SUBJECT: Central Composting Facility - Disposition of Financial Benefit Resulting from Marketing Available Capacity (PW07149) - (City Wide)

RECOMMENDATION:

(a) That fifty percent (50%) of the financial benefit generated from the newly acquired Source Separated Organic (SSO) processing contract from the Regional Municipality of Halton (Region) be placed in a new Reserve Account #112271;

(b) That the Reserve established in recommendation a) of report PW07149, be used for the upgrade and/or replacement of waste diversion facilities and equipment;

(c) That the remaining fifty percent (50%) of the financial benefit generated from the newly acquired Source Separated Organic processing contract from the Regional Municipality of Halton, be used to reduce the operating budget in the Waste Management Division of Public Works and that this change be reflected in the 2008 Waste Budget submission;

Scott Stewart, C.E.T.
General Manager
Public Works Department

EXECUTIVE SUMMARY:

As directed by Council and in response to recommendation’s #1 & 12 of the Solid Waste Management Master Plan (SWMMP), the Waste Management division has been actively seeking opportunities to share the excess processing capacity at the City’s Central Composting Facility (CCF) with other municipalities located in Ontario.
Over the past several months, the Waste Management Division has submitted bid proposals for the processing of residential Source Separated Organic (SSO) waste. After careful evaluation by the Regional Municipality of Halton (Region), the City’s proposal was chosen as the preferred proponent.

Waste Management staff have evaluated the financial benefits associated with the additional tonnages to be processed at the CCF from the Region. This evaluation demonstrates that the City will benefit not only from generated revenue but also from a lower processing rate. As part of the City’s Contract with Maple Reinders Constructors Ltd., the CCF operator, the more tonnes delivered, the lower the processing rate. Therefore there are benefits to the City for marketing excess capacity over and above straight revenues from the Region.

Staff are recommending that the financial benefits be used in a 50/50 split to benefit both current and future financial needs. Half (50%) of the operating benefits are proposed to be used to lower the operating budget for Waste Management in order to off-set the annual operating budget and reduce demands on the tax levy. The remaining 50% of the financial benefits would be directed to a new reserve fund that would be used to offset future capital replacement requirements for the CCF and other diversion facilities. Annual contributions in the order of $1 million are recommended and are currently unfunded due to the City’s current financial pressures. The reserve contribution would provide for the accelerated capital repair and replacement costs directly related processing the SSO from Halton Region, as outlined in Table 2.

The 2008 Proposed Budget for Waste Management Division reflects the recommended model and includes a reduction of $187,500 and a reserve contribution of $187,500 based on the estimated financial benefits.

The recommended model would be used for any other contracts and represents a balance of future and current needs.

**BACKGROUND:**

The information and recommendations in this report have City Wide implications.

As Directed by Council (Recommendation (f) of Committee of the Whole report PW04076/FCS04097), the Waste Management Division has been actively seeking opportunities to sell processing capacity at the Central Composting Facility to generate revenue for the City of Hamilton and off-set the Waste Management Operating budget. Currently, the City’s Green Cart collection program accounts for 60 - 65% of the processing capacity at the CCF, therefore 35 – 40% of the annual processing capacity is available to be marketed to another municipality with a similar SSO recycling program.

As outlined in Information Report RFPO-003, Processing of Organic Waste for the Regional Municipality of Halton and the County of Simcoe, October 26, 2007, the City of Hamilton through its contractor Aim Environmental Group, was the successful proponent for the processing of SSO from the Region of Halton. The process began on May 7, 2007 when Council approved a Motion authorizing staff to bid on a Request for Proposal issued by the Regional Municipality of Halton in partnership with Maple
Reinders Constructors Ltd., and Aim Environmental Group, the operators of the CCF, for the processing of residential SSO.

On May 31, 2007 the City and its partners submitted a bid for RFP P-06407 as issued by the Region for the processing of residential SSO. Region staff have identified the City / Maple/ Aim as the preferred proponent and presented this in report PPW145-07 at the Region’s September 12, 2007 Planning and Public Works Standing Committee meeting, which was accepted. Report No. 13-07 was then presented to and accepted by the Regional Council at the September 19, 2007 Regional Council meeting.

