



**Business Plan  
for  
Purchasing the  
Renfrew County Recycle Centre  
(RCRC)**

Submitted to:

The Joint Recycling Committee (JRC) of  
McNabb\_Braeside and partner Municipalities

and

Continuous Improvement Fund / Waste Diversion Ontario

Submitted by:  
PSTG Consulting Inc.

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Confidential Separate Document: Financial Analysis

This report is a business plan analysis for the Joint Recycling Committee of the Renfrew area municipalities. The data provided to PSTG Consulting Inc. is assumed to be complete and accurate. PSTG in its work in analyzing the data for the business plan did consider the reasonableness of the data, but in no way should this be considered to be testing or auditing of the data provided to it by municipalities, MRFs and/or the Renfrew County Recycle Centre.

## **EXECUTIVE SUMMARY**

There are eight municipalities partnering to assess different options available to them for managing their recycling and waste operations. The current members include; Town of Arnprior, Township of Killaloe, Hagarty and Richards, Township of Addington Highlands, Township of Admaston/Bromley, Township of Horton, Township of Madawaska Valley, North Frontenac, and Township of McNab/Braeside.

The municipalities have struck a Joint Recycling Committee (JRC) comprised of representatives from each municipality. Objectives of the JRC are to:

- Assess waste management/recycling alternatives;
- Investigate possible partnerships or collaboration;
- Invite external resources and consultants to assist the committee;
- Evaluate cost-effective delivery of programs to divert materials including recyclables, waste and organics; and
- Determine a course of action.

In order to identify and assess the JRC's options and to make informed decisions, the JRC contracted PSTG Consulting Inc. to develop a business plan for identifying the operational and governance options. In particular the JRC is looking for:

1. An outline of governance options and how these would work for the area municipalities;
2. An outline and assessment of options for purchasing, managing and running the operations; and
3. An assessment of the revenues and costs of the operations, and ultimate impact on costs to the municipalities. This would include a brief outline of the alternatives if the areas municipalities do not purchase the RCRC operations.

The approach to this assessment and development of a business plan has included:

- Obtaining operations and financial information from RCRC;
- Obtaining strategic, quantity and financial input from each of the municipalities;
- Researching and communicating with other jurisdictions with other governance models;
- Input from OVWRC and Metro Waste Paper;
- Analysis of data;
- Developing options;
- Discussions and review with the JRC; and
- Preparing draft and final business plan.

The business plan is structured to provide the JRC with a summary of the current situation, governance options, and business options (purchase, operations, and financial). The plan is provided in two documents, with the business/financial analysis submitted to the steering committee and CIF only, in order to meet confidentiality requirements.

### *Operations*

The quantity of recyclable material collected from the JRC municipalities was approximately 2,550 tonnes in 2008. This represents just over 50% of the tonnage processed by RCRC. As a

result of changing materials for collection, collection methods, communications, etc. for individual municipalities, the quantities have varied over the last few years. Municipal representatives do not expect significant changes in quantities of recyclables over the next few years. In aggregate the quantities have been growing at a pace of about 2%. The following chart outlines the population, households and quantities by JRC municipality.

	Addington Highlands	Admaston/Bromley	Arnprior	Horton	Killaloe, Hagarty & Richards	Madawaska Valley	McNab/Braeside	North Frontenac	Estimated Total
Population	2,100	2,745	7,200	2,800	2,550	4,400	7,222	1,904	30,921
# of Households	2,700	1,335	3,335	1,300	1,574	2,985	3,050	3,107	19,386
Recycling Tonnage - 2008	48	119	642	219	202	510	536	280	2,554

The base year with complete data that has been provided is 2007. For 2007 the average revenue for the complete mix of materials sold was over \$100 per tonne. Since that time the markets have had a significant drop in demand and price. Municipalities and industry across the province are reporting decreases in average price of about 60% to 70% for 2009. This has been confirmed with RCRC. Industry expectations are that the prices will rebound somewhat once the recession has run its course. Pricing levels are expected to increase in 2010 moderately. They are not expected to reach the levels of 2007 for the foreseeable future.

The Renfrew County Recycle Centre has been in operation (previously as Beaumen Waste Management Ltd.) for many years providing recycling and waste services to municipalities and a small amount of commercial businesses throughout Renfrew County. RCRC is located in the Town of Renfrew.

RCRC has historically provided services throughout the County. In 2002 the Ottawa Valley Waste Recovery Centre began operation serving municipalities in Pembroke and Laurentian Valley area. As well the costs have increased significantly for the servicing of certain municipalities, e.g., ones in the northern part of the County. As a result of these factors RCRC has reduced its operations over the last few years. The JRC partner municipalities now comprise a significant component (just over 50% of the total recycled quantity).

The RCRC is a private corporation, owned and managed by Mr. Dan Menard. He has been intimately involved in the management and detail operations of the company since its start. His key strategy drivers have been; 1) minimize cost and 2) maximize recovery of recyclable materials. As a result the municipalities have experienced highly competitive rates for RCRC services over the years.

Mr. Menard is looking to retire and exit the business. He is asking \$1.6 million for the complete operation (including recycling and waste operations and current contracts), buildings and land. To date the JRC has received an appraisal of the building and land. The appraisal was done in 2007 and provided an appraised value of \$885,000. Mr. Menard is open to assisting in the transition of the operations and training of a new manager.

The operations are older relative to some of the MRF facilities in the area, i.e., OVWRC and Metro Waste Paper Inc. (Ottawa). They have been maintained at an average level and the municipalities have not indicated dissatisfaction with service levels. This is an indication that there is not a severe level of equipment breakdowns affecting service. There is an operations working capacity of 9,000 to 10,000 tonne per year.

The building and equipment are over fifteen years old. The processing building is a large high ceiling facility that easily accommodates the inside dumping of collected materials. The building is in average condition. The major processing equipment was overhauled in the last two years.

The detail of age, mileage, book value and estimated value fro the fleet was provided for this analysis. The collection trucks and other mobile equipment are quite varied in age. There are four vehicles that are from 1990 to 1993. We understand that only two of them are used and the other two remain for parts. The two in used are planned to be replaced this year. The remaining vehicles are twelve years old or less.

