



**ORANGEDROP**

# 2012 ANNUAL TRUE-UP

April 9, 2013 Webinar

# WELCOME

Webcast audience (100+)

- Slides advance automatically

## Questions during the webinar?

- Question box for questions/ comments on webcast console
- Send in your questions and we will answer them during the webcast

Webcast and slides will be archived and made available on line for future review

# AGENDA

The information webinar will:

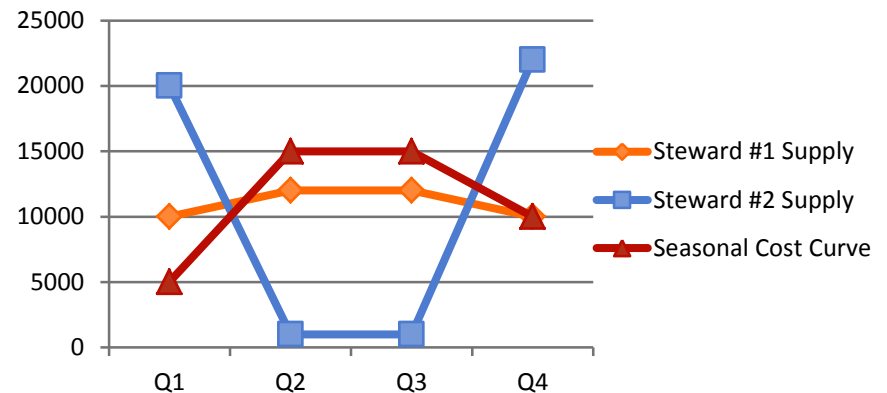
- Explain how the fluctuating sales and cost cycles affect the SSA throughout the year
- Provide information on how the true-up is calculated
- Provide timing details on the reconciliation: when invoices will be issued and credits will be posted to accounts for future use
- Outline improvement in predictability for 2013

We will have a question period at the close of the presentation to answer your questions sent in during the webinar.

# RECAP

- With the introduction of Ontario Regulation 11/12 in February 2012, Stewardship Ontario (SO) was directed to change the methodology for charging fees to MHSW stewards.
- As a result, SO was no longer able to publish an annual fee schedule, but were required to recover actual costs incurred in a quarter on a relative basis using sales data as the method for calculating each stewards' share assessment (SSA).

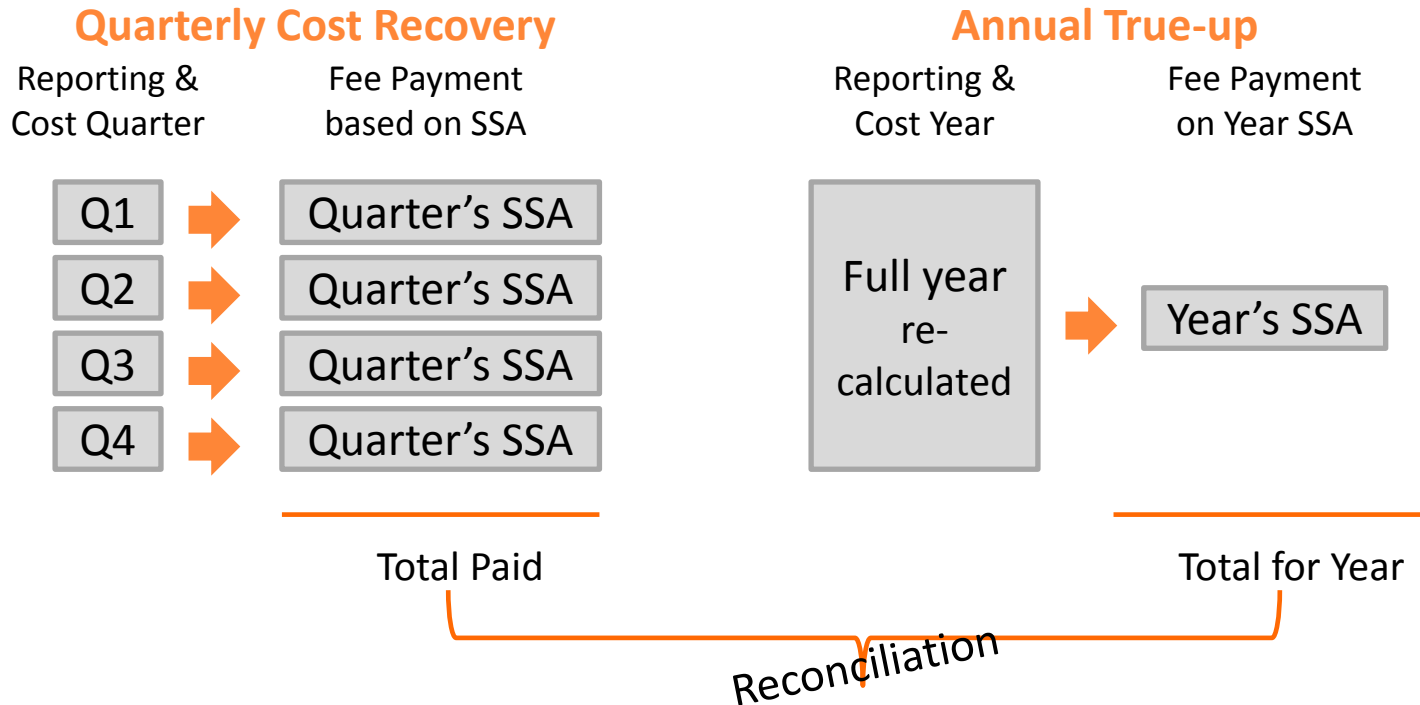
- This resulted in quarterly invoices being affected by quarterly variations in steward sales and SO cost cycles, which are affected by seasonal fluctuations in the MHSW supply chain.



