



**CITY OF HAMILTON**  
**PUBLIC WORKS DEPARTMENT**  
**Environmental Services Division**

<b>TO:</b>	Chair and Members Public Works Committee
<b>COMMITTEE DATE:</b>	September 30, 2019
<b>SUBJECT/REPORT NO:</b>	Operations and Maintenance of the Material Recycling Facility Request for Proposals C11-12-19 Selection of Successful Proponent (PW19086) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Ryan Kent (905) 546-2424 Ext. 7686
<b>SUBMITTED BY:</b>	Craig Murdoch Director, Environmental Services Public Works Department
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That Project B, Operation and Maintenance of the City's Material Recycling Facility Container Line and the off-site Transfer, Processing and Marketing of Fibre Materials, be selected as the preferred option for operating and maintaining the City's Material Recycling Facility;
- (b) That Canada Fibers Limited be selected as the Successful Proponent for Project B of Request for Proposals Contract C11-12-19, for the operation and maintenance of the City's Material Recycling Facility;
- (c) That the one-time transition cost for Project B of approximately \$1.115M be partially funded by Capital Project ID 5122051700 MRF Lifecycle Replacement (approximately \$650,000) with the remaining funds to be funded by the Waste Management Recycling Program Reserve #112270;
- (d) That the General Manager of Public Works be authorized and directed to finalize the terms and conditions of the contract with Canada Fibres Limited, in accordance with the provisions of Request for Proposals Contract C11-12-19 for Project B; and,

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OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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- (e) That the Mayor and City Clerk be authorized and directed to execute the contract with Canada Fibers Limited and any ancillary documents for Contract C11-12-19 for Project B, with content acceptable to the General Manager of Public Works and in a form acceptable to the City Solicitor.

**EXECUTIVE SUMMARY**

The current contract for the operation and maintenance of the City's Material Recycling Facility (MRF) is set to expire on March 29, 2020. As a result, staff initiated the development of Request for Proposal (RFP) C11-12-19 which was released on March 19, 2019.

This RFP will award the contract for the operations and maintenance of the MRF for a five-year period starting on March 30, 2020 until March 29, 2025. It also includes two optional one-year extensions at the sole discretion of the City, and if exercised, brings the total contract period to seven years.

The RFP outlined options for bidders as Project A, B, and C which allow for material processing at the City's MRF, at a contractor facility or a combination thereof. Recommendation (b) of Report PW19086 confirms the awarding of Project B to Canada Fibers Limited (CFL) that sees the processing of container material at the City's MRF and the processing of fibre material at the Contractor's facility. This will result in business as usual at the curb and residents will see no change to the level of service they receive from the City.

**Alternatives for Consideration – See Page 11**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The 2019 processing cost under the current contract for the operation and maintenance of the MRF is approximately \$2.898M. Project B will have an annual cost of approximately \$5.595M per year. This represents an annual cost increase for the operation and maintenance of approximately \$2.697M (does not include annual Consumer Price Index adjustments). There are a variety of reasons for the increase, however the bid price does reflect what staff are seeing in the market and reflect closely what other municipalities are paying for similar services. The current contract has a much lower processing fee which is reflective of the strong market for commodities over the past 10 years. The current commodity market has seen a 60% reduction in the revenue received overall in just the past 4 years.

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The Waste Management System as a whole is operated through many contracts. Namely; transfer stations/Community Recycling Centres, landfill, MRF, Central Composting Facility, and blue Box/waste collections, although only 50% of the waste collections are under contract with the remainder being City forces. As contracts are issued, some have seen savings while others see increases. Additionally, program changes such as banning leaf and yard waste from the green cart results in savings in one program and increased costs in another.

As a result, the annual cost of the overall waste program will increase but will be partially mitigated through savings achieved in other operating contracts, namely the operations and maintenance of the Central Composting Facility and the transfer stations and community recycling centres. After these savings have been applied it results in an annualized net increase of approximately \$1,651,220 as outlined in Table 1 below (other program cost savings/increases also shown):

Table 1

Contract	Increase	Decrease
512520 Recycling Program	\$2,697,000	
512725 Central Composting Facility		-\$218,640
512730 Solid Waste Disposal (Transfer Stations/Community Recycling Centres)		-\$1,792,730
512740 Leaf and Yard Waste (Outdoor Composting)	\$506,970	
512780 Glanbrook Site Operations	\$458,620	
Net Annual Increase		\$1,651,220

Project B also includes a one-time transition cost of approximately \$1.115M in year one of the contract which will be partially funded from existing Capital Project ID 5122051700 (approximately \$650,000) with the remaining funds to be funded by the Waste Management Recycling Program reserve #112270. This fee covers the transfer of container materials from the MRF to an alternate processor while the container processing equipment is upgraded. The final transition cost will be dependent on how long the container line is shut down and the number of tonnes of containers that are shipped off site. The \$1.115M represents the maximum cost that will be charged to the City and staff will make efforts to minimize the time the facility is inoperative to reduce the transition costs.