Detailed cost analysis for the business plan is provided in a separate confidential document for the JRC. The confidentiality of the detailed information is requested by RCRC.

The annual gross costs of operating (collection curbside and depot, and MRF processing) as reported to the WDO through its annual datacall, for the group of municipalities is approximately \$750,000. Considering the total recyclable quantity is about 2,550 tonnes, this results in an estimated average recycling cost of \$294 per tonne. This is reasonable for a MRF of this size and collection area geography and demographics.

### *Governance*

Governance structural options within the Ontario municipal context are legislated under the Municipal Act, 2001 (including 2007 changes). There are a number of options for the JRC municipalities to consider including:

- a. Not-for-Profit (Corporation)
- b. Municipal Corporation
- c. Municipal Service Board (the old 'Local Board')
- d. One municipality governs and operates for the group
- e. Municipalities purchase using one of the corporation options and then contract the management and operations

There are a number of governance options used by municipalities for joint-municipal service delivery in Ontario. Examples of jurisdictions or organizations in Ontario include the OVWRC (Municipal Service Board), Bluewater Recycling Association (not-for-profit corporation), Quinte Waste Solutions (Services Board), Waterloo Region (one municipality), Essex Windsor Solid Waste Authority, and an example of outside of waste management, the regional Provincial Offences Act court services (one municipality and advisory/management boards).

The vast majority residential recycling and waste management in Australia and Great Britain is provided through existing local government structures. The main governance and delivery models include:

- local Councils (municipalities) for their own local jurisdiction;
- regional governments for the Councils within its regional jurisdiction;
- contract to private companies that provide service across any jurisdictions.

Local governments in Great Britain and Australia make use of local government ‘associations’ and ‘joint boards’ to prepare recycling strategies, education, conferences/seminars, lobbying with state and federal governments, etc. Examples include; 1) Oxfordshire, GB, the Oxfordshire Waste Partnership is a joint committee of six municipalities (Councils) providing strategy, education, etc., but not direct operations, and 2) Local Government Association of South Australia assists in strategy development, initiatives planning, education, working with state government, etc.

Section 2 of the report provides an overview of the governance models provided for in Ontario municipal legislation and Ontario examples.

Below is a summary table for the governance options. The option 3.1.4 ‘One Municipality

<b>3.1.1 Not-for-Profit Corporation</b>	<b>3.1.2 Municipal Corporation</b>	<b>3.1.3 Management Service Board</b>	<b>3.1.5 Contract Out Operations</b>
<ul style="list-style-type: none"> <li>▪ Decision making and approvals separate from Council</li> <li>▪ Separate financing</li> <li>▪ Ability to operate separate from municipal polices</li> <li>▪ Ability to have a cost framework separate from the municipalities</li> <li>▪ No liability for municipalities</li> <li>▪ Possible increase in cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals separate from Council</li> <li>▪ Separate financing</li> <li>▪ Ability to operate separate from some municipal polices</li> <li>▪ Cost framework is separate</li> <li>▪ Can make use of some benefits available to municipalities, e.g., OMERS</li> <li>▪ No liability for municipalities</li> <li>▪ Possible increase in cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals required by Council</li> <li>▪ Financing is more integrated with municipality</li> <li>▪ Adapts municipal polices</li> <li>▪ Cost framework is separate but directly under municipal accountability</li> <li>▪ Can make use of benefits available to municipalities</li> <li>▪ Municipality or municipalities carry liability</li> <li>▪ Likely increase cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Municipality determines services required and negotiates contract</li> <li>▪ Operations decision making and approvals in company</li> <li>▪ No financing responsibility</li> <li>▪ Ability to operate separate from municipal polices</li> <li>▪ Ability to have a cost framework separate from the municipalities</li> <li>▪ No liability for municipalities</li> <li>▪ Likely an increase in cost of operations</li> </ul>

providing services to the area’ has not been included in the summary due to its inapplicability for the partner municipalities.

## *Conclusion*

There are many factors and a dynamic business environment impacting on the development of this business plan and resultant decision/recommendation by the JRC. This doesn't include other factors that are being addressed by each of the partner municipalities that can affect their decisions on the purchase of RCRC. The following points outline the conclusions for this business plan.

1. **Quantities and efficiency of scale for the operations.**  
It is to the benefit of the operations and owners of the operations to maximize the quantities collected (recycling and waste), and processed through the MRF in order to contribute to covering the cost of overhead (staff, insurance, general expenses and supplies, amortization, taxes, etc.). Thereby reducing the cost per tonne. This assumes that the variable or direct cost of collecting and/or processing the material is less than the revenue received for the service. This is the case for most of the services and contracts that RCRC provides. RCRC has made some adjustments lately in order to eliminate small services that were costing more than they were paying.
2. **Initial purchase price**  
The initial investment required is a significant factor in the financial evaluation. The method of financing also has implications. The details of this analysis are included in the confidential financial analysis document.
3. **Cost of ongoing investments**  
The cost of replacing, repairing and maintaining vehicles and equipment is significant. The aggressive approach to cost containment and use of internal shop mechanic and purchasing of used vehicles has allowed RCRC to provide the area municipalities with cost competitive services. Changing the approach or cost model by choice or as a result of the governance model, e.g., Management Service Board, can alter the cost effectiveness of the operations. For example, if the purchased RCRC adopted the policies, standards, practices, salaries and benefits of the area municipalities, the costs could potentially increase 15% to 25%. This could be even higher if the municipalities chose to replace all or most vehicles with new ones.
4. **Governance models**  
The governance model options available to the municipalities are outlined in section 3. The various models affect decision making, costs, liability and financing. The closer the model adopted is to the governance of a municipality, the higher cost of operations. Also the closer the model is to the governance of the municipalities, the more control the municipalities will have. The current model provides the municipalities with the least control, at the lowest cost.

Looking forward it is unclear in the Municipal Act (2001, 2007) just what controls, policies and practices must be adopted under the Municipal Corporation. If the RCRC could continue to operate with or close to its current cost management strategy then this would be most preferable from a financial perspective. This would be the BlueWater Recycling Association model of the not-for-profit corporation.



## 5. Financial analysis

The financial analysis (provided in a separate document) indicates that it would be preferable from a financial perspective to operate RCRC as a MRF under the not-for-profit model. It also shows that increasing quantities would be beneficial.