- These cycles could result in SSA's in any given quarter being disproportionately high for some and disproportionately low for others.
- To address this issue, the MHSW Rules for stewards state that SO can perform an annual true-up of steward accounts.

# THE TRUE-UP

- The true-up recalculates stewards' fees based on the total of all four quarters and reconciles initial fee calculations that result from the fluctuating sales and cost cycles (applies credits or debits as necessary) to ensure that on an annual basis each steward pays their proportionate share of costs regardless of the relationship between their quarterly sales share, supply and the program's quarterly costs



# MATERIALS AFFECTED

- The annual true-up process is expected to affect the majority of MHSW stewards. Some stewards may be eligible for a future credit to their account, while some may be invoiced for additional fees owed.
- The 2012 true-up is being conducted for all MHSW materials with the following exceptions:
  1. **Oil Filters:** the true-up for oil filters will occur at the close of the fee holiday period after 4 full quarters of draw-down of the surplus. The 5<sup>th</sup> quarter will contain the net result of the 2012 true-up, the 2013 true-up, the reserve allocation, and the remaining surplus off-set to costs.
  2. **Pressurized Containers:** the true-up for pressurized containers (refillable and non-refillable) will not be run until the reporting issues with this material have been resolved to ensure a fair position for all stewards in the true-up. The timing of the true-up will be communicated to pressurized container stewards in the future.
- The methodology of the true-up is consistent for all materials.

# TRUE-UP PERIOD

## Fee Payment Period

The period for which the obligated fees are payable

## Reporting Obligation Period

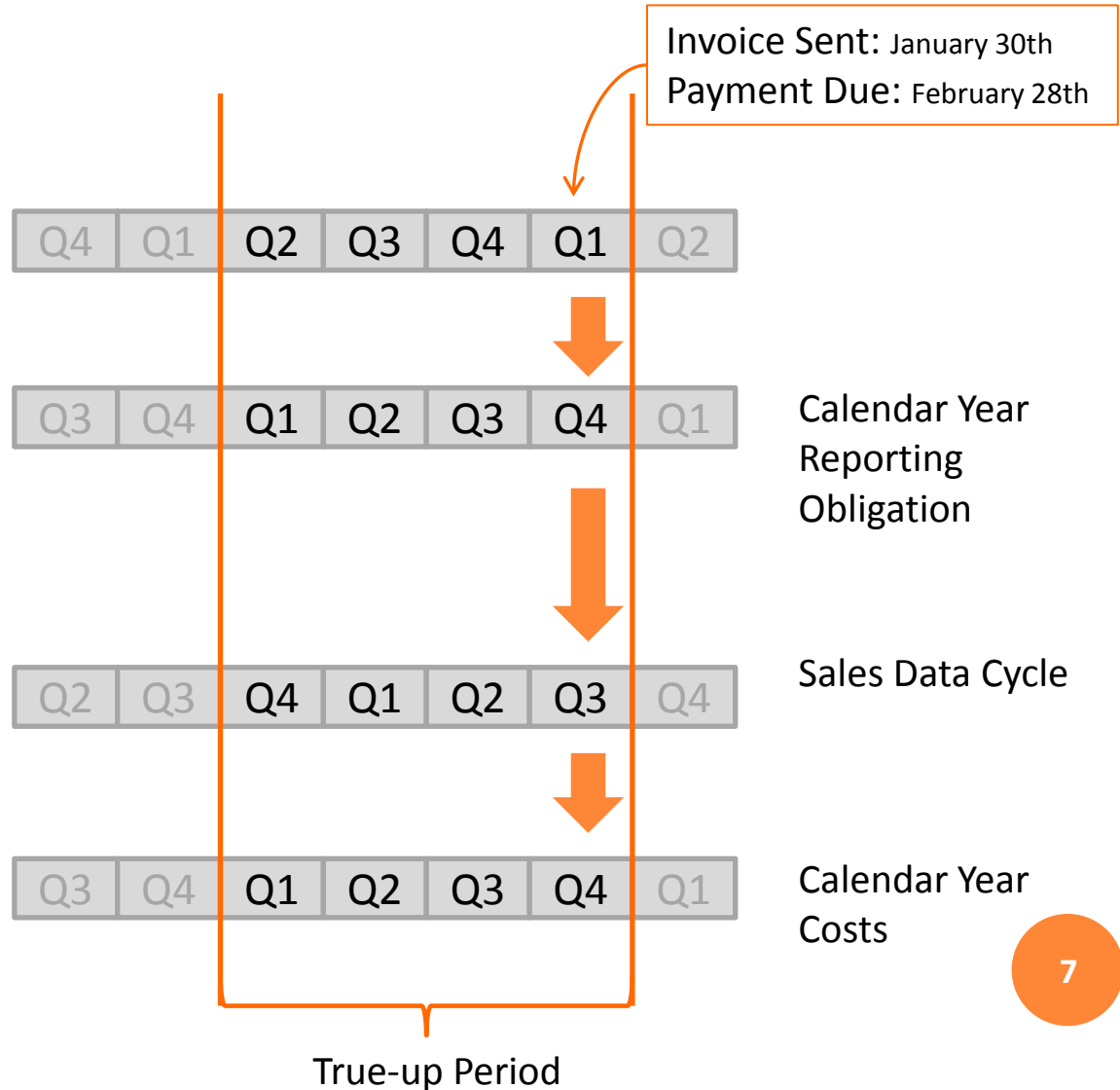
The period for which a steward is required to report based on data collected from the previous quarter

