
REPORT TITLE: Heart Lake Community Recycling Centre Operations

FROM: Andrea Warren, Interim Commissioner of Public Works

RECOMMENDATION

That operation of the Heart Lake Community Recycling Centre (Heart Lake CRC) be brought in-house to be operated by Regional staff effective April 1, 2022, as described in the report of the Interim Commissioner of Public Works, listed on the April 1, 2021 Waste Management Strategic Advisory Committee agenda, titled “Heart Lake Community Recycling Centre Operations”;

And further, that 27 new staffing positions for in-house operation of the Heart Lake CRC, as described in the subject report, be approved in advance of the 2022 budget with staff training beginning in March 2022;

And further, that funding for the purchase of new equipment for in-house operation of the Heart Lake CRC in the amount of \$1.4 million be set up under Capital Project 21-6570, financed from the Tax Rate Stabilization Reserve;

And further, that the Commissioner of Finance and Chief Financial Officer be authorized to increase the value or extend the term of existing contracts or award new contracts, on a direct negotiation basis or otherwise, on business terms acceptable to the Director of Waste Management and on legal terms satisfactory to the Regional Solicitor, in order to carry out the direction of this report for the Heart Lake CRC, subject to the limit of the program’s approved budget and notwithstanding the requirements of Part V of the Procurement By-law 30-2018, as amended;

And further, that where the authority conferred or delegated is to be exercised other than in accordance with Part V of the Procurement By-law 30-2018, as amended, Council states that pursuant to sections 3.1 and 3.2 of the subject by-law, as a matter of public record, it is satisfied that procuring in such manner is necessary in the public interest to ensure a seamless and uninterrupted transition from the current operator of the Heart Lake CRC to Regional staff.

REPORT HIGHLIGHTS

- There are six Community Recycling Centres (CRCs) in the Region of Peel. Five of the CRCs are operated by Regional staff and one of the CRCs (Heart Lake) has been operated by Miller Waste Systems Inc. since it opened in 2014.
- A 2017 report titled “Community Recycling Centre Performance Review” indicated that staff would report back to Council prior to the end of the Heart Lake CRC operating and maintenance contract with a recommended approach on how to proceed.

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- The Heart Lake CRC contract is set to end in November 2021. Staff completed an analysis to determine if the Region should continue to contract the operation of the CRC or move the operation in-house in 2022.
 - Performance metrics for customer satisfaction, health and safety, and environmental compliance show similar performance of the Heart Lake CRC to the other Peel operated CRCs.
 - The financial assessment indicates that the Heart Lake CRC is the most expensive CRC to operate and that an annual savings of \$317 thousand could be achieved at this site if the operation is brought in-house in 2022. Overall savings of \$0.6 million will be achieved for Waste Management as existing resources will be leveraged to support the oversight of the Heart Lake CRC.
 - Staff therefore recommends that the operation of the Heart Lake CRC be brought in-house effective April 1, 2022.
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DISCUSSION

1. Background

There are six Community Recycling Centres (CRCs) in the Region of Peel where residents and small businesses can drop off: garbage, recycling and yard waste; materials not collected at the curb such as wood, scrap metal and electronics; household hazardous waste; and reusable goods. Five of the CRCs (Battleford, Bolton, Brampton, Caledon and Fewster) are operated by Regional staff and one of the CRCs (Heart Lake) is operated by a third-party contractor.

In the 2013 Budget approval process, Regional Council directed staff to secure a third-party contractor to operate and maintain the Heart Lake CRC in order to compare public and private CRC operations. A five-year operating and maintenance contract, plus two 12-month optional periods, was awarded to Tuff Recycling and Supply Inc. in 2014. Tuff Recycling and Supply Inc. was bought by Miller Waste Systems Inc. in 2018. The contract is currently in its second optional period and is set to end on November 30, 2021.