The various options and their outcomes are briefly outlined below:

	<b>Option</b>	<b>Surplus/Loss: Rank</b>
A	Baseline: 2007	
B	Baseline: 2009 mat'l prices, reduced operations	
C	Baseline: Projected recovering prices	
D	MRF operates as not-for-profit corporation	Surplus: 1
E	MRF operates as NFP plus 1,000 te	Surplus: 2
F	MRF operates as Mgmt. Corporation/Board	Breakeven: 4
G	Transfer Station as NFP	Surplus: 3
H	Transfer Station as Mgmt. Corporation/ Board	Loss: 5

## 6. Risks

As with any decisions faced by Council and management, there are risks to consider and mitigate. The key risks in this business plan include:

- material prices – will they rebound next year and by how much; and
- cost containment – will the RCRC under not-for-profit or municipal governance be able to contain cost increases. These cost increases can come from the operation costs increases in RCRC. Or they can be a result of a new vendor providing services at higher costs.

## 1 Introduction

### *Background*

There are eight municipalities partnering to assess different options available to them for managing their recycling and waste operations. The current members include:

1. Town of Arnprior
2. Township of Killaloe, Hagarty and Richards
3. Township of Addington Highlands
4. Township of Admaston/Bromley
5. Township of Horton
6. Township of Madawaska Valley
7. North Frontenac, and
8. Township of McNab/Braeside.

The municipalities have struck a Joint Recycling Committee (JRC) comprised of representatives from each municipality. Objectives of the JRC are to:

- Assess waste management/recycling alternatives;
- Investigate possible partnerships or collaboration;
- Invite external resources and consultants to assist the committee;
- Evaluate cost-effective delivery of programs to divert materials including recyclables, waste and organics; and
- Determine a course of action.

The recycling and some waste services for the municipalities are provided by a private sector company, Renfrew County Recycle Centre (RCRC), formally called Beaumen Waste Management. In addition, RCRC provides waste and recycling services to other municipalities (not part of the Joint Recycling group) and commercial companies. These municipalities, including the Town of Renfrew, are monitoring the progress of the initiative and may participate as partners (if an agreement could be agreed upon) or continue as customers of the operation in the future.

The owner of RCRC is looking to sell the company. As a result of a number of issues surrounding recycling and waste management in the region, the Joint Recycling Committee and their municipalities are considering purchasing the company.

In order to identify and assess the JRC's options and to make informed decisions, the JRC contracted PSTG Consulting Inc. to develop a business plan for identifying the operational and governance options. In particular the JRC is looking for:

4. An outline of governance options and how these would work for the area municipalities;
5. An outline and assessment of options for purchasing, managing and running the operations; and
6. An assessment of the revenues and costs of the operations, and ultimate impact on costs to the municipalities. This would include a brief outline of the alternatives if the areas municipalities do not purchase the RCRC operations.

The Continuous Improvement Fund (CIF), part of Waste Diversion Ontario (WDO), has a mandate of assisting and investing in the improvement of recycling processing in the province.

As such CIF is co-funding the project with McNabb\_Braeside and the area municipalities. The primary CIF objective for this business plan is to identify and assess recycling processing and MRF options, e.g., processing the JRC recyclables at other area MRFs (i.e., Ottawa Valley Waste Recovery Centre (OVWRC), or Metro Waste Paper Inc, (Ottawa)), or alternatively have other areas process their recyclables through the RCRC.

#### *Issues and Assumptions*

There are numerous issues and assumptions surrounding waste and recycling operations for the area municipalities that were identified during the business plan development. The decision is a very challenging one for the JRC. Some of the key issues include, but are not limited to:

- the area municipalities collect a variety of recyclable materials, differing between municipalities, through a mix of curbside, depot and drop off methods;
- the area for collection is quite large – Renfrew being the largest geographic county in the province;
- there is significant distance to the end markets, and relatively low volume from each of the municipalities and RCRC;
- RCRC provides waste collection as well as recycling;
- the world economy is experiencing a serious downturn. As a result the end markets for recycled material is very dynamic with significantly lower prices and lower volume demand than over the last few years;
- there is no one large municipality that could take on the governance and recycling operations; and
- the owner/manager has indicated that he will stay on for approximately two years to assist in the transition.

Assumptions for the business plan include:

- there are MRF options, e.g., Ottawa Valley Waste Recovery Centre, and Metro Waste Paper Recycling Inc.;
- material prices will moderately improve starting in 2010;
- municipality recycling volumes will remain reasonably stable or a slight increase; and
- the number of municipalities being served will remain fairly stable over the foreseeable future.

The approach to this assessment and development of a business plan has included:

- Obtaining operations and financial information from RCRC;
- Obtaining strategic, quantity and financial input from each of the municipalities;
- Researching and communicating with other jurisdictions with other governance models;
- Input from OVWRC and Metro Waste Paper;
- Analysis of data;
- Developing options;
- Discussions and review with the JRC; and
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The business plan is structured to provide the JRC with a summary of the current situation, governance options, and business options (purchase, operations, and financial). The plan is provided in two documents, with the business/financial analysis submitted to the steering committee and CIF only, in order to meet confidentiality requirements.

