

NO: R192

COUNCIL DATE: September 17, 2018

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **September 13, 2018**

FROM: **General Manager, Engineering**

FILE: **2320-20 (Garbage & Recycling)**

SUBJECT: **Recycle BC Contract Agreement - 2019 to 2023**

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## RECOMMENDATION

The Engineering Department recommends that Council:

1. Authorize staff to advise Recycle BC of the City's intent to enter into a new agreement with Recycle BC before October 1, 2018;
2. Authorize staff to enter into an agreement with Recycle BC as per Option 1 contained in this report, for a five-year term (60 months) from January 1, 2019 to December 31, 2023 which includes new financial incentive rates for the collection of recyclables under the Packaging and Paper Product Extended Producer Responsibility Plan; and
3. Authorize the General Manager, Engineering to execute Master Services Agreements ("MSA") and a Statement of Work ("SOW") with Recycle BC.

## INTENT

The purpose of this report is to seek Council's approval to enter into a five-year agreement with Recycle BC, which includes new financial incentive rates for the collection of recyclables from single-family households and multi-family buildings under the Packaging and Paper Product Extended Producer Responsibility Plan.

## BACKGROUND

On May 19, 2011, the Provincial Government amended the B.C. Recycling Regulation ("Regulation") to include Packaging and Paper Product ("PPP") as a new product category within the Regulation. The Regulation came into effect on May 14, 2014. Since then producers of PPP have been responsible for the life cycle management of their products, which includes collection, processing and marketing for PPP from residential sources throughout the province. In addition, the transfer of responsibility is intended to improve the recovery of PPP in BC plus incentivize producers of PPP to incorporate environmental considerations into the design of their products.

The program is managed by a non-profit agency, Recycle BC, formerly Multi-Material British Columbia ("MMBC"), who is responsible for the development, implementation and management of the PPP Stewardship Plan ("PPSP") on behalf of private industry. The Ministry of

Environment (“MOE”) approved Recycle BC’s stewardship plan for the management of PPP in April 2013. Under the PPPSP, local governments were instructed to choose from one of the following three options:

1. Option 1: Accept Recycle BC’s Financial Incentive Offer

This option provided the greatest assurance that the municipal recyclables collection program would not be impacted. Local governments would continue providing recycling collection services through in-house or contracted service and would receive funding (the financial incentive) for such services from Recycle BC commencing on May 19, 2014.

2. Option 2: Direct Recycle BC to Deliver PPP Curbside Collection Service

This option would require that Recycle BC secure a third-party contractor for the provisions of recycling collection services in the municipality. This would result in local governments having no control over all aspects of the management of curbside recycling collection services to residents. This may have resulted in significant interruptions to the municipal waste collection program where Recycle BC may change collection program (i.e. change from single-stream to multi-stream), recycling receptacles and collection schedules.

3. Option 3: Reject Recycle BC’s Offers (reject Options 1 & 2)

Under this option, local governments would not participate in the Recycle BC program and would not receive any financial incentive. Local governments would simply continue providing curbside recycling program through its current contractor or in-house. In doing so, the local governments would be required to place a levy on its residential property owners for 100% of the annual costs associated with recyclables collection.

Based on a review of the merits of each alternative, the City accepted option 1 as it provided the greatest financial security for the City who subsequently entered into an agreement with Recycle BC. With this option, the City continued to provide recycling collection services through its current contractor (Waste Connections of Canada) and received funding (the financial incentive) for such services from Recycle BC commencing on May 19, 2014. The financial incentives offered by Recycle BC offset the City’s recycling program costs, ensuring the stability of the waste collection utility levy.

## **DISCUSSION**

Under the Recycling Regulation, Section 6, producers must review their approved PPPSP every five years and submit proposed amendments to the MOE for approval. If no amendments are required, the MOE must still be advised. A number of municipalities’ collector agreements with Recycle BC will expire on November 30, 2018, and require renewal in order for communities to continue participating in the program. The City’s collector agreement with Recycle BC does not expire until September 30, 2019.

In late 2017, after three full years of operation, Recycle BC commenced a thorough review of its performance and stewardship plan, to identify changes that should be made to support its ongoing and future success. The plan review included consultation with various stakeholders including Surrey, via a series of workshops and webinars regarding the proposed changes to the

PPPSP, MSA, SOW and collection payment framework. The revised PPPSP will be submitted to the Province on October 1, 2018.

Below is a high level overview of the changes to the plan and collector agreements.

### **Recycle BC's Stewardship Plan Changes**

1. The plan will be amended to include an expanded scope of paper materials that will be accepted at curbside for weekly collection;
2. New eligibility criteria for communities with either new or existing curbside programs wishing to partner with Recycle BC. The new criteria will provide universality and equal opportunity to those local governments that opted not to join the Recycle BC program or communities that did not have PPP curbside collection programs in May 2014;
3. Clear eligibility criteria and timelines for communities with curbside programs that decide to transition to have Recycle BC directly operate their program; and
4. New recovery rates including material specific targets for paper, plastic, glass and metal. The revised plan will include incremental increases to the recovery target over the course of the five year plan with the goal of increasing recovery from the current 75% to 78% by 2022.

