Minute No. 236
Report – Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – February 1, 2018

Item No. 4 **Approval of Contract Over-Expenditure for Processing and Marketing of Recyclables**
Materials Management Reference No. 455-2017 (162-2002)

COUNCIL DECISION:

Council concurred in the recommendation of the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment and adopted the following:

1. That a contract over expenditure in the amount of $1,459,166.72 plus GST and MRST as applicable, from the Recycling Processing Budget, be approved for the contract of the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002), to provide additional recycling processing services to produce market ready material.

2. That a Solid Waste Operating Budget amendment of $694,371.23 for 2018 and forecasted $538,983.66 for 2019, for a total budget amendment of $1,233,354.89, be approved.

3. That, subject to approval of Recommendations 1 and 2, the City enter into, execute and deliver an amending agreement for the over-expenditure for the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002) with Halton Recycling Ltd. dba Emterra Environmental, and such other agreements as determined necessary by the City Solicitor/Director of Legal Services to implement the intent of the foregoing (the "Ancillary Agreements").

4. That authority be delegated to the Chief Administrative Officer to negotiate and approve the terms and conditions of the amending agreements for the over-expenditure for the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002) and the Ancillary Agreements, in accordance with this report and such other terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

5. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

Report – Standing Policy Committee on Water and Waste, Riverbank Management and the Environment – February 1, 2018

DECISION MAKING HISTORY:

Moved by Councillor Mayes,

That the recommendation of the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 13, 2018, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On February 1, 2018, the Standing Policy Committee on Water and Waste, Riverbank Management and the Environment concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: **APPROVAL OF CONTRACT OVER-EXPENDITURE FOR PROCESSING AND MARKETING OF RECYCLABLES**
MATERIALS MANAGEMENT REFERENCE NO. 455-2017 (162-2002)

Critical Path: **Standing Policy Committee on Water and Waste, Riverbank Management and the Environment, Executive Policy Committee, Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Daryl Doubleday, Manager of Solid Waste Services	M. L. Geer, CPA, CA, Director, Water and Waste Department	M. Ruta	D. McNeil

EXECUTIVE SUMMARY

Recyclables collected in the City's waste diversion programs are delivered to a facility at 1029 Henry Avenue, owned and operated by Halton Recycling Ltd. dba Emterra Environmental (Emterra). The incoming co-mingled materials are processed by Emterra, utilizing a series of mechanical and manual sorting systems to produce individual commodities that are sold to end markets, worldwide.

Currently of all of the old newspapers (ONP) and mixed paper collected in city recycling programs, approximately 70% of the finished products are exported to a market in China. This is also the approximate export volume for the rest of North America. Due to recent changes to China's import policies, specifically new quality standards enforced by the Chinese government, the quality specifications for these products have become more stringent. The quality specifications have increased so significantly, the work required to produce a finished product to the new specifications falls outside the Contractor's obligation within the existing contract. The contractor must increase resources in their operation. As a result, there is a corresponding increase in the cost of the Work; an increase that is caused by external factors, outside the control of the Contractor.

This report is for the approval of an over-expenditure for additional services required for the effective processing of the finished ONP and mixed paper products from September 2017 to the end of the Contract in September 2019. The original procurement was through the Bid Opportunity process and has since been extended through a single source approved by Council. The project is financed from the Department's Current Budget for recycling processing.

RECOMMENDATIONS

1. That a contract over expenditure in the amount of $1,459,166.72 plus GST and MRST as applicable, from the Recycling Processing Budget, be approved for the contract of the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002), to provide additional recycling processing services to produce market ready material.

2. That Council approve a Solid Waste Operating Budget amendment of $694,371.23 for 2018 and forecasted $538,983.66 for 2019, for a total budget amendment of $1,233,354.89.

3. That, subject to approval of Recommendations 1 and 2, the City enter into, execute and deliver an amending agreement for the over-expenditure for the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002) with Halton Recycling Ltd. dba Emterra Environmental, and such other agreements as determined necessary by the City Solicitor/Director of Legal Services to implement the intent of the foregoing (the “Ancillary Agreements”).

4. That authority be delegated to the Chief Administrative Officer to negotiate and approve the terms and conditions of the amending agreements for the over-expenditure for the Processing and Marketing of Recyclables, Materials Management Reference No. 455-2017 (162-2002) and the Ancillary Agreements, in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor/Director of Legal Services to protect the interests of the City.

