28%. It is estimated that the 2009 residue rate at CFL will fall within the range of 18.01-19%, which equates to \$8.48. Therefore, the base rate of \$82.23 plus the residue range of 18.01-19% plus 2% CPI increase less the existing budget provision would result in \$338,692 increase for CFL.

The total required annual increase would be \$1,622,668 less anticipated WDO recoveries of \$1,111,334 resulting in a required increase of \$511,334. It is recommended that this impact be offset by reducing the budgeted contribution to the Waste Management Reserve Fund.

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

DECISION HISTORY

Clause Report No. 12 of the Policy and Finance Committee, Item 24 “Processing of Single Stream Recyclables RFP No. 9150-02-7164”. City Council at its Special Meeting held on July 30, 31 and August 1, 2002, adopted this Clause, with amendment.

This document can be viewed at:

<http://www.tor.ontoca/legdocs/2002/agendas/council/cc020730/pof12rpt/cl024.pdf>

Clause Report No. 1 of the Works Committee, Item 4 “Assignment of Agreement with Metro Waste Paper Recovery for Processing of Single Stream Recyclable Materials”. City Council on January 27, 28 and 29, 2004, adopted this Clause, without amendment. This document can be viewed at:

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

Clause Report No. 9 of the Policy and Finance Committee, Item 34 “Processing of Single Stream Recyclable Materials Request for Proposals No. 9150-03-7092”. City Council on September 22, 23, 24 and 25, 2003, adopted this Clause, without amendment. This document can be viewed at:

<http://www.toronto.ca/legdocs/2003/agendas/council/cc030922/pof9rpt/cl034.pdf>

At its meeting held on December 1, 2, and 3, 2008, City Council considered Public Works and Infrastructure Committee Report PW20.2 “Amendments to Processing Fees Due to LCBO Deposit Return Program” of the Public Works and Infrastructure Committee and approved authority to amend processing fees due to impacts of the LCBO deposit return. The staff report and City Council decision can be viewed at page 96:

<http://www.toronto.ca/legdocs/mmis/2008/cc/decisions/2008-12-01-cc27-dd.pdf>

ISSUE BACKGROUND

The original contracts for single stream recycling process stated that the processing fees that the City would pay Metro Municipal Recycling Services Inc. and Canada Fibers Ltd., would include a premium for a percentage of residue up to 13%.

In February 2007, the Province of Ontario implemented a deposit return program for wine and spirits containers which changed the composition of single stream recycling material. The removal of heavy glass from the recycling mixture has increased the proportion of residual relative to the remaining materials, driving the percent residue levels outside of the contract range.

In addition, Council adopted the goal of diverting 70% of its waste from landfill and Solid Waste Management Services has implemented several diversion initiatives to achieve this goal. The most recent are as follows:

- Effective July 1, 2008, Multi-Unit residential buildings started the volume-based rate for waste collection and disposal;
- Effective November 1, 2008, Single Family homes started the volume-based rate for waste collection and disposal; and
- Effective December 8, 2008 two additional materials were added to the recycling stream, film plastic retail carryout bags and foam packaging.

These new initiatives have resulted in higher rates of recycling. However, historically residue rates increase during the implementation of major system changes. Through education and enforcement, it is expected that these transitional issues will be mitigated through 2009.

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 2008 residue rates have exceeded the residue limit in the original contracts and the increase in residue has significantly changed the mix of recyclable materials sent to both contractors.

The increase in residue has resulted in an increased proportion of non-recyclable items in the single stream recycling mix, which has led to a need for more manual sorting of the items on the sort lines, resulting in slower processing capability, increased sorting costs and more residue transportation and loading costs. As the contractors' processing rate is based on materials shipped to market, the increased residue rate has created lost processing revenue opportunities for the contractors.

Extensive negotiations with both MMRSI and CFL have resulted in the recommended rate schedule allowing for ranges up to 28% residue, as shown in Tables 1 & 2. Staff believes that these rates fairly reflect the increased processing costs.

To reduce the residue rates, on a going forward basis, Solid Waste Management Staff will:

- Perform closer inspections of the recycling materials collected as the recycling material is off-loaded at the transfer stations and perform manual sorting operations as required prior to the materials being sent to Metro Municipal Recycling Services Inc. or Canada Fibers Ltd.;
- Increase public education programs during 2009 to increase the proper source separation of residual material from the recyclable materials; and

- Implement additional by-law enforcement measures, where necessary.

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