

5

YORK REGION WASTE MANAGEMENT CENTRE OPERATING AGREEMENT SERVICE FEE UPDATE

The Environmental Services Committee recommends the adoption of the recommendation contained in the following report dated October 22, 2012, from the Commissioner of Environmental Services.

1. RECOMMENDATION

It is recommended that:

1. Council authorize an amendment to York Region's agreement with Miller Waste Systems for operation of the York Region Waste Management Centre on the following terms:
 - a) The total estimated cost for processing 95,001 to 100,000 tonnes per year of blue box recyclable materials be \$6,163,665 to \$6,488,000 based on a processing fee of \$64.88 per tonne;
 - b) The total estimated cost for processing 100,001 to 105,000 tonnes per year of blue box recyclable materials be \$6,470,065 to \$6,793,500 based on a processing fee of \$64.70 per tonne;
 - c) The total estimated cost for processing 105,001 to 110,000 tonnes per year of blue box recyclable materials be \$6,966,816 to \$7,298,500 based on a processing fee of \$66.35 per tonne;
 - d) The total estimated cost for processing 110,001 to 115,000 tonnes per year of blue box recyclable materials be \$7,357,967 to \$7,692,350 based on a processing fee of \$66.89 per tonne;
 - e) The total estimated cost for processing 115,001 to 120,000 tonnes per year of blue box recyclable materials be \$7,661,367 to \$7,994,400 based on a processing fee of \$66.62 per tonne;

2. PURPOSE

This report seeks authorization to update the operating agreement with Miller Waste Systems to include new and updated service fees for processing blue box recyclable materials. The revised service fees are required to reflect operational changes resulting from capital equipment upgrades to the York Region Waste Management Centre

completed in Spring 2011 and to establish new service fees for processing blue box recyclable materials above 100,000 tonnes per year, which is not included in the current operating agreement. The need to establish service fees beyond 100,000 tonnes per year following the equipment upgrades and then report back to Council was identified in the June 24, 2010 committee report, which authorized the current ten year operating agreement extension.

3. BACKGROUND

Blue box recyclable materials processed at the York Region Waste Management Centre

Recyclable materials collected under York Region's blue box program are processed at the York Region Waste Management Centre, located at 100 Garfield Wright Boulevard in the Town of East Gwillimbury. The facility commenced operation in May 2005. The original operating agreement with Miller Waste Systems (Miller) was for a five year term.

On June 24, 2010, Council adopted Clause No. 11 of Report No.6 of the Environmental Services Committee, which authorized an extension to the agreement. The ten year term, which commenced July 5, 2010 and expires July 4, 2020, included revised service fees for processing up to 100,000 tonnes of blue box recyclable materials annually. Service fees for processing above 100,000 tonnes per year were not included in the operating agreement as full impact of the Spring 2011 equipment upgrades was not measurable at that time. The Region and Miller Waste Systems agreed to include a clause in the operating agreement that would allow both parties to review and evaluate impacts of equipment upgrades one year following the Total Completion Date.

The current operating agreement establishes pricing for processing blue box recyclable materials up to 100,000 tonnes per year in increments of 5,000 tonnes per year as shown in Table 1.

Table 1
Current Blue Box Processing Fees (approved June 2010)

Tonnage Range (Tonnes/year)	Current Unit Price(\$/tonne) ¹	Annual Cost (\$/year)
80,001 to 85,000	\$67.37	\$5,389,667 to \$5,726,450
85,001 to 90,000	\$65.35	\$5,554,815 to \$5,881,500
90,001 to 95,000	\$64.80	\$5,832,065 to \$6,156,000
95,001 to 100,000	\$65.58	\$6,230,166 to \$6,558,000

1. Pricing includes CPI adjustment from contract commencement date to December 31, 2011

The current pricing structure for processing blue box recyclable materials decreases up to 95,000 tonnes per year due to an economy of scale. At the 95,001 to 100,000 tonnes range, the unit price increases as Miller would need to use staff overtime or add a third shift to satisfy the additional processing requirements.

Recent capital upgrades to York Region Waste Management Centre require updates to operating contract

To accommodate future growth of the blue box program, the Region invested in capital upgrades to the Waste Management Centre to increase blue box processing capacity from 100,000 tonnes per year to 140,000 tonnes per year. Completed with assistance from federal and provincial stimulus funding, the capital upgrades were commissioned in Spring 2011.

Design-build procurement of the capital upgrades occurred in Spring 2010, during the same time period when the Region was negotiating the ten year operating contract extension with Miller. Acknowledging that the full impact of the equipment upgrade was not measurable at that time, the Region and Miller agreed to assess and update the blue box processing fees one year following the Total Completion Date.

