

Purpose

This note provides background information on the adjustments to the 2017 Municipal Funding Allocation Model (MFAM) as a result of clerical errors in the 2016 MFAM.

Background

Each year, the former Waste Diversion Ontario (WDO) and now the Resource Productivity and Recovery Authority (the Authority) is responsible for distributing Blue Box payments to individual municipal programs. The MFAM is the model approved by the Authority to determine the individual payment amounts to municipalities (i.e. each municipality's portion of the Steward Obligation).

To develop the MFAM, the Authority, municipal members of the Municipal Industry Program Committee (mMIPC) and Stewardship Ontario (SO) agree to a gross cost of the Blue Box program, based on the verified data submitted by municipalities in the Datacall. Once this amount has been determined and agreed upon, the three-year rolling average revenue income is deducted. This process is referred to as the 'Data Lockdown'. Using the locked down data, the Authority determines the [Steward Obligation](#).

To create the MFAM, there are a number of datasets required. These include, prior year adjustments (PYAs) (as a result of verification and audits), Best Practice scores, late penalties, Continuous Improvement Fund (CIF) allocation, marketed tonnes, gross costs and revenue.

In August 2016 staff at the Authority coordinated with SO staff and mMIPC representatives to 'lockdown' the 2015 data. At that time, it was determined that the 2014 data used in the 2016 MFAM had never been 'locked down' and, as a result, the numbers were not verifiable by all parties. The lack of the 2014 Data Lockdown had residual implications on further calculations, particularly the prior year adjustments.

Upon further review of the MFAM in the fall, the following additional errors were identified:

- 1. Prior Year Adjustments:** PYAs are any changes that are made to the submitted Datacall figures, after the Data Lockdown date as a result of audits or verification. Generally, PYAs are reflected in the MFAM three years after they are reported (i.e. PYAs for the 2013 program year were input into the 2016 MFAM). Some gross cost and revenue adjustments were not reflected in the 2016 MFAM.
- 2. Recalculation of the 2013 Marketed Tonnes (based on 2013 residues):** In order to accurately determine the 2013 Calculated Marketed Tonnes (CMT), all reported collected and marketed tonnes were re-pulled from the database and the agreed upon 2013 residue rates (multi-stream-7.0% and single stream- 11.3%) were applied.
- 3. Cost Bands:** Cost bands are applied to programs (specific to a municipal grouping) to develop standards for reasonable costs. These cost bands were agreed upon by MIPC. The cost bands were set to a 65 percent maximum instead of 90 percent.
- 4. Three Year rolling revenue:** The rolling revenue was calculated by averaging the 2012, 2013 and 2014 revenues instead of averaging the revenue per tonne.

Prior Year Adjustments

Once the data is locked down, all subsequent adjustments applied to current year data are not included in any calculations used to determine the funding allocations. Additionally, because the database pulls numbers from the Datacall in real time, once the numbers in the database have been changed, it is not possible to view the original Datacall entries. This means that data retrieved from the database at different points in the year, will yield different results and for this reason, all changes to the Datacall, as well as all rationale for the changes, is documented.

The PYA spreadsheet used in the 2016 MFAM showed a \$54,347.71 increase in 2013 reported gross costs and a \$51,425.11 increase in 2013 reported revenue. Upon further assessment, Authority staff found that some PYA's were not accounted for in the posted 2016 MFAM. The gross cost adjustment should have been \$204,121.57 and the revenue adjustment \$40,705.03. The updated PYAs were re-entered into the 2015 MFAM to determine the dollar amount adjustment that was supposed to be applied to each municipal program in the 2016 MFAM.

Recalculation of the 2013 Marketed Tonnes and Cost Bands

Re-pulling the 2013 data resulted in a CMT adjustment from 900,134.54 tonnes (posted in 2015 MFAM) to 900,104.57 tonnes. Since the CMT's are used to determine the allowable net cost per tonne, this change shifted the 90/10 percent cost bands for each of the municipal groups. Similar to the gross cost and revenue PYA's, the revised CMT's were re-entered into the 2015 MFAM.

2016 MFAM Cost Bands Adjustment

The 2016 MFAM was published with the net cost per CMT set to 65 percent maximum and 35 percent minimum split, rather than the agreed upon 90 percent maximum and 10 percent minimum split. Any changes to the cost bands influence the distribution of the Steward Cash Obligation.

Three Year Rolling Average Revenue

In previous MFAM's, the rolling revenue was calculated by averaging the net cost per tonne for three years and then multiplying this amount by the calculated marketed tonnes from that program year. To account for this discrepancy, the 2016 MFAM three-year rolling revenue calculation was adjusted (by including the revised calculated marketed tonnes) and then the difference was combined with the other adjustments listed above to populate Column U "2016 Clerical PYA" in the 2017 MFAM.

Summary

After applying the 2013 PYAs and adjusting for the accurate cost bands, there are 149 programs that will be receiving a negative PYA (a payment deduction), five programs with no changes to their payments and 83 programs will be receiving a positive PYA on the 2017 MFAM. These updates were done in isolation and do not include any other clerical adjustments that may be applied to the 2017 MFAM (i.e. due to new or absent programs).

Next Steps

All clerical errors have been corrected, consolidated and applied as a PYA in the 2017 MFAM. This is consistent with normal practice to treat any updates to previously posted figures as a PYA. Not only is this consistent with precedence, but it also allows the

consolidated PYA to be smoothed out with all of the 2014 PYAs (2014 program year). The intent is to minimize the financial impact on municipalities.

A new MFAM policy is being developed to ensure fewer clerical adjustments will be required between years.