## Sales Data Period

The period for which the quantity of MHSW was Supplied by the steward

## Cost Data Period

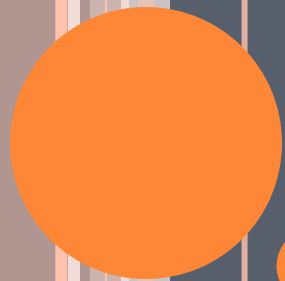
The period for which the development, implementation and management costs of the MHSW program were incurred



# 2012 TRUE-UP IN RELATION TO QUARTERLY SSAs

	1 <sup>st</sup> SSA	2 <sup>nd</sup> SSA	3 <sup>rd</sup> SSA	4 <sup>th</sup> SSA	True-Up
<b>Fee Payment Period</b>	Q2 2012	Q3 2012	Q4 2012	Q1 2013	After one calendar year of costs
<b>Invoice Sent</b>	Q2 2012 April 30, 2012	Q3 2012 July 31, 2012	Q4 2012 November 6, 2012	Q1 2013 January 31, 2013	Q2 2013 April 30, 2013
<b>Payment Due</b>	Q2 2012 May 31, 2012	Q3 2012 August 31, 2012	Q4 2012 December 6, 2012	Q1 2013 February 28, 2013	Q2 2013 May 31, 2013
<b>Reporting Obligation Period</b>	N/A – (Transition Report based on Q1 reports already submitted)	Q2 – due by April 30, 2012	Q3 – due by July 31, 2012	Q4 – due by October 30, 2012	2012 Annual
<b>Report Name</b>	Reg. 11/12 Transition Report	Q2 Report Submitted	Q3 Report Submitted	Q4 Report Submitted	Annual True-up
<b>Sales Data Period</b>	Q4 2011 (data from Q1 report)	Q1 2012	Q2 2012	Q3 2012	Q4 2011 – Q3 2012
<b>Cost Data Period</b>	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012 Annual





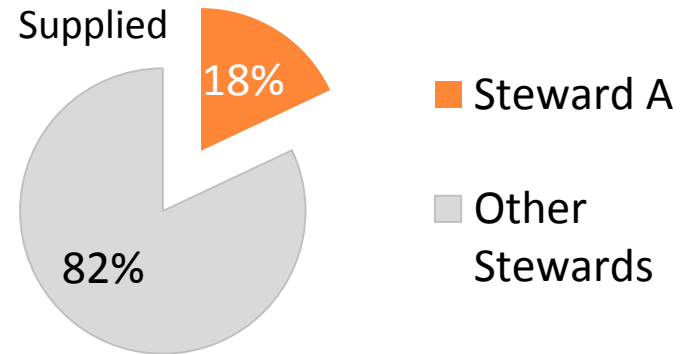
# QUARTERLY COST RECOVERY

The Dynamics of the Steward Share Assessment (SSA)

9

# STEWARD SHARE ASSESSMENT (SSA)

- Effective April 1, 2012 steward fees are calculated based on the steward share of sales reported into SO.
- The quarterly fee is a cost-recovery fee composed of:
  - Material management costs
  - Common costs
  - Steward billing adjustments
- The net result of which is the SSA quarterly expense which is apportioned to each steward based on their SSA



Cost

\$ Material Management

\$ Common Costs

+ - \$ Steward Billing Adj.

---

Total Quarterly Cost

Apportioned  
to Steward A

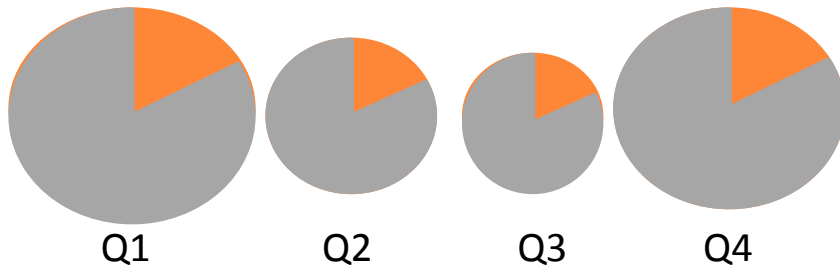
18%

# STEWARD SHARE VARIABILITY

## Low Variability across Quarters



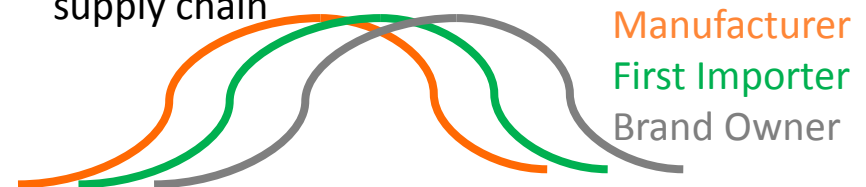
- A seasonal supply curve does not impact a steward's share assessment if all stewards in a material group keep the same relationship through the curve



