

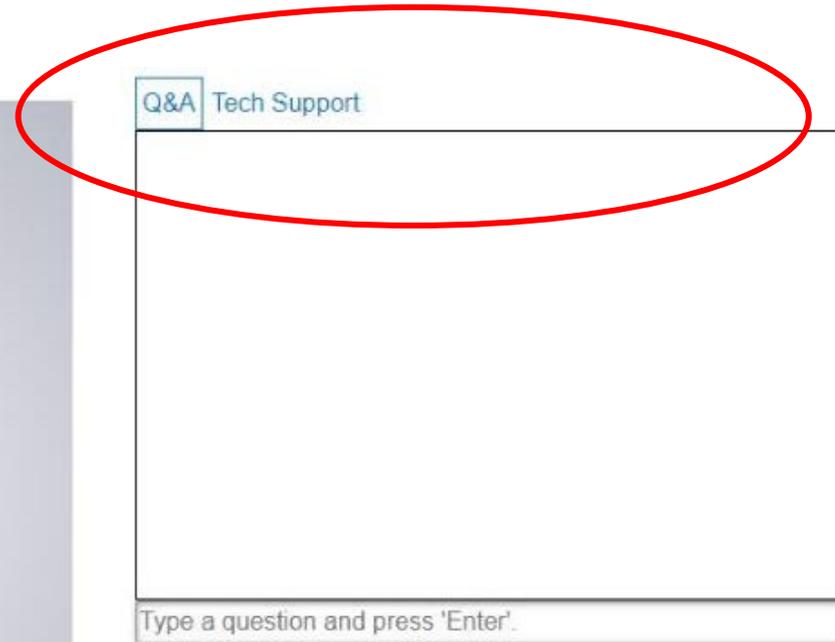
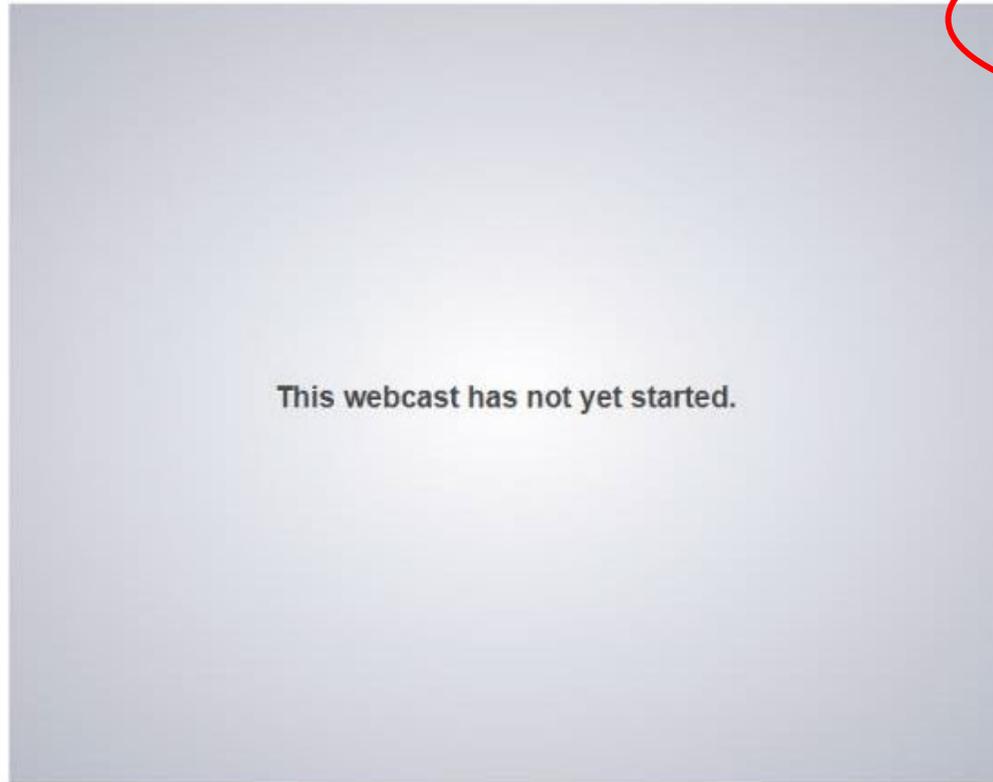
Consultation: Stewardship Ontario's Proposed Blue Box Program Wind-Up Plan