The Waste Management Division is recommending that a Reserve be created to fund the maintenance and replacement of equipment at the CCF caused by the increase of SSO being processed from outside sources now and in the future. Additionally, staff recommend the same Reserve receive contributions for the accelerated depreciation for rolling stock directly affected by outside SSO sources. As a result of the extra tonnages to be processed, the schedule for replacement of processing equipment and rolling stock will be moved forward from the time that was originally anticipated. This replacement is currently unfunded. In 2003, prior to the construction of the CCF, it was recommended by Corporate Services, Budget and Finance Division that we annually contribute $1,012,000 to a Reserve to fully fund future Capital replacement and maintenance of the CCF. Due to financial pressures within the City, this Reserve has not been established.

**ANALYSIS/RATIONALE:**

Waste Management staff evaluated the possible financial benefits associated with the additional tonnes of SSO that will be accepted at the CCF as a result of the newly acquired processing Contract. The addition of the tonnages from Halton will provide revenue to the City but also provide a cost reduction since the processing rate per tonne that the City pays to the contractor will be lower. The additional tonnes from the Region will be added to the tonnes that will be collected from City’s Green Cart collection program. The City pays the operator of the CCF a cost per tonne of SSO accepted at the CCF. This per tonne rate is based on a sliding scale, as more SSO is accepted at the CCF the rate per tonne that the City is charged decreases.

The estimated financial benefit to the City over the term of the Contract with the Region of Halton is outlined in Table 1.

| Table 1 – Estimated Financial Benefits from Region of Halton Contract |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                 | 2008            | 2009            | 2010            | 2011            | 2012            | 2013            | Total           |
| Net Revenue from Halton | $45,000         | $268,000        | $238,000        | $208,000        | $173,000        | $138,000        | $1,070,000      |
| City’s Contract Cost Savings | $330,000       | $580,000       | $610,000        | $640,000        | $675,000        | $710,000        | $3,545,000      |
| Total            | $375,000        | $848,000        | $848,000        | $848,000        | $848,000        | $848,000        | $4,615,000      |

It is shown that the total estimated net financial benefit to the City over the term of the Contract is $4,615,000. The actual numbers during this term will vary depending on
actual tonnages received from the Region. Therefore it is recommended that on an annual basis, 50% of the financial benefit be used to offset the Waste Management operating budget and therefore reduce the operating tax levy and the remaining 50% be contributed to a Reserve for the future Capital replacement at the CCF. Annual contributions of $1,012,000 are recommended for future capital requirements and are currently unfunded. The recommended approach for the financial benefits from the CCF capacity will enable this City to establish a reserve that was not previously possible due to the City’s current financial pressures.

In addition to Capital replacement costs for the CCF, it is expected that the rolling stock (i.e. front end loaders and skid steers) will require replacement earlier than expected as a result of the additional tonnes of SSO that will be processed from the Region of Halton. The estimated accelerated depreciation of this equipment is provided in Table 2. The actual amount of accelerated depreciation will vary depending on the tonnes of SSO received.

### Table 2 – CCF Rolling Stock Estimated Accelerated Depreciation

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated Depreciation</td>
<td>$35,000</td>
<td>$33,000</td>
<td>$33,000</td>
<td>$33,000</td>
<td>$33,000</td>
<td>$33,000</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

The proposed 50% reserve contribution from the estimated financial benefits identified in Table 1 will be sufficient to cover the amounts identified in Table 2 for accelerated depreciation.

Therefore as seen in Table 1, in 2008 it is estimated that the financial benefits will total $375,000. Staff are recommending that 50% percent of the financial benefits from Table 1 ($187,500) be placed in Reserve and that the same formula be followed for Reserve contribution into the future. This number may vary depending on actual tonnes received.

In addition to the Reserve contribution from the Region, the City may be receiving SSO from the County of Simcoe through a similar contract. If this occurs, Reserve contributions will be calculated in the same manner. Actual contributions and tonnes received will be estimated when details are confirmed with the County of Simcoe.

The creation of a Reserve will have no negative impact on the operating budget of the CCF.

**ALTERNATIVES FOR CONSIDERATION:**

There are two alternatives for consideration, contribute 100% of the financial benefits to Reserve, or contribute 100% of the financial benefits to the tax levy. Both are discussed below.

**Contribute 100% of financial benefits to Reserve:**

There are many benefits to this alternative. Presently, no contributions are being made to a Reserve for capital replacement at the CCF. With a 100% contribution, there will be a greater amount of funds available at the end of the contract for Capital replacement. Equipment and building components will need replacement through the
life of the facility and Reserves will ensure some money is available for this purpose and minimize impacts on the Capital budget for other projects. Additionally, the Contract is for a four (4) to six (6) year period and using all of the funds to offset the tax levy will create a budget pressure at the end of the Contract.