## High Variability across Quarters



- Variability in a steward's share can occur due to steward's position in the supply chain

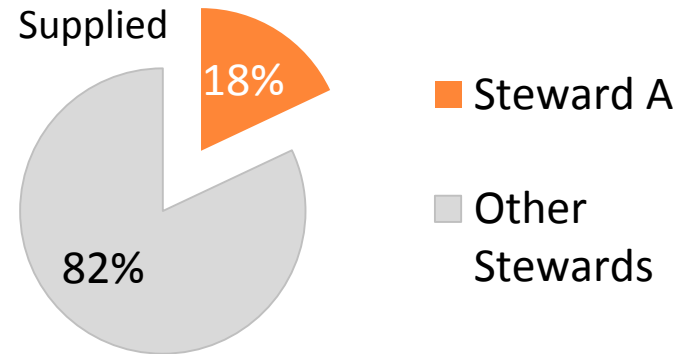


- And/or the timing of promotions
- And/or the entrance/exit of stewards

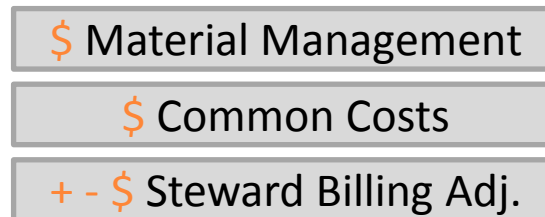
The change in supply volume has a direct impact on the true-up for the weight by quarter.

# STEWARD SHARE ASSESSMENT (SSA)

- Effective April 1, 2012 steward fees are calculated based on the steward share of sales reported into SO.
- The quarterly fee is a cost-recovery fee composed of:
  - Material management costs
  - Common costs
  - Steward billing adjustments
- The net result of which is the SSA quarterly expense which is apportioned to each steward based on their SSA



Cost



Total Quarterly Cost

Apportioned  
to Steward A

18%

# PORTAL REPORT

## Material Management Costs include:

- Collection, transportation and processing costs
- Net of allocation adjustments if needed
- Net of impact of accruals and reversals if any

## Common Costs include:

- Corporate common costs are allocated to all materials as 15% of the total costs shared equally by the 9 materials and 85% of the costs by relative % of the material management costs
- There are also direct common costs which are material specific

ANTIFREEZE						
Budget Item	2011 Actual \$	2012 Annual Budget \$	2012 Q4	2012 Actual YTD \$	2012 Annual Budget Kg (Collected)	2012 YTD Kg (Collected)
Material Management	1,292,683	2,028,157	558,768	1,719,279		
Common Costs	265,148	475,452	140,059	426,423		
Steward Billing Adjustments	0		-92,154	-14,925		
<b>Total</b>	<b>1,557,831</b>	<b>2,503,609</b>	<b>606,673</b>	<b>2,130,777</b>	<b>4,057,582</b>	<b>3,151,198</b>

## Steward Billing Adjustments include:

Steward billing adjustments include any steward reporting errors and associated debits/credits and may span back up to 8 invoice quarters and would be recognized in the quarter where they are processed