In 2017, staff reported on the first two years of the Heart Lake CRC contract through a report titled “Community Recycling Centre Performance Review”. At the time it was determined that the Heart Lake CRC contractor was meeting its contractual obligations and providing good services to its customers. In addition, key performance indicators for customer service, health and safety and environmental compliance were comparable across all CRCs. As a next step, it was noted that staff would report back to Council prior to the end of the Heart Lake CRC contract with a recommended approach on how to proceed.

As the Heart Lake CRC contract is coming to an end, staff completed an analysis to determine if the Region should continue to contract the operation of the Heart Lake CRC or move the operation in-house in 2022. This analysis considered the performance of the contracted operations in the following areas: customer service, health and safety, environmental compliance and financial.

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2. Findings

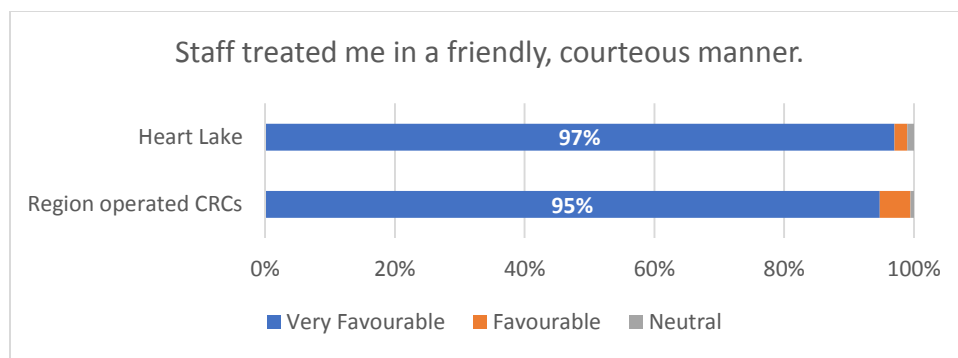
a) Customer Satisfaction

The Region's contractor is obligated to have customer satisfaction levels that are comparable to the Region-operated CRCs. To determine if this requirement is being met, the Region conducts annual customer service satisfaction surveys across the six sites and compares the results between the Heart Lake CRC and the other five Region-operated CRCs.

The 2019 survey results (which are consistent with results since the start of operating the Heart Lake CRC) showed that customer satisfaction levels at the Heart Lake CRC were similar to customer satisfaction levels at the five CRCs operated by Regional staff, as detailed below.

Customer Interaction

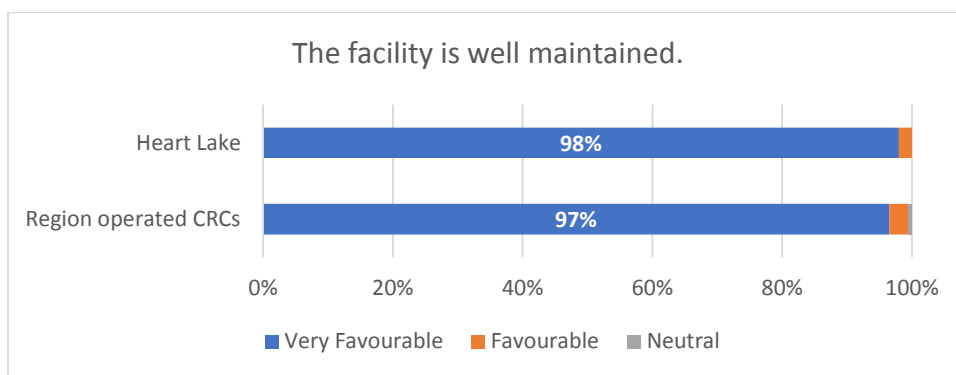
When asked if they were treated in a friendly and courteous manner by staff, 97 percent of Heart Lake CRC customers responded very favourably and 2 percent responded favourably. This is in line with the responses from customers of the other CRCs, that responded 95 percent very favourably and 4 percent favourably. The remaining one percent of customers from the Heart Lake CRC and the other CRCs responded neutrally to this question.