5. That the proper officers of the City be authorized to do all things necessary to implement the foregoing.

REASON FOR THE REPORT

Approval of Council is required if the Contract value is greater than the existing budget, pursuant to Administrative Directive FM-002, Appendix 7.

IMPLICATIONS OF THE RECOMMENDATIONS

Total direct costs for the term September 2017 to September 2019 are estimated at $1,459,166.72

The direct cost for 2017 in the total estimated amount of $225,811.83 will be accrued from the 2017 Recycling Processing Budget, Account Distribution 445 521037 201907 999. No budget adjustment is required for 2017.

The direct costs of $694,371.23 for 2018 and $538,983.66 for 2019 in the total estimated amount of $1,233,354.89 will be added to those budget years. The actual impact is unknown as it is based on fluctuating tonnages, market values and global economies.

HISTORY/DISCUSSION

On April 26, 2017, Council approved a single source negotiation with Halton Recycling Ltd. dba Emterra Environmental (Emterra), for the extension of the processing and marketing of recyclables for a two-year period from September 16, 2017 to September 30, 2019, pursuant to B4.1(i) of the Materials Management Policy where the supply is for interim contractual arrangements following the expiration of a contract. Council also delegated the authority to the Chief Administrative Officer to negotiate and approve the terms and conditions of the contract, and award the contract.

On June 1, 2017, the Chief Administrative Officer approved the terms and conditions of the negotiated settlement to extend the contract for the estimated amount of $19,167,518.00 which includes an annual inflation adjustment, GST and MRST extra, as applicable.

Emterra has proposed a two-year contract increase at an estimated total cost of $1,459,166.72 plus applicable MRST and GST.

Below are the estimated quantities and cost for Materials Management Reference No. 455-2017 (162-2002) for the Processing and Marketing of Recyclables.

Item No.	Description	Approx. Annual Quantity (metric tonnes)	Approx. Cost
1	Processing and Marketing of recyclables of all incoming single stream material which has a monthly percentage of contamination that is less than or equal to15% by weight, per month.	56,000	$19,167,518.00
2	Additional charge for producing higher quality ONP and mixed paper products from the recyclables of all incoming single stream material from September 2017 to September 2019.	varies based on annual estimates	$1,459,166.72

The proposed cost represents an approximate 8% increase over the existing contract cost and is due to the contractor requiring additional resources, namely:

1) Additional sorters to remove contaminants.
2) A quality control position responsible for inspecting each bale to ensure it meets the quality requirements.
3) Additional maintenance staff to assist with an enhanced equipment maintenance program.

The following chart shows a positive business case for the recommended over-expenditure in this report for the time period September 2017 to September 2019. Taking no action would result in approximately 57% (based on 2016 tonnages) of all marketed commodities collected in Winnipeg not having a viable market in which to be sold, an estimated revenue loss of $3.8 million. The loss of this volume would adversely affect the City diversion rate by approximately 6.7% and bear additional cost of approximately $3 million over the life of the contract. In order to continue to be able to recycle ONP and mixed paper and mitigate the financial impact the City needs to make this investment to maintain a market in China.

	Do Nothing	**Amend MRF Processing Operation**
Impact on revenue	(3,750,405.53)	-
Needed investment	-	(1,459,166.72)
Unfavourable Impact on budget	(3,750,405.53)	(1,459,166.72)
Impact on MMSM funding	-	1,167,333.40
Net Impact on the City	(3,750,405.53)	(291,833.32)

To market the finished ONP product for a reduced price, domestically to a North American mill, is not an option. According to Emterra who is responsible for marketing the sorted commodities, the domestic paper mills have tightened their quality requirements and severely restricted which recyclers from whom they purchase material. Domestic mills are not willing to take on any new suppliers, as their existing suppliers are requesting increased shipment allocations.

Emterra has also investigated other export markets overseas. All foreign markets are limited in their ability to absorb the demands left by the China situation, and like domestic mills, these alternative end markets have also increased their quality standards due to the supply of the ONP product far exceeding its demand. The recycling commodity market, like many other products, depends on the supply and demand amongst potential consumers of the products. In this case, if the supply of these recycling fibre commodities does not match the demand of the market, they will not sell. The Chinese government has set the new standard to which the entire market is following suit.

