

Staff Report



To	Committee of the Whole
Service Area	Infrastructure, Development and Enterprise Services
Date	Tuesday, February 7, 2023
Subject	Region of Waterloo Organics Processing Contract Renewal

Recommendation

1. That Council approve the renewal of the Organic Waste Processing Agreement with the Regional Municipality of Waterloo for the first of two optional five-year renewal terms for the continued processing of organics (green cart) material from October 14, 2023 to October 13, 2028;
 2. That Council approve the amendment of the Organic Waste Processing Agreement with the Regional Municipality of Waterloo to suspend the annual price index adjustment for the five-year term to reflect current market conditions; and
 3. That staff be directed to negotiate and execute an amending agreement to the Organic Waste Processing Agreement with the Regional Municipality of Waterloo to give effect to the foregoing recommendations, subject to the satisfaction of the Deputy Chief Administrative Officer of Infrastructure, Development and Enterprise Services, and the General Manager of Legal, Realty, and Court Services/City Solicitor.
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Executive Summary

Purpose of Report

The purpose of this report is to seek direction to negotiate and execute the renewal of, and an amendment to, agreement (OWPA) between The Corporation of the City of Guelph and the Regional Municipality of Waterloo (ROW), dated August 25, 2010 (Organics Processing Agreement). The proposed renewal is the first of two optional five-year terms. The proposed amendment is required to maintain cost efficiency for Guelph and better align processing fees charged to the ROW with market conditions.

Key Findings

Executing the first of two optional five-year extensions is a prudent business decision for the City of Guelph, positioning Guelph to continue operating its organics waste processing facility (OWPF) in a fiscally and environmentally responsible manner. It also delivers on the strategic relationship between Guelph and the ROW to treat organics for both communities

As more organic waste processing facilities are available in the province, staff noted processing fees have stagnated relative to the price escalation clause contained in the Organics Processing Agreement. This means that processing costs would be unreasonable for the ROW relative to current and anticipated near-term market conditions. In response, the City plans to suspend the price escalation clause contained in the Organics Processing Agreement as a market correction for the term of the first five-year renewal to ensure Guelph's and the ROW's interests are protected in terms of value and sustainability of the organics processing operation.

Strategic Plan Alignment

Sustaining our Future: Mitigate climate change by reducing Guelph's carbon footprint.

Accountable contract management of the OWPF ensures the sustainable environmental performance and processing of both Guelph's and the ROW's organic waste, resulting in continuous greenhouse gas reduction of approximately 19,000 tonnes carbon dioxide equivalent per annum.

Working Together for our Future: Develop a long-term financial and resource strategy that is achievable and affordable.

Maintaining key strategic relationships and maximizing utilization of OWPF merchant capacity ensures affordability through economies of scale while also ensuring beneficial environmental outcomes are achieved.

Financial Implications

The ROW provides 20,000 tonnes of organics waste that are processed at the OWPF annually. The OWPF has a fixed annual operating cost, so the more waste processed annually, the more cost effective the operation is on a per tonne basis. Thus, it is fiscally prudent to continue to work with the ROW to ensure its organics are processed at the OWPF at a fair market value, which ensures processing costs for Guelph residents remain competitive.

Through negotiation, it is important to ensure that Guelph charges the ROW a fee that is competitive to ensure Guelph continues to receive the ROW organics supply allowing Guelph to keep operating costs down while maintaining the sustainability of the OWPF. The expected average adjustment resulting from the contract extension over the term of the first optional five-year extension is estimated to be approximately \$48K, or approximately 2% per year, resulting in revenue being maintained at the 2022 budgeted amount for the next five years. This adjustment will be managed through variance relative to the overall Solid Waste Resources budget for 2023 and will be adjusted in the 2024-2027 multi-year budget. The total estimated value of the market correction is estimated at \$240K foregone revenue to the City and \$240K in savings for the ROW.

Conversely, the impact to Solid Waste Resources' budget could be as much as \$500,000 per year in additional costs, related to the cost of operating for processing Guelph's material only, if we do not fully utilize the 20,000 tonnes of merchant capacity. Maintaining fair market conditions to preserve the strategic relationship with the ROW mitigates this risk for the City of Guelph as well as the efforts that would be required to sell the available merchant capacity in a piece-meal manner through the potential management of multiple contracts with others.

Report

Executing the first of two optional five-year extensions is a prudent business decision for the City of Guelph, positioning Guelph to continue operating its OWPF in a fiscally and environmentally responsible manner. It also delivers on the strategic relationship between Guelph and the Regional Municipality of Waterloo (ROW) to treat organics for both communities.

As more organic waste processing facilities are now available in the province, staff noted processing fees have stagnated relative to the price escalation clause contained in the Organics Processing Agreement. This means that Guelph's processing costs would be unreasonable for the ROW relative to current and anticipated near-term market conditions. In response, the City plans to suspend the price escalation clause contained in the Organic Waste Processing Agreement as a market correction for the term of the first five-year renewal to ensure Guelph's and the ROW's interests are protected in terms of value and sustainability of the organics processing operation.

Organics processing is a key aspect of Guelph's circular economy and environmental sustainability leadership. The City's OWPF is managed by Environmental Services' Solid Waste Resources (SWR) Division. The OWPF processes approximately 30,000 tonnes of organic waste annually, of which 20,000 is from the ROW curbside organic waste collection program under contract, and approximately 10,000 tonnes from Guelph's curbside organic waste collection program. The OWPF is operated by Wellington Organix Inc. under contract to the City.

The long-term processing contract between the City and the ROW consists of one initial 10-year term with two additional optional five-year terms, totaling 20 years. The initial 10-year term is coming to completion in October 2023, and the parties are now seeking to execute the first of two potential five-year extensions. The long-term nature of the envisioned contractual relationship provides mutual benefit to both municipalities, with the two-thirds/one-third tonnage split providing similar processing costs for both municipalities and their residents through economies of scale.

The revenue from the ROW offsets the carrying costs of the OWPF operation, including the cost of the City-owned processing infrastructure and management, and operating and maintenance costs, thereby yielding a similar processing cost on a per tonne basis for both municipalities. For the City, the relationship with the ROW as client, and consumer of merchant capacity, is a strategic one. The relationship ensures that the business case for the OWPF meets its intended economies of scale, thereby ensuring processing costs for Guelph residents remain competitive.

In June of 2022, [the ROW reported to its Planning and Public Works Committee](#) seeking and obtaining approval to negotiate and execute a contract extension (first optional five-year term) with the City, noting several strategic and relationship benefits relative to the long-term contractual relationship partnership. Benefits noted include: securing processing capacity in advance of an anticipated growth in organics processing needs throughout Ontario; allowing time for continued long-term planning needs, including assessing impacts and alignment with the Province's Organics Strategy; reliability and quality of services provided by Guelph and

Wellington Organix Inc. to date; as well as value-added support provided by the City, including quantifying and verifying carbon credits associated with ROW's organics diversion program, and ongoing collaboration and sharing of related policies with respect to waste initiatives that utilize and positively affect avoidable food waste. Also, as the ROW produces more than 20,000 tonnes per year of organic waste from its curbside residential program, the processing relationship provides key support in terms of meeting the ROW's organics program diversification and redundancy objectives.

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Consultations

Finance

Legal, Realty and Court Services

Facilities and Energy Management

Attachments

None

Departmental Approval

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