



NIAGARA REGION MATERIAL RECYCLING FACILITY:

BUSINESS VALUATION,
STRATEGIC OPTION
EVALUATION AND MARKET
ANALYSIS

SYNOPSIS

NOVEMBER 2018



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SYNOPSIS

Background

In November 2016, the Province of Ontario proclaimed Bill 151 – the Waste-Free Ontario Act (**WFOA**). The WFOA will result in a new waste management legislative framework for the Province where the producers pay the full cost for the recycling of printed paper and packaging (**PPP**). Prior to Bill 151, producers (or analogously stewards) paid less than half the cost for recycling and disposal of PPP. This left municipalities with a financial burden of roughly \$130 million.¹

The proclamation of the WFOA also resulted in the repealing of the Waste Diversion Act (**WDA**) and the enactment of the Resource Recovery and Circular Economy Act (**RRCEA**) and the Waste Diversion Transition Act (**WDTA**). The RRCEA moves Ontario to full producer responsibility for designated items including PPP, Municipal Hazardous and Special Waste (**MHSW**), Waste Electronic and Electronic Equipment (**WEEE**) and Tires. In a nutshell, the RRCEA moves responsibility of waste management from municipalities to individual producers. The WDTA acknowledges that some of the changes required will take time to implement and sets transition rules from the current to the new system.

During this transition period, Blue Box programs, operated by municipalities and co-funded by producers, will be transitioned to full Extended Producer Responsibility (**EPR**). This places full responsibility and cost for the end of life management of PPP on producers, and alleviates the financial burden on municipalities for costs associated with Blue Box programs.

In addition, the Association of Municipalities of Ontario (**AMO**) has communicated to the Province that the transition of Ontario's municipally managed diversion programs to full producer responsibility should be rapid. As well, it should include a framework that allows an open and competitive compliance market in which producers and municipalities have choices. AMO has requested the transition process begin immediately with full transition being completed by January 2019.²

The Province has asked Stewardship Ontario (**SO**) and the Resource Productivity and Recovery Authority (**RPRA**) to develop a proposal for an amendment for the existing Blue Box Program Plan, referred to as the amended-Blue Box Program Plan (**a-BBPP**). In December 2017, SO released the a-BBPP for comment. Municipalities and other stakeholders indicated they have significant concerns with the a-BBPP and currently do not support it. On February 15, 2018, SO indicated they are still in discussions with stakeholders to address concerns related to the proposed a-BBPP and therefore have not submitted the program plan to RPRA.

At the time that this study was initiated, the role of municipalities had not been defined within the WFOA or strategy document released by the Ministry of Environment and Climate Change (**MOECC**). It is critical for municipalities with Blue Box assets, such as Niagara Region (the **Region**), to determine the impact of full EPR to their operations and assets. The three potential scenarios that were anticipated to play out in Ontario included:

- **Scenario #1** – Municipalities could compete with the private sector to provide residential Blue Box collection and processing/marketing services;

¹ <https://www.amo.on.ca/AMO-Content/Waste-Management/WasteDiversion>

² <https://www.amo.on.ca/AMO-Content/Policy-Updates/2017/WasteDiversionTheBlueBoxTodayandTomorrow>

- **Scenario #2** – Municipalities provide partial services such as residential Blue Box collection/depot services; or
- **Scenario #3** – Municipalities no longer play a role in providing residential Blue Box collection or processing/marketing services.

The latter two scenarios (**Scenario #2** and **Scenario #3**) have recently played out in BC. The approved program plan by RecycleBC – the Industry Funding Organization (**IFO**) in the Province – provided municipalities with a first right-of-refusal for continuing to provide collection services to residents. However, municipalities were not provided a first right-of-refusal for post-collection (processing and marketing) services.

Municipalities that accepted RecycleBC’s terms to continue to provide recycling collection services were not fully covered for their costs. Rather, they were offered a financial incentive based on population density and whether they employed single stream or dual stream collection. Although Ontario may adopt a similar approach, which could result in stranded assets and potentially fees associated with early termination of contracts, the Minister’s direction letter to SO stated that the a-BBPP should avoid stranded assets to the extent possible in a collaborative manner.

It is important to stress that there is still considerable uncertainty in regards to how Blue Box Programs will ultimately be transitioned as per the WFOA. This study assumes that some variant of the existing a-BBPP, which follows the model in BC, will be implemented in Ontario. Our analysis, key finding and recommendations are, therefore, conditional on this important assumption.

Study objectives

The key objective of this study is to provide the Region with a valuation of its MRF under various scenarios and outline strategic options for the Region to position itself to effectively transition to full EPR. As the role of municipalities and compensation structure is still somewhat uncertain, particularly for stranded assets, it is critical for the Region to assess several different scenarios and the impact to the Region’s services and its taxpayers.

The intent of this study is to use available information on how full EPR will impact Blue Box programs to help the Region make a decision on the future direction of the MRF recognizing that financial and non-financial factors will influence the Region’s decision.

Approach

The table below provides an overview of the multi-phase approach employed as part of the strategic option assessment.

Table 1 – Overview of approach

Phase	Objective
Phase 1 – Initial valuation of the asset	The overarching objective of Phase 1 is to provide an initial valuation of the MRF and develop and establish the baseline financial model, which is used in subsequent phases of this project to assess strategic options. This includes assessing the contracts, cost competitiveness of the MRF and other factors related to the operations.

Phase	Objective
Phase 2 – Initial strategic option analysis	<p>The objective of Phase 2 is to assess various strategic options in regards to the future of the MRF. The options the Region has asked us to look into include:</p> <ul style="list-style-type: none"> • Maintain asset; • Divest; • Partial divestiture; and • Public Private Partnership (P3). <p>As part of Phase 2, we worked with the Region to select and define four options within the broad categories noted above.</p> <p>The options selected were also informed by our team’s experience and understanding of how full EPR was implemented in other jurisdictions, review of existing policy documents and interviews with various stakeholders. We also explain why certain options were selected and why others were not.</p>
Phase 3 – Framework for Strategic Options Evaluation	<p>The objective of Phase 3 is to develop a Multiple Account Evaluation (MAE) framework to help the Region’s staff make a recommendation that will ultimately be put to Regional Council. The categories selected and relative weighting of these categories within the MAE framework was based on discussions with Regional staff.</p>
Phase 4 – Market Analysis	<p>MOECC has not provided a clear vision on the role of municipalities under the WFOA. The objective of Phase 4 was to undertake a market scan of Ontario municipalities, as well as other jurisdictions such as British Columbia, Quebec and Germany to evaluate legislative and regulatory impacts to local municipalities.</p>
Phase 5 – Identification of recommendations	<p>The project team met with the Region to review deliverables from the prior tasks and focus the discussion on a short list of options with the best value to taxpayers and manageable risks.</p>

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