SUBJECT: Recycling Program Issues (TOE02173) - (City Wide)

RECOMMENDATION:

(a) That from March 31, 2003 to December 31, 2005 the City’s interim Recycling Program include the following components:

   i) Weekly curbside collection service for all eligible properties with 6 units or less;

   ii) Automated recycling cart collection services for all eligible properties with more than 6 units;

   iii) Recycling collection in public spaces;

   iv) Recycling collection from festivals and events;

   v) Collection of recyclable materials from elementary and secondary schools; and

   vi) Processing and marketing of recyclable materials at the City’s Material Recycling Facility.

(b) That the General Manager of Transportation, Operations and Environment obtain detailed costing for the following options for the provision of collection services:

   i) Determine costs and resources required for the City, using its own forces, to deliver 100% of recycling collection services identified in recommendation (a) (i), (ii), (iii), (iv) and (v);

   ii) Determine costs and resources required for the City, using its own forces, to deliver 50% of recycling collection services (public zones) identified in recommendations (a) (i), (iii) and (iv);

   iii) Issue a Request for Proposals for 100% of recycling collection services identified in recommendation (a) (i), (ii), (iii), (iv) and (v);
iv) Issue a Request for Proposals for 50% of recycling collection services (contracted zones) identified in recommendations (a) (i), (ii) and (iv);

v) Issue a Request for Proposals for the provision of recycling collection services for Multi-residential properties from March 31, 2003 to December 31, 2005 in the option where collection services are split 50/50 between the public and private sector; and

vi) Recyclable materials from schools will be collected either as part of the automated recycling cart service or as part of curbside collection service where collection services are split between public and private service providers.

(c) That the General Manager of Transportation, Operations and Environment obtain detailed costing for the following options for the processing and marketing of recyclable materials identified in recommendation a(vi):

i) Determine costs and resources required to operate the Material Recycling Facility (MRF) by City forces; and

ii) Issue a Request for Proposals for the operation of the City-owned Material Recycling Facility (MRF) from March 31, 2003 to December 31, 2005.

(d) That City staff meet and discuss with CUPE Local 5167 the options outlined in recommendations b(i); b(ii) and c(i) and obtain CUPE’s input for in-house services.

(e) That Hamilton-Wentworth Third Sector Employment Enterprises be requested to submit a proposal to continue to provide training services and trainees for the processing operations from March 31, 2003 to December 31, 2005.

(f) That the Third Sector deficit of $808,000 be funded as follows:

i) First be absorbed in the 2002 Transportation, Operations and Environment Budget;

ii) second from overall 2002 Corporate Surpluses; and

iii) third from Tax Stabilization Reserves.

(g) That the General Manager of Transportation, Operations and Environment report back with the results of the RFP and costing process.

EXECUTIVE SUMMARY:

In June 2001 when Philip Services Corporation (PSC) stopped providing recycling services as part of its contract with the City, the subcontractors formerly used by PSC, Third Sector Recycling and Les Kecumba, were contracted directly by the City to continue provision of collection services. Negotiations between the City and PSC in the
later half of 2001 resulted in the City acquiring the Material Recycling Facility (MRF) located at 1579 Burlington Street East in late December 2001 and Third Sector being contracted directly by the City to continue operation of the MRF and processing recyclable material collected. Council gave approval to enter into a short term agreement with Third Sector as an interim solution for the delivery of the recycling program, recognizing that further changes to the program were necessary as part of the Solid Waste Management Master Plan (SWMMP).

A letter was received from Third Sector in June 2002 indicating they could no longer operate and manage recycling services without additional funding. Staff began discussions with Third Sector and took immediate steps to ensure that Third Sector continued to provide the services for which it had been contracted. A review of Third Sector’s operations was undertaken to determine the extent of the operating deficit and factors causing the variance. Staff also examined other options to contract for delivery and enhance the delivery of service, recognizing the need to improve waste diversion before the SWMMP is fully implemented.

The review of the Third Sector operation and contract concluded that there would be an operating deficit of approximately $808,000 in 2002, due to changes in materials collected, aging fleet and equipment and forecasting errors on the part of Third Sector. In addition to the operating deficit, there are concerns with the quality of service being provided by Third Sector and the efficiency of their operation. The current contract is on a cost flow through basis with no incentives to encourage efficiencies and cost savings. Third Sector refused to agree to a cost per tonne or a performance based contract during negotiations for the interim agreement.