Facility Condition

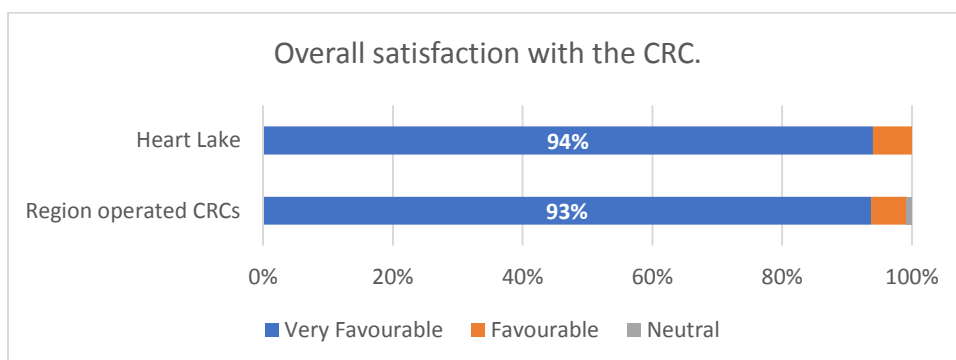
When asked if the facility was maintained in a clean and organized manner, 98 percent of Heart Lake CRC customers responded very favourably and 2 percent responded favourably. This is in line with the responses from customers of the other CRCs, that responded 97 percent very favourably and 2 percent favourably. The remaining one percent of customers at the other CRCs responded neutrally to this question.

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Overall Satisfaction

When asked if they are overall satisfied with the operation of the CRC, 94 percent of Heart Lake CRC customers responded very favourably and 6 percent responded favourably. This is in line with the responses from customers at the other CRCs, that responded 93 percent very favourably and 6 percent favourably. The remaining one percent of customers at the other CRCs responded neutrally to this question.



Based on the survey results, staff determined that customer satisfaction at the Heart Lake CRC is in line with the customer satisfaction of the other CRCs.

b) Health and Safety

With respect to health and safety, the Heart Lake CRC performed similarly to the other CRCs. For 2018 and 2019, there were no documented or reported health and safety violations or orders from the Ministry of Labour for the Heart Lake CRC or the other five CRCs operated by Regional staff.

c) Environmental Compliance

With respect to environmental compliance, the Heart Lake CRC performed similarly to the other CRCs. There are no documented or reported Environmental Compliance Approval violations issued by the Ministry of the Environment, Conservation and Parks for the Heart Lake CRCs or the five CRCs operated by Regional staff.

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d) Financial Assessment

i) Heart Lake CRC vs. Other CRCs

The financial assessment compared the direct operating costs of the Heart Lake CRC with similar size CRCs operated by Regional staff (Battleford, Brampton and Fewster). The Bolton and Caledon CRCs are not included in the operating cost comparison as both have a much smaller scale of operations and lower operating costs.

Operating costs for the CRCs vary based on size, site layout, operating hours and tonnage. The biggest driver for operating cost is the operating hours, as there is a direct correlation between total operating hours and staffing costs. Another driver for the operating cost is tonnage, as there is a direct correlation between tonnage and haulage and disposal costs.

Tables 1 and 2 below provide the 2019 gross operating cost and the gross operating cost per hour and per tonne for the Heart Lake CRC and the three similar sized CRCs operated by Regional staff.

Table 1: 2019 Operating Cost per Hour

CRC	Gross Operating Cost (Millions)	Operating Hours	Gross Expense per Operating Hour
Heart Lake	\$4.1	2932	\$1,409
Fewster	\$3.3	2932	\$1,157
Brampton	\$4.3	3191	\$1,348
Battleford	\$4.0	3191	\$1,283

Table 2: 2019 Operating Cost per Tonne

CRC	Gross Operating Cost (Millions)	Tonnage	Gross Expense per Tonne
Heart Lake	\$4.1	10,074	\$410
Fewster	\$3.3	10,165	\$334
Brampton	\$4.3	15,147	\$284
Battleford	\$4.0	15,104	\$271

The above tables show that the operating cost per hour and the operating cost per tonne for the Heart Lake CRC are significantly higher than the other CRCs.

ii) Projected Costs for the Heart Lake CRC

In addition to reviewing the historical operating costs for the CRCs, staff projected the future cost to operate the Heart Lake CRC in-house versus contracting out to a third-party based on forecasted tonnage and population growth. The biggest assumption built into the projection is that prices bid in response to a procurement

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process would be similar to the current Heart Lake CRC contract price. To verify this assumption, staff completed a municipal scan and, based on feedback regarding recently tendered work, is satisfied that this is a reasonable assumption.

