

# Multi Unit Residential Recycling Contract Renewal

## ISSUE

The City of Saskatoon (City) entered into a contract with Cosmopolitan Industries (Cosmo) to provide various services for the Multi-Unit Residential Recycling (MURR) Program from November 1, 2014, until December 31, 2023. The contract included an option to renew for another six years. Cosmo indicated their intent to exercise the option to renew the contract for another six years in June 2022 and have since been engaged in negotiations with Administration to reach agreeable terms to renew.

## RECOMMENDATION

That City Council approves the six-year renewal and proposed contract amendments for the Multi-Unit Residential Recycling (MURR) program with Cosmopolitan Industries, set to expire December 31<sup>st</sup>, 2023.

## BACKGROUND

In September 2020, City Council approved an amendment to Schedule 9 of the MURR contract to compensate Cosmo for increased processing costs related to impacts of increased contamination and changing markets for recycling. The amendments were applicable only to the services covered in Schedule 9 of the contract, which includes the recycling depots and civic recycling portions of the contract. The Multi-Unit Residential Recycling and Processing Program was not impacted by the changes.

The current contract with Cosmo expires on December 31, 2023, and has the following renewal clause:

Provided that Cosmo is not in material default under any of the terms and conditions of this Agreement, Cosmo shall have the option to renew this Agreement for a further term of six years, such option to renew to be exercised in writing by Cosmo not earlier than two years and not later than one year before the expiration of the existing term of this Agreement upon terms mutually agreed upon by the parties.

The City received a letter from Cosmo on June 3, 2022, stating their interest in negotiating a renewal of the current contract. Negotiations have been ongoing since August 2022.

## CURRENT STATUS

Cosmo provides recycling services to approximately 900 multi-unit residential properties (39,700 units) throughout the city. The contract also includes processing of material from the City's recycling depots and from civic facilities.

### **DISCUSSION/ANALYSIS**

Over the term of the contract, Cosmo has met the general service level expectations of the City. Prior to entering negotiations, the City and Cosmo both identified a few opportunities for improvements to the service level and clarifications to the contract. These have been discussed at great length by both parties, and the following solutions have been agreed on in principle:

- The Communications plan will be amended to reflect that the City will assume leadership on all communications and education initiatives in consultation with Cosmo. Cosmo will invoice the City for actual costs associated with a list of approved activities on the monthly invoice. This amendment will clearly define roles and responsibilities and strengthen the billing process.
- The addition of clear language in the contract outlining a process for properties that are not serviceable by the base level of service provided through the contract; or when chronic contamination issues are identified by either Cosmo or the City's Environmental Protection Officers that cannot be remedied through consultation with the Property Manager.
- Enrollment requirements will be added to the contract stating that a property owner or developer is required to turn on recycling services when the site reaches 75% occupancy, monitored by the City. Buildings can set up a contract with an alternate recycling service provider of their choice in the interim.

The more significant items relate to the total cost of the contract and the inclusion of a buy-out clause. The original contract does not specify any payment terms beyond 2023. Since the inception of the original contract, the value of recycling commodities has decreased significantly and market options for selling recycling material has become limited.

#### Total Contract Cost

Throughout discussions with Cosmo, it was identified that the net profit projected in the first term of the contract was never realized. Contributing factors include a significant decrease in the value of commodities and limited market options for selling recyclable material throughout the term. Cosmo shared their audited financial statements which were reviewed by Administration to confirm.

The renewal includes a 19% increase in contract fees in 2024 to reset the baseline, with an annual 3% increase for the remainder of the agreement. In comparison, negotiations for the Curbside Recycling Program in 2020 resulted in a total contract cost increase by 30% in the first year, and 2% yearly for the remainder of that contract.

#### Buy-out / Capital Recovery

The second major discussion point within negotiations has been around the potential impacts of the province's new Extended Producer Responsibility (EPR) program, for both the City and Cosmo.

While looking to other provinces further ahead in EPR program implementation, many Producer Responsibility Organizations (PRO's) take over service contracts from municipalities to ensure a smooth transition into the program and to minimize service disruptions to residents. As the provincial EPR program details are still being developed in Saskatchewan, it is not known how the City's recycling programs will be affected, making it difficult to determine the risks associated with an additional six-year contract term for multi-unit recycling. For this reason, both the City and Cosmo are seeking protection in the event the contract will need to be terminated before expiration. Cosmo has also indicated that significant capital improvements to their equipment are required to deliver the services for the next six years. Due to the required investment, Cosmo has requested assurance from the City, if the PRO is not willing to take over the contract, that a Capital Cost Recovery clause be built into the contract to reduce their financial risk.

