



CITY OF HAMILTON
PUBLIC WORKS DEPARTMENT
Environmental Services Division

TO:	Chair and Members Public Works Committee
COMMITTEE DATE:	April 20, 2017
SUBJECT/REPORT NO:	Sale of Merchant Capacity at the Hamilton Central Composting Facility (CCF) - (PW17031) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Glenn Watt 905-546-2424, Extension 5613
SUBMITTED BY:	Tennessee Propedo Acting Director, Environmental Services Division Public Works Department
SIGNATURE:	

RECOMMENDATION

- (a) That City staff be directed to seek out and enter into strategic partnerships to promote and sell merchant capacity at the City’s Central Composting Facility;
- (b) That City staff be directed to respond to proposals for processing Source Separated Organics in a form that is satisfactory to the General Manager of Public Works;
- (c) That such proposals be accepted only where, in the opinion of staff, there will be a net financial benefit to the City resulting from the acceptance of said proposal;
- (d) That the General Manager of Public Works be authorized and directed to execute all required documents to enter into the agreements in a form satisfactory to the City Solicitor; and
- (e) That 50% of the revenue from merchant capacity contracts be placed into Reserve Account #112271 (WM Facilities – Replace – Upgrade) with the remaining 50% of revenue directed to Operating Account #512725 where it is used to offset operating costs at the CCF.

EXECUTIVE SUMMARY

On May 16, 2007, Council approved a motion (PW#07-007) authorizing City staff, in partnership with the operators, Maple Reinders Contractors Ltd. and AIM Waste Inc, of the City’s Central Composting Facility (CCF), to bid on the processing of Source

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Separated Organics (SSO). Since 2008, the CCF has processed SSO from several different municipalities including two current contracts with the Regional Municipality of Halton and the County of Simcoe. Both contracts will expire in April and September of 2018 respectively.

The City has experienced financial benefits associated with the processing of merchant capacity SSO at the CCF. By entering into future contracts, the City will ensure the dual benefit of generating revenue and economies of scale. Under the terms of the current contract, the City pays the CCF operator a per tonne rate based on a sliding scale, meaning that the City's overall per tonne processing rate decreases as the amount of SSO processed increases (economy of scale). Additionally, future contracts will ensure that available processing capacity at the CCF is being fully utilized and generating revenues for the City.

In an effort to minimize or eliminate CCF budget pressures in 2018 and 2019 when the current merchant capacity contracts expire, staff are recommending that authority be given to enter into SSO merchant capacity processing contracts that are of financial benefit to the City.

Alternatives for Consideration – See Page 5

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial:

2009 represents the first full year of processing SSO tonnages from merchant sources. The net revenue from the sale of merchant capacity has averaged over one million dollars per year to the City.

The financial benefit experienced over the term of new contracts will vary depending on the terms of the contract and actual tonnages received.

By bidding on Request for Proposal (RFP) or Request for Tender (RFT) and if successful, entering into future merchant processing contracts, the City will benefit from an economy of scale for the processing of SSO at the CCF. Under the terms of the current contract, the City pays the CCF operator a per tonne rate based on a sliding scale. As a result, the City's overall per tonne processing rate decreases as the amount of SSO processed increases. Processing SSO from merchant sources results in an average annual savings of \$800K per year. The total value of merchant capacity contracts is summarized in Table 1.

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Table 1:

Year	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	\$889K	\$977K	\$965K	\$907K	\$1M	\$1.2M	\$1.3M	\$1.3M
Avoided Cost	\$914K	\$906K	\$828K	\$848K	\$762K	\$808K	\$830K	\$799K
Total Value	\$1.8M	\$1.8M	\$1.8M	\$1.7M	\$1.8M	\$2M	\$2.1M	\$2.1M

Currently, the CCF has contracts for processing the Region of Halton's and County of Simcoe's SSO which expire in April and September 2018 respectively. In order to avoid the budget pressures identified in Table 1 it will require the City to bid on, and if successful, enter into new merchant capacity contracts. The financial benefit experienced over the term of new contracts will vary depending on the terms of the contract and actual tonnages received.

