

# Continuous Improvement Fund

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## *MIPC Provincial Blue Box Optimization Study Options Report: August 14<sup>th</sup>, 2012*

### 1 Recommendation:

That the Continuous Improvement Fund Committee recommend to MIPC that the \$10 million held back at MIPC's request be allocated as follows:

- i. up to \$2 million to support actions by municipalities and stakeholders that facilitate a move to standardized service and a consistent province wide program;
- ii. up to \$4 million towards voluntary initiatives that are consistent with the recommendations of the MIPC study;
- iii. up to \$4 million towards municipally directed projects that result in cost savings or the development of better practices in a manner that is consistent with the current mandate and policies of the CIF.

### 2 Background

In June of 2011, MIPC directed the CIF to complete a study of an optimized provincial transfer and processing system and further requested that CIF put aside up to \$10 million pending the outcome of the study. The study, completed in June 2012, examined optimal transfer infrastructure independent of municipal border constraints and the minimum number of MRFs, on the basis of a 4 region model, required to meet current and future Provincial blue box transfer and processing needs up to the year 2025. At the June 2012 meeting of MIPC, the CIF was asked to provide options for the use of funds put aside pending the outcome of the study and to consider next steps.

### 3 Report

#### 3.1 Consultation Completed to Date

At the direction of Committee, CIF staff has been soliciting input and involvement from stakeholders about the study throughout the past year. Consultation started with an introductory article on the study and a call for comments in the December 2011 issue of Connections. Additional notices were provided throughout the spring. The study and its underlying assumptions were publically reviewed at the April 18<sup>th</sup>, 2012 CIF Ontario Recycler's Workshop (ORW) that also provided an opportunity for 'live' commentary and questions. A follow up survey, soliciting additional comments, was issued later that month.

The project results have, to date, been presented to:

- The AMO board June 22<sup>nd</sup>, 2012;
- The general public through a webcast and consultation session on July 25<sup>th</sup>, 2012; and
- The AMO Task Force August 1<sup>st</sup>, 2012.

In general, there has been very favourable commentary from stakeholders about the model developed by SE and RRS. Initial feedback on the study results and possible next steps was, understandably, mixed. CIF staff is currently soliciting feedback on the study and possible next steps both formally through a follow up survey and through direct contact with municipalities.

## 3.2 Consultation Feedback

Most parties recognize the potential value of the model developed as an output of the MIPC study. Municipal staff and councillors are, however, consistent in their hesitancy to make wholesale changes to their community's infrastructure without first addressing the already acknowledged limits of the project scope and current circumstances.

### 3.2.2 The Savings Are Uncertain

The study was based, in part, on reported costs from the 2010 WDO Datacall. In some cases, data manipulation was necessary because of the way many municipalities report their costs. This resulted in a potential for significant up front errors of approximately 20% in estimating services costs. The study outcome projects savings of approximately the same order, calling the net benefit cited in the study into question. Coupled with the fact that the study scope did not include analysis of the financial implications to collection costs, many respondents felt further modelling would be required before any action was taken. Others raised concerns that the study assumed that the provincial system had been converted to single stream collection, utilized a common basket of goods and was based on a non-existent infrastructure. They felt the projected savings would need to be reviewed in light of the current actual situation and include an analysis of the cost implication of converting to this future state before their councils could consider making the proposed changes.

### 3.2.3 Lack of Infrastructure Can Potentially Lead to Increased Costs

Amongst more experienced operators, there was a recognition that the study, is potentially the right answer to the wrong question. The study examines what might be achievable in a monopolistic scenario where material flow and pricing are controlled. A number of municipalities have expressed concern that in their experience one of the primary drivers of high system costs has been the lack of competition. They are worried that reducing the number of MRFs in the system will exasperate this situation. This concern is consistent with the experiences of the CIF. The lack of competing infrastructure in southwestern Ontario, northern Ontario, the Muskokas, Simcoe County and York Region has resulted in predatory pricing by service providers. Existing MRF owners are understandably reluctant to shut down their existing facilities without guarantees of appropriate compensation or long term and favourable processing fees in a market with reduced competition.

### 3.2.4 Inability to Share Profits

Both the CIF Committee and municipal respondents have struggled with the mechanics of how programs would be compensated for incurring higher costs in order to generate benefits for themselves and others within an optimized waste shed. Similarly, MRF owners were quick to question how they would be compensated for their investments and compensation if their facilities become stranded assets under the optimized system. Others wanted to know what mechanism would be used to compensate municipalities in the event that they made the recommended changes and the predicted savings failed to materialize.

### 3.2.5 The Optimized System Requires Significant Capital Investment

The study projects that a capital investment of over \$100 million would be required to build the infrastructure necessary to obtain the maximum savings. While the study explores the implications of minimizing this investment, doing so compromises the potential savings to the point that the risk is not warranted. Municipalities understandably questioned where the funds would come from to finance the new facilities upon which the study is based. Others commented on the fact that the study is based on facilities that do not currently exist within the Provincial infrastructure. They questioned how they could commit to making the recommended changes to their local infrastructure and achieve the projected savings if the facilities to which they are to ship their materials to are not in place. Others recommended prioritizing the alignment of collection and processing contracts to facilitate such a transition.

### 3.3 Options

Most respondents are still struggling with how to respond to the study in light of the uncertainties and issues described above. Several options are available as a path forward.

