



CITY OF HAMILTON

**PUBLIC WORKS DEPARTMENT
Environmental Services Division**

TO: Chair and Members Public Works Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: May 16, 2013	
SUBJECT/REPORT NO: Source Separated Organic Waste Contract for the Regional Municipality of Halton (PW13038) - (City Wide) (Outstanding Business List)	
SUBMITTED BY: Gerry Davis, CMA General Manager Public Works Department	PREPARED BY: Joel McCormick (905) 546-2424, Extension 5601 Emil Prpic (905) 546-2424, Extension 4203
SIGNATURE:	

RECOMMENDATION

- (a) That the City of Hamilton authorize AIM Waste Inc., acting as the City of Hamilton's agent, to enter into a new contract with the Regional Municipality of Halton for the processing of The Regional Municipality of Halton's source separated organic waste at the City of Hamilton's Central Composting Facility provided that:
 - (i) the term shall be for the period of April 7, 2014 to April 6, 2018, with the potential for one, two year, eight month renewal to December 31, 2020 upon the mutual agreement of the City of Hamilton and The Regional Municipality of Halton;
 - (ii) the content of the contract shall be satisfactory to the General Manager of Public Works or designate and the form shall be satisfactory to the City Solicitor;
- (b) That fifty percent (50%) of the revenues generated from the new source separated organic waste processing contract with The Regional Municipality of Halton be placed into Reserve Account #112271 (WM Facilities - Replace - Upgrade) and that the remaining fifty percent (50%) of the revenue generated

- from the contract be used to reduce the operating budget in the Environmental Services Division of the Public Works Department;
- (c) That the Mayor and City Clerk be authorized and directed to execute all required documents as a result of subsection (a), including but not limited to any amendments to the Operations and Maintenance Agreement between the City of Hamilton and Maple Reinders Constructors Ltd. for the City of Hamilton's Central Composting Facility, all in a form satisfactory to the City Solicitor;
- (d) That the item related to The Regional Municipality of Halton Discussions for Processing of Source Separated Organics be removed from the Public Works Outstanding Business List.

EXECUTIVE SUMMARY

At the May 9, 2012 Council meeting, a motion was approved allowing City of Hamilton (City) staff, along with AIM Waste Inc. (AIM), acting as the City's agent, to negotiate a new contract for the processing of The Regional Municipality of Halton (Region) source separated organic (SSO) waste at the City's Central Composting Facility (CCF).

City staff and AIM have concluded negotiations with the Region and it is recommended that:

- AIM, acting as the City's agent, enter into a new contract for the processing of the Region's SSO material for a period of up to six (6) years and eight (8) months including a fixed four (4) year term with one (1), two (2) year, eight (8) month extension.
- That the revenues generated from this contract be used to offset both the annual operating budget as well as the future capital budget. Half (50%) of the revenues would be used to lower the annual operating budget and the remaining fifty percent (50%) be directed to Reserve Account #112271 to offset future capital replacement requirements at waste diversion facilities.

On May 16, 2007, Council approved a motion authorizing City staff, in partnership with AIM, to bid on Request for Proposal (RFP) P-06407, issued by the Region for the processing of SSO waste. Following its evaluation, the Region selected AIM's proposal as the preferred proponent. The existing contract commenced in April 2008 and will expire in April 2014, including two (2), one (1) year contract extensions. The current SSO waste processing contract with the Region was used as the framework for negotiating the new contract. Over the term of the current contract with the Region, the City has experienced financial benefits associated with the additional tonnage processed at the CCF.

By entering into a new contract with the Region, the City will continue to receive the dual financial benefit of generating revenues while also experiencing economies of scale for the processing of the City's SSO waste. Additionally, this contract will ensure

SUBJECT: Source Separated Organic Waste Contract for the Regional Municipality of Halton (PW13038) - (City Wide) - Page 3 of 8

that available merchant processing capacity at the CCF is being fully utilized and generating revenues for the City.

This report is guided by the principles of the Public Works Business Plan “Innovate Now”. The recommendations in this report support the vision driver of finances as they provide sound financial management for the residents of the City.

Alternatives for Consideration - See Page 6

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial: With the continued acceptance of SSO waste from the Region, the City is expected to generate revenue of approximately \$6M over the maximum six (6) year, eight (8) month term of the new contract.

The actual financial benefit experienced over the term of the new contract will vary depending on the actual tonnages received from the Region and the annual escalation factor applied to contracts relating to the CCF operation.