Session 4: Financials and steward
operations

October 15, 2020



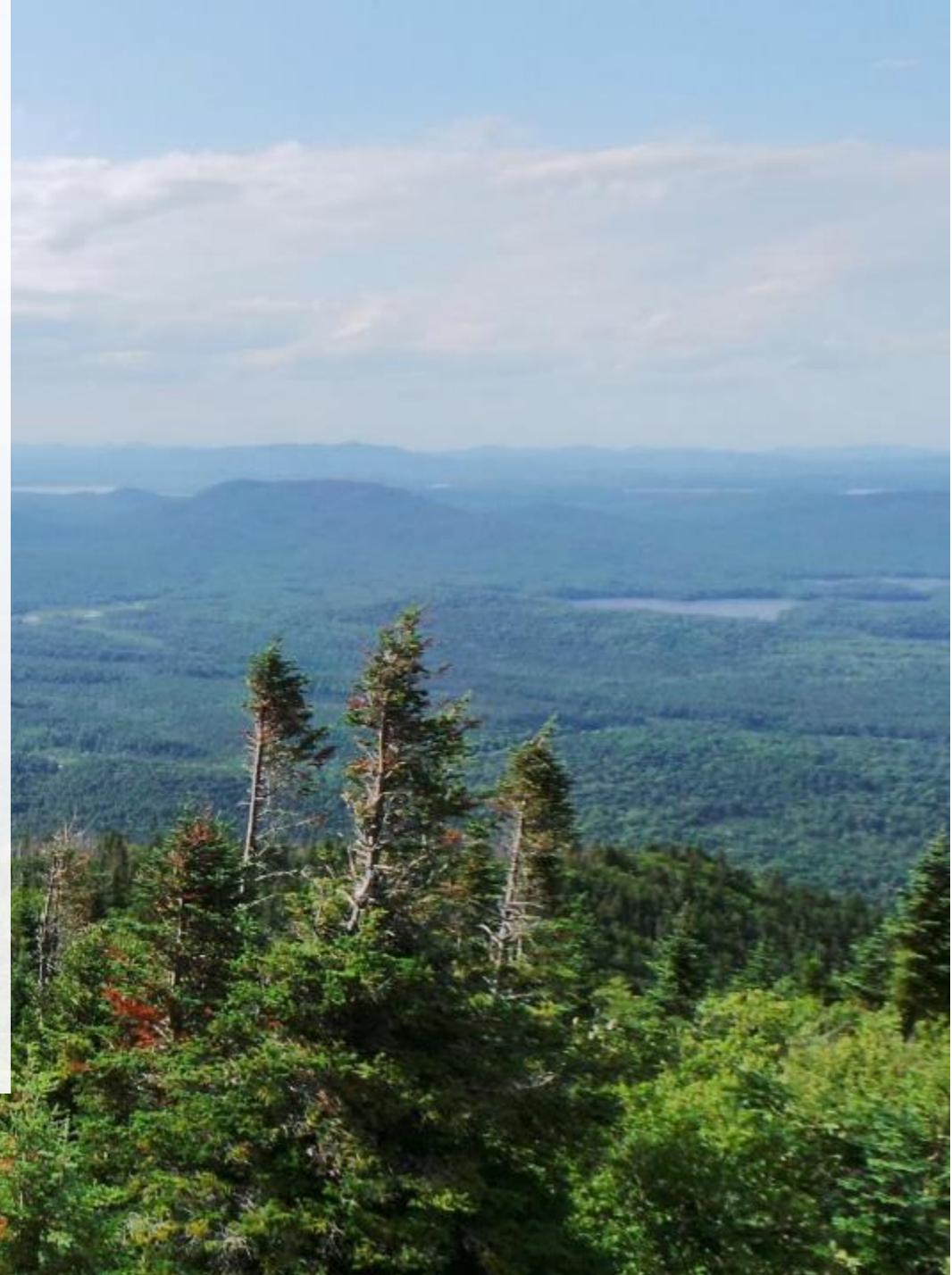
How to ask a question



To ask a question at any time during the presentation or for technical assistance, type your question in the text box and press 'Enter.'

