

CIF Project #993 - EPR Business Case Analysis and Activity Based Costing Tools

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Project Background

Niagara Region owns a Material Recovery Facility (MRF) and all related processing infrastructure assets. Niagara has an agreement with a non-profit organization to operate the facility, which includes the provision of recycling processing services, marketing of the processed material and procurement of special third party contracts to increase revenue generation.

The services are currently provided as part of Niagara's integrated waste management system and consist of contracts and arrangements for the processing and marketing of materials from the private sector and other public sector jurisdictions. Approximately 50% of the tonnage processed is from the Region's curbside and depot collection programs, the majority of which is designated material from the residential sector. The balance is from other sources outside of the Region's municipal Blue Box program, including material from other municipal collection programs.

The goal of this project was to identify the most economically advantageous option for the delivery of recycling processing and marketing services over the short to medium term (2 to 5 years), which included a possible divestiture of the MRF.

Summary of Results

Project objectives included:

- Identification of the total costs, benefits and risk of continuing to provide blue box processing using the current business model versus other service delivery options. Life-cycle costing, including capital, operations and maintenance costs, were to be used to compare alternatives.
- Provision of a valuation to set an asking price for a possible sale of the MRF including a detailed appraisal and evaluation of the MRF infrastructure, buildings, property, equipment and current/future revenue.

- Identification of the service delivery option that represents best value for money and would best position Niagara Region to transition to Extended Producer Responsibility (EPR).

Under this project, Niagara Region, with the assistance of CIF staff, developed the scope of work for MRF equipment, land and building market valuations. This work was completed by external consultants. RFQs for the work were issued and contracts were awarded to Holiday Recycling Technologies (equipment valuation) and D.J. Penwarden Appraisals Ltd. (land and buildings appraisal). Additionally, a scope of work for the market valuation of the ongoing processing business was developed and a RFP for the work was issued and evaluated. A contract for the business market valuation and strategic options report was awarded to RSM Canada (formerly Collins Barrow Toronto LLP), under a separate CIF project (#1017) and is still in progress as of the date of this synopsis.

Learnings

Ensuring representation from appropriate staff in the core working group and identification of other stakeholders for involvement in the planning effort or key project stages, such as review of analysis and specific project deliverables, are crucial. Early collaboration and preplanning by the core working group, which is comprised of waste management and financial staff from the Region and CIF staff, was key to project success to date.

It was beneficial for the project to be broken into four phases which allowed for the:

- Formation of the appropriate project implementation team for each phase, ensuring the appropriate skillset was involved.
- The engagement of different and specialized external expertise for each phase which allowed for separate and competitive procurement processes (fourth phase to be determined based on the output of the third phase and status of the amended Blue Box Program Plan (aBBPP)).

Phase 1 - MRF Market Appraisal of Buildings and Land

- The development of a detailed, clear scope of work for the building and land appraisal was challenging, as no existing template was available. Although Regional staff routinely procures services for property appraisals, the MRF appraisal was more specialized versus standard land appraisals. CIF staff developed an initial outline for the work in the RFQ and Regional staff refined the workplan in conjunction with a private sector appraiser.
- It was somewhat challenging to narrow down what deliverables should be completed as part of this appraisal versus a possible future bid package. For instance, it was determined that undertaking a detailed state of repair structural assessment of the buildings, HVAC, fire protection system and electrical and plumbing system would also require engineering services, and would be outside of the scope of work for the appraisal.

- Regional staff had identified and assembled data which were expected to be required for the appraisal. The data inventory was included in the RFQ for use by the appraisers in the development of their bid and the immediate availability of the data also allowed work to begin quickly after RFQ award. The successful appraiser also requested additional data and provided a set of questions, the majority of which were addressed. The final data requirements list can be used to complete a more comprehensive scope of work template for use by other municipalities.
- A MRF land and building appraisal [Sample RFQ](#) is now available on the CIF website.
- The consulting cost of this phase of the project was \$5,000 (taxes and expenses not included).

Phase 2 - MRF Processing Lines and Systems, Rolling Stock and Equipment State of Repair Assessment and Valuation

- CIF provided the draft scope of work based on previous CIF projects, which accelerated progress at this project phase and required only a limited amount of customization to reflect Regional financial requirements, the dual stream processing system and MRF specific equipment.
- Niagara already had comprehensive data available for this work, as a result of a recently completed inventory for its Development Charge Background Study. However, the assessment also identified some additional small assets not previously captured.
- In addition, having a comprehensive equipment and rolling stock list, recent CAD drawings and knowledgeable MRF staff (to address the valuator's questions, flag any concerns on the assessment, etc.) are critical to ensuring a good deliverable and completion of work in a timely manner.
- A MRF equipment valuation [Sample RFQ](#) equipment scope of work and [MRF Equipment Inventory Template](#) are now available on the CIF website.
- The consulting cost of this phase of the project was \$12,000 (taxes and expenses not included).

Phase 3 - MRF Business Valuation, Strategic Option Evaluation and Market Analysis (Project #1017)

- Development of the RFP for business valuation and strategic options analysis was difficult based on the uncertainty concerning the role of municipalities in the Province's EPR framework. Details on a transition plan to EPR, impact to recycling collection and processing contracts, definition of the service delivery framework and potentially compensation for assets were not available at the start of this project.
- Shortly after the RFP award and initiation of the consultant's engagement, the business justification and some core assumptions for this phase began to evolve with the release of Stewardship Ontario's draft elements of the aBBPP. It is expected that the results of the analysis and other RFP deliverables will be valuable for Council's future decision-making.
- A MRF business valuation [Sample RFP](#) (a sample template for consulting work to obtain a business valuation, strategic option evaluation and market analysis for a MRF

processing business) and a sample [RFP Proposal Evaluation Template](#) spreadsheet are now available on the CIF website.

Phase 4 – As noted above, the fourth phase is to be determined based on the output of the third phase and status of the aBBPP.

Specific recommendations, valuations and strategic options remain commercially confidential to Niagara Region and will not be disclosed in this Synopsis. For additional project information, contact Niagara Region waste management staff and refer to the CIF web site [Blue Box EPR Transition Support](#) page for sample scope of work templates and other resources.