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EXTENSION OF CONTRACTS - ONYX AND VERSPEETEN

The Solid Waste Management Committee recommends the adoption of the recommendations contained in the following report, March 7, 2007, from the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:

1. Council authorize the extension of the combined contract with Veolia Environmental Services Arbor Hills Landfill, Inc. for disposal of waste and with Verspeeten Cartage Ltd. for transportation under the terms of the current contract until June 30, 2008 and thereafter on a month by month basis until the Dongara pelletization facility is operational.

2. The Clerk and the Regional Chair be authorized to execute agreements in respect of the above-mentioned services on the Region's behalf, subject to the prior review by Legal Services.

2. PURPOSE

This report seeks authorization for short term extensions of the Veolia Waste Disposal and Verspeeten Waste Haulage contracts to accommodate construction delays at the Dongara waste pelletization facility.

3. BACKGROUND

3.1 Verspeeten Hauls 48 % of Region’s Garbage to Onyx Site in Michigan

Veolia Environmental Services provides disposal services to York Region for 90,000 tonne / year or approximately 41 % of the Region’s waste at their Onyx Arbor Hills landfill site in Northville Michigan. Verspeeten Cartage Ltd. of Ingersoll, Ontario is the transport firm under the same contract. The balance of York Region’s residual waste is disposed of at Carlton Farms in Michigan (approximately 23 %) and Green Lane in Southern Ontario (approximately 37 %).

On March 28, 2002, Regional Council adopted Clause 1 of Report No. 4 of the Commissioner of Transportation and Works authorizing a contract that started January 1st, 2003 with a term of five years and an expiry date of December 31st, 2007.

3.2 US Political Pressures Threaten Closure of US Border to Canadian Waste

The Canada / US border remains tenuously open at this time as a result of an agreement negotiated between the Ontario Ministry of the Environment and Democratic US Senators Stabenow and Levin in August 2006. This agreement requires reductions of municipal solid waste shipments to Michigan with an end to shipments in 2010.

Pressure from Michigan's Democratic Representatives in Washington DC may also result in Congress passing the International Solid Waste Importation and Management Act this year allowing states to restrict or eliminate importation of foreign (i.e. Canadian) waste. US Bills must be passed in both houses to become law, a process referred to as "check and balance". The same bill passed the House of Representatives (Congress) in 2006, however, died in the Republican dominated Senate.

Since the midterm elections in November 2006, the Senate majority has shifted to Democratic and there is a possibility that the bill which was tabled, as Bill HR 518, on January 17th, 2007 will pass in both houses. At this point, the bill is before the Congressional House Committee on Energy and Commerce. Passage of the bill may hasten the end of municipal solid waste exports to the US. The bill could also result in a ban on ICI waste shipments to the US which would increase pressure on Ontario waste management facilities. This would drive up the domestic cost of waste management for all types of waste.

3.3 Dongara Offers Long-Term Local Solution for 50% of Region's Residual Garbage

The Dongara waste pelletization facility will provide a York Region solution and, in combination with increased waste diversion, eliminate the current exporting of waste to Michigan. On December 15th, 2005, Regional Council approved Clause 3 of Report No. 8 of the Solid Waste Management Committee authorizing a contract with Dongara for a 20 year term. The contract was originally anticipated to have a commencement date of January 1st, 2008. York Region contracted to deliver a minimum of 100,000 tonne / year of residual waste materials to be processed into solid fuel pellets.

The facility will process municipal solid waste into a fuel pellet form at a processing cost of $84.00 per tonne. Disposing of waste in Michigan currently averages about $70.28 per tonne.

3.4 Construction Delays Require Short-Term Landfill Contract Extension

Dongara experienced significant delays in permitting its facility in 2006 and has yet to finalize the property lease. Extending the existing waste disposal and waste transport contracts allows residual waste operations to continue until the plant is operational.

4. ANALYSIS AND OPTIONS

4.1 Waste Contract Extensions Only Available Option

Available options for waste disposal are limited. Extension of the Veolia / Verspeeten or the Republic / Wilson contract and a possible short term agreement with the Green Lane facility in St. Thomas are the only options available.

4.2 Republic/Wilson Option Requires Tonnage Increase

York Region's current agreement with Republic Services of Canada Inc. (Carleton Farms Landfill) is for 50,000 tonne / year. This contract would need to be increased by 200% to 150,000 tonne / year as an option to deal with the Dongara project delay. Considerable difficulties have been experienced with the transport portion of the contract because the contractor, Wilson Trucking Inc. filed for bankruptcy in 2005. This resulted in a renegotiation of the trucking contract until the end of 2007. The current terms of the contract required a three year minimum extension to December 31st 2010. If this contract is extended under the current terms there would not be sufficient waste to supply Republic once Dongara is operational.

