

TO:	CHAIR AND MEMBERS CIVIC WORKS COMMITTEE MEETING ON OCTOBER 30, 2018
FROM:	KELLY SCHERR, P.ENG., MBA, FEC MANAGING DIRECTOR ENVIRONMENTAL & ENGINEERING SERVICES AND CITY ENGINEER
SUBJECT:	SHORT-TERM CONTRACT AMENDMENT FOR RECYCLING SERVICES

RECOMMENDATION

That on the recommendation of the Managing Director, Environmental & Engineering Services and City Engineer and with the support of the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer, the following actions **BE TAKEN** with respect to the provision of curbside collection and Material Recovery Facility Operations services provided by Miller Waste Systems Inc.:

- a) The action taken by the Managing Director, Environmental & Engineering Services and City Engineer in accordance with Procurement of Goods and Services Policy, Section 4.3 d. **BE RECOGNIZED**; it being noted that the action taken is in the best financial interest of the Corporation of the City of London;
- b) the extension of the contracts with Miller Waste Systems Inc. for the collection of recyclables in London and the collection of garbage and yard materials in the southwest portion of the city, including Lambeth, Riverbend and Settlement Trail, and Material Recovery Facility operations, for four (4) months plus two (2), one month extensions at the sole discretion of the City, from October 30, 2019 to April 30, 2020, in accordance with Procurement of Goods and Services Policy, Section 20.3 e)i. **BE APPROVED**; and
- c) Civic Administration **BE AUTHORIZED** to undertake final negotiations on the increased monthly service fee, all administrative acts that are necessary in connection with this Report and the Agreements referenced herein.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Relevant reports that can be found at www.london.ca under City Hall (Meetings) include:

- Updates: Proposed Amended Blue Box Program Plan; Food and Organic Waste Framework & Policy Statement; and Next Steps (May 28, 2018 meeting of the Civic Works Committee (CWC), Item #2.9)
- Exercise Renewal Options for Curbside Collection and Material Recovery Facility Operations Contracts (January 9, 2018 meeting of the CWC, Item #3)
- Request for Comments on the Draft Amended Blue Box Program Plan (Prepared by Stewardship Ontario) (January 9, 2018 meeting of the CWC Item #9)
- Updates – Proposed Blue Box Program Plan Amendment and Waste Free Ontario Act Ontario (October 24, 2017 meeting of the CWC, Item #12)

STRATEGIC PLAN 2015-2019

Municipal Council has recognized the importance of solid waste management in its 2015-2019 - Strategic Plan for the City of London ([2015 – 2019 Strategic Plan](#)) as follows:

Building a Sustainable City

- Strong and healthy environment
- Robust infrastructure

Growing our Economy

- Local, regional, and global innovation
- Strategic, collaborative partnerships

Leading in Public Service

- Proactive financial management
- Innovative & supportive organizational practices
- Collaborative, engaged leadership
- Excellent service delivery

BACKGROUND**PURPOSE**

The purpose of this report is to update Committee and Council on the direction taken on contracted recycling and garbage collection services as per the Procurement of Goods and Services Policy.

4.0 Responsibilities

4.3d. When the Managing Director is of the opinion that a Triggering Event has occurred, the Managing Director may authorize the purchase of such goods and/or services as is considered necessary to remedy the situation without regard to the requirement for a competitive bid and may approve the necessary contract amendment. The relevant details surrounding the Triggering Event shall be included in a report and submitted to Committee as soon as possible.

3.0 Definitions

'Triggering Event' means an occurrence resulting from an unforeseen action or consequence of an unforeseen event, which must be remedied on a time sensitive basis to avoid a material financial risk to the City or serious or prolonged risk to persons or property.

To complete the activities with Miller Waste Systems, the Managing Director, Environmental & Engineering Services and City Engineer, will then undertake the negotiations and administrative acts that are necessary to extend the contract connection in accordance with Procurement of Goods and Services Policy:

20.3 Contract Amendments

- e. City Council must authorize contract amendments when:*
- i. the total amended value of the contract will be greater than the administrative (Managing Director) approval threshold; or*

CONTEXT

The City has three amended agreements with Miller Waste:

1. Collection of Blue Box recyclables, garbage and yard materials in the south-west portion of the city, including Lambeth, Riverbend and Settlement Trail,
2. Collection of Blue Box recyclables in the remaining portion of London, and
3. Operation of the City-owned material recovery facility (MRF).

The term of the amended agreements with Miller will expire October 30, 2019. There are no further options for contract renewal or extensions. In order to market test these services for current opportunities in accordance with the Procurement of Goods and Services Policy, the development of documents for a competitive procurement process has been undertaken in the form of a Request for Proposal (RFP).

Due to several unforeseen circumstances, described in the next section, the Managing Director, Environmental & Engineering Services and City Engineer, has used her authority, with the concurrence of the Managing Director, Corporate Services & City Treasurer, Chief Financial Officer, to authorize the purchase of services as is

considered necessary to remedy the situation without regard to the requirement for a competitive bid and has approved the necessary contract amendment for a four month period plus two, one month extensions at the sole discretion of the City.

These actions will address, for the most part, the unforeseen circumstances to allow for a competitive bid process to be undertaken. This action is in the financial best interest of the City of London.

DISCUSSION

What has caused the use of a ‘Trigger Event’?

