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EXTENSIONS OF CONTRACTS FOR THE OPERATION OF MATERIAL RECOVERY FACILITIES

The Transportation and Works Committee recommends the adoption of the recommendations contained in the following report, April 22, 2004, from the Commissioner of Transportation and Works:

1. RECOMMENDATIONS

It is recommended that:
Regional Council authorize:

1.1 The extension of the contract with Miller Waste Systems, to continue providing and operating the Material Recovery Facility in Markham, as outlined in this report, for a 12-month term commencing July 1, 2004 with provisions for terminating the agreement at anytime during 2005 when the Region's new Material Recovery Facility in East Gwillimbury is operational, at a value of approximately $2,673,450.00 plus applicable GST.

1.2 The extension of the contract with Roger LaRue Enterprises Limited, to continue providing and operating the Material Recovery Facility in Georgina, as outlined in this report, for a 12-month term commencing July 1, 2004 with provisions for terminating the agreement at anytime during 2005 when the Region's new Material Recovery Facility in East Gwillimbury is operational, at a value of approximately $430,000.00 plus applicable GST.

2. Regional staff be directed to issue two new purchase orders to the respective companies, which reflect the contractual details from Recommendation No.1 above.

3. The Regional Clerk forward copies of this report to the Clerks of the local municipalities.

2. PURPOSE

The purpose of this report is to obtain authorization to extend two separate contracts for the operation of material recovery facilities to process recyclable materials, which are scheduled to terminate on June 30, 2004.

3. BACKGROUND

Recyclable materials from "blue box" programs are currently collected by the nine local municipalities. The Region processes all of these recyclable materials (excluding the

Town of Newmarket's) through a contract with Miller Waste Systems (Miller) for its Material Recovery Facility in Markham (Markham MRF) and through a contract with Roger LaRue Enterprises Limited (LaRue) for its Material Recovery Facility in Georgina (Georgina MRF). Both of these contracts terminate on June 30, 2004. Further details regarding these facilities and associated contracts are provided in the following sections of this report.

The Region is in the process of establishing a new Material Recover Facility and Transfer Station on its property at Bales Drive in East Gwillimbury (East Gwillimbury MRF). That facility is being designed and constructed by Miller under contract to the Region. It will also be operated by Miller and the contract for that service is currently under development.

It is intended that the East Gwillimbury MRF will receive the recyclable materials from all nine of the local municipalities. It is estimated that the facility will be constructed and ready to serve that purpose by approximately the end of June, 2005.

Therefore, it is necessary to extend the respective existing contracts with Miller and LaRue until the new East Gwillimbury MRF is ready.

4. ANALYSIS

4.1 Material Recovery Facility in Markham

4.1.1 General Information

The Markham MRF is located at 8050 Woodbine Avenue, just south of Highway 407. Miller owns and operates the processing equipment, but leases the building.

The original agreement with Miller commenced on August 30, 1993 when the Region assumed the responsibility for processing the recyclable materials which are collected by Aurora, East Gwillimbury, King, Markham, Richmond Hill, Vaughan, and Whitchurch-Stouffville. East Gwillimbury switched from this facility to the Georgina MRF on April 6, 1998. The six local municipalities currently using the Markham MRF delivered approximately 42,200 tonnes of recyclable materials there in 2003.

4.1.2 Past Agreement

The Region's agreement with Miller terminated on December 31, 2003. The pertinent compensation features of this past agreement are summarized as follows:

- The Region receives 90% of the revenue from the sale of recyclable materials and Miller receives 10%.
- Miller is paid a processing fee that is adjusted at the end of each year, retroactively, to reflect changes in the Consumer Price Index (CPI), as shown in Table 2.

Table 2
Material Recovery Facility in Markham
Processing Fees from Current Agreement

Calendar Year	Price Per Tonne (Excluding GST)
2001	$44.89
2002	$46.28
2003	$47.25

4.1.3 Current Contract with Miller

In 2003, Regional staff met with Miller staff to negotiate an extension of the agreement. These discussions resulted in Miller proposing some new terms and conditions, which Miller documented in correspondence to the Region. The reasons for the proposed new terms and conditions are explained below.

The baler which was used to bale cardboard, aluminum cans and plastic containers at the Markham MRF was in use since the first day that the facility commenced operation in August, 1993. The other processing equipment which was used to sort the containers was in use at the Markham MRF since it was installed in January, 1995. All of this equipment was extremely worn and had to be replaced if operations were to continue beyond the end of 2003. In addition, there is a possibility that a sprinkler system for fire protection may have to be installed at the facility in the future due to a changing insurance market. Accordingly, Miller proposed the following to address these circumstances.

