

Detailed Information on Stewards' Fees for 2009

Payments to Municipalities are the Largest Component of Blue Box Program Stewards' Fees

Approximately 96 percent of Blue Box Program Plan (BBPP) stewards' fees are made up of payments that Stewardship Ontario is required to pay to municipalities. These costs are based on the actual net cost of the recycling system each year as determined by Waste Diversion Ontario (WDO). The net cost of the recycling system includes the 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.

Table 1 summarizes how this financial obligation to municipalities is determined each year with a description provided immediately below.

- 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, significant cost reductions were negotiated by Stewardship Ontario staff, resulting in cost reductions of more than an estimated \$35 million since the beginning of the program. With the expiration of "acceptable cost band" agreements as of 2009, there are limited opportunities to negotiate further reductions and stewards 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.

Table 1: Determining Financial Obligations to Municipalities

Year	Obligation	Basis
2003	\$31.25 M	Negotiated cost
2004	\$42.00 M	Negotiated cost
2005	\$58.78 M	Reported cost excluding interest on capital and administration
2006	\$60.46 M	Reported cost with low administration and negotiated reasonable cost reduction
2007	\$62.05 M	Reported cost with negotiated reasonable cost reduction and removal of negotiated full cost of wine and spirits containers
2008	\$66.52 M	Reported cost with removal of negotiated full cost of wine and spirits containers
2009	\$78.53 M	Reported cost with removal of negotiated cost of wine and spirits containers remaining in the Blue Box

The Changes to the 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%)

There are several contributing factors to this 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 \$7.7 M 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 for costs not properly reported in previous years, identified through data call verification and confirmed through financial audits.	\$1.9 M
3. New municipal capital costs and associated interest: Municipalities continued to make investments to upgrade 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 which now includes 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. Three-year averaging of revenues which moderates the increase in prices this year, and	
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.	-\$6.9 M
Total Change	\$12.0 M

The Affect of the Change in Obligation on Different Materials

With the overall increase in the financial obligation to municipalities, there is a tendency for all fee rates to increase. However, the change in this obligation affects materials differently and is allocated among stewards of each material using the approved fee setting methodology. This formula shifts more of the financial obligation from materials with higher recovery rates and lower net costs, to those materials with lower recovery rates and higher net costs. In other words, the following factors affect the fees that stewards pay:

- The type of material stewards choose for packaging: the easier-to-recycle materials, typically with higher recovery rates and lower cost to manage, have relatively lower fee rates.
- The value on the commodities market: the higher the revenue which municipalities receive for a material the lower the net cost for that material which, in turn, results in a lower fee.

Therefore, the material-specific changes primarily relate to:

- the relative quantity of material recovered,
- the affect of commodity prices on the cost, and
- the relative percentage of each material recovered (recovery rate).

As shown in Table 2, the fee rates themselves are also affected by the total amount of material introduced into the Ontario market and over which the fees are distributed. Material-specific fees for 2009 are presented in Table 3.

Table 2: Material Recovery and Fee Rates

Material	Tonnes Recovered	Net Cost	Recovery Rate	Tonnes Reported by Stewards	Result
Printed Paper	Decrease	Increase	Increase	Decrease	Relatively large increase in fees due to lower printed paper commodity prices. Fees spread over lower reported tonnes.
Paper Packaging	Flat	Increase	Flat	Flat	Increase in fees in line with increase of overall obligation.
PET	Flat	Increase	Decrease	Decrease	Increase in fees in line with increase in overall obligation. Lower recovery offset by increased commodity prices.
HDPE	Decrease	Increase	Decrease	Decrease	Relatively smaller increase in fees due to strong commodity prices for HDPE.
Other Plastics	Increase	Increase	Increase	Increase	Relatively smaller increase in fees due to strong commodity prices. Fees spread over higher reported tonnes.
Steel	Increase	Flat	Increase	Flat	Relatively smaller increase in fees due to strong commodity price for steel.
Aluminum	Decrease	Flat	Decrease	Flat	Relatively larger increase in credit due to strong commodity price for aluminum.
Glass	Increase	Increase	Increase	Flat	Relatively smaller increase in fees due to strong commodity price and greater recovery.

Table 3: Material-specific fees for 2008 to 2009 Preliminary Fees

The following preliminary fee rates for 2009 reflect the verified financial obligation of \$78.5M, the projected program delivery and administration costs with options for the application of a credit for the projected surplus for 2008. The verification of the municipally-reported data used to support these figures is substantially complete, but is subject to possible small corrections.

Material	2008 Fees	2009 Preliminary Fees ^{1,2}	Fees (\$)³
	Fee Rate (cents/kg)	Fee Rate (cents/kg)	(%)
CNA/OCNA Newsprint	0.148	0.133	\$347,022
Other Newsprint	0.764	1.332	\$1,961,184
Other Printed Paper	2.182	3.373	\$4,820,385
OCC and OBB	7.252	8.115	\$20,975,849
Other Paper Packaging	12.534	13.696	\$5,651,483
PET Bottles	11.238	12.560	\$6,069,735
HDPE Bottles	11.135	11.406	\$2,539,465
Other Plastics	18.449	18.990	\$26,523,822
Steel	4.744	4.955	\$2,849,038
Aluminum Food and Beverage	(2.215)	(3.116)	(\$834,143)
Other Aluminum Packaging	5.095	5.912	\$188,593
Clear Glass	3.529	3.758	\$2,860,223
Coloured Glass	3.976	4.537	\$419,707
Total Blue Box Program Fees³ (\$)	\$66,605,943		\$74,372,363
CNA/OCNA In-Kind Contribution (\$)	\$1,829,057		\$3,396,745

Notes:

1. These estimates reflect the latest steward reports. On-going review of stewards' reports is expected to result in higher reported tonnes before fees are finalized in October. Therefore total Blue Box program costs would be spread over a larger base of tonnes, tending to reduce fee rates.
2. These fee rates reflect the application of a credit for the projected operating surplus for 2008 (after the restricted reserve) that is attributable to each material
3. The range of total Blue Box Program fees presented in the table includes the financial obligation to municipalities of \$78.5M, the projected program delivery and administration costs as well as the application of the credit for the projected operating surplus.