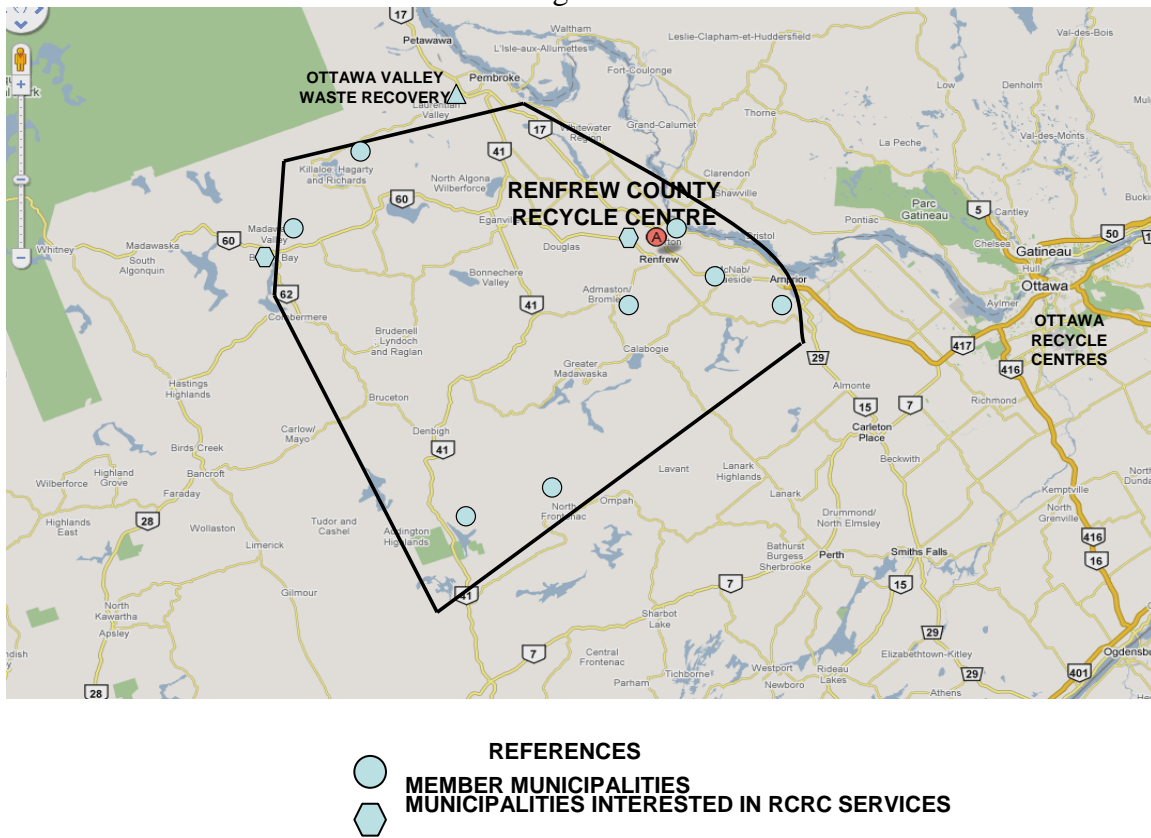
## 2 Current Situation Overview

Renfrew County and the area being assessed in this business plan covers a large geographic area and is a significant distance from end material markets. Due to the size of the partner communities and limited industry/commerce, they have limited business options in sourcing recycling services. At the same time throughout this study we were able to determine that there are options in addition to only purchasing and operating the RCRC in its current configuration.

Distance of each municipality pick up to RCRC varies considerably. This is part of the challenge for some of the area municipalities. A few of the municipalities are around 100 km away from RCRC (Killaloe, Hagarty & Richards, North Frontenac, and Madawaska Valley). In addition the distance to the MRF from municipalities is the distance to other MRFs for option analysis.

Figure 1 provides a high level map of the eastern Ontario and relevant areas for this business plan.

Figure 1



### 2.1 Material Quantities and Revenues

#### Quantities

The quantity of recyclable material collected from the JRC municipalities was approximately 2,550 tonnes in 2008. This represents just over 50% of the tonnage processed by RCRC. As a result of changing materials for collection, collection methods, communications, etc. for individual municipalities, the quantities have varied over the last few years. Municipal

representatives do not expect significant changes in quantities of recyclables over the next few years. In aggregate the quantities have been growing at a pace of about 2%.

The quantity of material marketed from the partner communities was estimated at just over 2,400 tonnes. The amount varies as a result of material residue from material being collected and processing efficiencies, for example there is plant residue that represents residue not recycled from the belt, which includes material that was not recyclable, and excessive moisture loss i.e., ice, snow and rain in collected containers

Figure 2 provides population, household and recyclable quantity data to form the basis of the business plan.

**Figure 2**  
**Population, Households and Quantity of Recyclables Collected**  
**for JRC Municipalities**

	Addington Highlands	Admaston/Bromley	Arnprior	Horton	Killaloe, Hagarty & Richards	Madawaska Valley	McNab/Braeside	North Frontenac	Estimated Total
Population	2,100	2,745	7,200	2,800	2,550	4,400	7,222	1,904	30,921
# of Households	2,700	1,335	3,335	1,300	1,574	2,985	3,050	3,107	19,386
Recycling Tonnage - 2008	48	119	642	219	202	510	536	280	2,554

### *Material Revenues*

Revenue from sales of recycled material is incorporated (on a net cost basis) into the RCRC contracts and pricing with the municipalities. This is done on an individual municipality basis depending on their material types, collection method, etc.

The base year with complete data that has been provided is 2007. For 2007 the average revenue for the complete mix of materials sold was over \$100 per tonne. Since that time the markets have had a significant drop in demand and price. Municipalities and industry across the province are reporting decreases in average price of about 60% to 70% for 2009. This has been confirmed with RCRC.

Industry expectations are that the prices will rebound somewhat once the recession has runs its course. Pricing levels are expected to increase in 2010 moderately. They are not expected to reach the levels of 2007 for the foreseeable future.

## **2.2 Renfrew County Recycle Center**

The Renfrew County Recycle Centre has been in operation (previously as Beaumen Waste Management Ltd.) for many years providing recycling and waste services to municipalities and a small amount of commercial businesses throughout Renfrew County. RCRC is located in the Town of Renfrew.

RCRC has historically provided services throughout the County. In 2002 the Ottawa Valley Waste Recovery Centre began operation serving municipalities in Pembroke and Laurentian Valley area. As well the costs have increased significantly for the servicing of certain municipalities, e.g., ones in the northern part of the County. As a result of these factors RCRC has reduced its operations over the last few years. The JRC partner municipalities now comprise a significant component (just over 50% of the total recycled quantity).

The RCRC is a private corporation, owned and managed by Mr. Dan Menard. He has been intimately involved in the management and detail operations of the company since its start. His key strategy drivers have been; 1) minimize cost and 2) maximize recovery of recyclable materials. As a result the municipalities have experienced highly competitive rates for RCRC services over the years.

Mr. Menard is looking to retire and exit the business. He is asking \$1.6 million for the complete operation (including recycling and waste operations and current contracts), buildings and land. To date the JRC has received an appraisal of the building and land. The appraisal was done in 2007 and provided an appraised value of \$885,000. Mr. Menard is open to assisting in the transition of the operations and training of a new manager.

