
MEMORANDUM

PWC-C 34-2020

Subject: Material Recycling Facility Processing Contract Information and Material Recycling Facility Opportunity Review

Date: Tuesday, September 8, 2020

To: Public Works Committee

From: Sherri Tait, Program Manager, Waste Management

The purpose of this memorandum is to provide responses to the questions and four requests made by Councillor Gale at the August 13, 2020 Council meeting in regards to the Material Recycling Facility (MRF) processing contract with Niagara Recycling and the MRF Opportunity Review.

1. Overview of MRF Processing Contract with Niagara Recycling and Audit Process

Background on Niagara Recycling

The Niagara Training and Employment Agency (N-TEC) began a recycling program in 1974 to provide training and employment for developmentally challenged adults in the Niagara Region. The recycling operation was incorporated as Niagara Employment Agency Inc. (NEA) in 1978, and shortly thereafter the operating name Niagara Recycling was chosen to more specifically identify the nature of services provided by the organization. Niagara Recycling is a non-profit agency governed by a volunteer Board of Directors.

Niagara Recycling pioneered the Blue Box program in the Niagara region. The Town of Pelham became the first municipality in the region and the second in Canada to implement a residential recycling program. Shortly thereafter, other area municipalities began to implement Blue Box recycling collection programs through agreements with Niagara Recycling. These municipalities later formed the Niagara Municipal Recycling Board to administer the processing and collection agreement. In April 1996, when Niagara Region assumed the responsibility for waste diversion, the processing agreement was, at that time, transferred to the Region for administration.

Similar to other departments in the Region, annual operating and capital budgets are submitted for approval. These budgets are developed by Niagara Recycling in consultation with Niagara Region staff. Niagara Region's finance department controls the accounts receivable and payable functions. The program is operated on a cost basis and in the event that it is determined that there is a surplus or deficit in operating funds, the necessary adjustments are made. Niagara Region has access to all operational costs as detailed in the annual budget and the Recycling Centre costs are audited as part of the full Niagara Region audit, which is led by Niagara Region's Finance staff.

In exchange for its processing services provided to Niagara Region, Niagara Recycling receives a management fee. The management fee is in the amount of \$100,000 or 12% of the annual net revenue, whichever is greater. These funds are ultimately channeled back into the local community to assist people with intellectual disabilities.

The Region receives all revenues generated from the sale of recyclable materials. The Region also retains ownership of all capital assets.

Niagara Region and Niagara Recycling Agreement Timelines

Based on Committee/Council reports, below is a timeline of agreements between Niagara Region and Niagara Recycling:

1996 - Region assumed the responsibility for waste diversion, the processing agreement was, at that time, transferred to the Region for administration.

1999 - Niagara Region staff re-negotiated an agreement with Niagara Recycling that included a management fee based on tonnages processed and annual sales, rather than an annual flat fee.

2003 - Niagara Region staff were authorized to enter into formal negotiations with Niagara Recycling to extend the agreement for processing recyclable materials for the period of April 1, 2003 to March 31, 2006 (PWA 20-2003). The extension was successfully negotiated and approved by Council. In summary, the agreement with Niagara Recycling was extended due to the following:

1. Being an example of the Region's Corporate Social Responsibility to the community by continuing to connect our waste management goals to social welfare goals (such as employment for individuals with intellectual disabilities) and to developing longer term social capital (like life skill development).

2. Niagara Region was in the midst of relocating its recycling operations to the current location within the next year at the time of this report and included the purchase of new and improved processing equipment and the report highlighted the transition would be more seamless by maintaining the expertise of Niagara Recycling staff.
3. Niagara Recycling providing a cost-effective service to residents.

2006/2007 - Regional Council authorized entering into an agreement with Niagara Recycling for the operation of the Recycling Centre for a period of five (5) years, ending on December 31, 2011. Prior to this authorization, Niagara Recycling was operating the facility on a month-to-month basis under the same terms and conditions of the contract. A series of confidential reports in 2006 and 2007, provided additional details (PWA04-2006/CSD05-2006 and CSD133-2007/PWA132-2007).

2009 - Regional Council approved the extension of the agreement with Niagara Recycling until April 4, 2014 to align with the end date of the Region of Waterloo Material Purchase Agreement to process mixed fibres and plastic bags (PWA 30-2009).

Niagara Region submitted a bid price to Waterloo based on Niagara Recycling's competitive operating cost, and their proven track record of producing high quality products and finding the highest markets for materials processed at the Recycling Centre and was awarded the contract.

2013/2014 - In 2013, staff were authorized to enter into negotiations with Niagara Recycling for an extension to the agreement, to March 3, 2018, to align with the original contract end date of the current collection contract (PW 67-2013).

An extension was recommended for the following key reasons:

1. Provided an opportunity to gain further clarity on a changing provincial recycling landscape at that time and to undertake a Niagara-specific cost/benefit analysis on the recycling program, prior to evaluating alternative service delivery methods.
2. Ensured continuation of a highly competitive operation, favourable revenues and good working relations.