4.1.3.1 Replacement of the Baler

The design-build contract between the Region and Miller for the East Gwillimbury MRF requires Miller to supply two balers which would be owned by the Region. Miller proposed that it purchase one of those balers as soon as possible and install it temporarily at the Markham MRF. This baler would then be moved to the East Gwillimbury MRF in 2005 when operations are transferred to that facility. Miller would charge the Region $24,100 plus GST for the installation of the baler, payable in a lump sum upon completion of the installation.

Miller also proposed that the Region be responsible for reasonable costs with respect to moving the baler between and the two facilities. Miller would be responsible for the maintenance cost of the baler while it is being used at the Markham MRF.

As part of the arrangement, Miller would also be allowed to use the Region's new baler at the Markham MRF to bale Miller's own materials from its private recycling operation. Miller would pay the Region a fair price per tonne to account for this usage. This is similar to the previous system at the Markham MRF whereby Miller used only one baler (i.e. owned by Miller) to bale both the Region's material and Miller's own private material.

4.1.3.2 Replacement of the Container Processing Equipment
Miller proposed that it install container processing equipment that is available from one of its other facilities in Pickering. Miller would charge the Region $150,000 plus GST for the installation of the equipment, payable in a lump sum upon completion of the installation.

4.1.3.3 Potential Installation of a Sprinkler System
Miller stated that if a sprinkler system for fire protection is required then the estimated cost of such a system would be $75,000 to $100,000 plus GST. Miller proposed that this cost be apportioned between the Region and Miller on a prorated basis based upon the square footage allocated between the Region's operation (i.e. 34,000 square feet) and Miller's own operation (i.e. 16,000 square feet). There has been no requirement to date to install such a system.

4.1.3.4 Building Lease
Miller leases the building which it uses for the Markham MRF. However, the lease states that both Miller and the landlord would be able to terminate the lease at any time by giving the other party 12 months notice.

The possibility still exists that the landlord could exercise its option to terminate the lease before the new East Gwillimbury MRF is ready in 2005. If this occurred, then Miller and the Region would negotiate any additional costs associated with providing a MRF at some other location for a short period of time. However, Miller believes that it is very unlikely that its landlord would exercise its option to terminate the lease.

4.1.3.5 Compensation
Miller proposed that the processing fee of $47.25 per tonne that was paid to Miller in 2003 remain and would be adjusted each year to reflect the CPI. In addition, Miller would continue to receive 10% of the revenue from the sale of recyclable materials.

4.1.3.6 Conclusion
Regional staff were of the opinion that Miller's proposal was reasonable. Accordingly, a purchase order was issued to Miller which covered both the installation of the replacement baler and container processing equipment and the provision of processing services until the end of June, 2004. The total value of these services for this six-month timeframe was such that this purchase order could be issued by Regional staff under the Purchasing By-law.

The replacement equipment was installed in late December 2003. It appears to be working satisfactorily with minimal downtime.

4.1.4 Contract Extension

Regional staff are of the opinion that the current contract is reasonable and recommend that a new purchase order be issued to the company.

The current purchase order expires on June 30, 2004 and the new East Gwillimbury MRF is scheduled to start up on approximately July 1, 2005. Therefore, the recommended purchase order should be for a term covering this 12-month timeframe and contain provisions for early termination should the new facility be brought on line sooner. If the start up of the East Gwillimbury MRF is delayed beyond July 1, 2005 due to unforeseen circumstances, then the term of the purchase order can be extended at that time.

Furthermore, the recommended purchase order should have a value of approximately $2,673,450.00 plus applicable GST, which is based on the following projections:

- The Markham MRF will receive 45,000 tonnes of recyclable materials over the 12-month timeframe.
- The processing fee of $47.25 per tonne for 2003 will be adjusted, retroactively at the end of 2004 for all of 2004 and again retroactively at the end of July 2005 for all of 2005, in accordance with changes in the CPI.
- The CPI may increase by three percent in 2004 and three percent in 2005.
- The average revenue from the sale of recyclable materials will be $100.00 per tonne over the 12-month timeframe, of which Miller will be entitled to receive 10 percent.

4.2 Material Recovery Facility in Georgina

4.2.1 General Information

The Georgina MRF is located at 23082 McCowan Road, just north of Ravenshoe Road. This facility is owned and operated by LaRue. It is noted that Capital Environmental Resource Inc. acquired LaRue's waste management business in 1999.

The original agreement with LaRue commenced on January 1, 1997 when the Region assumed the responsibility for processing the Town of Georgina's recyclable materials. The agreement was then amended effective April 6, 1998 to allow the Town of East Gwillimbury to use the facility. These two municipalities delivered approximately 4,800 tonnes of recyclable materials to the facility in 2003.

