

2011 Financial Datacall Residential Blue Box System

Background

The 2011 Blue Box Financial Datacall represents the tenth that WDO has implemented.

In addition to collection, depot/transfer, processing and promotion costs reported by participating municipalities, the Financial Datacall includes:

- a calculation of administration cost based on the proportion of contracted and non-contracted services:
 - The factors used in the administration cost calculation were 3% of contracted costs and 5% of municipal costs.
- a calculation of interest on municipal capital:
 - For capital expenditures with an amortization period of seven years or more commissioned in or after 2006, the average of the prime interest rate for the year in which the capital was commissioned is utilized to calculate interest.
 - For capital expenditures with an amortization period of seven years or more commissioned prior to 2006, the average of the prime interest rate for the year in which the capital was commissioned less 1% is utilized to calculate interest on the basis that capital has historically been funded as an opportunity cost.

Verification of the 2011 Financial Datacall

In order to improve the Financial Datacall process and reduce requirements for post-submission verification, pre-submission support visits were provided to 8 municipal programs.

Verification of the Financial Datacall commenced in May and was completed by the end of July. The verification process includes year over year database variance analyses to identify outliers and follow up with municipal programs to clarify questions regarding the data.

2011 Financial Datacall Summary Report

The financial data, as submitted by municipal programs and including adjustments as a result of WDO's verification process, are provided in a WDO 2011 Blue Box Financial Datacall Summary Report.

The 2011 Financial Datacall Summary Report contains data as reported by 231 recycling programs serving 394 of the 444 municipalities, as well as 19 First Nations, in the Province of Ontario in 2011, and as reviewed and verified by WDO, in accordance with Section 6.3.2 of the Blue Box Program Plan.

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Setting the Industry Funding Contribution for 2013

The Financial Datacall is used to determine the net Blue Box system cost in 2011 in order to calculate the 50% industry funding contribution to Ontario municipalities to support programs to manage residential Blue Box Waste in 2013.

The 2011 Blue Box gross system cost:

- is based on reported Blue Box costs and revenues verified by WDO;
- includes calculated administration and interest on municipal capital costs; and
- is adjusted for prior year Datacall cost corrections.

As outlined in the Cost Containment Plan, approved by the Minister in December 2004 and subsequently revised in January 2005 (as directed by the Minister), the 2013 Blue Box steward fees are to be based on best practice system costs.

An agreement was reached by MIPC to utilize a Negotiated Gross Cost of \$293,352,857 for purposes of 2013 funding calculated on the basis of the prior year negotiated gross cost per tonne (\$308.94) adjusted to reflect:

- A factor to represent the cost of living increase in 2011;
- A factor to represent fuel and electricity pricing increases in 2011 not incorporated into the cost of living factor;
- An estimate of the incremental cost resulting from the continuing trend to lighter density containers; and
- An estimate of the incremental cost resulting from the continuing trend to serving sized packaging which increases the number of container units per tonne managed.

The following table presents the negotiated gross cost in comparison to the reported gross cost.

Total reported gross costs	\$315,439,286
Negotiated gross system cost	\$293,352,857

Audit and Prior Year Adjustments to the Blue Box 2010 Net System Cost

The tonnage, cost and revenue data compiled in the Datacall are then adjusted to incorporate corrections to prior year Datacall submissions identified through municipal audits and other verification activities implemented since the previous year's net system cost was determined. The following table outlines the prior year adjustments being applied to the 2011 system cost.

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	2010 Blue Box Audits	Other Prior Year Adjustments	Total Prior Year Adjustments
Tonnage Adjustments	-97.82 T	-38.46 T	-136.28 T
Gross Cost Adjustments	-\$4,211,379.87	\$248,137.38	-\$3,963,242.49
Calculated Interest on Municipal Capital	-\$374,045.00	\$47,438.65	-\$326,606.36
Calculated Administration Costs	-\$153,931.88	\$14,514.80	-\$139,417.08
Total Cost Adjustments	-\$4,739,356.75	\$310,090.83	-\$4,429,265.92
Revenue Adjustments	-\$14,423.55	-\$155,667.45	-\$170,091.00
Net Cost Adjustments	-\$4,724,933.20	\$465,758.28	-\$4,259,174.92

Net 2011 Best Practice Blue Box System Cost Including Adjustments

It was agreed that, after deducting the 3 year rolling average revenue from the Negotiated Gross Cost and 50% of the prior year total cost adjustments, 100% of the \$400,000 correction to the 2012 Stewards Obligation would be added. The agreement to deduct 50%, rather than 100%, of prior year adjustments applies only to the calculation of the 2011 system cost for 2013 funding and is not to be considered a precedent for the methodology to be utilized in 2014 or any subsequent funding year. These calculations are shown in the following table.

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2011 Negotiated Gross System Cost	\$293,352,857			
Less Three-Year Average Revenue		2009	2010	2011
Tonnes Marketed		870,214	887,242	904,850
Prior year tonnage adjustments		-1,039	-136	
Adjusted tonnes marketed		869,175	887,106	904,850
Total Gross Revenue		\$60,805,374	\$94,970,287	\$124,994,827
Prior year revenue adjustments		-\$176,289	-\$170,091	
Adjusted gross revenue		\$60,629,085	\$94,800,196	\$124,994,827
Per Tonne Average		\$69.75	\$106.86	\$138.14
3 Year Rolling Average	\$104.92			
Less Three-Year Average Revenue	\$94,936,862			
2011 Negotiated Net System Cost	\$198,415,995			
Less 50% of -\$4,429,265.92 prior year cost adjustments	-\$2,214,633			
2011 Negotiated Net System Cost + 50% of prior year cost adjustments	\$196,201,362			
2013 Stewards Obligation at 50% before correction	\$98,100,681			
Plus 100% of Correction to 2012 Stewards Obligation	\$400,000			
2013 Stewards Obligation	\$98,500,681			

Continuous Improvement Fund (CIF)

MIPC considered the future of the CIF and reached an agreement on the following points:

- CIF would receive a 5% contribution for the 2013 calendar year to be calculated as a percentage of the steward obligation less CNA/OCNA in-kind contribution (i.e. 5% of the cash available for disbursement).
- CIF would be extended through renegotiation of the MOU (which expires in December 31, 2013 plus the 18 month wind down period) for an additional 3 years to December 31, 2016 (plus the 18 month wind down period).
- The 2014 Stewards' contribution to CIF will be determined next year.