As per report PW 67-2013, Region staff requested that a study be completed by Continuous Improvement Fund (CIF), who retained exp. Services Inc. (exp.), to evaluate Niagara Recycling's performance over a five year period. exp. undertook a full evaluation of Niagara's operations and compared its performance to other similar programs.

The findings of the study were reported in PW 67-2013 and presented to Committee by CIF. Based on the reviewing and comparing Niagara's costs and revenues over the past five years (at the time of the report), exp. concluded that:

- The current processing costs for Niagara's MRF compare favourably with MRFs from other comparable jurisdictions and with the model dual stream MRF.
- When Niagara's unique contracted items (Glass Facility, fibre-quality demands and customer relations etc.) are factored out, the cost to operate Niagara's MRF is in line with top performers.
- The revenue Niagara is getting from the sale of its recyclables compares very favourably to the revenues received by the sample jurisdictions.
- Niagara Recycling is operating cost competitively and providing value to Niagara that is on par or better than what is being received by the sample municipalities.

In 2014, Council authorized a four year agreement with Niagara Recycling until April 6, 2018 (PW 50-2014). As part of the agreement, the annual management fee payment was reduced from \$120,000 to the current \$100,000.

2016 - Council approved the end date for the agreement with Niagara Recycling be amended from April 6, 2018 to March 5, 2021 to align with the extension of the collection contract (PW 35-2016), which Council directed staff to negotiate with Emterra.

2018 - An update was provided to Committee on the status of the amending agreement with Niagara Recycling (WMPSC-C 5-2018). The memo indicated the amending agreement was executed and included the extension from April 6, 2018 to March 5, 2021 to align with the collection contract expiry dates and also included a six-month early termination clause.

2019 - Council approved the end date for the agreement with Niagara Recycling be amended from March 5, 2021 until the Region fully transitions to producer responsibility or proceeds with a direction based on the outcome of the Material Recycling Facility Opportunity Review (PW 58-2019). The six-month early termination clause still remains.

An extension of the fibre processing Contract with Region of Waterloo was also approved at the same time to such date that Waterloo transitions to full producer responsibility or until the end of Waterloo's existing curbside collection contract (March 2024), whichever comes first.

As part of the amending agreement with Niagara Recycling, the Management Fee paid to them by the Niagara Region will be increased by \$25,000 to \$125,000, effective March 2021. Since 2014, Niagara Recycling has been subject to a Management Fee of \$100,000 annually or 12% of net revenue, whichever is greater.

Cost Competitiveness of Niagara Region's MRF

Phase 3 of the MRF Opportunity Review included completion of the MRF Business Valuation, Strategic Option Evaluation and Market Analysis by RSM Canada LLP (RSM), previously Collins Barrow Toronto LLP. The consultant provided an initial valuation of the MRF and developed and established the baseline financial model, which is used in subsequent phases of the MRF Opportunity Review project to assess strategic options. This included assessing the contracts, cost competitiveness of the MRF and other factors related to the MRF operations. RSM assessed the relative competitiveness of the MRF against neighbouring regions, counties and municipalities and made the conclusion that Niagara Region's MRF is cost competitive relative to other MRFs in the area as per the report excerpt provided below.

'In 2016, Niagara Region's net residential processing costs (gross processing costs less gross revenue) represented the lowest cost within Southwestern Ontario (this cost was compared to both single-stream and dual-stream MRFs within the area). In some cases, Niagara Region's MRF is substantially more cost effective'

The CIF-sponsored study conducted by exp. and their conclusions that the Niagara Region MRF compares favourably to other municipal MRFs in Southern Ontario regarding net cost of processing was also reviewed and referenced by RSM.

The CIF is a partnership between the Association of Municipalities of Ontario (AMO), the City of Toronto, Stewardship Ontario (SO) and the Resource Productivity and Recovery Authority (formerly Waste Diversion Ontario – WDO). The CIF's mandate is to improve the effectiveness and efficiency of Ontario's municipal blue box Programs. This mandate is fulfilled through the provision of funding, technical support and training to aid municipalities and program stakeholders in the identification and development of best practices and technological and market based solutions that lead to program improvements.

Table 1 below provides Niagara Region's net residential processing program costs compared to municipal comparators, which is based on data published by the Resource Productivity and Recovery Authority (RPPRA). Using the same calculation applied by

RSM in the Phase 3 report, the net processing cost per marketed tonne is shown in the table.

Table 1 – RPRA Net Residential Processing Program Cost Per Tonne Marketed – 2014 to 2018

Large Urban:

Municipality	2014	2015	2016	2017	2018
Halton Region	\$189	\$173	\$175	\$180	\$237
Hamilton	\$248	\$279	\$280	\$261	\$351
London	\$248	\$282	\$278	\$258	\$321
Peel Region	\$330	\$391	\$308	\$314	\$368
Toronto	\$332	\$387	\$434	\$446	\$642
York Region	\$247	\$240	\$235	\$251	\$372
Large Urban Simple Average¹	\$266	\$292	\$285	\$285	\$382
Large Urban Weighted Average²	\$289	\$321	\$317	\$322	\$426