There is a contingent financial implication for this Amending Agreement as it is unclear where the province will land with respect to the EPR program. As a result, the Administration has negotiated a term with Cosmo that would permit the City to terminate the agreement for any reason and without cause. It is anticipated that the City would only exercise this right if a Provincial program arrives and subsumes the program. If this situation arises, the City would pay Cosmo a prorated value of the capital investment at the time of termination. This termination value would be on a sliding scale for the six-year term and would be a negotiated amount in years one and two and then diminish to \$452,054 in 2029. Provisions have also been made within the buy-out clause to accommodate a portion of lost income for Cosmo.

The key terms of the contract renewal are as follows:

- the term of the contract will be for 6 years, commencing January 1, 2024;
- the services to be performed are to provide a single-stream with no sorting required for recyclables;
- the service will be provided on a weekly basis;
- the recyclable materials accepted are the same as the City's residential curbside program;
- there are extensive reporting requirements to the City that focus on a set list of desired metrics for the program;
- there is an established communications and education program, and Cosmo must have available customer service personnel to respond to enquiries;
- an implementation plan is in place to on-board new service addresses;
- the City will pay the fees required to Cosmo on a monthly basis and the new fee schedules (Schedule E – Payment Terms and Schedule H – Corporate Recycling Services) are attached to this report (Appendix 1 and 2);
- COSMO will be required to have in place and maintain a performance bond equal to 50% of the value of the contract

- an operating committee made up of representatives of the City and Cosmo will be established and will have oversight of the program; and
- Cosmo intends to make capital improvements to deliver services under the contract and will be required to provide the City with documentation that establishes these improvements.

### FINANCIAL IMPLICATIONS

Current services for multi-unit recycling are funded through a utility fee subsidized with Multi-Material Stewardship Western (MMSW) funding. In 2023, the total cost for the multi-unit recycling program is \$6.35 per unit per month (U/M) which includes contract costs of \$5.60 U/M. Currently, 88% of the costs associated with the MURR program are related to contractor costs, while the remaining 12% accounts for other costs related to supporting the program. These proportions can vary from year to year. The utility rate charged to multi-unit residential properties is currently \$3.86 U/M, with the remainder subsidized through MMSW.

#### Contract Cost

The total contract cost for the six-year extension of the multi-unit residential recycling program is estimated at \$18.0 Million, or \$3.0 Million per year. Fluctuations in both recycling tonnage and unit additions may cause the contract value to slightly vary from this amount, as payment terms are based upon the amount of service unit addresses and recycling tonnages.

The total cost for the multi-unit recycling program in 2024 is estimated to be \$7.08 per U/M, which includes contract costs of \$5.90 U/M based on the proposed contract fees, and other costs to support the program. This results in an overall \$0.30 U/M increase. Depending on the proportion of MMSW funding applied to the utility rate, Administration estimates the utility rate to multi-unit properties could range from \$4.10 to \$5.30 U/M throughout the term of the contract. In comparison, the utility rate for the Curbside Recycling Program under the current contract is \$7.47 per household per month.

### ENVIRONMENTAL IMPLICATIONS

Providing recycling services for multi-unit residential properties is in alignment with the *Solid Waste Reduction and Diversion (SWRD) Plan* and the *Low Emission Community Plan*. The SWRD Plan builds on the current MURR program and sets out actions to progress the goal of 70% diversion from the Saskatoon Landfill. These include development of a multi-unit organics diversion program, review of recycling depots, and supporting provincial updates to regulations for paper and packaging recycling.

In 2022, recyclables captured through the multi-unit collection program contributed 6% toward the City's waste diversion rate of 24.5%. As a result, 1,731 tonnes of recyclable materials from the MURR program were marketed to be recycled into new products. It also prevents 1,064 tonnes of Co2e emissions that would result from landfilling the same materials.

Capture rates in the multi-unit sector are lower than the curbside residential sector and contamination rates are higher. In 2019, the overall *capture rate* in the multi-unit program for recyclables was 43%, meaning that of all the recyclable material generated, 43% by weight was placed correctly in the blue cart and the other 57% was thrown in the garbage. The same study found that 17.2% of materials collected in the MURR program were non-recyclable. These findings are typical for multi-unit residential recycling in North America. City staff are currently working with Cosmo to deliver a targeted multi-unit education pilot in 2023 aimed at improving the capture rate of recyclable material and reducing contamination in communal bins. It will apply learnings from the successful curbside recycling cart tagging program and best practices from the Recycling Partnership's Center for Sustainable Behavior and Impact.

### OTHER IMPLICATIONS

There are no privacy implications identified.

### NEXT STEPS

Upon approval, Administration will finalize the contract extension with Cosmo as outlined in this report, set to start January 1<sup>st</sup>, 2024. The proposed utility rates for multi-unit residential properties will be included in the 2024/2025 Business Plan and Budget submission for City Council's consideration.

### APPENDICES

1. Schedule E – Schedule 5 Payment Terms
2. Schedule H – Schedule 9 Corporate Recycling Services

#### Report Approval

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