

Background Information on Fee Rates

Change to the Stewards' Financial Obligation for 2009

- For 2009, stewards' obligation to Ontario municipalities is: \$78,525,218
- The obligation for 2008 was: \$66,523,904
- This represents a difference of: \$12,001,314 (+18%)

Contributing Factors to Increase

	Change
1. Reduced discount attributable to managing wine and spirit containers: Wine & spirit containers are no longer subject to Blue Box Stewards fees. The 2009 industry financial obligation is based on the first year of the deposit system but significant quantities of LCBO containers continue to be handled in the Blue Box, requiring the removal of the \$7.7M cost attributable to these containers. The discount for 2008 was \$15.1M because fees were based on the year before the deposit system was implemented. There has been no corresponding savings to the BB system with the diversion of containers to the deposit system.	\$7.4 M
2. Adjustments for incorrect reporting in previous year: Adjustments were made for costs not properly reported in previous years; these have been identified through WDO data call verification and confirmed through financial audits.	\$1.9 M
3. New municipal capital costs and associated interest: Municipalities are investing in upgrades to existing collection fleets, collection containers and processing facilities.	\$0.3 M
4. Increased operating costs: Operating costs increased due to fuel surcharges, the negotiation of new contracts, which reflect recent investments and a continuing shift in the mix of recovered materials including more difficult, relatively more costly material to recycle, such as smaller and lighter-weight plastic bottles, or large PET water bottles.	\$9.3 M
5. Higher commodity prices do not significantly offset increased costs in 2009 given:	
a. The agreed upon approach of the three-year averaging of revenues moderates the increase in prices this year, and	-\$6.9 M
b. Less valuable materials being recovered: Notwithstanding generally improved commodity prices, a moderate shift in composition towards less valuable materials reduced the average value of the materials recovered in 2007.	
Total Change	\$12.0 M

Factors to Consider:

- Approximately 96% of Blue Box stewards' fees comprise payments to municipalities, based on the actual net cost of the recycling system as determined by WDO (includes amortized capital, labour and operating costs less revenue from the sale of recovered Blue Box materials). Therefore, the annual cost is a function of the amount and mix of material recovered and the value of recovered materials on commodity markets.
- BBPP costs have tended to increase year on year due to increasing recovery rates, continued investments by municipalities and more accurate reporting of true costs.
- Over the first four years of the program, Stewardship Ontario staff negotiated significant cost reductions, estimated at more than \$35M. As of 2009, "acceptable cost band" agreements have expired leaving limited opportunities to negotiate further reductions. Stewards now will be paying 50% of the total net costs as required under the *Waste Diversion Act* (the "Act").
- Given the need for additional investment in capital infrastructure, training and higher operating costs, and especially given the higher costs of recycling of more difficult material, costs are likely to continue to rise.
- Stewardship Ontario has two key tools to help offset rising costs: (a) levying fees to invest in new markets to strengthen demand for recovered materials and (b) the funds dedicated to the Continuous Improvement Fund (CIF) to help improve program efficiencies.