Staff have reviewed the above referenced proposed changes to the PPPSP and do not have any concerns. Staff are of the opinion that the above changes will bring clarity to the PPPSP.

Staff do have concerns with the change noted below:

1. Delivery of Streetscapes Recycling Collection Services

The Recycling Regulation requires that producers develop a plan to collect packaging and paper products from public places on a municipal property, i.e. public litter container collection. Recycle BC's PPP revised plan identifies some key challenges to launching a streetscape recycling service given that the material being recycled is poorly sorted, heavily contaminated, wet with residual liquids, and unclean with food waste.

Recycle BC's plan proposes that they will continue to perform studies to determine appropriate container type, bin signage and other design elements until a feasible model for streetscape materials can be determined. If a practical model is determined that produces reasonable amounts of PPP, Recycle BC will consult on the program's design and financial offering to collectors.

Staff disagree with Recycle BC's streetscapes approach on the basis that the design may not be complementary to existing municipal public litter bin collection services. Should this occur, many municipalities, including Surrey, will be excluded from participating in the program.

In Surrey's case, streetscape recyclables are presently collected by internal work crews. Our current process conveniently allows customers to discard their recyclable materials comingled (unsorted) into a single receptacle (single-stream). The recyclables are collected using waste collection trucks with compaction units which significantly

increases efficiencies. Should Recycle BC require that recyclables be collected at streetscape via a multi-stream process, i.e. packaging placed into one receptacle, paper into a second receptacle, and glass into a third receptacle, this approach would require the City to triple its current inventory of approximately 750 public recycling receptacles. It is estimated that the City's capital cost in this regard would exceed \$4.5 million. It would also require alternative (non-compaction) recycling collection vehicles to service these receptacles which are far less efficient (and more costly) compared to our current process of single-stream collection with compaction.

Additionally, Recycle BC has unilaterally decided that they will only offer financial incentives to collectors for streetscapes collection, and will not provide direct services if a collector declines the financial incentive.

Staff have advised Recycle BC that they do not agree with their streetscapes approach. Recycle BC's position has not changed to date for streetscapes delivery. The City, along with other regional municipalities, will continue dialogue with the Province.

## **Statement of Work Changes**

### **1. Financial Incentives**

A key component to the new collector agreements is the payment framework which contains the incentive offers. In 2013, research into PPP collection costs was completed to assist in setting financial incentive values so that they act as market-clearing prices. In 2017, Recycle BC repeated the research to assist in the setting of financial incentive values for the new agreement.

Similar to existing collector agreements, the incentive rates proposed for curbside and multi-family collection are different, based on municipal collection programs. The incentive rates offered by Recycle BC for curbside single-stream programs are lower than what they are offering for multi-stream curbside collection. This is due to:

- a) The generally lower costs associated with curbside single-stream collection versus the higher cost of curbside multi-stream collection; and
- b) The higher cost of single-stream processing combined with the generally lower market value of single-stream materials (due to the higher contamination levels compared to multi-stream recycling). The education and administration incentives are the same regardless of the type of collection programs.

Metro Vancouver municipalities have raised concerns regarding the modest increases to the financial incentives and suggested that provisions for annual inflationary costs be included. For most municipalities, the financial incentive is less than their current and projected costs of providing recyclables collection services. However, in Surrey's case, the new financial incentive that the City would receive from Recycle BC based on the current number of households is approximately \$6 million per year, which is an increase of approximately \$300,000 annually. The financial incentives offered by Recycle BC will offset the City's recycling program costs ensuring the stability of the waste collection utility levy.

As of July 2018, Recycle BC advised that the incentives are firm and non-negotiable at this time.

## 2. Contamination

In 2018, new strict global market standards in relation to recycling contamination came into effect. Global market standards are mainly dictated through recyclables commodity markets situated in countries such as China that receive a significant percentage of processed recyclables materials from around the world including North America. These new standards require that contamination levels not exceed 0.5%. . In general terms, only the highest quality materials can be marketed and there is an increased emphasis on ensuring the recycling material quality is continuously improved.

While Recycle BC has been able to manage the recycling market changes, they have adjusted their Service Level Failure Credit (“SLFC”) structure to incentivize local governments to reduce contamination in the PPP stream. This approach also ensures that the financial incentive rates are not negatively impacted.

The current SLFC is \$5,000.00 per load up to a maximum of 24 loads annually for the curbside SOW. The new SLFC will include a year-over-year stepped increase reaching \$20,000 per load (in year 5 of the contract) for contamination above 3%. The SLFC is still capped at 24 loads annually and if SLFC is not applied in any year, it reverts back to the Year 1 value. There are no changes to the multi-family program.

Based on contamination audits performed by Recycle BC, Surrey’s contamination rate is approximately 10%, which is equivalent to other single-stream programs in the province. Over the course of the current five year contract term with Recycle BC, Surrey has been fined for a total of 19 loads which equates to \$95,000 in SLFC’s.