4.2.1 Green Lane Tonnage Monopolized by Toronto as New Owner

The City of Toronto purchased the Green Lane Landfill in St. Thomas in December of 2006 to deal with their waste issues. Ownership protects them against the possibility of early shutdown of the Canada / US border to waste shipments.

York Region entered into a 20 year agreement with Green Lane with the first five year term ending on December 31st 2007. York Region may renew this agreement for up to three successive 5 year periods (until December 31st 2022). Toronto staff has indicated that the agreement with the previous owner will be recognized by the City of Toronto. Staff intends to bring a report forward to Council to extend the contract for an additional five years. It is the intention of staff to continue to invoke contract extension options until 2022.

4.3 Veolia/Verspeeten Propose Six-Month Extension at $66.08 Per Tonne

Staff have concluded negotiations with Veolia and Verspeeten and are recommending that Council consider a contract with the following terms:

- Commencement date of January 1, 2008.
- A term of six months with the option for the Region to extend the contract on a month by month basis for up to 12 months.
- A tipping fee of $19.80 per tonne for 6 month commitment increasing to $20.20 per tonne on month by month basis for 100,000 tonnes per year plus GST.
- Further tipping fee reduction of 2.5 % if Region guarantees 50,000 tonne over 6 month period.
- Average transportation fee of $1474.60 plus GST per 120 cubic yard trailer hauled regardless of actual load weight or waste density.
- Insurance as required by Regional policy.

- Fuel prices based on a fuel price of $0.80 per litre with a surcharge equal to the difference between this amount and the actual price paid for fuel. Fuel prices are to be the Southern Ontario weekly average price posted on the Ontario Ministry of the Energy website less 6 cents per litre.
- Guaranteed minimum of 25,000 tonne of waste for the first six months of the contract and 4,300 tonne per month thereafter.
- A letter of credit for 50% of the contracted price for the guaranteed minimum amount of waste for the contract term.
- Any changes in taxation or state levies on landfill are the responsibility of York Region.

4.4 Approach Consistent with Vision 2026

The recommended actions are consistent with the Vision 2026 objective of managing and minimizing waste which forms part of the "Infrastructure for a Growing Region" goal.

5. FINANCIAL IMPLICATIONS

Funds will be allocated in the 2008 budget for these expenses. This contract extension with Violia/Verspeeten represents a cost increase of 12.8% for waste hauled to Michigan.

5.1 2008 Total Disposal Price Estimated to be $80.14 Per Tonne

Table 1 summarizes the contract prices.

Table 1
2008 Contract Price Summary
(Based on $0.80/L Fuel Cost, Excluding CPI)

	Cost Per Tonne 2007	Cost Per Tonne 2008	Cost Per Load 2008	Annual Cost 2008
Landfill Tipping Fee	$20.06	$20.00	$640	$2,000,000
Transportation Fee	$36.15	$46.08	$1475	$4,608,000
Miller Transfer Fee	$14.06	$14.06	$450	$1,406,000
Total Cost	$70.28	$80.14	$2565	$8,014,000

If fuel prices rise above the $0.80 benchmark value, the difference in actual fuel costs and this price will be paid to the transportation contractor. A 1 cent per litre increase represents a 14 cent per tonne increase in transportation fees (approximately $1150 per month total for each cent increase in fuel price).

5.2 Extension of Michigan Disposal is Cost-Effective Alternative

Until the more environmentally sustainable long term solution offered by the Dongara facility is available, disposal in Michigan is the preferred choice in addition to the use of the Green Lane landfill. The Michigan landfill option costs about 78% of the longer term

Dongara solution, however, landfilling in Michigan is sensitive to border levies and landfill taxes that may be imposed. The option is not sustainable in the long term because of the total prohibition on Canadian municipal solid waste from Michigan agreed to by the Province of Ontario and expected to be implemented in 2010.

6. LOCAL MUNICIPAL IMPACT

As a result of extending the landfill contract, there will be no interruptions to service in the local municipalities.

7. CONCLUSION

Staff recommends extension of the Onyx disposal and the Verspeeten Cartage Ltd. transportation contracts on a six month fixed term basis with options for extension on a monthly basis beyond July 1st, 2008. Adopting this solution will allow construction of the Dongara Pelletization Facility and will provide the required contingency for disposal beyond the end of the existing contract.

For more information on this report contact Alec Scott, Program Manager, Waste Disposal & Quality Assurance of the Solid Waste Management Branch at extension 5712 in the Transportation and Works Department.

The Senior Management Group has reviewed this report.