### Operations

The recycling operations are provided in a well planned and delivered manner. Collection, processing, and marketing services are provided to its customers. Collection service methods include curbside, depot and drop off. The business also has a shop mechanic and shop facilities in the MRF. This capacity is used to service the collection trucks and MRF equipment. These services could be used to provide service to other organizations, such as maintaining and repairing fleet vehicles for municipalities.

The operations are older relative to some of the MRF facilities in the area, i.e., OVWRC and Metro Waste Paper Inc.(Ottawa). They have been maintained at an average level and the municipalities have not indicated dissatisfaction with service levels. This is an indication that there is not a severe level of equipment breakdowns affecting service.

### *Capacity*

There is an operations working capacity of 9,000 to 10,000 tonne per year. This is what the plant used to process when it had Pembroke and area. Another way to assess the capacity is that it is currently processing 5,000 te per year. This is only with one shift 5 days per week. The plant could certainly manage a second shift, consequently processing 10,000 te per year. In addition our brief review of the utilization of the conveyor, rolling stock, and compactor indicates that they could substantially increase the throughput within the current shift and major equipment infrastructure.

There are 25 employees including Mr. Menard. Three of these are management and administration. As a result of reductions in municipal contracts, and associated volumes, as well as the recession, there is possibly reduction of a few positions. The changing of capacity is quite flexible and rapid with the addition and reduction of staffing as needed.

### *Capital Equipment – MRF*

The building and equipment are over fifteen years old. The processing building is a large high ceiling facility that easily accommodates the inside dumping of collected materials. The building is in average condition. The major processing equipment was overhauled in the last two years.

#### *Capital Equipment – Trucks and other Mobile*

The detail of age, mileage, book value and estimated value was provided for this analysis. The collection trucks and other mobile equipment are quite varied in age. There are four vehicles that are from 1990 to 1993. We understand that only two of them are used and the other two remain for parts. The two in used are planned to be replaced this year. The remaining vehicles are twelve years old or less.

RCRC has a fleet strategy that includes purchasing used trucks (four or five years old), and maintaining them with the internal shop facilities. RCRC has also recently sold four of its oldest trucks for reasonable scrap value. The strategy is to continually replace a few trucks each year.

#### *Cost*

Detailed cost analysis for the business plan is provided in a separate confidential document for the JRC. The confidentiality of the detailed information is requested by RCRC.

The annual gross costs of operating (collection curbside and depot, and MRF processing) as reported to the WDO through its annual datacall, for the group of municipalities is approximately \$750,000. Considering the total recyclable quantity is about 2,550 tonnes, this results in an estimated average recycling cost of \$294 per tonne.

The cost of the RCRC operations is considered reasonable for the size and location of the services. Productivity metric comparisons with other MRFs and municipalities including no. of staff per tonne processed, gross cost per tonne for MRF show that the operating costs are competitive. A major factor that leads to higher cost is the distance of pick ups for RCRC and its customers. This would be the case for any recycler or waste management firm in the area. As stated earlier, Renfrew County is a large county.

#### *Valuation*

An independent valuation of the building and land was performed in 2007. The valuator used two methods for valuation with results of \$885,000 and \$925,000. The valuator concluded that the building and land should be valued at \$885,000.

The land has a mortgage that would be discharged by Mr. Menard upon the closing of a purchase agreement by the municipalities.

### **2.3 Other Area MRF Operators**

Ottawa Valley Waste Recovery Centre and Metro Waste Paper Recycling Inc. provide recycling services to municipalities in the area, Pembroke area and City of Ottawa respectively. During the course of this plan development data was gathered from both organizations. This data was able to provide options for the RCRC plan. The data and any agreements with either OVWRC or Metro Waste, would have to be negotiated with them by the JRC, if that was the direction it chose.

OVWRC started operations in 2002 and operates a MRF in Pembroke. This is integrated with a landfill, composting, depots for household hazardous waste, and construction and demolition waste. Its 2007 reported gross operating cost is \$275 per tonne (for 2800 tonnes). In addition it incurs a depreciation charge of approximately \$200,000 per year. Preliminary indications were that OVWRC would accept the JRC recyclable materials at no cost. This could effectively lower its operating cost to approximately \$220. The management board agreement indicates that municipalities using its services would be required to 'buy into' the agreement with the current partners.

Metro Waste Paper operates two MRFs in the Ottawa area. One is for paper and the other is for the container stream. Preliminary discussions indicated that paper could be tipped at 0\$, and the containers stream in the \$225 to \$280 range. In addition there would be a revenue sharing agreement when revenue hits a particular level.

To repeat, the intent of the discussions with the MRFs was to get a 'ballpark' idea of costs and openness of the MRFs to work with JRC and represented municipalities. The reception was positive in both organizations.

### **3 Options**

This section of the report provides an overview of the governance options. Included in the specific option overviews is a description, outline of key factors (pros and cons), and examples, where possible.

#### **3.1 Governance**

Governance structural options within the Ontario municipal context are legislated under the Municipal Act, 2001 (including 2007 changes). There are a number of options for the JRC municipalities to consider including:

- a. Not-for-Profit (Corporation)
- b. Municipal Corporation
- c. Municipal Service Board (the old 'Local Board')
- d. One municipality governs and operates for the group
- e. Municipalities purchase using one of the corporation options and then contract the management and operations

There are a number of governance options used by municipalities for joint-municipal service delivery in Ontario. Examples of jurisdictions or organizations in Ontario include the OVWRC (Municipal Service Board), Bluewater Recycling Association (not-for-profit corporation), Quinte Waste Solutions (Services Board), Waterloo Region (one municipality), Essex Windsor Solid Waste Authority, and an example of outside of waste management, the regional Provincial Offences Act court services (one municipality and advisory/management boards).



The vast majority residential recycling and waste management in Australia and Great Britain is provided through existing local government structures. The main governance and delivery models include:

- local Councils (municipalities) for their own local jurisdiction;
- regional governments for the Councils within its regional jurisdiction;
- contract to private companies that provide service across any jurisdictions.