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Staffing: There are no staffing implications related to the recommendations in this Report.

Legal: Legal Services staff provided assistance with the RFP preparation and evaluation process and will be involved in the contract preparation and execution of the agreement with the Successful Proponent.

## **HISTORICAL BACKGROUND**

### Existing MRF Operating Contract

The original contract for the operations and maintenance of the MRF commenced on March 31, 2003 and expired on March 30, 2013. At that time, staff and the current operations contractor negotiated an extension to the contract which is set to expire on March 29, 2020. CFL has been the operator of the MRF since 2003.

Under the current contract, the City pays the operator based on outgoing tonnes sold to market and are reimbursed a portion of the revenues based on a cost sharing formula outlined in the Contract.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Section 7. (1) of Ontario Regulation 101/94 under the Environmental Protection Act (<https://www.ontario.ca/laws/regulation/940101>) states: *“A local municipality that has a population of at least 5,000 shall establish, operate and maintain a blue box waste management system if the municipality is served by a waste management system owned by or operated by or for the municipality that collects municipal waste or accepts such waste from the public at a waste disposal site”.*

The development of the contract for the operation and maintenance of the MRF supports the City’s Solid Waste Management Master Plan guiding principles as outlined in Report PW12004a:

- 1) The City of Hamilton must maintain responsibility for the residual wastes generated within its boundaries.
- 2) The Glanbrook Landfill is a valuable resource. The City of Hamilton must minimize residual waste and optimize the use of the City’s diversion and disposal facilities.
- 3) The City of Hamilton must lead and encourage the changes necessary to adopt the principles of waste minimization.

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The Request for Proposals document C11-12-19 was issued in accordance with By-law #17-064, Procurement Policy, Policy #5.4 Request for Proposals, Section 4.5.4.

**RELEVANT CONSULTATION**

The recommendations in Report PW19086 were prepared in consultation with staff from the Corporate Services Department including: Financial Services and Taxation (Procurement Section), Legal and Risk Management Services (Legal Services Section) and Financial Planning, Administration and Policy (Finance and Administration Section).

At the Waste Management Advisory Committee meeting on June 11<sup>th</sup>, 2019, the Committee was provided with high-level, preliminary information on the RFP process.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

The RFP included three processing options for consideration (Project A, Project B and Project C) and allowed proponents to submit a proposal on any or all of the three options as identified in Table 2 below:

Table 2

Comparison Summary of Project Options			
Project Component	Project A	Project B	Project C
Processing Material	Containers and fibres processed at existing City-owned MRF	Containers processed at existing City-owned MRF, fibres processed at contractor facility	Containers and fibres processed at contractor facility
Marketing Material	City is responsible for finding markets for containers and fibres	City is responsible for finding markets for containers and contractor is responsible for finding markets for fibres	Contractor is responsible for finding markets for containers and for fibres
Revenue from Material	City receives all revenue from the sale of containers and fibres	City receives all revenue from the sale of containers and receives compensation from the sale of fibres based on contract formula	City receives compensation from the sale of containers and fibres based on contract formula

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### Project A

Project A would maintain the same processing scenario as the current contract. This means that both recycling streams are collected from City residents (containers and fibres) and then processed at the City's MRF for processing. Once the materials are separated and baled into the different commodities they will be sold to end-markets. In Project A, the City will be responsible for marketing all materials and collecting the corresponding revenue. It also includes a transition period where the current contractor owned equipment (fibre line and balers) will be removed and the new contractor equipment will be installed. During this transition period the contractor is responsible for processing all material off-site. The City received no bids for Project A.

### Project B

Project B has both recycling streams being delivered to the MRF but only the container stream being processed onsite. The fibre stream, once received, will be loaded onto transfer trailers and shipped offsite for processing at a third-party processing facility. In Project B, the City will market and receive all revenues from the sale of container materials. The fibre materials will be marketed by the contractor and the City will be compensated for their sale based on a predetermined formula detailed in the contract. Project B also includes a transition period where the current contractor owned equipment will be removed and the new contractor equipment will be installed. During this transition period the contractor is responsible for processing all material off-site. The City received two (2) proposals for Project B.

### Project C

Project C has both fibre and container materials being processed offsite. Once the material is received at the MRF, it will be loaded into transfer trailers and sent to the Contractor's facility for processing. In Project C, both container and fibre materials will be marketed by the contractor and the City will be compensated for their sale based on a predetermined formula detailed in the contract. Project C does not include any equipment upgrades to the City's MRF and therefore does not have a transition period. The City received one (1) proposal for Project C.