City staff are 90% complete on the preparation of a comprehensive RFP for various recycling services. The completion of the remainder of this work has been difficult due to a number of unforeseen circumstances:

1. All discussions regarding the Amended Blue Box Program Plan between industry and the Resource Productivity and Recovery Authority (RPRA) are on-hold. As a result there are no further details available from the Provincial Government on how stewards will pay for and operate (e.g., program parameters to be used by contract administrators such as the City of London) future recycling programs as per the *Resource Recovery and Circular Economy Act, 2016*. In recent discussions with the Minister of the Environment, Conservation & Parks and other provincial representatives, it is understood that further discussions on this file will begin in late fall 2018 or early winter 2019.
2. Uncertain role of tariffs on steel and aluminum which may unnecessarily impact the cost of collection vehicles and any capital upgrades to the MRF to address market conditions.
3. Ongoing trade disputes, tariffs and proposed end-markets restrictions are not resolved in a number of jurisdictions including China, United States, India, etc. which creates a high level of uncertainty for marketing recyclable materials on behalf of the City of London.

These issues mean that the release of the RFP has been delayed 3 months. The target release time is the end of November 2018. Award of the contract will likely occur in March or April 2019. It is very difficult for a new supplier to be ready for October 31, 2019, given that new capital equipment acquisitions will have a lengthy lead-time.

Between November and March/April further details may become available on operational requirements and/or additional legal clauses to address uncertainty for both bidders and the City. This would require an Addendum to the RFP or significant changes be considered during or even after the RFP award recommendation is completed. This could lead potentially to further delays.

What is the current cost of the contracted recycling services?

In 2017, the annual gross value (excluding HST) of the services provided by Miller with respect to the above referenced amended agreements was approximately \$8,854,500.

As background information, the net cost to taxpayers of the recycling program is determined by adding up contractor service costs (contract prices), MRF amortization costs, and costs for community outreach, City staff costs and other related expenses. Deducted from this amount are recycling material revenues, and payments from the Resource Productivity and Recovery Authority (RPRA) (representing funds from industry stewards).

Program costs are shown in Table 1. Net costs have been similar over the last four years. Overall for 2018, costs are expected to be higher due to lower recycling material revenues.

Table 1: London's Net Blue Box Program Costs

	2014	2015	2016	2017
Gross Recycling Program Cost (including amortization)	\$9,902,900	\$9,691,300	\$9,911,600	\$10,076,300
Material Revenues and RPRA Payment	\$6,627,200	\$6,135,600	\$6,502,600	\$6,964,900
Net Recycling Program Cost	\$3,275,700	\$3,555,700	\$3,409,000	\$3,111,400
Cost Per Household	\$19	\$20	\$19	\$17
Cost Per Tonne	\$129	\$152	\$147	\$137

Will there be additional costs for recycling beyond October 2019?

Yes. All indications from dialogue with other Ontario municipalities and service providers and recent contract amendments suggest that recycling costs are going up. There have been no situations identified by City staff where municipal recycling costs have come down. Items that are driving cost increases include:

- Capital costs for vehicles and other recycling equipment,
- Labour costs,
- Extra human resources and equipment required to meet stringent market conditions caused by global conditions, fewer and more competitive end markets,
- Increased quantity of harder to process container materials due to the changing material mix and end market requirements,
- Decreased quantity of easier to process paper products such as newspaper, magazines and office paper, and
- The exchange rate (volatility) with the United States.

As noted below, the increased cost proposed by Miller Waste Systems, based on today's market dynamics and conditions for the services provided in the three amended contracts beyond October 2019, is approximately \$92,250 per month or an approximate 12% increase over the average payments made for these services during the first six months of 2018. The City of London will be required to cover about 55% of these costs as industry stewards typically cover about 45% of the net cost of London's recycling program.

2018 average monthly costs (based on January to June)	Proposed monthly net cost increase	Percentage increase	Additional monthly charge paid by the City (at 55%)	Additional monthly charge paid by industry (at 45%)
\$750,000	\$92,250	12%	\$50,740	\$41,510

The breakdown of the monthly cost increase and rationale is as follows:

Costs	Rationale for Cost Increase
\$27,800	Collection – additional vehicle costs for newer vehicles to replace some of the end-of-life vehicles plus higher maintenance costs of remaining fleet to keep them safe and operational.
\$23,050	Additional labour and labour hours to meet market specifications for various paper products. Increased activities to ensure quality control.
\$30,470	Additional labour and labour hours to meet market specifications for containers. Changing mix of materials to be processed (e.g., more plastics and other lightweight materials being processed, less paper processed).
\$10,930	Substantially increased baling activity and cost of baling wire – all newspaper is now baled (versus loose) to meet global market requirements. Plus baling wire is subject to new tariffs.
\$92,250	

As part of budgeting, City staff had prepared for an increase in recycling costs for the new contracts (November and December 2019); therefore there will be no impact to the 2019 budget.

Additional costs for 2020 and beyond will be part of the multi-year budget. Costs from the competitive bidding process will be available to inform the multi-year budgeting process.

How is the current service provider performing?

Miller Waste Systems has and continues to meet the requirements of the contracts for the services they provide. This is further supported by the results of the annual Citizen Satisfaction Study Reports prepared for the City where between 84% and 89% of respondents (2015 to 2018) were either very satisfied or somewhat satisfied with the recycling collection services they receive. These numbers represent some of the highest scores for City services registered by Londoners.

When errors occur, Miller staff have been very responsive and fix them quickly. Miller staff have also supported events in London such as the London Home Builders' Association Lifestyle Home Show and the Go Wild Grow Wild Green Expo.

ACKNOWLEDGEMENTS

This report was prepared with assistance from Anne Boyd, Manager, Waste Diversion Programs. This report was reviewed by John Freeman, Manager, Purchasing and Supply.

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c John Freeman, Manager, Purchasing and Supply