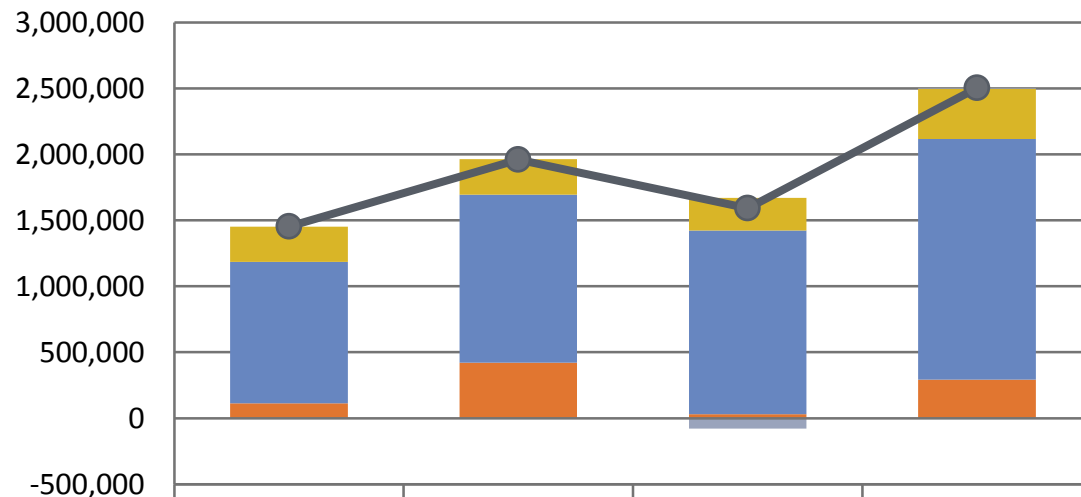
Total Quarterly Cost

Budget not Target

# EXAMPLE OF COST COMPONENTS ACROSS YEAR

## Oil Containers

### Breakdown of SSA Expense



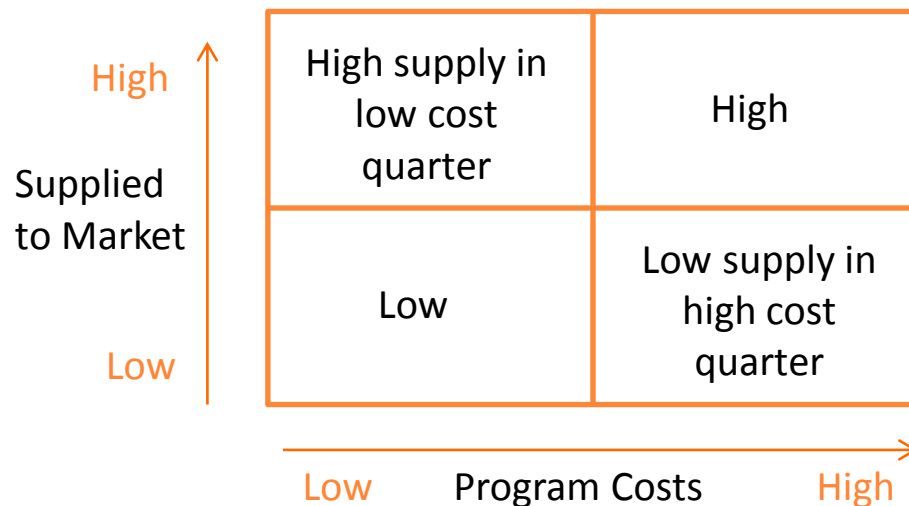
	Q1	Q2	Q3	Q4
Steward Billing Adjustments	0	-3,282	-78,210	6,196
Common Costs	268,041	270,273	246,563	380,140
Actual Material Management Costs	1,072,343	1,272,665	1,391,324	1,823,216
Impact of Accrual	112,128	421,507	31,273	293,046
SSA Expense	1,452,512	1,961,163	1,590,950	2,502,598

# PROGRAM COST VARIABILITY

- Program cost curves
  - Over the course of four quarters, program costs by material can have a different curve for several reasons such as
    - Seasonality of waste generation
    - Seasonality of collection
    - Reporting frequency of service providers
    - Length of reverse supply chain by material
- Program cost variance to budget
  - Over the course of four quarters the year-to-date costs to budget year-to-date can be different for many reasons as well
    - Timing of service provider costs vs. quarter close periods
    - Timing of P&E activities within the year
    - Costs that exceed or come in below budget due to changes in tonnage, program elements (i.e., fuel surcharge variable rate), and changes to incentive rates
    - Unplanned regulatory costs (for example 2012 had 2 Minister letters and 1 new regulation)
    - Other unplanned expenses in common or material management costs to react to performance against target and other obligations

# DYNAMIC OF CURVES

- Impact of SSA intersection with supply and cost curves
  - The 2x2 grid below illustrates where an SSA (share) can land in any give quarter against the variable supply and cost curves

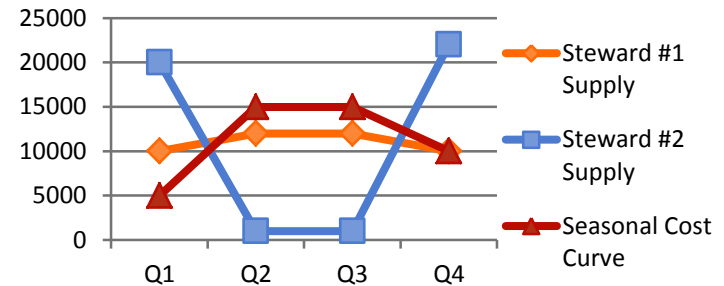


- The compounding of the SSA, the supply curve, and the cost curve by steward by material could result in payments in any given quarter being disproportionately high for some and disproportionately low for others
- The following slide takes this 2x2 grid and applies it to a two steward universe example



# TWO STEWARD UNIVERSE EXAMPLE

- Let's take the example from the 'recap slide'
  - Steward #1 supply is fairly constant
  - Steward #2 supplies the same total amount but with a sharp seasonal curve



- And show the impact of identical total costs intersecting with the different curves

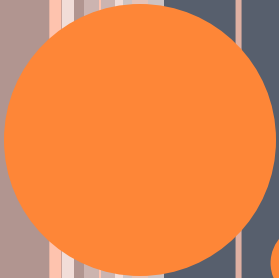
Steward 1						
Quarter	Steward Supplied	Total Supplied	Steward SSA	Total Costs	Steward Invoice	Steward Cost Share
1	10,000	30,000	33%	5,000	1,667	33%
2	12,000	13,000	92%	15,000	13,846	92%
3	12,000	13,000	92%	15,000	13,846	92%
4	10,000	32,000	31%	10,000	3,125	31%
<b>Total</b>	<b>44,000</b>	<b>88,000</b>	<b>50%</b>	<b>45,000</b>	<b>32,484</b>	<b>72%</b>