Local governments in Great Britain and Australia make use of local government ‘associations’ and ‘joint boards’ to prepare recycling strategies, education, conferences/seminars, lobbying with state and federal governments, etc. Examples include; 1) Oxfordshire, GB, the Oxfordshire Waste Partnership is a joint committee of six municipalities (Councils) providing strategy, education, etc., but not direct operations, and 2) Local Government Association of South Australia assists in strategy development, initiatives planning, education, working with state government, etc.

Below is an overview of the governance models provided for in Ontario municipal legislation and Ontario examples where available.

### 3.1.1 Not-for-Profit

Example: Bluewater Recycling Association

BRA currently services around 22 municipalities, 70,000 HH and about 150,000 people in the rural southwestern Ontario area. BRA is a very flexible, diverse, and forward thinking recycling organization. It uses or has tried many different materials, different collection mechanisms, different fee structures, etc. BRA has 60 people employed for about 30,000 te per year.

Bluewater Recycling Association set up operations in 1989. It was setup as a not-for-profit (NFP) corporation. This was long before the current Municipal Act (2001). At the time the only other option was to organize as a Local Board. Municipal Service Boards (similar to the Local Board) or Municipal Corporations were not considered under the Municipal Act (1990). The NFP structure appeared more flexible and workable for the small area municipalities. None of the municipalities were large or experienced enough to manage residential recycling operations. In the 1980s recycling was also quite new with few people familiar with the industry or recycling operations and management.

The BRA is very similar in structure and governance to a municipal corporation. Although it is not a municipal corporation it has adapted many of the municipal corporation practices and policies including similar pay scales of the area municipalities.

Key factors relating to the BRA governance model include:

- ✓ The municipalities own the shares and elect a Board of Directors of eight (8). They play an oversight and direction role.
- ✓ The Board does not play a role in operations. This is delegated to management.
- ✓ Financing - as a new corporation one of the main challenges that BRA faced was with was sourcing financing for equipment and working capital. The municipalities were not able to cover all financing needs and the banks were cautious. The bank is still the primary source of financing.

- ✓ BRA is independent to set its budget as well as develop and implement its fee structures. BRA proposes its next contract to a municipality once the old one is expiring. It does not go to area municipal Councils for budget approval. At the same time any municipality can discontinue to contract BRA's service if it does not meet the municipality's needs.
- ✓ The creation of a single centralized operational entity is likely more efficient than multiple smaller operations.
- ✓ This corporation governance model allows operating independence such as purchasing flexibility, staffing costs, etc.
- ✓ Due to the separate corporation structure, the municipalities do not have liability risk for the BRA operations.
- ✓ The governance and management of the organization acts as a cooperative.

The Renfrew area municipalities would be required to create the not-for-profit corporation, sell shares to each partner municipality, and have the company purchase RCRC. The municipalities would have to contribute a portion of the purchase funding. The organization would be required to source the remainder of financing needs. This could be achieved in a number of ways including bank financing, take-back mortgage by the seller, financing by the municipalities, etc. Detailed analysis of financing options is not part of this project scope. The company would then continue the contracts/ service level agreements that are currently in place, or create new ones.

### 3.1.2 Municipal Corporation

Example: any municipality

The Municipal Act provides another option for municipalities. It has outlined the opportunity for municipalities to establish a corporation (Municipal Act, section 203) beyond their own corporation, for delivery of services. Traditionally municipal corporation structures were used only for the governance of municipalities, towns, cities, villages, etc.

Examples of where municipal corporations can also be used include; local distribution companies, gas utilities, municipal long-term care homes, local housing corporations, utility telecoms, transit corporations or social housing corporations.

The municipal corporation's key factors include:

- ✓ Increased independence particularly in decision making and operations management.
- ✓ Ability to finance independently, while at the same time can still get guarantees from municipalities if needed. Financing options include banks, municipalities, Infrastructure Ontario, etc.
- ✓ Hold it's own assets.
- ✓ Accountability and reporting policies can be put in place the same as for a service board.
- ✓ Reduced liability risk to municipalities.
- ✓ Council(s) can appoint any member to the Board.
- ✓ Plan and manage separately from Council.

The Renfrew area municipalities would be required to create the corporation, sell shares to each partner municipality, and have the company purchase RCRC. The management and operations would not be all that different than the Service Board. The company would then continue the contracts/ service level agreements that are currently in place, or create new ones.

### 3.1.3 Municipal Service Board

Example: Essex Windsor Solid Waste Authority

EWSWA services the City of Windsor and seven municipalities in the County of Essex. This covers approximately 143,000 HH and 320,000 people. It also operates a landfill site, provides collection and MRF operations, and provides numerous diversion programs. It retains Waste Diversion Ontario (WDO) funding and the material sales revenues, in addition to service contracts it has with the area municipalities, businesses, recycling, solid waste, etc.

EWSWA was created as a ‘Local Board’ under the old Municipal Act. It is very much like the newer Municipal Service Board (Municipal Act, sections 194 to 202). Other applications of the Service Board governance model include parking authorities, public utilities, etc.

Key factors as a Board include:

- ✓ Sets up the entity as a ‘body corporate’.
- ✓ Financing can be done independently or through the municipalities.
- ✓ Ensures clear accountability for financial reporting and control.
- ✓ Operating costs including staffing is typically similar to that of the municipalities.
- ✓ Board members can be elected officials or not.
- ✓ Meetings of the company must be public, with advance notice provided.
- ✓ Budget approval is dependent upon the Board. This can be set up by the governing municipality or municipalities to require Council approvals.
- ✓ Level of independence of planning and operations are determined by the municipality or municipalities.

Due primarily to the latter three factors above, this model could be overly cumbersome and get bogged down with excessive approvals. As well it is bound by the same polices, procedures, and restrictions as the member municipalities. The EWSWA is considering changing its governance model.

Another example of this governance model is the Ottawa Valley Waste Recovery Centre. The funding is held with Laurentian Valley. The business plan and budget requires approval from the five member Councils. The General Manager has indicated that the process and governance works well.

For the Renfrew area municipalities they would require specific agreements/contracts. The governance structure would consist of a governing board consisting of the municipalities to define decision making authorities and processes, roles and responsibilities, service levels, financial support, etc. Services provided to other organizations outside of the partner municipalities will require service level agreements (SLA).