### Evaluation Process

RFP C11-12-19 included a two-step evaluation process. Step 1 evaluated the Proponent's technical submission while Step 2 evaluated the Proponent's financial submission (two envelope process).

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The technical proposals were scored based on the evaluation criteria detailed in RFP C11-12-19, which included the company's capabilities and experience, their proposed operating details including labour and equipment, and proposed plan to undertake the work. Evaluations of technical proposals were carried out by an evaluation team made up of five staff members familiar with the operation of the MRF and the evaluation team gave a score to each technical submission based on consensus with input from all members of the team. Proponents were required to meet a minimum score in Step 1 before they could proceed to Step 2 and have their financial submission opened and evaluated.

The financial submission required proponents to provide costs in a format pre-determined by the City. At the completion of the financial evaluation the lowest estimated total contract value for each project was determined.

**RFP Results**

Upon completion of Step 1 – Technical Evaluation, one of the proposals submitted for Project B did not meet the minimum score benchmark and did not proceed to Step 2 – Financial Evaluation. Results of the technical review are summarized in Table 3 below:

Table 3

Technical Evaluation Summary			
Proponent	Project A	Project B	Project C
Canada Fibres Limited	No Submission	Pass	Pass
Emterra Limited	No Submission	Failed to meet benchmarks	No Submission

As a result of the technical evaluation, the City received one compliant Proposal for Project B and one compliant proposal for Project C that met or surpassed the minimum technical score in order to have their financial submission evaluated. Table 4 below provides CFL's financial submission for each project as well as the estimated annual cost of each:

Table 4

Financial Evaluation Summary	
Successful Submission for Each Project	Estimated Annual Cost
Project B – Canada Fibers Limited	\$5.595M (plus up to \$1.115M transition costs in year one only)
Project C – Canada Fibers Limited	\$7.425M (no transition cost)

Both Project B and C bid price are greater than the City's current contract for the operation and maintenance of the MRF. This is the result of a number of factors:

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- Through a municipal scan, staff determined that the City was previously receiving one of the lowest processing rates in the Province under the current contract. The bid for the new contract reflects what staff are seeing in the market and reflect closely what other municipalities are paying for similar services.
- The current contract is paid based on the number of tonnes sold to market (outgoing) while the new contract is based on the number of tonnes managed in the MRF (incoming).
- Paying based on incoming tonnes is how many other municipal contracts compensate the contractor and aligns with industry standards. This results in an increase of approximately 7500 tonnes per year (difference between incoming and outgoing in 2018) which compensates contractors more appropriately for incoming contamination rates that are out of their control.
- Due to struggling commodity markets, contractors are less inclined to factor revenues into their pricing and places market risk on the City rather than the contractor.
- Under the new contract, the City will retain 100% of the container revenues which also means that the City will maintain 100% of the market risk if commodities continue to decline. Proponents bidding on the RFP were not required to factor this risk into their bids. Although the bids received are more costly than the current contract, if the RFP required the proponents to retain this risk, the bids likely would have been higher.
- For Project B the Contractor will be responsible for marketing the fibre materials and the City will be reimbursed based on a predetermined formula in the RFP.
- Some container line upgrades as well as new balers and a fibre transfer push wall were factored into the operating rate to reduce the immediate cost to the City.

#### Recommended Project and Preferred Proponent

Report PW19086 recommends the City award Project B as the preferred option for the operation and maintenance of the MRF as the lowest cost option.

#### Project B – Lowest Cost Option

The cost differential of Project B compared to Project C is illustrated in Table 5 below over the 5-year term of the contract:



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Table 5

Year Over Year Contract Cost Comparison						
	Year 1	Year 2	Year 3	Year 4	Year 5	Contract Term
Project B	\$5.595M	\$5.595M	\$5.595M	\$5.595M	\$5.595M	\$27.975M <sup>1</sup>
Project C	\$7.425M	\$7.425M	\$7.425M	\$7.425M	\$7.425M	\$37.125M
					Difference	\$9.150M

<sup>1</sup> Plus transition costs of up to \$1.115M in Year One for Project B only

Risks and Benefits

Both Project B and C have inherent risks and benefits which are outlined as follows:

Project B

Risks

- Waste Free Ontario Act legislation for full Extended Producer Responsibility could result in the City having to end the 5-year contract early. On August 15, 2019, the Minister of the Environment, Conservation and Parks issued a direction letter to begin the transition of the full financial and operating responsibilities of the blue box program to producers. This direction letter includes that all municipalities will transition between 2023 and 2025 but does not include any details on how it will be decided when different municipalities will transition. This unknown provides risk to the contract.
- If the City of Hamilton is chosen to transition in the early stages (2023-2024) there may be penalties to break the current contract which will end in 2025.
- Reduced oversight of the Contractor processing the City's fibre materials as they are being shipped off site. City will want to perform due diligence visits to ensure materials are being processed as permitted under the contract.
- The City will be responsible for equipment replacements/upgrades for the container processing line deemed necessary to meet changing materials/markets over the term of the Contract.
- Stranded container line assets may occur when processing is transitioned to the Producers, however the container line will be of an advanced age by the conclusion of the contract.