Steward 2						
Quarter	Steward Supplied	Total Supplied	Steward SSA	Total Costs	Steward Invoice	Steward Cost Share
1	20,000	30,000	67%	5,000	3,333	67%
2	1,000	13,000	8%	15,000	1,154	8%
3	1,000	13,000	8%	15,000	1,154	8%
4	22,000	32,000	69%	10,000	6,875	69%
<b>Total</b>	<b>44,000</b>	<b>88,000</b>	<b>50%</b>	<b>45,000</b>	<b>12,516</b>	<b>28%</b>

- The true-up recalculation shows how credits(debits) will correct the curve dynamics

Steward 1						
	Steward Supplied	Total Supplied	Steward SSA	Total Costs	Steward Invoice	Steward Cost Share
Total	44,000	88,000	50%	45,000	22,500	50.0%
Amount of quarterly invoices by quarter:					32,484	72%
Credit (Debit) due for Annual True-up:					9,984	

Steward 2						
	Steward Supplied	Total Supplied	Steward SSA	Total Costs	Steward Invoice	Steward Cost Share
Total	44,000	88,000	50%	45,000	22,500	50.0%
Amount of quarterly invoices by quarter:					12,516	28%
Credit (Debit) due for Annual True-up:					-9,984	



# ANNUAL TRUE-UP

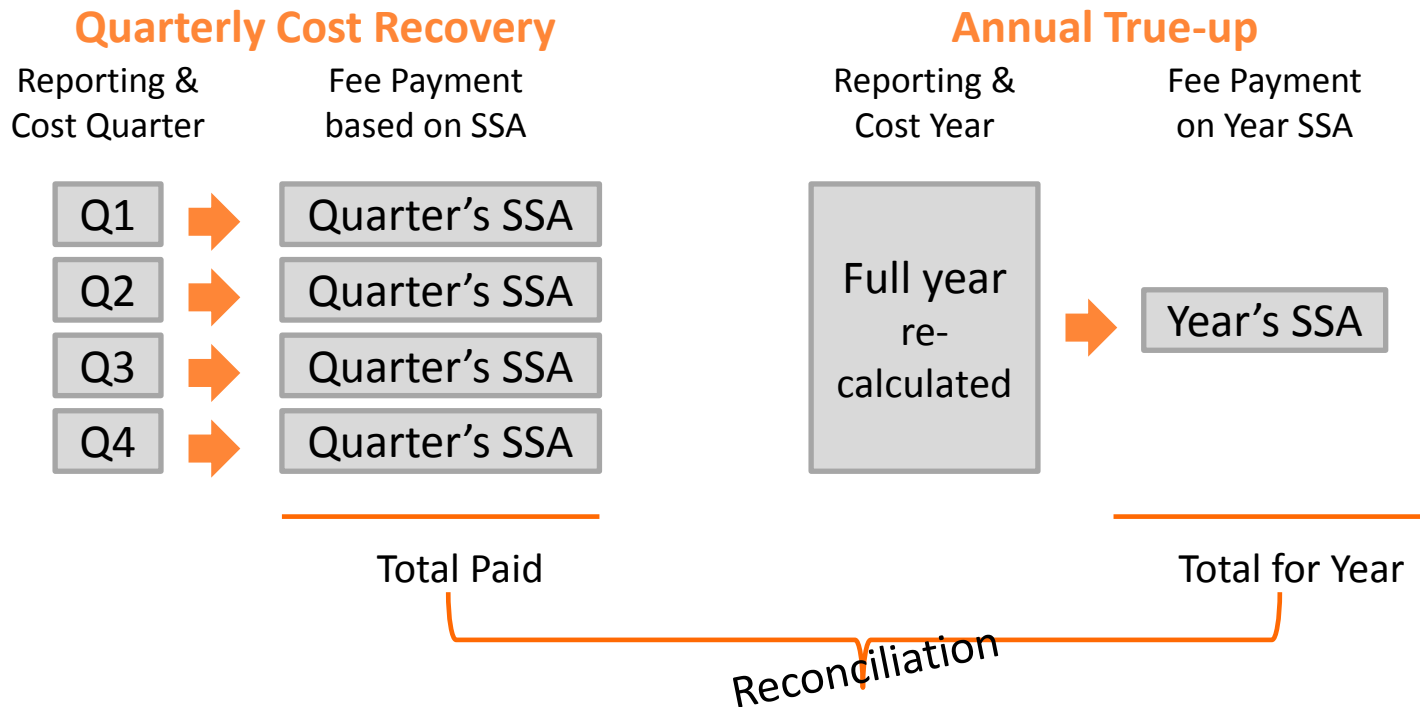


Calculation Information



# THE TRUE-UP

- The true-up recalculates stewards' fees based on the total of all four quarters and reconciles initial fee calculations that result from the fluctuating sales and cost cycles (applies credits or debits as necessary) to ensure that on an annual basis each steward pays their proportionate share of costs regardless of the relationship between their quarterly sales share, supply and the program's quarterly costs.

