1
WASTE DIVERSION ONTARIO FUNDING

The Solid Waste Management Committee recommends the following report, May 21, 2004, from the Commissioner of Transportation and Works be received and the following recommendation be adopted:

1. The funding for the Blue Box Program received from Stewardship Ontario and Waste Diversion Ontario in 2004 be distributed to the Local Municipalities as detailed in Option 2 of this report and as set out in the Revised Table 2 as follows:

Revised Table 2
Estimated WDO Distribution February to June 2004

Municipality	Option 2
Aurora	$33,763
East Gwillimbury	32,467
Georgina	33,567
King	22,074
Markham	294,834
Richmond Hill	108,905
Vaughan	159,242
Whitchurch-Stouffville	32,655
York Region	0
Total	**$717,507**

1. RECOMMENDATION

It is recommended that:

1. The funding for the Blue Box Program received from Stewardship Ontario and Waste Diversion Ontario be distributed to both the Region and the local municipalities as detailed in Option 3 of this report.

2. PURPOSE

This report will update Committee on the current activities of Waste Diversion Ontario (WDO) and recommend a policy for sharing of any revenue received from Stewardship Ontario and Waste Diversion Ontario.

3. BACKGROUND

On November 21, 2002, Regional Council adopted the following with respect to waste management costs and revenues:

"1. Beginning January 1, 2003, the Regional Municipality of York, which has legislative responsibility for waste disposal, will absorb all costs related to:

a) the transfer and disposal of waste;

b) the processing of recyclable material;

c) the processing of household organic materials; and

d) the processing of leaf and yard waste materials.

2. That the local municipalities will no longer be charged costs for the above services or receive revenues from the sale of those materials."

In December 2003, the Minister of the Environment approved the Blue Box Plan that requires product stewards to fund up to 50% of the net municipal blue box program costs in the province of Ontario.

4. ANALYSIS AND OPTIONS

The funding of waste management costs in York Region dramatically changed in 2003 as the Region assumed the costs of all waste processing and disposal from the local municipalities. The net cost impact on the Regional budget in 2003 was $14.08 million, as detailed in Table 1, and represented a corresponding reduction in local municipal costs. The increased cost to the Region was funded from the tax levy and through the sale of blue box materials to recycling markets.

Table 1

York Region Program Cost (in $ million)

Activity	2002	2003	Increase 2003 vs. 2002	2004 Budget
Yard Waste	$0	$1.43	$1.43	$1.90
Waste Transfer	0	2.48	2.48	2.61
Waste Disposal	0.16	11.59	11.43	11.98
Blue Box Processing	3.02	2.82	0.20	2.99
SSO				0.65
Total Regional Cost	**$3.18**	**$18.31**	**$15.13**	**$19.32**

Less Blue Box Revenue	$0	-$4.23	-$4.23	-$4.25
Total Regional Levy Impact	**$3.18 million**	**$14.08 million**	**$10.90 million**	**$15.07 million**
Net Operating Cost per Tonne	**$11.75/tonne**	**$47.91/tonne**	**$36.15/tonne**	**$51.25/tonne**
Annual Capital Expenditures	**$3.04 million**	**$6.2 million**	**$3.16 million**	**$39.6 million**

The Region is also expanding its waste management infrastructure to meet the waste diversion needs and population growth by constructing a new materials recovery facility (MRF), new household hazardous waste facilities and public drop-offs. The construction of these facilities is funded (see Table 1) from the Waste Management Capital Reserve. This capital reserve was funded through royalty payments from the City of Toronto during the operation of the Keele Valley Landfill Site but since the closure of that site, the Region has lost approximately $1.5 million per year in funding.

In 2004, Waste Diversion Ontario started funding municipal recycling programs through Stewardship Ontario under the *Waste Diversion Act* 2002. This Act requires product brand owners / product stewards to fund up to 50% of the net municipal blue box program operating costs, and directs WDO to develop plans to fund other recyclable materials that may be designated by the Minister of the Environment under the Act. Currently, programs are being developed for used oil and used tires but it will be later in 2004 before any plans are finalized by WDO.