Table 3 below breaks down the projected 2022 gross cost to operate the Heart Lake CRC in-house versus a third-party. Based on the projection, the cost to operate the Heart Lake CRC in-house is approximately \$0.3 million less in 2022 than the cost to operate it with a third-party contractor.

Table 3: Projected 2022 Gross Operating Cost per year

Gross Cost Category	Third-party (Thousands)	In-house (Thousands)	Difference (Thousands)
Equipment, Haulage and Processing	\$2,182	\$1,524*	(\$658)
Salary and Wages	\$1,544	\$1,690**	\$146
Equipment Maintenance	\$128	\$128	-
Property Maintenance	\$440	\$342	(\$98)
Operation Oversight	\$260	\$552	\$292***
Corporate Internal Charges	\$80	\$159	\$79
Other Costs	\$278	\$200	(\$78)
Total	\$4,912	\$4,595	(\$317)

**The cost of capital equipment in the amount of \$1.4 million required for in-house operation is included in this projection; majority of equipment will be amortized over a period of 7 years.*

***27 new staff positions required for in-house operations*

****The operating budget for Heart Lake will increase by \$292,000 as a result of redistributed costs across all six CRCs, however the overall cost for oversight of the CRC network will remain the same.*

The financial assessment shows that the Heart Lake CRC is the most expensive CRC to operate (despite having fewer operating hours and lower tonnages than the Brampton and Battleford CRCs) and will continue to be the most expensive if operated by a third-party. By moving the operation in-house, the Region will realize approximately \$317 thousand in operating savings at this site in 2022. Overall savings of \$0.6 million will be achieved for Waste Management as existing resources will be leveraged to support the oversight of the Heart Lake CRC.

3. Recommended Delivery Model for the Heart Lake CRC and Next Steps

Based on the analysis, staff recommends that the operation of the Heart Lake CRC be brought in-house. In addition to the operational cost savings, by integrating the Heart Lake CRC into the Region's CRC network there will be operational efficiencies such as allocating staff among the six sites, utilizing the established haulage network and consolidating processing and disposal contracts.

To accommodate the transition of the operations from the contractor to the Region, Miller Waste Systems Inc. agreed to a further four-month extension from December 1, 2021 to March 31, 2022. If the recommendation set out in this report regarding the operation of the

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Heart Lake CRC is approved, the option to extend will be exercised. The cost of such extension was built into the analysis.

It is recommended that the Heart Lake CRC be closed for four days (March 28 to 31, 2022) so the contractor can remove their equipment and Regional staff can prepare the site. The Heart Lake CRC will reopen on April 1, 2022 for business, utilizing the Region's in-house operations team. This change will be communicated in advance and residents will temporarily be redirected to the other CRCs.

The process to recruit staff for the transition of operations is scheduled to begin in January 2022. The recruitment process will include consideration of staff currently operating the Heart Lake CRC. Staff training will begin in March 2022 to allow for at least four weeks of training including one week online and three weeks hands-on training at the various CRCs. Dedicated staff for the Heart Lake CRC will be on-site between March 28 and 31, 2022 to prepare the site for in-house operation. As such, it is recommended that 27 new staff positions (17 full-time, 6 part-time and 4 student or casual) be approved at an approximate cost of \$1.7 million per year prior to the 2022 budget process. These staff positions were accounted for in the analysis of the Heart Lake CRC and projected savings in 2022.

The Region will be required to purchase new equipment to operate the Heart Lake CRC in-house. This equipment includes compaction trailers, roll-off trucks, loaders, roll-off bins, etc. The cost of the equipment is approximately \$1.4 million. It will mostly be amortized over a period of 7 years, and along with funding allocation for future replacement, this will result in an annual cost of \$0.5 million. This cost has been built into the 2022 projected savings. Due to the nature of the equipment, the procurement and fabrication process will take anywhere between 8 to 10 months.