City staff are aggressively tackling the contamination and have developed a robust operational strategy to reduce contamination in the PPP stream. The strategy will focus on the routes identified with high contamination. The plan includes curbside enforcement, direct door-to-door education with repeat offenders, and an education campaign on proper disposal and impacts of contamination. Staff anticipate that with the new approach contamination levels will decrease over time as more routes are educated about impacts of contamination on recyclables processing.

## 3. Promotion and Education Terms

There is a minor change to the SOW that provides Recycle BC with the right to require advanced approval of significant promotion and education materials to ensure accuracy and consistency. Staff do not have any concerns with this requirement and currently consult with Recycle BC.

## **New Agreement Deadline and Contract Term**

Recycle BC has set a deadline of October 1, 2018 for collectors to communicate their decision on the new agreement. While the City has no obligation to enter into a new agreement until the current agreement expires on September 30, 2019, Recycle BC is requesting that all collectors transition to the new agreement effective January 1, 2019 for a five year term ending on

December 31, 2023. Recycle BC is in the process of aligning the terms of all collector agreements with the PPPSP to provide consistency and a level playing field between local governments.

Accordingly, Recycle BC advised that all new agreements with collectors will expire on December 31, 2023 regardless of the agreement commencement date. In essence, Recycle BC will reduce the term of the agreement for those collectors that commence their new agreements past January 1, 2019 to ensure that all collector agreements expire at the same time.

## **Evaluation**

The new agreements provide the same options that were available in 2013 for local governments to participate in the program.

Despite staff concerns as noted in this report, staff recommends entering into the new agreement and accepting the financial incentive offered by Recycle BC. In doing so, the City will benefit by taking advantage of the new increased financial rates. It is estimated that the City will receive approximately \$6 million from the new financial incentives versus receiving \$5.7 million based on the existing incentive rates (an increase of \$300,000).

Alternatively, in the event that the City elects not enter into the new agreement now or by the end of our existing agreement with Recycle BC, with the proposed associated financial incentives, the City could either:

1. Direct Recycle BC to deliver PPP Curbside Collection Service

This option is not recommended at this time. This approach, as described previously in this report, would be disruptive to the City's waste collection customers given that collection of weekly recyclables may not coincide with collection of garbage or organic waste. This would also require a renegotiation of the City's current contract with Waste Connections of Canada for weekly collection services, likely resulting in higher costs for the curbside collection of garbage and organic waste. Nevertheless, in advance of the termination of the City's current waste collection contract with Waste Connections of Canada in 2023, staff will revisit this option (closer to 2023) to determine its viability at that time.

2. Reject Recycle BC's Offers

This option is also not recommended. Under this option, the City would no longer participate in the Recycle BC program and forego receiving any financial incentive. The City would revert back to providing the curbside recycling program. In doing so, the City would be required to place a levy on its residential property owners for 100% of the annual costs associated with recyclables collection. Staff estimates that the waste collection utility levy would need to be increased from the 2018 rate of \$287.00 to \$325.00 to continue the service without the financial incentive rates.

Based on the above, and reviewing the merits of each alternative, the level of service currently provided to all customers, and following similar considerations that were applied when the City originally accepted MMBCs Incentive Offer in 2013, it is recommended that the City advise Recycle BC of our intent to enter into a new agreement with Recycle BC. The agreement will be for a five-year term (60 months) from January 1, 2019 to December 31, 2023 which includes new

financial incentive rates for the collection of recyclables under the Packaging and Paper Product Extended Producer Responsibility Plan.

## **SUSTAINABILITY CONSIDERATIONS**

The Recycle BC agreement supports the objectives of the City's Sustainability Charter 2.0. In particular, it supports the Sustainability Charter 2.0 theme of Infrastructure. Specifically, the Contract supports the following Desired Outcomes ("DO") and Strategic Directions ("SD"):

- Materials and Waste DO<sub>19</sub>: Residents and businesses are conscious of their consumer choices and reuse existing materials first;
- Materials and Waste DO<sub>20</sub>: Materials and resources are used efficiently, sourced locally where feasible, and repurposed or recycled at the end of their life cycle;
- Materials and Waste DO<sub>21</sub>: The City is moving toward a zero-waste target, in line with regional waste diversion goals;
- Materials and Waste SD<sub>13</sub>: Work with local businesses and organizations to maximize the recovery and reuse of local materials and waste products as part of the circular economy; and
- Materials and Waste SD<sub>14</sub>: Provide tools and educational resources that support residents and businesses to reduce consumption.

## **CONCLUSION**

Based on the above discussion, the Engineering Department recommends that Council:

1. Authorize staff to advise Recycle BC of the City's intent to enter into a new agreement with Recycle BC before October 1, 2018;
2. Authorize staff to enter into an agreement with Recycle BC as per Option 1 contained in this report, for a five-year term (60 months) from January 1, 2019 to December 31, 2023 which includes new financial incentive rates for the collection of recyclables under the Packaging and Paper Product Extended Producer Responsibility Plan; and
3. Authorize the General Manager, Engineering to execute Master Services Agreements ("MSA") and a Statement of Work ("SOW") with Recycle BC.

Fraser Smith, P.Eng., MBA  
General Manager, Engineering

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