Urban Regional⁴

Municipality	2014	2015	2016	2017	2018
Durham Region	\$268	\$304	\$301	\$292	\$342
Essex-Windsor	\$176	\$185	\$182	\$151	\$214
Niagara Region	\$209	\$203	\$188	\$148	\$222
Ottawa	\$149	\$169	\$146	\$120	\$205
Simcoe	\$232	\$243	\$234	\$216	\$287
Waterloo Region	\$206	\$220	\$232	\$185	\$200
Urban Regional Simple Average¹	\$207	\$221	\$214	\$185	\$245
Urban Regional Weighted Average²	\$203	\$219	\$210	\$182	\$244
Comparator Group Simple Average¹	\$236	\$256	\$250	\$235	\$313
Comparator Group Weighted Average²	\$259	\$285	\$277	\$269	\$354
Ontario Grand Total (Weighted Average²)	\$278	\$302	\$301	\$296	\$374
Niagara Region's Ranking Among Comparator Municipalities	5	4	4	2	4

Notes:

1. Simple average of per tonne values.
2. Weighted averages are group total costs or revenues divided by total group tonnage.
3. Niagara's program includes a wide range of materials which, in some cases, is greater than those collected by other municipalities and will increase the net cost per tonne marketed.

4. The Urban Regional group is defined by RPRA as municipalities with a population greater than 250,000 and less than four (4) people per square km and Large Urban has more four (4) or more people per square km.

As noted above, Niagara Region's recycling programs includes materials that are not accepted by some other municipalities in their Blue Box program, which increases the net cost per tonne marketed. For example, Niagara Region accepts plastic film and polystyrene which is expensive material to process. In 2011, it was calculated that removing the processing cost and tonnage for film and polystyrene from Niagara Region's processing costs reduces the Region's per tonne processing costs by about \$3.

Relationship Between Niagara Recycling and Niagara Region

RSM also made the following observations in regards to the beneficial relationship between Niagara Recycling and Niagara Region:

'Niagara Region and Niagara Recycling have had a positive relationship, with Niagara Recycling bringing the following benefits:

- Extensive materials processing and MRF knowledge and expertise (e.g., were instrumental in developing the original facility design, provide ongoing strong technical expertise regarding facility upgrades);
- As per the MRF Processing Lines and Systems, Rolling Stock and Equipment State of Repair and Valuation Assessment, CIF Project 993 (August 2017) the report notes that for a plant the size of Niagara the MRF and Glass Plant repair and maintenance costs are below average, again indicating a good operator grasp of plant conditions and that the MRF downtime associated with breakdowns is negligible;
- Long-standing relationships with end markets, allowing them to obtain favorable pricing and the ability to successfully market materials;
- Flexibility and willingness to work with the Region in adding new materials, conducting audits and pilot programs, etc. at no additional cost;
- Developed the unique glass recycling system, through their own initiative, that results in a marketable product called Eco-Glass – making the Niagara Region MRF the only municipal MRF in Ontario to sell an end product;
- Developed unique partnerships with other businesses that provide material to the facility, and result in revenues to the Region;

- Willing to extend operation hours as needed to accommodate delayed collection vehicles;
- Cost competitive, as is shown through the award of the Haldimand County and Waterloo contracts; and
- Niagara Recycling has a strong sense of corporate social responsibility – hiring developmentally challenged adults, and contributing financially to local social initiatives.'

Niagara Recycling has Niagara Region accounts and email addresses. This is in order to complete obligated work under their agreement with Niagara Region. For example to allow access to Niagara Region's Customer Relation Management software to record and dispatch waste collection issues from the public; to operate scalehouse systems; and to input requisitions (to be approved by Niagara Region staff), receive orders, submit billing requests (end market billing), etc. into Niagara Region ERP software for work or supplies related to the MRF. Niagara Recycling staff accounts are restricted and Niagara Recycling staff are required to complete a Contractor Acknowledgement and Privacy Oath prior to being given an account.

2. MRF Opportunity Review Project Phases

The completed MRF Opportunity Review project phases are summarized below and the associated consultant reports are attached as appendices to Confidential PWC-C 35-2020.

- Phase 1 - MRF Market Appraisal of Buildings and Land
- Phase 2 - MRF Processing Lines and Systems, Rolling Stock and Equipment State of Repair Assessment and Valuation
- Phase 3 - MRF Business Valuation, Strategic Option Evaluation and Market Analysis

Phase 4 is in progress and consists of issuing the proposed Negotiated Request for Proposals (NRFP) to determine the best future opportunity for the MRF and minimize the risk of a potentially devalued facility considering the transition of the residential Blue Box Program to full producer responsibility.

The status update and next steps are contained in Confidential report PW 17-2020 A Matter of Commercial Information, which if disclosed could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization, under s. 239(2) of the Municipal Act, 2001 - Procurement Process for MRF Opportunity Review –

Phase 4. This report was approved by Public Works Committee on June 16, 2020 and by Council on June 25, 2020. There are no further significant project updates at this time.

The Continuous Improvement Fund (CIF) program provided 100% funding for Phases 1 to 3 and is providing partial funding in the amount of \$30,000 to Niagara Region for Phase 3.

Respectfully submitted and signed by

Sherri Tait
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