### 3.1.4 One Municipality providing service to others

Example: Region of Waterloo

From an operations and service standpoint this is effectively what is done in the two-tier regions of the province. This is also the governance structure the Region provides waste services for the

area municipalities. The governance is slightly different as there are not agreements between the governments. The legal structure is defined under service provision definition in the Municipal Act, 2001 and 2007.

It is a commonly used approach across the province. This is the approach and structure used for some waste management services, as well as Provincial Offences Act (POA) court services, some transit services, etc.

It is not appropriate for the Renfrew area municipalities as a result of there not being a single municipality with the capacity to manage and administer the operations.

### 3.1.5 Municipal Contracting out Operations

Example: Ottawa/Metro Waste Paper

This is an option where any of the above governance models for the municipalities would work with the actual operational delivery being done by an outside third party, likely a private sector company. Another approach to this is where each of the municipalities would contract directly with another service provider.

Key factors include:

- The involvement of the municipalities, reporting, etc. is minimized.
- Costing is out of control of the municipalities and typically less than the municipal direct costs. This may not be the case if the area municipalities contracted with another private sector provider. A recent example was mentioned by the JRC of an area municipality tendering recycling or waste management operations that resulted in a higher cost.
- Accountability and performance is provided and managed through a contract and service level agreement.

For the City of Ottawa, Metro Waste Paper provides the MRF processing capacity for paper and container streams. The contracts and service levels agreements are negotiated for a few years, e.g., 5 years. They can be flexible on contract terms including length of term, inclusion of market revenue, etc. For Ottawa they keep the market revenues, and there is a bonus or performance incentive for Metro Waste Paper to reach. Another option would be for the contractor to take the material revenue risk and then share revenues with the municipalities if certain targets are met.

For the purposes of the business and financial model analysis, the not-for-profit corporation model (BRA) will be used. This provides a consistent baseline for comparison purposes.

Below is a summary table for the governance options. The option 3.1.4 One municipality providing services to the area has not been included in the summary due to its inapplicability for the partner municipalities.

<b>3.1.1 Not-for-Profit Corporation</b>	<b>3.1.2 Municipal Corporation</b>	<b>3.1.3 Management Service Board</b>	<b>3.1.5 Contract Out Operations</b>
<ul style="list-style-type: none"> <li>▪ Decision making and approvals separate from Council</li> <li>▪ Separate financing</li> <li>▪ Ability to operate separate from municipal polices</li> <li>▪ Ability to have a cost framework separate from the municipalities</li> <li>▪ No liability for municipalities</li> <li>▪ Possible increase in cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals separate from Council</li> <li>▪ Separate financing</li> <li>▪ Ability to operate separate from some municipal polices</li> <li>▪ Cost framework is separate</li> <li>▪ Can make use of some benefits available to municipalities, e.g., OMERS</li> <li>▪ No liability for municipalities</li> <li>▪ Possible increase in cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals required by Council</li> <li>▪ Financing is more integrated with municipality</li> <li>▪ Adapts municipal polices</li> <li>▪ Cost framework is separate but directly under municipal accountability</li> <li>▪ Can make use of benefits available to municipalities</li> <li>▪ Municipality or municipalities carry liability</li> <li>▪ Likely increase cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Municipality determines services required and negotiates contract</li> <li>▪ Operations decision making and approvals in company</li> <li>▪ No financing responsibility</li> <li>▪ Ability to operate separate from municipal polices</li> <li>▪ Ability to have a cost framework separate from the municipalities</li> <li>▪ No liability for municipalities</li> <li>▪ Likely an increase in cost of operations</li> </ul>

This table not in final report

3.1.1 Not-for-Profit Corporation	3.1.2 Municipal Corporation	3.1.3 Management Service Board	3.1.5 Contract Out Operations
<b>PROS</b>			
<ul style="list-style-type: none"> <li>▪ Operate separate from municipal policies</li> <li>▪ Cost framework separate from municipalities</li> <li>▪ No liability for municipalities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operate separate from some municipal polices</li> <li>▪ Cost framework is separate</li> <li>▪ Make use of some benefits available to municipalities</li> <li>▪ No liability for municipalities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing is more integrated with municipality</li> <li>▪ Adopts municipal polices</li> <li>▪ Cost framework is separate but directly under municipal accountability</li> <li>▪ Can make use of benefits available to municipalities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Municipality determines services required and negotiates contract</li> <li>▪ Operations decision making and approvals in company</li> <li>▪ No financing responsibility</li> <li>▪ Operate separate from municipal polices</li> <li>▪ A cost framework separate from the municipalities</li> <li>▪ No liability for municipalities</li> </ul>
3.1.1 Not-for-Profit Corporation	3.1.2 Municipal Corporation	3.1.3 Management Service Board	3.1.5 Contract Out Operations
<b>CONS</b>			
<ul style="list-style-type: none"> <li>▪</li> <li>▪</li> <li>▪</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals separate from Council</li> <li>▪ Separate financing</li> <li>▪ Possible increase in cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision making and approvals required by Council</li> <li>▪ Adapts municipal polices</li> <li>▪ Municipality or municipalities carry liability</li> <li>▪ Likely increase cost of operations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Operations decision making and approvals in company</li> <li>▪ Will be an increase in cost of operations</li> </ul>

## 4 Conceptual Models

This section provides an outline of the management/ operation models being assessed for a business plan. The objective is to provide the outline and qualitative factors needed to accompany the financial analysis.

#### **4.1 Projected Baseline**

The projected baseline model is provided as a reference base point for analysis. This model takes the current operating model, including revenue, costs, volumes, investment requirements, etc. and projects these into the future based on the current operating model continuing. Projected parameters and changes include:

- Low material prices for 2009 with moderate increases in 2010 and 2011.
- Current volumes will remain relatively constant.
- Small staff and associated cost reductions will be in place as a result of recent economy. pressures and changes to quantities processed.
- Regular investment in fleet vehicles and equipment renewal and maintenance.
- Benefits of the mechanic shop for municipal fleet maintenance are minimal, i.e., revenue from the shop is minimal.