Agenda

1. Introduction to Session 4
2. Funds and Reserves
3. Assets, Liabilities and Contingencies
4. Financial Forecast and Budget
5. Steward Fees
6. Steward Operations



Introduction to Session 4



Minister's direction

- Stewardship Ontario (SO) is the industry funding organization (IFO) that operates Ontario's Blue Box Program on behalf of industry stewards of packaging and printed paper
- On August 15, 2019, the Minister of the Environment, Conservation and Parks issued direction to SO and RPRA to wind up the Blue Box Program and transition it to Ontario's new individual producer responsibility framework starting on January 1, 2023 through to December 31, 2025
 - SO will wind up as a corporation after the program wind-up has been fully implemented
- SO submitted its proposed wind-up plan to the Authority by the revised August 31, 2020 deadline set by the Minister
- It is expected that the Authority must review, consult on and approve the plan no later than December 31, 2020

How to participate

Consultation webinars

Session 1: Consultation, program and transition overview

Tuesday, October 13, 11:00 a.m. to 12:00 p.m.

Session 2: Supporting competition and maintaining data security

Wednesday, October 14, 9:30 to 10:30 a.m.

Session 3: Maintaining program performance and municipal funding

Wednesday, October 14, 1:00 to 2:00 p.m.

Session 4: Financials and steward operations

Thursday, October 15, 10:00 to 11:00 a.m.

Session 5: Winding up the CIF

Friday, October 16, 11:00 a.m. to 12:00 p.m.

Online group discussions

Stewards

Monday, October 19, 1:30 to 3:00 p.m.

Municipalities, waste management industry

Tuesday, October 20, 1:30 to 3:00 p.m.

First Nation and northern/rural communities

Thursday, October 22, 10:00 to 11:30 a.m.

NGOs and general public

Friday, October 23, 10:30 a.m. to 12:00 p.m.

Minister's direction

To demonstrate fairness to stewards and protect consumers:

“The Plan must include a proposal for dealing with the assets, liabilities, rights and obligations of SO in relation to the SO program must be dealt with in a fair, open and transparent process in accordance with applicable law.”

And,

*“All **monies held in trust** by SO related to the SO Program shall be **treated appropriately in accordance with the WDTA** and its regulations.”*

The plan also must contain:

*“A **proposed timeline according to which key aspects of the plan will be implemented.**”*

Funds and Reserves



Funds

Market development funds

Plastics Market Development Fund (\$5 M)

Created to develop local markets for recyclable plastics

Glass Market Development Fund (\$666,000)

Created to find ways to improve the value of glass materials for end markets

Operating reserves

Sustaining Fund (\$5.4 M, or ~3.8%)

To ensure Stewardship Ontario has the funds it needs to satisfy its obligations in the event of wind-up

General Reserve Fund (\$17.8 M, or ~12.7%)

To provide appropriate working capital

Continuous Improvement Fund (CIF)

Held for municipalities in a **segregated bank account**

Addressed in CIF wind-up plan (in Session 5)

Principles

- Plans for reserve disposition reflect the following principles:
 - Stewardship Ontario must maintain sufficient operating capital during transition to bridge its cash flows and ensure that it always has sufficient funds to meet its obligations to municipalities and other creditors on time
 - reserves should provide for wind-up costs without the need to levy additional fees for this purpose
 - reserves in excess of what is necessary for cash flow and wind-up costs should be returned to stewards before transition is complete
 - unused market development funds should be returned to stewards via a fee reduction for the relevant materials