Staff is recommending that steps be taken to make interim changes to the recycling program starting March 31, 2003 and ending on December 31, 2005 to:

- **Increase Waste Diversion** - The SWMMP sets out a goal of 65% diversion of waste from landfill. Recycling is expected to divert approximately 33% of the waste from landfill and the current recycling program diverts only 11% of the waste stream from landfill. Similar programs in other municipalities are diverting 25-30%. Public education will be an essential component in improving participation and waste diversion rates. This poor diversion rate is attributed to unreliable service, which discourages participation. Expectations are not being met and changes must be made as soon as possible to improve confidence and participation in the recycling program. The structure of the current arrangement is also limiting the ability to expand the program into areas such as multi-residential collections.

- **Improve Program Efficiencies** - Changes can be made to optimize routes, equipment and staffing levels resulting in more efficient operations, lower costs and higher commodity revenues. Program efficiency will be a key factor in determining funding levels from the newly formed Waste Diversion Organization. Less efficient programs will not receive full funding.

- **Address Fleet Concerns** - Vehicles must be added to the fleet, however, the City has no replacement reserve and is looking to make a fundamental change in its collection system in 2006 as part of the SWMMP. Over 50% of the fleet requires replacement which will significantly increase cash flow requirements for a short term investment.

The interim recycling program would include:
• **Collection services** - Curbside collection (blue box program), automated collection using carts from multi-residential units, collection of recyclables from public areas and events, and elementary and secondary schools.

• **Processing** - Processing of recyclable materials at the City’s Material Recycling Facility (MRF), with minor modifications to the facility to improve the quality of materials being sold and reduce the amount of residual waste.

• **Marketing** - Selling of recyclables to end markets to maximize revenues from materials collected.

• **Community Outreach** - Promoting changes to the program to increase participation and double the recycling program waste diversion rate from 11% to 22%.

• **Employment Training** - Maintaining this component by creating a stand alone training program that provides a set number of staff to the processing operation.

There are several options to deliver the interim recycling program ranging from continued contracting with service providers for 100% delivery of the service, terminating all contracting with service providers and having the City takeover under its own management and employees, 100% of the delivery of service, and combinations in between. These options and their related costs will be explored by issuing a Request for Proposals and at the same time determining in house costs and resource/equipment requirements. The in-house costing will be finalized on or before the RFP closing date so that the integrity of the process is maintained. Staff will meet with CUPE 5167 to discuss the in-house service delivery options and involve CUPE in the development of the 100% and 50% in-house model.

A final decision must be made before the end of 2002 in order to implement the interim recycling program objectives by March 31, 2003. This date coincides with the start date of the next Waste Collection Calendar that will be distributed in early March. Use of this communication tool simplifies the information going to residents and allows other community outreach techniques to be added to increase participation in the recycling program.

**BACKGROUND:**

This report affects all wards in the City. Recycling collection and processing services are currently provided by Third Sector Recycling and Les Kucemba and have been contracted directly by the City since June 2001 when PSC ceased to perform its obligations under its contract with the City. Since that time, Third Sector has continued to provide collection services of recyclable materials in the urban areas of the City and Les Kucemba has continued to provide collection service in the rural areas of former Flamborough, Ancaster and Stoney Creek. From June to December last year, all collected materials were delivered directly to a temporary recycling depot located at the Kenora Transfer Station with all fibre material being shipped to Abitibi Paper in Toronto and all co-mingled (cans plastics and glass products) being shipped to Niagara Recycling in St. Catharines. In January 2002, Third Sector began providing to the City contracted recycling processing services at the Material Recycling Facility, having previously provided contracted recycling processing services to PSC.
Compensation to both Third Sector and Les Kucemba has been based on an “actual cost for service” basis, similar to the previous arrangement with PSC. For the purpose of budget preparation, both contractors were requested to supply a 12-month, 2002 operating forecast. Forecasts from both Third Sector and Kucemba were received and incorporated into the Waste Collection Section 2002 Operating Budget, which was presented and approved by Council.