The China restrictions have been evolving and the City of Winnipeg had to proactively address this market issue. By ensuring a higher quality product, the City of Winnipeg is confident that market share can be maintained. Many municipal curbside recycling programs are not able to meet the new quality standards enforced by the Chinese government under their current operations and this is causing unease throughout the recycling industry. There are many examples of the negative impact across North America where cities are stockpiling, landfilling the recyclable materials or making changes to process to produce a less contaminated end product. This is described in a November 2017 article published by *Recycling Today* in Appendix 1.

Delay in action on the City's part, could cause the disappearance of any sustained ONP markets, which could bring about the costly warehousing of the product, or worse yet, its disposal (landfilling). A collapse of a sustained ONP market would also have significant budget implications as the revenue received from ONP recycling is used to assist in offsetting program costs. At this juncture, the most effective strategy is to maintain the existing ONP customers.

The public service has discussed this situation with our funding partner Multi-Material Stewardship Manitoba (MMSM), and they acknowledge that currently there are no other options available other than increasing resources to produce a higher-quality product. The costs of the proposed work under this over-expenditure will be eligible for up to 80% funding under the Municipal Funding Agreement between MMSM and The City of Winnipeg, however will not be realized in the year of expenditure. The cost recovery from MMSM funding is delayed due to being based on a three-year rolling average.
The Solid Waste Services Division is satisfied that Emterra has the necessary experience and resources to perform all of the work in accordance with the requirements of the specifications and has satisfactorily performed the work since the beginning of the contract. This cost will be evaluated on a monthly basis and should the specifications change, the costs will be adjusted accordingly.

The over-expenditure requested in this report will allow the City to maintain the existing ONP and mixed paper markets and to continue to recover the highest possible revenue for the finished products for the remainder of the contract.

FINANCIAL IMPACT

Financial Impact Statement

Date: December 21, 2017

Project Name:

First Year of Program **2017**

APPROVAL OF CONTRACT OVER-EXPENDITURE FOR PROCESSING AND MARKETING OF RECYCLABLES
MATERIALS MANAGEMENT REFERENCE NO. 455-2017 (162-2002)

	2017	2018	2019	2020	2021
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 225,812	$ 694,371	$ 538,984	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 225,812	$ 694,371	$ 538,984	$ -	$ -
Less: Existing Budget Amounts	225,812	-	-	-	-
Net Budget Adjustment Required	$ -	$ 694,371	$ 538,984	$ -	$ -

Additional Comments: The direct costs for 2017, estimated at $225,811.83 will be accrued from the 2017 Recycling Processing Budget account distribution 445-521037-201907-999. A budget adjustment for the direct costs for 2018 and 2019 is required. The actual impact is unknown as it is based on fluctuating market values and global economies. The contract is based on a per tonne rate which is subject to an annual inflation adjustment. The FIS does not reflect the funding committment from MMSM to fund up to 80% of the recycling program as MMSM's funding formula is based on a three year rolling average of costs and therefore the actual timing of the grant monies will flow in subsequent years.

"Original signed by L. Szkwarek, CPA, CGA"
Lucy Szkwarek, CPA, CGA
Manager, Finance and Administration

CONSULTATION

This Report has been prepared in consultation with:

Materials Management, Corporate Finance Department
Legal Services

OURWINNIPEG POLICY ALIGNMENT

The Processing and Marketing Program is consistent with:

1. Section 02-2 Environment – "Incorporate sustainable practices into internal civic operations and programs and services"
By producing an end product that meets stringent specifications, the City will receive the highest revenue available for this material and will ultimately save the material from disposal (landfill).

2. Section 02-2 Environment – "set long range goals for solid waste diversion"
The City will be able to produce a high quality product and which can be sold to overseas markets and maintain a sustainable program

SUBMITTED BY

Department: Water and Waste
Division: Solid Waste Services
Prepared by: M. Kinsley, Supervisor of Waste Diversion
Date: January 10, 2018
File No: G-220

c: Director of Legal Services/City Solicitor, Legal Services Department (email)
Manager of Materials, Corporate Finance Department (email)
WWD-Report-Processor (email)
L. Szkwarek, Water and Waste Department (email)

Attachments:
Appendix 1 – Recycling Today Article, December 6, 2017
http://www.recyclingtoday.com/article/battling-national-sword/