Use of funds

Market Development Funds (restricted)	Sustaining Fund (restricted)	General Reserve Fund (unrestricted)	CIF Funds
<p>SO proposes to disburse the market development funds to stewards via a reduction in the 2021 fees (\$5 M for plastic and \$666,000 for glass)</p>	<p>Transferred to the General Reserve Fund following the SO Board decision on July 8, 2020</p>	<ul style="list-style-type: none"> • SO proposes to use the General Reserve to cover transition costs for the balance of the transition period. Full disbursement of the remaining reserve balance estimated at \$12 M will be completed no later than 2025, with the exception of funds set aside to complete corporate wind-up in 2026 of \$1.3 M • Once wind-up is complete, any residual amounts will be disbursed to Blue Box stewards to fully deplete the reserve fund • SO will review its operating capital requirements during the fee-setting process for 2023 and 2024 with a view to accelerating the use of reserve funds, if SO's cash reserves are sufficient to support prudent management of its operations over the remaining transition period 	<p>CIF funds are held in a segregated bank account by SO and are not included in the financial forecasts. Forecasted depletion of CIF funds reflect the recommendations developed by CIF staff and representatives of AMO and the City of Toronto and will be presented in Session 5 on Friday</p>

Assets, Liabilities and Contingencies



Assets, debt, contingencies and tax

- SO's assets includes financial assets, such as cash and investments, and non-financial assets, such as intellectual property. SO has no capital or leased assets.
- SO has no short- or long-term debt
- SO has two employees; potential employee severance, retention and other related costs have been included
- The Blue Box Program has no known existing or future legal costs related to litigation, leases, property sales, undertakings or pensions. Potential legal fees and costs associated with any legal claims or actions that might arise during the wind-up period have been included in the Financial Forecast and Budget
- The Blue Box Program has no unremitted sales taxes (HST) and no active proceedings with the Canada Revenue Agency (CRA)

Contracts

- Key contracts include the contract with CSSA and with the independent management resources hired for the program wind-up
 - SO's agreement with CSSA is the key contract
 - The Management Services Agreement with CSSA covers services for both the Blue Box and MHSW programs. The current term of the Management Services Agreement will end on December 31, 2021 allowing for an automatic two-year renewal term based on a reduced scope of work once the MHSW Program terminates.