The estimated annual gross revenue to the City over the term of the new contract is as follows:

	2014 *	2015	2016	2017	2018	2019	2020	Total
Revenue	\$739K	\$945K	\$966K	\$986K	\$1M	\$1.03M	\$1.05M	\$6.7M

Note: * represents a partial year since the Contract term runs from April 2014 - December 2020

By entering into a new contract with the Region the City will benefit from an economy of scale for the processing of SSO at the CCF. The City pays the CCF operator a cost per tonne for SSO waste accepted and the rate per tonne is based on a sliding scale, meaning the more SSO accepted the less the City pays to process it per tonne. This results in a savings to the City in addition to processing revenues.

The processing of SSO waste from the Region will impact the maintenance and replacement schedule of the CCF operating equipment. By processing the additional tonnage, the use of the operating equipment increases and results in an accelerated maintenance program and eventual equipment replacement. Continuing to contribute fifty percent (50%) of the revenue from the new contract with the Region into Reserve Account #112271 will ensure that funds are available to the Environmental Services Division for maintenance and replacement of the operating equipment. There has not been and will continue to be no impact on the CCF operating budget as a result of contributing to Reserve Account #112271.

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 and allowed for the operator to approach the City to utilize the CCF to its fullest potential. 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

HISTORICAL BACKGROUND

In May 2007, Council approved a motion authorizing City staff, in partnership with AIM, to bid on Request for Proposal (RFP) P-06407, issued by the Region for the processing of SSO waste.

On May 31, 2007 the City and AIM submitted a bid for the Region's RFP. The Region's staff identified the City and AIM as the preferred proponent and was accepted at the September 19, 2007 Regional Council meeting. The City and AIM were awarded a four (4) year contract which commenced in April 2008 and ended in April 2012. At the Region's discretion, the contract was extended for a maximum of two (2) one (1) year periods for a total contract length of six (6) years. The current contract is scheduled to expire in April 2014.

During the May 9, 2012 Council meeting, a motion was approved authorizing and directing the General Manager of Public Works or designate to enter into discussion with the Region for the purpose of continued SSO waste processing while maintaining capacity for the residents of the City and to report back to the Public Works Committee on the outcome and possible recommendation resulting from the discussions.

Since the approval of the Motion, City staff, along with AIM, negotiated a new contract with the Region for the processing of SSO waste at the CCF. The term of the new contract is for four (4) years with the option of one (1), two (2) year, eight (8) month extension at mutual agreement. The new contract would commence in April 2014 and end in December 2020.

The Region's SSO waste collection program will continue to align with the City's Green Cart program. Food waste and compostable paper products will continue to be accepted. Polyethylene plastic bags will not be accepted as cart liners. Diapers, sanitary products and pet waste will continue to be considered as unacceptable material.

The continued acceptance of SSO waste from the Region under the new contract follows Council's original direction to identify partnering opportunities for the sale of excess processing capacity at the CCF as outlined in recommendation (f) of Committee of the Whole report PW04076/FCS04097, June 30, 2004. In addition the sharing of waste diversion facilities is consistent with Recommendation #4 of the Council approved Solid Waste Management Master Plan.

At the November 28, 2007, Council Meeting, Council approved report PW07149 which allowed fifty percent (50%) of the financial benefit generated from the newly acquired SSO waste processing contract with the Region to be placed in Reserve Account #112271 and that Reserve Account #112271 be used for the upgrade and/or replacement of waste diversion facilities and equipment. It was also approved that the

remaining fifty percent (50%) be used to reduce the annual operating budget in the Environmental Services Division.

The Reserve Account was created to fund the maintenance and replacement of equipment at waste diversion facilities, specifically the CCF caused by the increased processing of merchant capacity SSO now and in the future. The same Reserve Account also receives contributions for the accelerated depreciation for rolling stock directly affected by outside SSO waste sources. As a result of the extra tonnage processed, the schedule for replacement of processing equipment and rolling stock has moved forward from the time that was originally anticipated.

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

Solid Waste Management Master Plan (SWMMP)

The implementation of the recommendations in this report provides opportunities to achieve cost effectiveness and efficiencies in the City's waste diversion programs.

Guiding Principles Recommendation #4: *"The City of Hamilton will consider inter regional municipal and corporate opportunities for waste management where appropriate and beneficial to the City".*

RELEVANT CONSULTATION

Legal Services and Finance and Administration were consulted for input during the preparation of this report and recommendations in this report are acceptable from each of their perspectives.

ANALYSIS / RATIONALE FOR RECOMMENDATION

Based on Council direction given at the May 9, 2012 Council meeting, City staff along with AIM have negotiated a new contract for the processing of the Region's SSO at the CCF, subject to Council's approval.