4. ANALYSIS AND OPTIONS

Region and Miller establish service fees for processing up to 120,000 tonnes per year in 5,000 tonne increments

From 2009 to 2011, annual tonnage of blue box recyclables received at the York Region Waste Management Centre increased by 4,700 tonnes, representing an annual growth rate of 2.7 per cent. Given that 88,706 tonnes of blue box recyclable materials were received in 2010 (the first year of the ten year operating agreement), the projected annual tonnage in 2020 (the final year of the operating agreement) will be 115,786 tonnes when the calculated 2.7 per cent annual growth rate is applied. This projection is based on the current blue box curbside collection program. Using annual growth rate, the 2012 projected quantity of blue box recyclable materials processed at the facility will be approximately 93,500 tonnes.

For verification purposes, staff reviewed the projected population growth presented in the York Region Official Plan up to year 2021. This review confirmed that the calculated 2.7 per cent growth rate is higher than the expected annual growth rates in the York Region Official Plan, suggesting that it is unlikely for the Waste Management Centre to receive more than 120,000 tonne per year of blue box recyclable materials during the current contract term.

Based on the tonnage projection performed by staff, the Region and Miller agreed to establish blue box processing fees up to 120,000 tonnes per year in the operating agreement. Both parties have agreed to negotiate service fees for processing blue box recyclable materials above 120,000 tonnes per year if the actual annual growth rate exceeds the projected growth rate. At such time, staff will establish service fees beyond 120,000 tonnes per year and report back to Council. To be consistent with the current fee structure, both parties also agreed to continue with pricing based on 5,000 tonne band increments.

Equipment upgrades reduce staffing requirements

In anticipation of the service fee negotiations, the Region and Miller agreed to conduct several processing audits to determine if cost savings could be realized as a result of the equipment upgrades. Processing audits, which took place from December 2011 to March 2012, involved operating the blue box processing line at different speeds with reduced sorting staff as recommended by the equipment manufacturer. Using data collected from the audits, staff calculated the total net saving for each tonnage band due to reduced sorting staff. Total net saving was then divided by the tonnage band to arrive at a unit price.

From the analysis, both parties agreed that current staffing levels could be reduced without significantly increasing blue box residue or affecting quality of recovered recyclable commodities. Beyond 110,000 tonnes per year, the Region recognizes that current staffing levels would need to be reinstated to maintain the facility's high waste diversion rate.

York Region and Miller agree on additional operation and maintenance costs to support equipment upgrades

Since the equipment upgrades, Miller has incurred additional cost to maintain and operate the blue box processing line. These costs are attributed to: increased utility demands due to additional equipment in the processing system, additional maintenance staff to service the new processing equipment and procurement of new spare parts. Considering that equipment upgrades added 48 pieces of mechanical equipment to the original blue box processing line (a 62 per cent increase), the Region considers the additional operating and maintenance cost proposed by Miller to be necessary to maintain the current level of blue box processing efficiency. The Region also reviewed utility and equipment spare part invoices that Miller has paid before and after the equipment upgrades and confirmed the validity of additional operating costs associated with power use and acquiring spare parts.

Cost savings and new expenditures consolidated to produce processing service fee bands for the operating agreement

The cost savings and additional operating costs presented by the Region and Miller were consolidated to establish new service fees for processing blue box recyclable materials up to 120,000 tonnes per year. Recommended service fees are shown in Table 2.

Table 2
Blue Box Processing Fee Cost Summary

Tonnage Range (Tonnes/year)	Current Blue Box Processing Fee (\$/tonne)	Recommended Blue Box Processing Fee (\$/tonne)
95,001 to 100,000	\$65.58	\$64.88
100,001 to 105,000	n/a	\$64.70
105,001 to 110,000	n/a	\$66.35
110,001 to 115,000	n/a	\$66.89
115,001 to 120,000	n/a	\$66.62

Note: Rates in Table 2 are based on the processing rate that Miller charges for processing blue box recyclables at the Material Recovery Facility and do not include revenue from the sale of materials to commodity markets.

The recommended blue box processing fees shown in Table 2 include adjustments made for any increase or decrease in the Consumer Price Index between contract commencement date and December 31, 2011 as specified in the contract. Processing fees will be subject to annual Consumer Price Index adjustments for the duration of the contract.

At the 95,001 to 100,000 tonnage range, the recommended unit price is less than the current unit price in the operating agreement as staff overtime or a third shift is not required due to equipment upgrades. The unit price for processing blue box recyclable materials decreases up to 105,000 tonnes per year as savings associated with staff reduction (four sorters per shift) from current compliment and economy of scale are greater than the additional operating and maintenance cost recommended by Miller. At the 105,001 to 110,000 tonnes range, the unit price increases as two of the four sorters removed for smaller tonnage ranges are placed back on the processing line to maintain processing efficiency. At the 110,001 to 115,000 tonnage range, the unit price increases as the current staffing compliment is required to maintain processing efficiency. At the 115,001 to 120,000 tonnage band, the unit price decreases due to an economy of scale.