It is noted that the Town of Newmarket has its own agreement with LaRue for the use of this facility. Newmarket delivered approximately 6,200 tonnes of recyclable materials to the facility in 2003. Newmarket's agreement with LaRue has a provision which allows the Town to terminate the agreement with 60 days notice so that it can transfer its material to the Region's new East Gwillimbury MRF once it is ready.

4.2.2 Past Agreement

The Region's past agreement with LaRue expired at the end of 2003. The pertinent compensation features of it are summarized as follows:

- The Region receives 90% of the revenue from the sale of recyclable materials and LaRue receives 10%.

- LaRue is paid processing fees as shown in Table 1.

Table 1
Material Recovery Facility in Georgina
Processing Fees from Current Agreement

Calendar Year	Price Per Tonne (Excluding GST)
2001	$66.66
2002	$67.33
2003	$68.00

It is noted that the price increases for 2002 and 2003 were not based on changes in the CPI. The prices for each of the three years were proposed by LaRue at the time of negotiations.

It is also noted that the processing fee paid to LaRue for the Georgina MRF is substantially higher than the processing fee paid to Miller for the Markham MRF. The reason is that the Georgina MRF accepts all of the blue box materials commingled into two respective streams, which results in lower curbside collection costs. One stream contains all newspaper and cardboard, and the other stream contains all metal, plastic and glass containers. Whereas materials delivered to the Miller MRF must be sorted into five different streams (i.e. newspaper, cardboard, clear glass, coloured glass, and commingled plastic and metal containers) at the curb while being loaded into the collection vehicle. The Georgina MRF requires additional machinery and labour to separate the commingled materials, which results in a processing fee that is higher than at the Markham MRF.

4.2.3 Current Contract with LaRue

In 2003, Regional staff met with LaRue staff to negotiate an extension of the agreement. These discussions resulted in LaRue proposing an increase to the processing fee, which LaRue has documented in correspondence to the Region.

The new term would be from January 1, 2004 until December 31, 2005. However, the Region would be able to terminate the agreement at any time in 2005 by giving LaRue 30 days notice. The early termination provision would allow the Region to transfer the recyclable material from this facility to the new East Gwillimbury MRF once a firm start-up date for the new facility is known.

LaRue proposed a processing fee of $77.00 per tonne plus GST that would be in effect during that time period. The company would also continue to receive 10% of the revenue from the sale of recyclable materials.

The proposed processing fee represents an increase of approximately 13% over the 2003 processing fee. The company explained that such an increase is required because:

- Processing fees for previous years have not kept up with inflation.
- LaRue has had to make capital investments to improve its building and equipment to accommodate the increasing quantities of recyclable materials that have been generated by the local municipalities.
- Revenues from the sale of glass have been reduced substantially because the major markets for this material in Ontario are no longer available.

Regional staff were of the opinion that LaRue's proposal was reasonable. Accordingly, a purchase order was issued to LaRue which covered the provision of processing services until the end of June, 2004. The total value of these services for this six-month timeframe was such that this purchase order could be issued by Regional staff under the Purchasing By-law.

4.2.4 Contract Extension

Regional staff are of the opinion that the current contract is reasonable and recommend that a new purchase order be issued to the company.

The current purchase order expires on June 30, 2004 and the new East Gwillimbury MRF is scheduled to start up on approximately July 1, 2005. Therefore, the recommended purchase order should be for a term covering this 12-month timeframe and contain provisions for early termination should the new facility be brought on line sooner. If the start up of the East Gwillimbury MRF is delayed beyond July 1, 2005 due to unforeseen circumstances, then the term of the purchase order can be extended at that time.

The recommended extension of this contract will have a value of approximately $430,000.00 plus applicable GST, which is based on the following projections:

- The Georgina MRF will receive 5,000 tonnes of recyclable materials over the 12-month timeframe.
- The processing fee will be $77.00 per tonne for this period.
- The average revenue from the sale of recyclable materials will be $90.00 per tonne over the 12-month timeframe, of which LaRue will be entitled to receive 10 percent.

5. FINANCIAL IMPLICATIONS

The cost of processing recyclable materials is funded from the Regional tax levy. The proposed costs for 2004, as outlined in this report, have been reflected in the approved 2004 Operating Budget and Business Plan for Solid Waste Management.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact because the Region is responsible for the financial implications as explained in the previous section.

7. CONCLUSION

The Region's two contracts for solid waste processing services terminate on June 30, 2004. The adoption of the recommendations in this report will enable the Region to maintain the status quo with respect to recyclable materials processing until the new East Gwillimbury MRF becomes operational in 2005.

The Senior Management Group has reviewed this report.