In June 2002 a letter was received from Third Sector indicating they could not continue operating the program without additional funding. Third Sector was having difficulty staying within their submitted operating forecast and in fact were creating overruns that could result in cost increases of approximately $808,000 or 20% over the forecast. Staff advised Council through an e-mail on June 26th and were to report back to Council by the end of July on a preferred course of action.

This interim approach beyond 2003 is being recommended to bridge between the current situation and new facilities required under the Solid Waste Management Master Plan (SWMMP). Staff recommend that the interim recycling services end December 31, 2005 to coincide with the other collection service contracts, which will ease the transformation of the waste management system. Adding additional materials will provide an opportunity to revive interest and participation in the recycling program. This will lead to increased waste diversion and progress toward the City’s 65% waste diversion target.

What has been presented in this report is a course of action, which will explore options for the present recycling program to continue with improvements to waste diversion and participation.

**ANALYSIS OF ALTERNATIVES:**

There are four options, which can be considered by Council at this time for the interim recycling program from March 31, 2003 to December 31, 2005:

- **Status Quo** - The City could continue to contract with both Third Sector and Kucemba to continue to provide recycling services until December 31, 2005 and extend the current agreements. Under this arrangement, the City would continue to pay all operating costs to both contractors. Under this arrangement there is no “cost per accomplishment” or unit price measurement which ensures cost accountability from the contractor(s) and as recently been experienced, costs can fluctuate substantially with the City being held responsible for payment. As well, the City would continue to be responsible for 100% of the fleet costs, which had previously been the responsibility of PSC under its contract with the City.

  This option is not being recommended, however, the employment training component should be retained. Third Sector has a long history in Hamilton, beginning as Third Sector Employment Enterprises in 1977 offering collection of newspaper in Dundas and Westdale. Their role in the recycling program has changed over time but the training component has continued and is their core business. The company has indicated that this is a keen interest and would like to continue with this training program regardless of whether Third Sector retains its contract with the City to provide recycling services.
It is recommended that the Third Sector employment training program continue and that the provision of a specified number of staff from the Third Sector employment program to the processing operation be integrated into whatever approach is adopted for the delivery of recycling processing services. It is being recommended that Third Sector be required to submit a proposal for approval by Council.

- **Request for Proposals** - A Request for Proposals (RFP) could be issued to obtain pricing for continued operation of the recycling program under a 100% contract for delivery of services arrangement. This option has the attraction of not requiring the City to become engaged in the direct management and delivery of recycling services but contract administration will be critical. Performance is governed by contract terms and contracts are paid on a per tonne basis, bid & performance bonds are required. The RFP evaluation matrix will be essential to ensure that lowest cost isn’t the sole factor in awarding the RFP.

Private sector companies operate other facilities and bring the potential for innovation at the MRF by sourcing used equipment that will optimize the facility during the short term contract. Further, there are deeper staffing resources for companies in the business of recycling operations.

With this option, capital requirements for fleet are eliminated and absorbed in the contract cost as the contractor uses its own vehicles. There is a concern about availability of vehicles with this option. The Third Sector training program can be maintained by requiring bidders to use a specified number of staff from the Third Sector training program at the MRF operation.

Third Sector would be encouraged to submit a proposal as part of this process.

- **In House Operation** - In general, a 100% City managed program using employees of the City would offer direct control of operations which the City currently does not enjoy and should lead to an overall improvement in the delivery of service. This option would offer hands on administration by the City and quick accountability. The principal disadvantage of this option is that the City would continue to be responsible for 100% of the fleet costs which had previously been the responsibility of PSC under its contract with the City. As well, the City currently has no management experience either in the operation of the MRF or in managing the ancillary recycling services.

Management expertise in MRF operations that may be difficult for the City to provide in the short term. Services from experts in this area could be an interim solution.

Discussions with CUPE have been initiated and the 100% City managed and staffed operation scenario can unfold 2 ways. CUPE has identified 2 possibilities with respect to taking on the operation, either a stand alone collective agreement or integration of new employees for the City providing recycling services into the existing bargaining unit. The negotiation of a stand alone collective agreement between the City and CUPE for employees of the City engaged in providing recycling services has the potential of maintaining the existing pay schedules as between Third Sector and CUPE.