RISK CONSIDERATIONS

To address the risk associated with the assumption that bids in response to a procurement process would include a similar price as the current Heart Lake CRC contract staff completed a municipal scan and determined that bids would likely be similar if there are no significant changes to the scope of the work.

In 2020, the Heart Lake CRC's tonnage and customer volumes have drastically increased due to COVID-19. Staff is unsure if the increased usership of the CRC will continue (as residents are more familiar with the sites) or if tonnages will decrease post-COVID to align with 2019 numbers. Staff is monitoring and assessing if this change is permanent or temporary. In any case, an increase in tonnage and usership would impact both third-party and in-house operations the same and would not change the conclusions reached in this report.

PROCUREMENT IMPLICATIONS

Procurement has reviewed the relevant contracts that currently service the other CRCs in order to determine whether the goods delivered or services performed pursuant to those contracts could be extended to the Heart Lake CRC.

The review has determined that in many of these cases, the Procurement Award Reports authorize the increase of the contract value within a particular level set out in Schedule "B" of the Procurement By-law. However, Legal has advised that extending some of the contracts to

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the Heart Lake CRC would amount to a new procurement that would be subject to the obligations the Region has to be compliant with applicable international and domestic trade agreements, thereby requiring that the goods or services required for the Heart Lake CRC be competitively procured.

Considering the overall number of contracts and the need to ensure a successful transition from the current operator to Regional staff in a short period of time, authority to not comply with the trade agreement requirements and authority to delegate entering into contract amendments to the CFO may be based on the use of sections 3.1 and 3.2 of the Procurement By-law. These sections allow Regional Council to authorize by resolution the purchase of goods and services other than in the manner required by the Procurement By-law on the basis that it is satisfied that it is necessary to do so in the public interest.

FINANCIAL IMPLICATIONS

Moving operations of the Heart Lake CRC from third party to in-house would result in an estimated operating savings at this site of approximately \$317 thousand annually starting in 2022. The savings would increase each year at the rate of inflation.

Staff also request that a new capital project in the amount of \$1.4 million be set up under Capital Project 21-6570 financed from the Tax Rate Stabilization Reserve. The capital project is for the purchase of new equipment for in-house operations of the Heart Lake CRC.

The \$317 thousand of annual savings includes addition of 27 staff positions at an estimated cost of \$1.7 million and capital cost of \$1.4 million for new equipment required to operate the Heart Lake CRC, amortized over seven years.

In addition to the \$317 thousand savings at the Heart Lake CRC, there will be \$292 thousand in savings achieved by leveraging existing resources from the other five CRCs to provide oversight of the Heart Lake CRC. Therefore, the Waste Management program will achieve overall savings of \$0.6 million by moving the operations to in-house at the Heart Lake CRC.

CONCLUSION

Staff reviewed the contracted operation of the Heart Lake CRC and recommends that the operation is brought in-house effective April 1, 2022 for cost savings. The financial assessment shows that the Heart Lake CRC is the most expensive CRC to operate and that an annual savings of \$317 thousand could be achieved at this site if the operation is brought in-house in 2022. In addition to the \$317 thousand savings at the Heart Lake CRC, there will be \$292 thousand in savings achieved by leveraging existing resources from the other five CRCs to provide oversight of the Heart Lake CRC for an overall savings of \$0.6 million. These savings are projected to increase annually at the rate of inflation.

In addition to the cost savings, by integrating the Heart Lake CRC into the Region's CRC network there will be operational efficiencies such as allocating staff among the six sites, utilizing the established haulage network and consolidating processing and disposal contracts.

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For further information regarding this report, please contact Norman Lee, Director Waste Management, Ext. 4703, norman.lee@peelregion.ca.

Reviewed and/or approved in workflow by:

Department Commissioner, Division Director, Financial Support Unit, Legal Services and Procurement.