Based on the calculated annual growth rate and recent tonnage trends, the quantity of blue box recyclable materials received at the Waste Management Centre will not exceed 105,000 tonnes per year until 2017. From now until 2017, cost savings are expected from

implementation of the recommended processing fees for processing below 105,000 tonnes per year.

Link to key Council-approved plans

Managing the Region's blue box recyclable materials in an efficient and cost effective manner coincides with the goal for a vibrant economy and infrastructure for a growing Region as identified in the Strategic Plan. The Region's commitment to securing competitive pricing for processing beyond 100,000 tonnes per year of blue box recyclable materials is evident in the cost savings outlined in this report.

5. FINANCIAL IMPLICATIONS

Cost savings realized as a result of equipment upgrades and implementation of recommended service fees

The spring 2011 equipment upgrades increased the York Region Waste Management Centre's blue box processing capacity from 100,000 tonnes per year to 140,000 tonnes per year. Through audits, the Region determined that lower blue box processing service fees could be realized by reducing sorting staff from current staffing level up to 110,000 tonnes per year. When processing between 95,001 and 105,000 tonnes per year, a cost saving of 1.4 per cent is realized from implementation of the recommended process fee.

Under the current operating agreement, the service fee to process 100,000 tonnes of blue box recyclable materials annually is approximately \$6,558,000 based on a current processing fee of \$65.58 per tonne. This excludes costs associated with baled old newspaper, residue recovery, administration and revenue share for marketing the Region's recovered recyclables.

Recommended service fees will result in cost savings to process up to 105,000 tonnes per year

Under the new service fees, it will cost approximately \$6,488,000 to process 100,000 tonnes of blue box recyclable materials annually based on the recommended processing fee of \$64.88 per tonne. This represents an annual saving of about \$70,000 when processing 100,000 tonnes per year of blue box recyclable materials. Considering the calculated annual growth rate of 2.7 per cent, recent tonnage trends and the total blue box recyclable materials received in 2010, it is projected that the York Region Waste Management Facility will not exceed 100,000 tonnes per year until the end of 2015 and 105,000 tonnes until 2017. Based on this projection, the total cost savings between 2013 and 2015 is as much as \$210,000 when compared with the current service fee for this tonnage band. Approximately \$19,000 per year in cost savings are also achieved from 2016 to 2017 as the recommended processing fee to process 100,001 to 105,000 tonnes of blue box recyclable materials is lower than the previous tonnage band. At the recommended processing fee of \$64.70 per tonne, it will cost approximately \$6,793,500

to process 105,000 tonnes of blue box recyclables annually, compared to an annual fee of \$6,812,400, calculated using the fee of \$64.88 per tonne. During this time period, the annual blue box service fee is lower despite the York Region Waste Management Centre processing up to 5,000 tonnes per year of additional blue box recyclable materials.

Processing fees competitive with those at other facilities in the Greater Toronto Area

For comparison purposes, staff obtained current processing fees from two other single stream processing facilities in the Greater Toronto Area and confirmed the recommended blue box processing fees presented in this report to be fair and competitive. Using 100,000 tonnes per year of inbound blue box recyclable materials as baseline, the \$64.88 per tonne processing fee recommended in this report is approximately \$30 per tonne lower than one of the single stream processing facilities contacted by staff. The processing fee for the other single stream processing facility was based on outbound marketed tonnage. Considering this, and assuming the facility achieves similar processing efficiencies as the Region's blue box processing line, the calculated processing fee is approximately \$70 per tonne, slightly higher than the recommended processing fee outlined in this report. As such, staff believe the new and updated service fees outlined in the updated operating agreement with Miller Waste systems are fair and competitive among processing costs at similar single stream processing facilities in the Greater Toronto Area.

6. LOCAL MUNICIPAL IMPACT

Adopting the new service fees in the operating agreement will ensure continuation of reliable processing efficiency at the York Region Waste Management Centre when the annual blue box recyclable materials received from local municipalities surpass 100,000 tonnes per year.

7. CONCLUSION

In accordance with the terms outlined in Clause 5.20 of the operating agreement, the Region and Miller met and reviewed the operating costs associated with the equipment upgrades completed in spring 2011. During the negotiation, both parties presented the savings and additional operating costs that should be considered for establishing service fees to process beyond 100,000 tonnes per year. The outcome of the negotiations are new blue box processing service fees for processing up to 120,000 tonnes per year that both parties consider to be fair and equitable.

The new service fees will result in lower annual service costs to 2017.

For more information on this report, please contact Laura McDowell, Director of Environmental Promotion and Protection at 905-830-4444 Ext. 5077.

The Senior Management Group has reviewed this report.