4.1 WDO Blue Box Funding

WDO blue box funding is based on an analysis of the program costs, revenues and material tonnages for 197 municipal recycling programs in the province. There are over 400 municipalities in Ontario, but many share operations or contract to one another for service resulting in fewer “programs” as defined by WDO. In York Region, the WDO recognizes two programs: York Region and Newmarket. Newmarket is separate from the other eight local municipalities as they have their own contract to process recyclables until such time as the Region opens its new material recovery facility on Bales Drive, in East Gwillimbury in 2005.

The Minister of the Environment signed the Blue Box Plan in December 2003, which requires funding to commence in February 2004 for a period of five years. The total province wide funding for 2004 is based on program costs of $31.25 million for February to June and $42.0 million for July to December 2004. Stewardship Ontario will, therefore, be responsible for 50% of these costs equalling $36.625 million including an in-kind contribution from the Canadian Newspaper Association and the Ontario Community Newspaper Association. Ten percent of the funding is retained by Stewardship Ontario to fund an Effectiveness and Efficiency Improvement Program which will be discussed in Section 4.2 of this report. As a result, Stewardship Ontario will distribute $11,231,250 for the period of February to June 2004 of which York Region and Newmarket will receive $717,507 and $74,550 respectively.

WDO is currently reviewing the funding model used to calculate the payments to municipalities before it determines the distribution of funds for July to December 2004. WDO held consultation sessions in London, Kingston, Toronto and Sudbury in March with product stewards and municipalities. It will be the fall before any changes to the funding model are finalized with the corresponding payment amounts to each municipality.

4.2 Effectiveness and Efficiency Program

Stewardship Ontario retains 10% of the 50% net program costs to be used to develop programs that will minimize municipal program costs. The expectations of the Effectiveness and Efficiency Program are based on the following principles:

1. There should be no cross subsidization between municipal blue box recycling and other waste diversion program funding.

2. A balance is required between funding to support Ontario-wide system benefits and funding for local/regional funding needs and opportunities.

3. The funding program should be dedicated to improving current system efficiency and investing in new cost effective diversion. The fund should invest in diversion in a cost effective manner.

4. Savings generated by municipalities should be reinvested in their waste diversion system for continuous improvement and renovation.

Stewardship Ontario is currently developing plans on how it will spend the $3.66 million funds for 2004. Initial discussions with municipalities have been on how to improve the marketability of glass collected in the blue box, as this product has little or no revenue associated with it. Stewardship Ontario is also considering if or how it should develop "best practices" to assist or direct municipalities to implement to reduce overall program costs.

The base funding from WDO and the possibility of additional funding through the Effectiveness and Efficiency Program will provide a financial incentive to implement new blue box programs to increase diversion. The Region and the local municipalities should consider if there is any cost reduction initiatives that Stewardship Ontario may fund on a pilot basis to assist the development of best practices.

4.3 Funding Distribution Policy

The Region will be receiving $717,507 from Stewardship Ontario for the period of February to June 2004. Although the payment for the balance of 2004 is not known, it is estimated that it may be between $900,000 to $950,000. Going forward, the payment may be in the range of $1.8 to $2.0 million per year. These payments are to offset the blue box system costs for both the collection and processing which are at the local and Regional level respectively.

Regional staff have had discussions with staff from the local municipalities on this WDO funding. There is a unanimous opinion from the local municipal staff that the WDO funds should be distributed to the local municipalities, based on their net program costs, as part of the blue box costs are related to collection activities. Regional staff have not taken a position on this given the Council direction in 2002 (see Section 3 of this report) for the Region to pay all processing and disposal costs, and to retain all blue box revenue.

Staff propose the following options for consideration:

1. The Region retain all WDO funds as it is a blue box revenue.

2. The Region distribute WDO funds on the basis of net program cost for each local municipality and the Region.

3. The Region retain a portion of the WDO money to fund a capital reserve for the upgrade and replacement of the Bales Drive MRF and distribute the balance based on the net program costs for each local municipality and the Region.