The processing of merchant capacity SSO impacts the maintenance and replacement schedule of the CCF's operating equipment and infrastructure. By processing additional tonnage it increases the use of the operating equipment and infrastructure which results in an accelerated maintenance program and eventual equipment and infrastructure replacement.

Continuing to contribute fifty percent (50%) of the revenue from merchant contracts into Reserve Account #112271 (WM Facilities – Replace – Upgrade) will ensure that funds are available for maintenance and replacement of the operating equipment and infrastructure. The remaining 50% of revenue is directed to Operating Account #512725 where it is used to offset operating costs at the CCF. There has not been and will continue to be no impact on the CCF operating budget as a result of contributing to Reserve Accounts.

Staffing:

There are no staffing implications.

Legal:

The operations contract between the City and the current operator of the CCF dated December 21, 2005 contemplates the marketing of excess capacity. Any required amendments to the Operations and Maintenance Agreement between the City and Maple Reinders Constructors Ltd. shall all be in a form satisfactory to the City Solicitor.

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HISTORICAL BACKGROUND

Since May 2006 AIM Waste Inc. has managed the Operations and Maintenance Agreement executed between the City and Maple Reinders Constructors Ltd. AIM Waste Inc. has managed the CCF in a subcontractor role to Maple Reinders Constructors Ltd.

The CCF is an in-vessel aerobic composting facility which has been processing the City's organics since 2006. The CCF has a processing capacity of 60,000 tonnes of organic waste per year but can operate to a maximum equivalent to 90,000 tonnes per year for short durations. On average half of the organics managed at the CCF are brought in from sources outside of Hamilton.

Since 2008, the CCF has generated revenue as a result of entering into long and short term contracts with several municipalities to process SSO. The following municipalities have had material processed at Hamilton's facility in the past - Region of Waterloo, Brant County, Region of Niagara, Haldimand County and current contracts include the County of Simcoe and Region of Halton.

Any residue sent for disposal at the City's Glanbrook Landfill has been generated by the City's green cart program only. Merchant capacity generated residuals are disposed of at non-City owned facilities at the merchant customers cost.

Since 2008, City staff has worked in partnership with the facility operator, AIM Waste Inc., to fill available processing capacity at the CCF with SSO from merchant sources and sharing in the resulting revenue. In 2020 the City's contract with AIM Waste Inc. for the operation and maintenance of the CCF will expire.

City staff, in consultation with the operator, continuously monitor the capacity of the CCF during the term of any contract and have developed contingency plans for the processing of contracted organic waste should the facility exceed capacity. The City's SSO always takes priority at the CCF.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

There are no relevant corporate policies which may be affected if council approves the recommendation.

RELEVANT CONSULTATION

All contract agreements will be developed and reviewed in cooperation with the City's Procurement, Risk and Legal Divisions.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

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he rationale for the recommendations is to ensure that the budget pressures associated with the expiry of the current merchant capacity contracts in 2018 are eliminated or reduced. Additionally, it will have the added benefit of contributing fifty percent (50%) of merchant capacity revenues into a reserve for future maintenance and replacement of the operating equipment and infrastructure. The remaining 50% of revenue is directed to Operating Account #512725 where it is used to offset operating costs at the CCF.

Recommendations are comparable to condition (d) of Report PW11030b – “Recycling Processing Procurement Process – Contract Extension Negotiations with Canada Fibres Limited 2013 – 2020” approved by Public Works Committee at the November 21, 2011 which authorized that staff seek out and to enter partnership for the sale of excess merchant capacity at the City’s Material Recycling Facility.

ALTERNATIVES FOR CONSIDERATION

The alternative option is for the City not to enter into contracts to sell excess merchant capacity at the CCF. The result of this decision would be a loss of revenue and increased operating costs in approaching years. The estimated increased budget pressure is as follows:

Year	2018	2019	2020
Budget Pressure	\$1.4M	\$2.1M	\$2.2M

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

APPENDICES AND SCHEDULES ATTACHED

N/A