The Third Sector training program would be utilized to provide a specified number of staff for the MRF operation.
**Blended Approach** – The model used for waste collection could be used, that being a 50/50 split between services provided by employees engaged by the City and services provided by contracted operators. This option reduces the City’s cash flow requirements for financing fleet costs as it is anticipated that the contract with a private sector operator will require such an operator to finance 100% of the vehicles in a short term contract. The option spreads risk from an operational and financial perspective, allowing for competition.

With this option, the MRF would continue to be operated by a contractor which will be required to demonstrate management expertise in the operation of this facility as would be the case in the 100% contracted option. The Third Sector Training program would continue to be used to provide an agreed upon number of staff to the contractor operating the MRF.

Cost estimates for all of the options are being developed, however, at this time it is being recommended that a RFP be issued to obtain market pricing on the contract options for both 100% and 50/50 split options. At the same time in house costs and discussions with CUPE will occur. The results of the RFP process and detailed costing information will be brought forward to the December Committee of the Whole and Council meeting.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial Implications:**

The Director of Waste Management and Manager of Collections together with the Manager and Business Associate of Finance Administration for Transportation, Operations and Environment held a series of meetings with a Senior Board member and the Executive Director of Third Sector Recycling. The purpose of these meetings was to understand the drivers of the unfavourable variances, and confirm that charges from January to May were appropriate and reasonable.

The details and explanation Third Sector Recycling representatives provided to City staff, indicate transactions charged to date were reasonable and appropriate. It should be noted the review was limited to an inquiry and not an audit of the transactions City staff identified as questionable. Third Sector Recycling is prepared to allow the City to perform a more comprehensive review if requested.

**Projected Year end Deficit**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Sector Approved City Budget</td>
<td>$3,984,090</td>
</tr>
<tr>
<td>Costs Paid to Date (Jan. to May)</td>
<td>$(1,950,434)</td>
</tr>
<tr>
<td>Revised projected Forecast (June to Dec.)</td>
<td>$(2,841,656)</td>
</tr>
<tr>
<td>Projected Year End Variance</td>
<td>$( 808,000)</td>
</tr>
</tbody>
</table>
As noted in the chart above, the unfavourable variance attributable to Third Sector Recycling services is projected to be $808,000. The major drivers of this variance are noted in the following chart.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>VARIANCE</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Materials Collected</td>
<td>($420,160)</td>
<td>52 %</td>
</tr>
<tr>
<td>Forecasting</td>
<td>(315,120)</td>
<td>39 %</td>
</tr>
<tr>
<td>Aging Fleet &amp; Equipment</td>
<td>(121,200)</td>
<td>15 %</td>
</tr>
<tr>
<td>Other Factors</td>
<td>48,480</td>
<td>(6 %)</td>
</tr>
<tr>
<td>Projected Year End Variance</td>
<td>($808,000)</td>
<td>100 %</td>
</tr>
</tbody>
</table>

- **Additional Materials Collected**: There has been an increase in the amount of polyethylene terephthalate (PET) plastic and corrugated cardboard in the Blue Boxes collected causing trucks to fill up faster. As a result, additional overtime and sub-contract labour is incurred to meet route deadlines. The material is high volume and low weight, so increases in revenues do not proportionately cover additional collection costs.

  Processing costs were also impacted to meet the additional material demands. This was further impacted by the fact that the Life Skills complement has not been at maximum capacity due to the low unemployment rates in the City of Hamilton.

- **Forecasting**: Third Sector Recycling based the original forecast submitted to the City on the results of their 2000 actual expenditures. As a consequence factors effecting items such as salary, wage, overtime, related benefits and sub-contracted work were understated.

- **Ageing Fleet & Equipment**: There are currently 24 vehicles in the fleet and over 50% (13) of the trucks are 8 years or older. The average useful life of a waste collection vehicle is 8 years. The age of the equipment results in greater downtime for repairs causing higher maintenance costs and greater sub-contracted costs for equipment rentals. Three additional vehicles are expected in mid September and trucks are regularly rented by Third Sector from Kucemba.

  The processing equipment is also ageing and as a consequence requires constant repair. The tin crusher required $10,000 in repairs alone. Replacement parts and maintenance is a variable that is difficult to project due to the age of the equipment.