A new six (6) year, eight (8) month contract has been negotiated with the Region. The contract term consists of a four (4) year fixed term with one (1), two (2) year and eight (8) month extension that can be executed upon mutual agreement. The contract would commence upon the expiration of the current contract in April 2014 and will expire in December 2020 assuming all extensions are implemented. A contract up to six (6) years, eight (8) months will provide the City with a stable and long term source of revenue.

By entering into the new contract the City will maintain the current revenues it receives for the sale of merchant capacity at the CCF. As an example, in 2014 (April to December) it is estimated that the revenue from the new contract with the Region will be approximately \$630,000. Over the maximum six (6) year and eight (8) month term of the contract the City will receive revenue of approximately \$6.7M.

It is recommended that the revenues generated from the contract with the Region continue to be used to offset the annual capital and operating budgets. Due to the processing of the Region's SSO waste, the processing equipment utilized within the CCF will experience increased wear and tear which was not factored into the original maintenance and equipment replacement schedule. As a result, it is recommended that fifty percent (50%) of the financial revenues associated with the new contract continue to be placed in a reserve account which will provide the City with the necessary funds to maintain and replace equipment as required. The remaining fifty percent (50%) of generated revenues will continue to be used to offset the operating budget.

By entering into a new contract with the Region the City will benefit from an economy of scale for the processing of SSO at the CCF. The City pays the CCF operator a cost per tonne for SSO waste accepted and the rate per tonne is based on a sliding scale, and as such, the more SSO accepted the less the City pays to process it. As a result, the City realizes a cost savings benefit in addition to processing revenues.

Entering into the new contract with the Region will ensure that the merchant processing capacity at the CCF is fully utilized. It will continue to make use of the CCF as a valuable asset and provide a financial benefit for the City. Furthermore, if the recommendation to enter into the new contract with the Region is accepted, the City will have a long term revenue source and will not be reliant or have to wait for other future merchant capacity opportunities.

ALTERNATIVES FOR CONSIDERATION

In the event that Council elects not to approve the recommendations in this report, there remain two possible options to be considered. One option is for the City to not renew any SSO merchant capacity contracts upon the expiration of the existing contracts and only process the City's SSO material. The second option is for the City to go out to market and bid on available SSO processing Request for Proposals (RFP).

Option One - Solely Process City SSO Material

Under this option, once the existing merchant capacity contracts expire the CCF would only process SSO generated by the City and not accept any SSO generated from outside of Hamilton. There are several advantages and disadvantages to this option.

Advantages

- *reduced wear and tear on equipment and the building* - by processing less SSO the processing equipment would not need to be replaced as frequently and the building would last for a longer period of time
- *greater available capacity* - beyond accepting SSO generated by City residents, there would be additional available capacity for other City initiatives such as servicing the commercial or education sectors

Disadvantages

- *unused capacity* - approximately fifty percent (50%) of the CCF's available capacity would remain unused
- *elimination of revenues and economies of scale* – the loss of revenues and economies of scale if the City were to stop processing merchant capacity SSO would result in a 2014 net operating budget pressure of approximately \$1.56M
- *capital budget* - fifty percent (50%) of the generated revenues are placed into Reserve Account #112271. If there are no SSO merchant capacity contracts, in future the City would need to fund the replacement of CCF rolling stock and equipment through the capital budget process instead of reserve revenues.

Option Two - Bid on SSO Processing Opportunities

This option would involve the City seeking out SSO processing opportunities via the competitive bid process. There are several advantages and disadvantages to this option.

Advantages

- *processing rate* - City may receive a better SSO processing rate
- *contract terms* - if successful on a bid the City may be able to negotiate favourable contract conditions e.g. contract length

Disadvantages

- *revenue replacement* - there may not be any immediate bid opportunities and as such revenues may not be replaced immediately which may present a budget pressure
- *competitive process* - since bidding is typically a competitive process there is no guarantee that the City would be successful on any bid submissions
- *processing rate* - the City may have to put in a lower processing rate in order to remain competitive with other bidders resulting in lower revenues
- *acceptable SSO material* - the SSO material from other sources may not be acceptable at the CCF and thus limit bid opportunities

ALIGNMENT TO THE 2012 - 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

- 1.1 Continue to grow the non-residential tax base.
- 1.2 Continue to prioritize capital infrastructure projects to support managed growth and optimize community benefit.
- 1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.1 Engage in a range of inter-governmental relations (IGR) work that will advance partnerships and projects that benefit the City of Hamilton.

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES / SCHEDULES

None