#### **4.2 Purchase RCRC and continue current services and operations**

The partner municipalities agree to purchase the RCRC business. The operations and financial model is the same as section 4.1 Projected Baseline. The key assumptions and parameters are:

- the governance model will allow the municipalities to manage the RCRC in basically the same way as it has been to date, e.g., purchasing used equipment, older equipment with frequent maintenance, and a strong cost containment strategy
- \$1.6 million is invested in the purchase of the RCRC
- One scenario uses the current volumes while an additional scenario is run with an additional 1,000 tonne. This identifies the impacts of quantities (from additional source) on the financial analysis.

#### **4.3 Purchase RCRC and operate as a transfer facility**

The partner municipalities agree to purchase the RCRC business. The operations and financial model change to reflect the discontinuance of sorting and marketing operations. The key assumptions and parameters are:

- the governance model will allow the municipalities to manage the RCRC as a transfer station
- management approach of the collection and transfer operations would continue in the same way as it has been to date, e.g., purchasing used, older equipment with frequent maintenance, and a strong cost containment strategy
- material is transferred to an area MRF - OVWRC or Metro Waste Paper. Both are viable options. Preliminary investigation indicates that Metro Waste Paper appeared to be more cost effective. Negotiations on pricing, length of term, transport, etc. would be required for either parties.
- \$1.6 million is invested in the purchase of the RCRC

- One scenario uses the current volumes while an additional scenario is run with an additional 1,000 tonne. This identifies the impacts of quantities (from additional source) on the financial analysis.

#### **4.4 Assist a third party to purchase RCRC**

This model does not have an associated financial analysis as there could be many options within this model. The idea would be to reduce the financial impact and risk for a potential buyer, while at the same time ensuring stability and reducing cost for the partner municipalities.

The key assumptions and parameters are:

- The governance model could be any of those identified in section 3, an agreement (e.g., Memorandum of Understanding) to assist in financing and/or provide financial or other guarantees, etc. for the potential buyer.
- There is significant value in the RCRC - the building, property, equipment, contracts, and Certificate of Approval. There would most likely be interest in purchasing.
- The buyer would be experienced and/or have relevant capacity.
- There would be potential buyers in the marketplace. This might be an issue with the downturn in the economy at the moment. Potential buyers to approach might include Metro Waste Paper, OVVRC, or a mill.

#### **4.5 Do not purchase RCRC**

One option is to 'do nothing'. There are numerous recycling operators in Ontario and eastern Ontario. They may either fill the void left by RCRC if it is discontinued or they will approach RCRC to purchase its operations.

The short term impact for the area municipalities would be that they will continue to receive services at competitive rates, until Mr. Menard sells or closes the operations.

There are risks with this option:

- Service risk: Discontinuing of recycling service to residents, on a temporary or more permanent basis.
- Regulatory risk: Not meeting MOE requirements for material recycling.
- Cost risk: A new vendor would likely charge more for the same services, as they will have to make investments in capacity to provide the services.
- Political risk: Area taxpayers may not be pleased that the recycling services could be discontinued or interrupted.

## **5 Conclusions**

There are many factors and a dynamic business environment impacting on the development of this business plan and resultant decision/recommendation by the JRC. This doesn't include other factors that are being addressed by each of the partner municipalities that can affect their decisions on the purchase of RCRC. The following points outline the conclusions for this business plan.



7. Quantities and efficiency of scale for the operations.

It is to the benefit of the operations and owners of the operations to maximize the quantities collected (recycling and waste), and processed through the MRF in order to contribute to covering the cost of overhead (staff, insurance, general expenses and supplies, amortization, taxes, etc.). Thereby reducing the cost per tonne. This assumes that the variable or direct cost of collecting and/or processing the material is less than the revenue received for the service. This is the case for most of the services and contracts that RCRC provides. RCRC has made some adjustments lately in order to eliminate small services that were costing more than they were paying.

8. Initial purchase price

The initial investment required is a significant factor in the financial evaluation. The method of financing also has implications. The details of this analysis are included in the confidential financial analysis document.

9. Cost of ongoing investments

The cost of replacing, repairing and maintaining vehicles and equipment is significant. The aggressive approach to cost containment and use of internal shop mechanic and purchasing of used vehicles has allowed RCRC to provide the area municipalities with cost competitive services. Changing the approach or cost model by choice or as a result of the governance model, e.g., Management Service Board, can alter the cost effectiveness of the operations. For example, if the purchased RCRC adopted the policies, standards, practices, salaries and benefits of the area municipalities, the costs could potentially increase 15% to 25%. This could be even higher if the municipalities chose to replace all or most vehicles with new ones.

10. Governance models

The governance model options available to the municipalities are outlined in section 3. The various models affect decision making, costs, liability and financing. The closer the model adopted is to the governance of a municipality, the higher cost of operations. Also the closer the model is to the governance of the municipalities, the more control the municipalities will have. The current model provides the municipalities with the least control, at the lowest cost.

Looking forward it is unclear in the Municipal Act (2001, 2007) just what controls, policies and practices must be adopted under the Municipal Corporation. If the RCRC could continue to operate with or close to its current cost management strategy then this would be most preferable from a financial perspective. This would be the BlueWater Recycling Association model of the not-for-profit corporation.

11. Financial analysis

The financial analysis (provided in a separate document) indicates that it would be preferable from a financial perspective to operate RCRC as a MRF under the not-for-profit model. It also shows that increasing quantities would be beneficial.

The various options and their outcomes are briefly outlined below:

	<b>Option</b>	<b>Surplus/Loss: Rank</b>
A	Baseline: 2007	Surplus : 1
B	Baseline: 2009 mat'l prices, reduced operations	Loss: 6
C	Baseline: Projected recovering prices	Surplus: 3
D	MRF operates as not-for-profit corporation	Surplus: 4
E	MRF operates as NFP plus 1,000 te	Surplus: 2
F	MRF operates as Mgmt. Service Board	Loss: 7
G	Transfer Station as NFP	Loss: 5
H	Transfer Station as Mgmt. Service Board	Loss: 8

## 12. Risks

As with any decisions faced by Council and management, there are risks to consider and mitigate. The key risks in this business plan include:

- material prices – will they rebound next year
- cost containment – will the RCRC under municipal ownership be able to contain cost increases. These cost increases can come from the operation costs increases in RCRC. Or they can be a result of a new vendor providing services at higher costs.