Benefits

- City will be responsible for marketing all container materials and will keep 100% of the generated revenues.
- Maintain oversight of container processing as this will still be performed in the City's MRF to ensure maximum recovery and revenue generation.

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- Fibre equipment owned by the current contractor will be removed and not replaced as the materials will be shipped off site. This will allow staff to investigate other potential uses for this area of the building.
- Fibre materials will be shipped and processed at a state of the art facility ensuring a higher quality product.
- Reduced risk of stranded assets as the City will be decommissioning the fibre line immediately.
- Less costly than Project C.

### Project C

#### Risks

- Waste Free Ontario Act legislation for full Extended Producer Responsibility could result in the City having to end the 5-year contract early. On August 15, 2019, the Minister of the Environment, Conservation and Parks issued a direction letter to begin the transition of the full financial and operating responsibilities of the blue box program to producers. This direction letter includes that all municipalities will transition between 2023 and 2025 but does not include any details on how it will be decided when different municipalities will transition. This unknown provides risk to the contract.
- If the City of Hamilton is chosen to transition in the early stages (2023-2024) there may be penalties to break the current contract which will end in 2025.
- Reduced oversight of Contractor processing container and fibre materials as everything will be shipped offsite. City will want to perform due diligence visits to ensure materials are being processed as permitted under the contract.
- Contractor retains control of marketing all materials and the City will be reimbursed based on a predetermined formula in the RFP.
- Substantially more expensive over the life of the contract compared to Project B partly because contractor has to assume more market risk for the sale of the recyclables.

#### Benefits

- Immediate transition with both container and fibre materials being processed off site.
- Fibre equipment owned by the current Contractor will be removed and not replaced as the materials will be shipped off site.
- The City will not be responsible for maintaining or upgrading the container processing line based on industry changes.
- City owned container processing equipment could be repurposed or sold.
- Once container and fibre equipment are removed, staff can investigate other potential uses for the areas of the building not being used for processing.

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- Reduced risk of stranded assets as the City will be decommissioning the fibre and container lines immediately.

#### Contractor Details

CFL has effectively operated the City of Hamilton's MRF since 2003. Since that time, the City has granted them one (1) contract extension in 2013 which will expire on March 29, 2020.

CFL began operations as a brokerage for recycled paper in 1990. Since 1992, CFL has operated MRFs or processed blue box materials for, among others, the following municipalities: City of Toronto, Peel Region, City of Sudbury, Halton Region and Simcoe County. Currently, CFL and its affiliates own or operate thirteen MRFs and market over 600,000 metric tonnes of municipal recyclables annually. Managing high volumes of recyclable materials has allowed CFL to build an industry reputation which has assisted in their ability to sell commodities to market. Currently, CFL processes 60% of the materials generated through Ontario's blue box materials and owns and operates the largest and most technologically-advanced single-stream recycling facility in North America.

CFL also has experience performing equipment upgrades which should reduce the downtime required to upgrade the container processing line and lower transitions costs for Project B.

#### **ALTERNATIVES FOR CONSIDERATION**

Report PW19086 recommends RFP C11-12-19, Project B be awarded to CFL for the operation and maintenance of the MRF. In the event that Council does not wish to approve the recommendations of Report PW19086, Council can opt to select Project C for operating and maintaining the MRF. This is the only available alternative as all options for processing the City's recyclables were considered as part of the RFP process and issuing a new one would not contain any additional specifications from the original.

As stated in Section 7. (1) of Ontario Regulation 101/94 under the Environmental Protection Act (<https://www.ontario.ca/laws/regulation/940101>) , a local municipality that has a population of at least 5,000 shall establish, operate and maintain a blue box waste management system if the municipality is served by a waste management system owned by or operated by or for the municipality that collects municipal waste or accepts such waste from the public at a waste disposal site. Therefore, the City cannot opt out of providing this service to residents.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Clean and Green**

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

**Built Environment and Infrastructure**

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

**APPENDICES AND SCHEDULES ATTACHED**

Not applicable