

November 17, 2017

Recommendations:

To avoid stranded assets Stewardship Ontario should:

- Require bidders under any Request for Expressions of Interest (REOI) and/or Request for Proposals (RFP) for collection and post-collection services to consider use of existing assets in their bids, and give preference to bids that result in the avoidance of stranded assets (i.e. bins, trucks, depots, material recovery facilities, etc.);
- While it is understood efficiencies will be sought in a new system by improving and scaling how materials are processed, consideration (including environmental and safety) should be included in the evaluation process regarding the impact of transporting materials over large distances; and,
- Stewardship Ontario should include in its annual report any municipal stranded assets associated with transitioning the program.

The proposed recommendations will ensure compliance with the Minister's goals and objectives under the *Waste-Free Ontario Act* and accompanying strategy. These elements encourage a plan that continues to utilize existing infrastructure until it is fully amortized while working with local municipalities and their representatives to develop strategies to sell off and/or repurpose their assets in a manner that minimizes the financial loss.

Background:

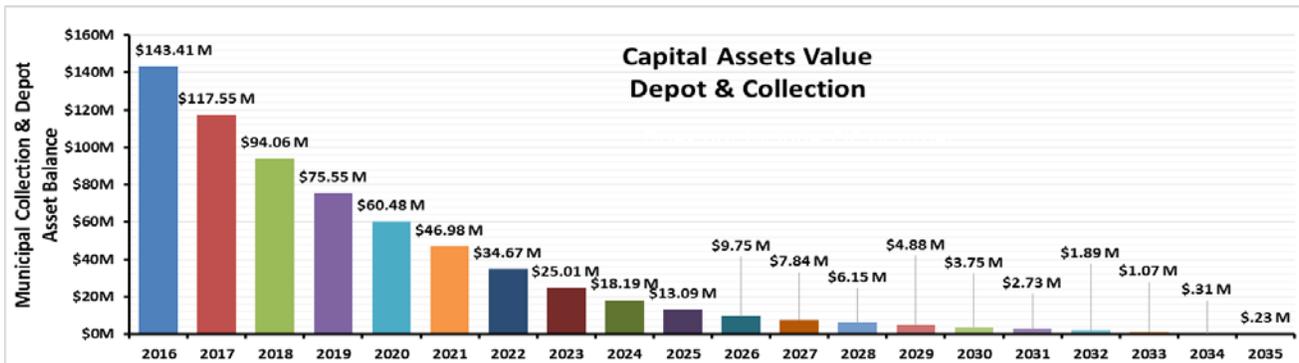
- On August 14, 2017 the Minister of Environment & Climate Change sent a [letter to Stewardship Ontario and the Resource Productivity and Recovery Authority](#) requesting them to formally initiate a consultation and bring forth a proposal on amending the Blue Box Program Plan (BBPP).
- The Minister's letter provided this direction:

*It is in the public interest that the proposal for an amended Blue Box Program Plan is consistent with the following principles: ...
Avoiding stranded assets to the extent possible in a collaborative manner.*
- Stranded assets are defined as "assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities."¹ With the encouragement of the Province and in order to comply with O.Reg 101/94, municipalities invested \$100s of millions into the development, acquisition and/or maintenance of assets to support the Blue Box recycling programs. There is concern

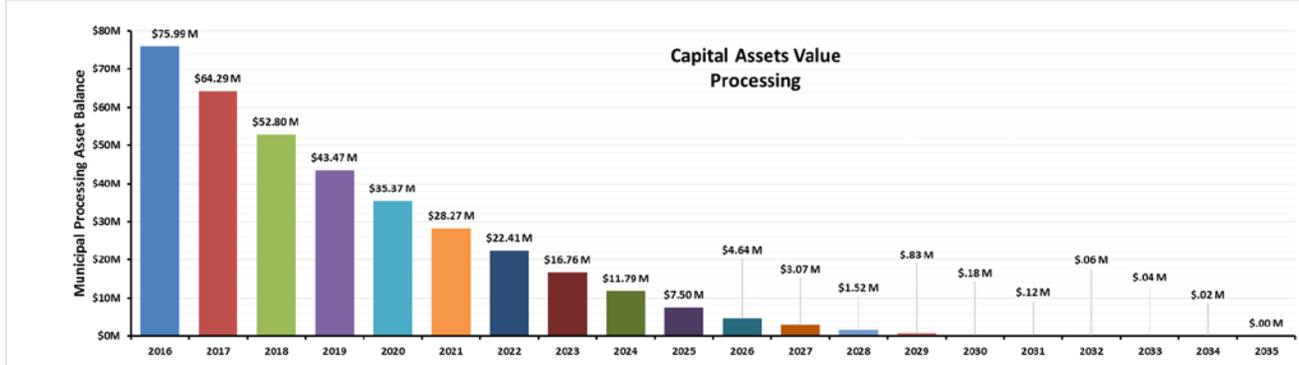
¹ "[Stranded Assets Programme](#)". *Smith School of Enterprise and the Environment*. January 2014.

that introduction of the amended Blue Box Program Plan (a-BBPP) will result in the stranding of significant assets across the Province if the issue is not managed effectively.

- The Province currently benefits from an extensive network of municipally operated depots, transfer facilities and material recovery facilities (MRFs). The majority of depots and transfer sites are expected to continue to have a role under a producer managed collection and transfer framework subject to fair compensation and accessibility requirements.
- Extensive rationalization & repurposing of many of the processing facilities may occur.
- The following figures represent an estimate of the current asset value for depot and collection as well as processing, based on the municipal 2016 Datacall.
- Analysis of the current municipal transfer and processing infrastructure by AMO and the CIF found \$107M in municipal transfer and processing assets in operation today, and the majority of the assets will not be fully amortized until 2020.



MRFs are included



- To date, Stewardship Ontario’s consultation has not included options either to avoid stranded municipal assets or mechanisms to value and dispose of them. The recommended procurement and payment for post collection services being proposed is as follows:
 - Issuance of an REOI to gauge capacity to receive, process, and market collected paper products and packaging (PPP);
 - Issuance of RFPs for post collection services including soliciting information to confirm ability to meet performance standards;

- Qualification based on compliance with processor qualification standards and evaluation criteria measured on multiple factors – not limited to price, location, capability, capacity or output; and,
- Provision of incentives to encourage reliable and high commodity markets and sharing of revenue and risk.
- Discussions with municipal asset owners across the Province suggest many are concerned their assets will become stranded or have diminished value if they are not selected as transfer and/or processing service suppliers under this proposal.
- The Minister’s letter to Stewardship Ontario and RPRA regarding “First Phase Transition - Direction for Proposal for an Amended Blue Box Program Plan (Aug 14, 2017), indicates that the Minister expects, “...there will be a clear and transparent process by which municipalities demonstrate the benefit their taxpayers will receive [as a result of transition]”.
- While there is an opportunity for operational savings and removing the cost of the Blue Box service to municipalities, there is concern that these savings may potentially result in job and financial losses across the Province as a result of the proposed approach to processing.

Granted the pace at which the process is moving, we will likely provide additional comments on this issue.