- **Other Factors**: As note previously the Life Skills complement has not been at a maximum capacity due to the low unemployment rate in the City of Hamilton. Savings in wages and training costs have resulted in a positive variance in this area. This is offset by the additional costs incurred in overtime and sub-contracted labour costs noted in the previous categories.

  There are also administrative cost savings due to gapping in vacant positions experienced in the first half of the year as well as savings in administrative costs.
such as vehicle insurance, which insurance is currently covered by the City but which Third Sector is supposed to have put in place under its contractual arrangements with the City.

The projected variance of approximately $808,000 is an outcome of the driving factors identified above. The shortfall due to improper forecasting cannot be mitigated. Costs to repair and maintain the aging vehicles and equipment is mandated to meet health and safety standards. Staff does not project any major savings in this category at this time. This leaves the projected deficit due to the increase in PET and corrugated cardboard collection and their associated processing costs.

Discussions have been held with Social and Public Health Services with an objective to increase the number of Life Skill Trainees available to Third Sector which should allow the current service provider to achieve lower overtime and sub-contract labour costs. The City has retained a security services company to ensure that all materials coming into and leaving the Material Recycling Facility are weighed. A Commodity Marketing professional has been contracted to increase revenues from the sale of recycled products. Staff continues to hold discussions with Third Sector’s Executive Director to identify other practices that may result in reduced costs or increased revenues.

At this late date in the year, these efforts are not expected to result in substantial reductions to the projected deficit. Staff will continue to monitor this program and report any significant changes to Council in the next budget variance report, scheduled for October 2002.

To ensure the continuation of the recycling program for the remainder of 2002 it is recommended that Council consider funding the projected shortfall to a maximum of $808,000 adjusted for any reductions that may be realized as a consequence of improvements implemented by Third Sector during the remainder of the year.

**Legal and Staffing Implications**

The legal and staffing implications of the four options are being examined by Legal Services and will be reflected in any Request for Proposals issued as well as in the staff report in December.

**POLICIES AFFECTING PROPOSAL:**

The policies directly affecting waste diversion programs, including recycling, are those in the SWMMP. The maintenance and potential enhancement of the recycling program support and assist in the implementation of several of the SWMMP recommendations, including:

- contributing to the optimization of the capacity of the Glanbrook landfill by removing recyclables from the waste stream;
- contributing to the 65% diversion target by 2008; and
- supporting continuous improvement to the waste management system.
CONSULTATION WITH RELEVANT DEPARTMENTS/AGENCIES:

Waste Management Staff have discussed this issue with staff from Human Resources, Legal Services and Social and Public Health Services. Opportunities exist for financial funds from the Province through the City for training, safety supplies and WSIB expenses for candidates seeking such assistance providing the City be the source for new hires. Social and Public Health Services and Waste Management Staff are reviewing how such Provincial funds might assist the Recycling Program.

In addition, representatives of CUPE 5167 Executive have been contacted to advise of staff’s thoughts with respect to provision of these services and our intent to work co-operatively with CUPE on this initiative with Council approval.

The SWMMP Steering Committee has been provided with a presentation on the Recycling Program Issues and has reviewed this report. Informal information sessions for members of Council were also held on August 30th and September 5th.

CITY STRATEGIC COMMITMENT:

Hamilton’s Mission, Vision, Values and Goals Statement

The maintenance and improvements to the City’s recycling program contribute to the development and enhancement of the City’s waste diversion programs which are consistent with Council’s Mission, Vision, Values and Goals Statement.

Effective Solid Waste programs support the City’s vision for “...a safe, healthy, sustainable community...”. The diversion of waste preserves the life of the landfill sustaining capacity for the future.

Recycling programs and improvements contribute to the fulfilment of several of the goals including:

- VISION 2020 (to be addressed below);
- a healthy, safe and green City;
- reducing waste going to the landfill;
- performance measurement of waste diversion programs; and
- best practices – best value, balance service provision and programs with long term benefit of landfill life.

Sustainable Development – VISION 2020

Recycling programs and program enhancements contribute to fulfilling the goal of managing waste safely and responsibly. It is also consistent with several of the specific Strategies for a Sustainable Community for Reducing and Managing Waste, including a comprehensive waste management plan that focuses on the reduction of curbside waste and the diversion of waste for reuse and recycling, and enhancing diversion programs and increasing participation.