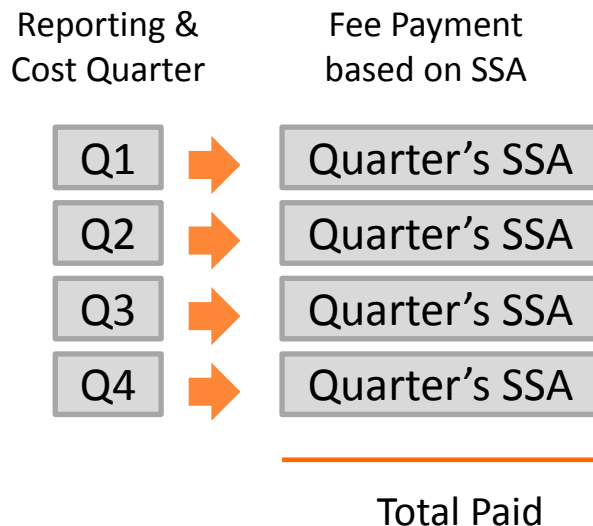


# RECONCILIATION

## The Cost Recovery Model

- If there was no variability in supply, steward share, or program costs by quarter – and no adjustments – then a full-year calculation would be a simple sum of the four quarters

### Quarterly Cost Recovery



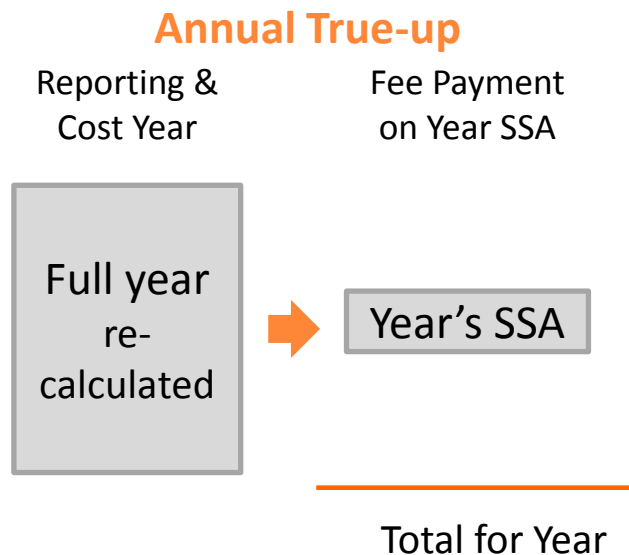
## Additional Considerations

- When a full-year recalculation is undertaken, the following factors impact the outcome
  - **Supply curve** weights the quarters
  - **Supply adjustments** only occur during the true-up calculation; are treated as cost changes in-year
  - **SSA curve** share may intersect a high or low cost quarter
  - **Program cost curve** weights the cost
  - **Billing adjustments** change expense
  - **Accruals & reversals** change expense
  - **Steward entrance/exits** can change fee owed by remaining stewards

# RECONCILIATION

## Annual True-up

- The full-year recalculation takes all of the inputs from the previous slide
- All data from the four quarters are re-run to create a new SSA for each steward that is proportionate to the whole year



## Annual SSA

- The annual SSA is applied to the total program costs for the year = total obligation (payment) for the year
- The difference between the total obligation and the sum of the four quarters of payment within the year = reconciled obligation (payment)
- SO applies credits or debits as necessary to the steward for the material category
- SO issues a statement to each steward to close off the program year

# STATEMENT CLOSE-UP

- The statement will have one section for each material reported by the steward

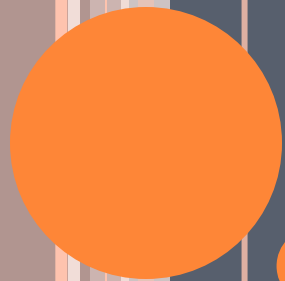
<b>Annual True Up -</b> material	
Total Program Quantity for Year	303,434.00
Your SSA % when calculated on full year	5.634%
Total Annual Cost for this Material Group	\$ 3,973,861.00
Your Fees Once Trued Up	\$ 223,887.33
Fees Paid To Date	\$ 237,658.89
<b>Fees Owing</b>	
<b>Fees Credited</b>	<b>\$ 13,771.56</b>

← Annual SSA

- The final section is 'Summary Total Fees Owing/Fees Credited' which aggregates all materials by the steward into one grand total

# TIMING DETAILS

- The annual true-up is being run in April
- The 2012 annual true-up will be published on **April 30<sup>th</sup>, 2013**
- An invoice will accompany the Q2 Quarterly Fee payment and Quarterly Deficit Recovery invoice as a third statement
- For stewards with multiple material categories, the True-up Statement will show the credits or debits for each material with an aggregated total for the steward
- Some stewards may be eligible for a credit, while some may be invoiced for additional fees owed, at the aggregate level
- Invoice timing: payment will be due in 30 days (May 31<sup>st</sup>, 2013)
- Credit timing: credits will be available after payments have been made. It is estimated that SO will have enough funds collected to apply credits for future use after July 1<sup>st</sup>, 2013
- **Reminder:** The 2012 true-up is being conducted for all MHSW materials with the exception of oil filters and pressurized containers (slide 5) at this time