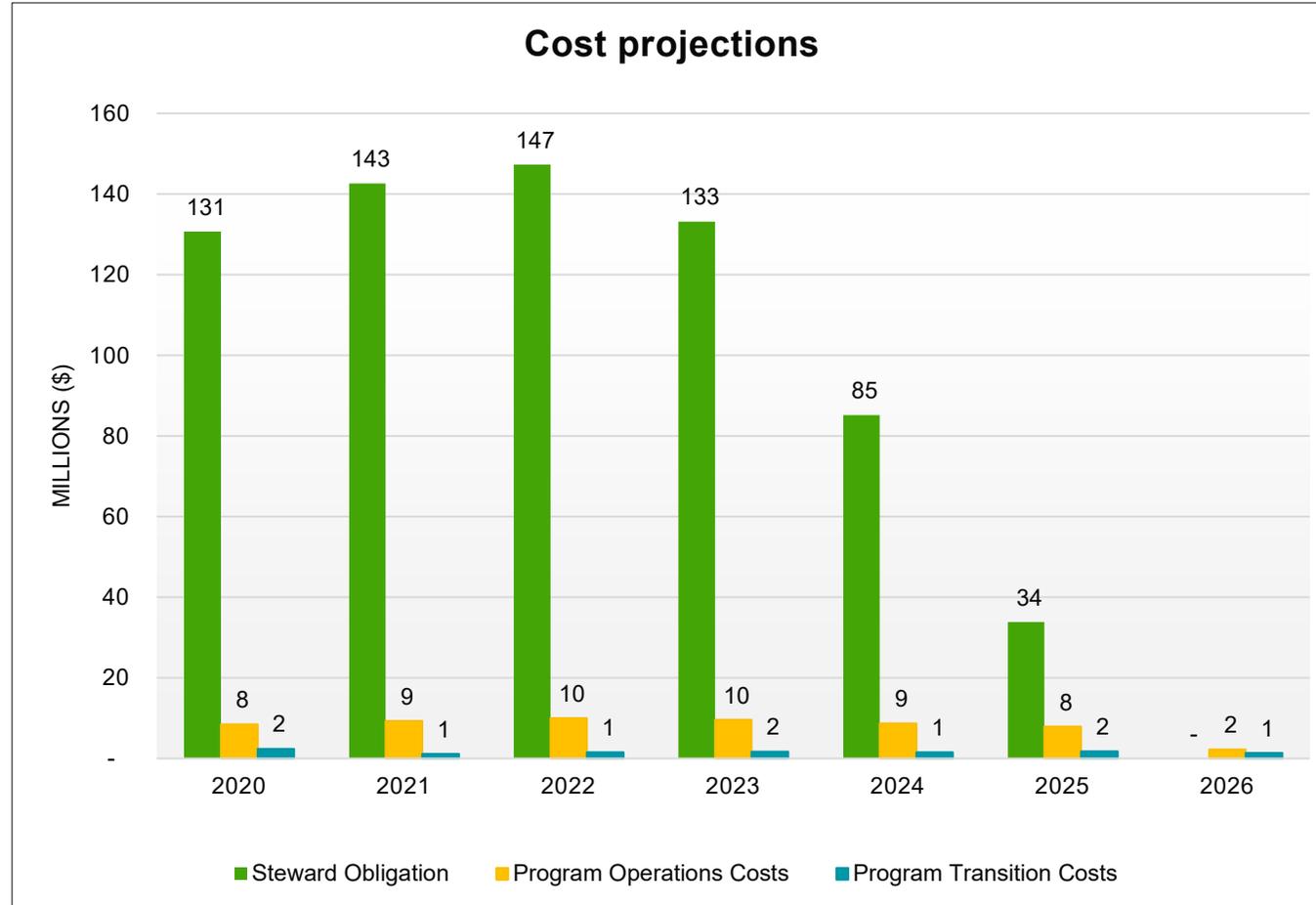
Financial Forecast and Budget



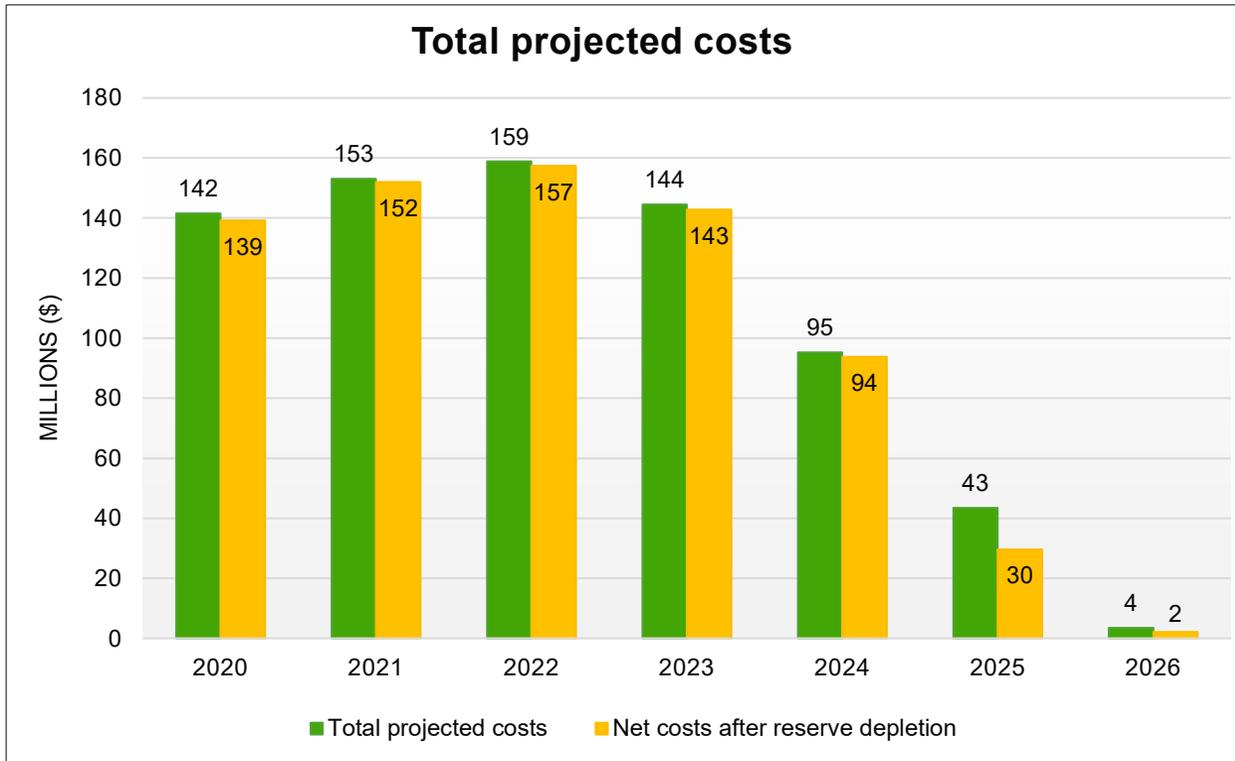
Assumptions

- Projected **steward funding obligation**
 - 2020 baseline
 - 2019 approach to cost containment
 - Adjusted based on the most recent two-year Cumulative Average Growth Rate (CAGR); 1/3 of costs will exit each year, with 25% of costs in each year exiting at the end of each quarter
- Projected **program operations**
 - 7.65% of total projected costs
 - Includes: costs for SO staff and CSSA services, rent and other office expenses; field studies; regular legal counsel; P&E; regulatory charges from RPRA
- Projected **transition and corporate windup costs**
 - 1.5% of total projected costs
 - Includes: contracted management fees for the wind-up team; legal fees for wind-up work; 2026 liquidation costs; additional space for Conflict of Interest plan; additional communications support; contingencies

Financial forecast



Financial forecast: use of funds



Forecasted reserve drawdown			
Year	Glass market development fund	Plastic market development fund	General reserve*
Starting balance	\$666,000	\$4,964,000	\$23,287,000
2020			\$2,382,000
2021	\$666,000	\$4,964,000	\$1,119,000
2022			\$1,491,000
2023			\$1,645,000
2024			\$1,475,000
2025			\$13,850,000
2026			\$1,326,000

* this includes the Sustaining Fund transferred to the General Reserve in 2020

Risks

- Changes in general economic conditions
- Further disruptions in recycled commodities markets
- Impacts on bidding processes and practices for municipal contracts as a result of shorter-term arrangements related to meet transition timing
- Any variance in the sequencing of municipal transition versus SO's assumptions
- A delay in the regulation
- Unexpected legal challenges or unanticipated increases in regulatory charges

A close-up photograph of a blue metal filing cabinet. The cabinet is open, revealing several papers and folders inside. The papers are mostly white and appear to be crumpled or folded. The lighting is bright, highlighting the texture of the metal and the paper. The background is slightly blurred, showing more of the cabinet's structure.