These options are discussed in the following sections of this report.

4.3.1 Option 1

In this option, the Region would retain all WDO funding consistent with the 2002 Council resolution that the Region retain all blue box revenues. This option is not supported by local municipal staff.

4.3.2 Option 2

With this option, the WDO money is distributed based on the net operating cost of each municipal collection program and the Region's net processing costs. Currently, the Region has a net surplus as the revenue from the sale of the blue box material exceeds the cost of processing and, therefore, would not receive any funding in 2004. This situation will change in 2005 and beyond once the Region begins to operate the new MRF. Costs will be higher at the new facility as more types of material will be recycled and all material sorting is done in the plant instead of at the curbside. Table 2 presents the distribution of WDO funding for this option.

Table 2
Estimated WDO Distribution February to June 2004

Municipality	Option 2
Aurora	$43,800
East Gwillimbury	42,568
Georgina	43,618
King	32,616
Markham	286,695
Richmond Hill	115,655
Vaughan	109,810
Whitchurch-Stouffville	42,745
York Region	0
Total	**$717,507**

4.3.3 Option 3

In this option, the Region would retain a portion of the WDO funding to pay for capital upgrades and capital replacement of the MRF facility and then distribute funding based on net program cost. The WDO funding distribution model does not allocate money on the basis of capital costs.

While the Keele Valley Landfill Site was operating, the Region received a royalty payment (approximately $1.5 million per year) and local municipalities received a tipping fee rebate (approximately $2.5 million per year). The Region placed all of the royalty money into a capital reserve fund that has been used to build the new recycling facility as well as household hazardous waste depots and public drop-offs.

Since the closure of the Keele Valley Landfill Site, the Solid Waste Capital Reserve is only funded from excess revenue from the blue box material sales. As mentioned previously, it is not expected that there will be an operating surplus after the sale of blue box material once the new MRF opens.

The Region will need to replace equipment in the new MRF every ten years as well as building components over time. It is proactive management and good fiscal policy to place money into a capital reserve each year instead of having a major capital cost impact the tax levy on a given year. Therefore, it is proposed under this option that the Region fund its Solid Waste Capital Reserve with some of the WDO funding. It is expected that the capital recharge requirement on the new MRF to be $900,000 per year. The balance of the WDO money would then be distributed to the local municipalities based on a formula consistent with the WDO funding model. Table 3 shows the resulting distribution of funds.

Table 3
WDO Distribution February to June 2004

Municipality	Option 3
Aurora	$16,330
East Gwillimbury	15,870
Georgina	16,262
King	12,160
Markham	106,989
Richmond Hill	43,119
Vaughan	40,941
Whitchurch-Stouffville	15,836
York Region	450,000
Total	**$717,507**

5. FINANCIAL IMPLICATIONS

It is proposed that the Region adopt Option 3. Option 3 would allow WDO money to be used by both the Region and the local municipalities to reduce the tax levy impact of the blue box program and ensure that future infrastructure improvements and replacements are effectively planned. The Region's portion of the funds would be placed in the Solid Waste Management Capital Reserve.

6. LOCAL MUNICIPAL IMPACT

The local municipalities would receive a portion of the WDO funding based on the intent of the WDO funding model. Table 3 provides the estimated payment to each local municipality for the proposed Option 3.

7. CONCLUSION

Waste Diversion Ontario is responsible for providing funding to Ontario municipalities to offset the cost of managing blue box recycling and other waste diversion programs. This funding is from the product brand owners represented by Stewardship Ontario. The Region will be receiving $717,507 in funding for the period February to June 2004. It is proposed that this money, and future funding, be distributed to the Region to replace/ improve its blue box recycling infrastructure and to the local municipalities based on the WDO funding allocation model.

The Senior Management Group has reviewed this report.

(A copy of the material distributed at the meeting of the Solid Waste Management Committee entitled "Region of York WDO Funding Distribution" dated June 1, 2004, is on file in the Regional Clerk's Office.)