# 2013 SSA



Improvement in Predictability

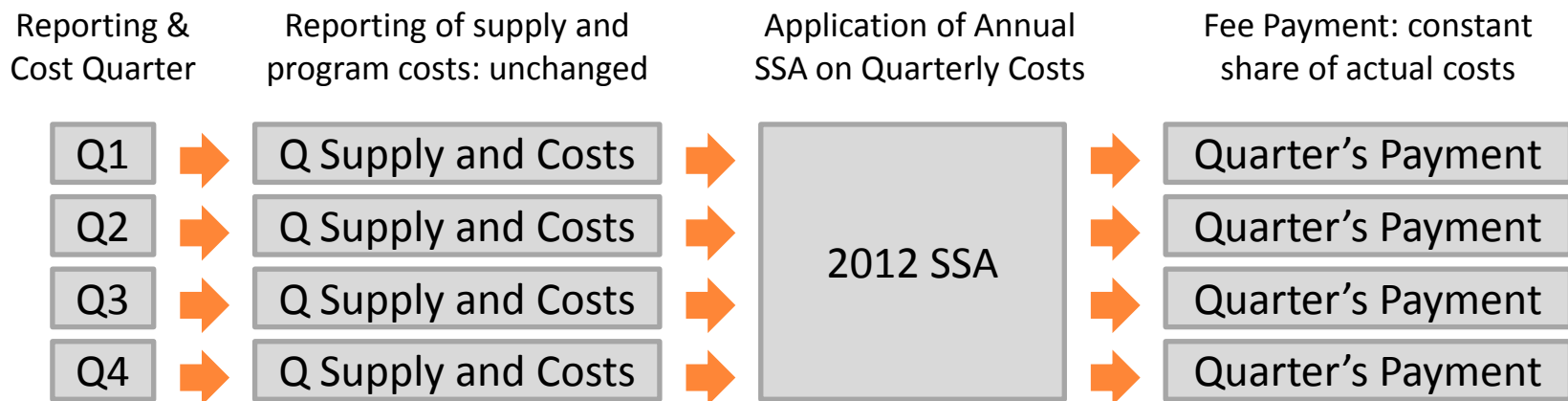




# CHANGE TO 2013 STEWARD SHARE ASSESSMENT

- Now that an annual SSA has been calculated for 2012, SO is able to reduce one factor of variability in the quarterly cost recovery model, by using the 2012 annual SSA for the 2013 obligation year instead of each quarter's individual SSA

## 2013 Quarterly Cost Recovery



# INCREASED PREDICTABILITY

- This change will provide greater predictability for stewards: the 2012 annual SSA applied to the 2013 budget by material will provide a 2013 forecast for steward use
- This exercise does not completely eliminate variability
  - If a steward's supply share increases over the other stewards, the 2013 true-up will result in an invoice for the share increase
  - If a steward's supply share decreases over the other stewards, the 2013 true-up will result in a credit for the share decrease
- Other factors that can not be completely controlled include
  - Actual costs being more or less than budget which will change program costs
  - Steward exit or entrance into material category which will change supply
  - The impact of billing adjustments and accruals/reversals which will change expenses
- The improvement by using the 2012 annual SSA against current (2013) costs by quarter is that all costs for the 2013 annual true-up will have already been paid during the quarterly fee payments and the reconciliation will be on the supply share variable (vs. other programs that are using past year share and past year costs)

# 2013 TRUE-UP IN RELATION TO 2013 QUARTERS

	1 <sup>st</sup> Period	2 <sup>nd</sup> Period	3 <sup>rd</sup> Period	4 <sup>th</sup> Period	True-Up
<b>Fee Payment Period</b>	Q2 2013	Q3 2013	Q4 2013	Q1 2014	After one calendar year of costs
<b>Invoice Sent</b>	Q2 2013 April 30, 2013	Q3 2013 July 31, 2013	Q4 2013 November 6, 2013	Q1 2014 January 31, 2014	Q2 2014 April 30, 2014
<b>Payment Due</b>	Q2 2013 May 31, 2013	Q3 2013 August 31, 2013	Q4 2013 December 6, 2013	Q1 2014 February 28, 2014	Q2 2014 May 31, 2014
<b>Reporting Obligation Period</b>	Q1 – due by January 31, 2013	Q2 – due by April 30, 2013	Q3 – due by July 31, 2013	Q4 – due by October 30, 2013	2013 Annual
<b>Report Name</b>	Q1 Report Submitted	Q2 Report Submitted	Q3 Report Submitted	Q4 Report Submitted	Annual True-up
<b>Sales Data Period</b>	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2012 – Q3 2013
<b>Cost Data Period</b>	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013 Annual



## **QUESTIONS?**

**Please submit your questions for the webinar session.**

**Post webinar: questions should be directed to  
[WeRecycle@stewardshipontario.ca](mailto:WeRecycle@stewardshipontario.ca)**