In 2003, it was recommended by Corporate Services, Budget and Finance Division that we annually contribute $1,012,000 to a Reserve for Capital replacement and maintenance of the CCF. Due to financial pressures, this Reserve has not been established.

Contribute 100% of financial benefits to the tax levy:

There are short term benefits to this alternative. In the short term, this will allow the City to reduce the tax levy. However there are longer term risks associated with this. With the wearing of equipment and accelerated depreciation of rolling stock, all replacements will have to be funded on an as needed basis. The funds will need to be added to the Capital budget for any replacement. From an Operating budget perspective, there will be a budget pressure when the financial contract ends in four to six years and the benefits are no longer realized.

With this alternative it would be recommended that the capital costs directly relating to the processing of the Halton SSO as identified in Table 2 be placed in a reserve to ensure that the City’s full costs are covered.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial

With the acceptance of the SSO from the Region the City is expected to generate a financial benefit of approximately $1.58 million over the maximum 6 year term of the Contract. The processing of additional SSO will impact the maintenance and replacement schedule of the facility, equipment and rolling stock at the CCF. With the additional tonnage, the use of the facility, equipment and rolling stock will increase resulting in an accelerated maintenance program and eventual Capital replacement. It is expected that the funds placed in the Reserve will ensure that adequate funds are available to the Waste Management Division for maintenance and Capital replacement for the portion attributed to external sources of SSO. Establishment of a dedicated Reserve for the CCF will reduce Capital budget pressures when Capital repairs and replacement are required.

Staffing

No staffing implications will be experienced.

Legal

The Contract between the City of Hamilton and the CCF operator dated December 21st, 2005 contemplates the marketing of excess capacity and allowed for the operator to approach the City to utilize the facility to its fullest potential. Therefore no amendments to the Contract are required.
POLICIES AFFECTING PROPOSAL:

The recommendations in this report are guided by the Solid Waste Management Master Plan (SWMMP) and the Public Works Strategic Plan:

The following recommendations of the SWMMP are relevant to this report.

- **Recommendation #1** is the guiding principle that “The Central Composting Facility is a resource, and the City of Hamilton can optimize the use of its processing capacity to generate revenue for the City.” The City of Hamilton must maintain responsibility for the residual wastes generated within its boundaries. Inter-regional diversion facilities will be considered.

- **Recommendation #12** states that The City of Hamilton should seek opportunities to share waste diversion (recycling or organics) facilities with neighbouring municipalities.

The recommendations in this report are consistent with the Public Works Strategic Plan.

- Finances – Sound Financial Management for the Long Haul: A multi-year budget process is in place, Budgets are based on sustainable life cycle funding.
  
  Through the establishment of a Reserve, the City will move closer to sustainable funding of facility components and equipment replacement for the life of the facility. Reserves will ensure some money is available for this purpose and minimize impacts on the Capital budget for other projects.

- Processes – Smart Processes to Match our Needs; Business planning processes are defined and aligned.

  Creating a Reserve for Capital replacement of facility components and equipment will define a process for Capital needs allowing staff to plan for eventual replacement and minimize impacts on the Capital budget.

RELEVANT CONSULTATION:

The City’s Corporate Services Department, Budget and Finance Division was advised and consulted during the process.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, and economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

**Community Well-Being is enhanced.** ☑ Yes ☐ No

The financial benefit gained from the processing of SSO from other Municipalities will provide funding for the maintenance and replacement of operating equipment. This funding will reduce the burden on the tax levy.

**Environmental Well-Being is enhanced.** ☑ Yes ☐ No

The acceptance of the SSO material provides other Municipalities the opportunity to divert recyclable waste therefore extending the life of landfills.

**Economic Well-Being is enhanced.** ☑ Yes ☐ No
The acceptance of the SSO for processing will provide financial benefit to the City by generating financial
benefits. This financial benefit can be used to offset Capital replacement costs for the CCF.

Does the option you are recommending create value across all three bottom lines?
☑ Yes ☐ No

The recommendation within the report represents value across triple bottom line.

Do the options you are recommending make Hamilton a City of choice for high performance
public servants?
☐ Yes ☑ No