#### 3.3.1 Implementation of the Optimized System

In general, most respondents were not optimistic about the potential for success of the proposed system and believed implementation of the optimized system described in the study would result in a loss of cost-effective, local options and higher long term costs. Some municipalities are willing to make changes provided there is a mechanism to cover the incremental impacts on municipalities should costs increase. Changes can also be made to municipal funding levels from the datacall process to motivate system change. Forcing municipalities to change or modifications to the Datacall funding formula are outside the purview of the CIF. The most practical option may be to ensure municipal councils consider the opportunities identified in the study and direct CIF resources to work with interested municipalities to overcome their individual concerns. The CIF is already undertaking an analysis of current contract end dates to identify and prioritize opportunities for change and resources could be provided to assist interested municipalities.

#### 3.3.2 Further Analysis

For the results of the study to be broadly accepted by municipalities, the current scope limitations and uncertainties will need to be resolved. Analysis of the collection cost impacts within the framework of the current system would need to be considered before potential net system savings can be confirmed. The value of potentially stranded assets could also be estimated based on the inventory work completed by AECOM in 2010. Staff believes there is sufficient interest by individual municipalities to explore changes to their systems that working with regional groupings of municipalities should be prioritized over further analysis of the Provincial system.

#### 3.3.3 Next Lowest Cost Alternative Analysis

If the study, answers the wrong question and reducing MRF infrastructure will actually lead to reduced competition and higher costs, then the rhetorical questions become, “how do we increase competition in the market to make services less expensive?” and “how do we determine if municipalities are operating competitively?” A more useful analysis may, therefore, be to compare municipal MRF and transfer operations to the lowest cost alternative within the current system using real costs. Several operators have expressed an interest in utilizing the newly developed model for this purpose as a way of measuring their performance. One of the greatest benefits of this study has been the development of a provincial transportation model flexible enough to allow relatively inexpensive re-analysis of this nature.

#### 3.3.4 Investment in Standardized Blue Box

Most stakeholders would agree that one of the most significant barriers to a sustainable blue box program in Ontario is the lack of consistency between municipal programs. Based on the success of collective efforts by SO, CIF and others to develop markets for 3-7 plastics and thermoforms, additional work is already underway to examine the technical and financial barriers to the diversion of challenging materials such as EPS, film and laminated fibres. Further work will be required to work with municipalities and potentially make capital investments in the system to develop a consistent ‘basket of goods’ and optimize two stream and single stream services across the Province appropriately.

#### 3.3.5 Preferential Investment in the Recommended Infrastructure

The study identifies locations that theoretically should be developed as key processing and transfer points within an optimized system. Several municipalities have already expressed an interest in acting on the results of the study but, understandably, want to ensure they’ve fully examined the implications. Technical and financial support could be provided through the CIF to conduct further, program specific, analysis and facilitate the resulting transformation.

### 3.3.6 Continued Investment in Cost Savings Activities

At the time that the CIF was asked to complete this study, the fund had over \$17 million in grant requests. Many of these projects were consistent with MIPC's objectives to develop a financially sustainable program. Several municipalities had also proposed program specific and system-wide initiatives as alternative cost cutting measures. Many of these ideas could be pursued immediately and warrant further discussion and potential CIF investment.

## 4.0 Recommendations

The CIF currently has set aside \$10 million pending the outcome of the study. The study has provided a flexible and valuable model that can be used to examine different scenarios and aid municipalities in projecting the cost implications of major changes to their programs. The study results can also help inform the CIF in prioritizing the disbursement of its remaining funds. While there are a number of outstanding questions and concerns related to the results of the study, it is clear from the consultations completed, to date, that there are several areas of potential interest that the CIF could engage with municipalities on to further develop the Provincial Blue Box system.

The study is premised on the assumptions that the system should move towards single stream collection and a consistent basket of goods. Most stakeholders would agree that the lack of consistent service across the Province is a key barrier to development of a sustainable system. Staff, therefore, recommends allocation of up to \$2 million of the \$10 million MIPC hold back to support actions by municipalities and stakeholders that facilitate a move to standardized service and development of a consistent province wide program. This work could potentially include gap and transitional cost analysis, development of markets and pilot projects, infrastructure retrofits and standardized communications materials.

Staff recognizes that there are municipalities that wish to explore the implications of the study to their municipality, including modelling their program's performance against the next lowest cost alternative and exploring options for development of cooperative efforts amongst neighbouring municipalities. Staff therefore recommends allocation of up to \$4 million towards voluntary initiatives that are consistent with the recommendations of the study. This work could preferentially fund efforts to standardize and consolidate services through joint tendering and development of shared infrastructure. Resources could be provided to facilitate dialogue amongst neighbouring municipalities and assist them with technical analysis of proposed changes to their waste shed based on the SE/RRS transportation and transfer model that is part of this study.

Both stewards and municipalities have a common desire to develop a sustainable system. Preliminary discussions with individual municipalities, about the outcomes of the study, have resulted in a number of promising ideas that could reduce individual program and system costs. Staff recommends allocation of up to \$4 million towards municipally directed projects that result in cost savings or the development of better practices in a manner that is consistent with the current mandate and policies of the CIF.

## 5.0 Financial Implications

The recommendations proposed by staff will provide up to \$10 million in funding to municipalities and stakeholders to advance the development of the Provincial blue box system. These recommendations will commit the bulk of unspent CIF funds excluding those set aside for development of a Centre of Excellence. If accepted, staff proposes to use these recommendations as the basis for development of detailed action plans and the 2013 CIF operating budget.

## 6.0 Conclusion

The MIPC Blue Box Materials Processing Optimization Study provides a basis upon which to examine and prioritize system optimization efforts. CIF staff has provided recommendations on next steps based on initial feedback received from municipal representatives and stakeholders. These recommendations, if accepted, will serve to develop the CIF 2013 Operating Budget.

Submitted By:



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