**Do you support the plan's budget and
general reserve management proposal?**

Steward Fees

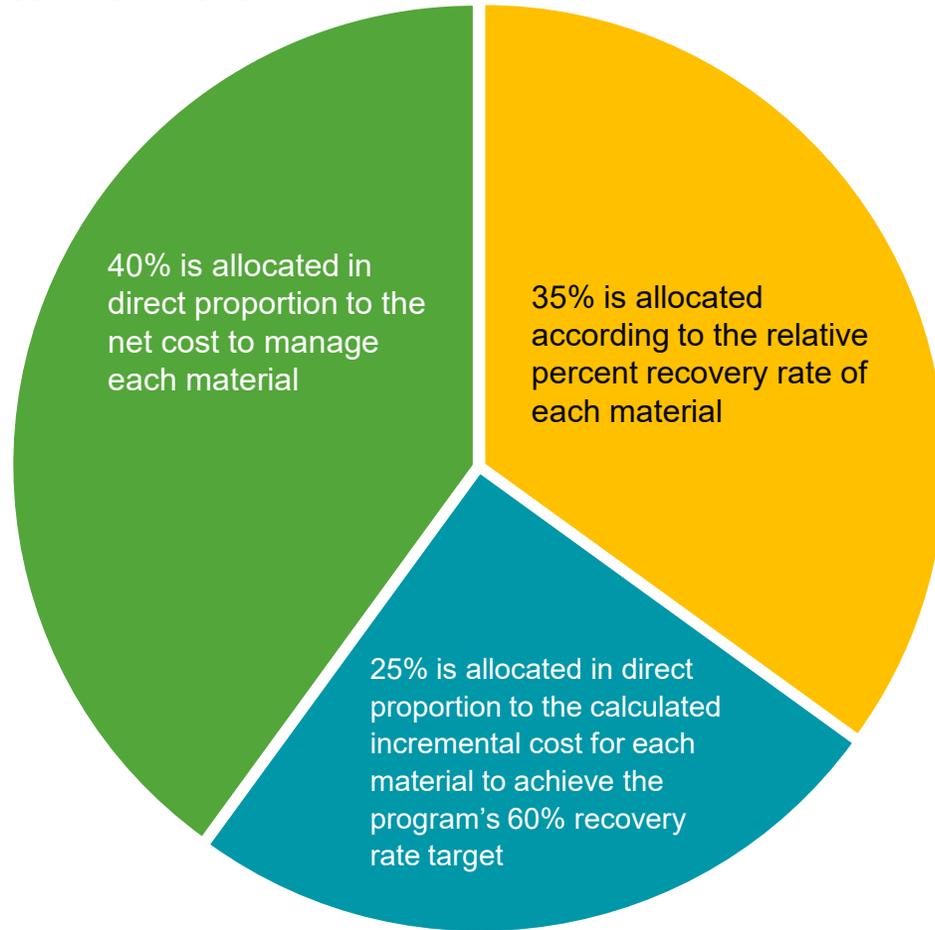
The image is a collage of various plastic bottles. In the upper left, there is a white rectangular area with the text 'Steward Fees' in a bold, black, sans-serif font. The background consists of numerous clear plastic bottles, some of which are partially filled with water. A prominent green plastic bottle is visible in the upper right quadrant. The bottles are arranged in a somewhat chaotic manner, with some lying horizontally and others vertically. The overall color palette is dominated by the clear blue of the plastic and the green of the bottle, with the white text providing a sharp contrast.

Recap: existing fee setting methodology

Principles	Methodology
<ol style="list-style-type: none">1. Encourage reduction, redesign and recyclability2. Reflect the costs to manage each designated material category3. Recognize the benefits to all stewards from the high recycling rates achieved by certain designated materials4. Equitably share program management costs among all stewards	<ol style="list-style-type: none">1. Determination of the recovery rate per material2. Determination of the net cost per material3. Allocation of the steward obligation to each material4. Addition of specific market development costs5. Addition of a share of the administrative and direct costs incurred by SO and WDO, now RPRA6. Addition of a share of any shortfall7. Calculation of the total fee8. Calculation of fee rates9. Fee aggregation for some material categories

Allocation of the steward obligation to each material

Three-factor formula



Net cost to manage each material

- Activity-Based Costing (ABC) methodology
- Last ABC study was performed in 2012
- Many changes occurred in the material mix and sorting/processing since

Determination of fees during transition

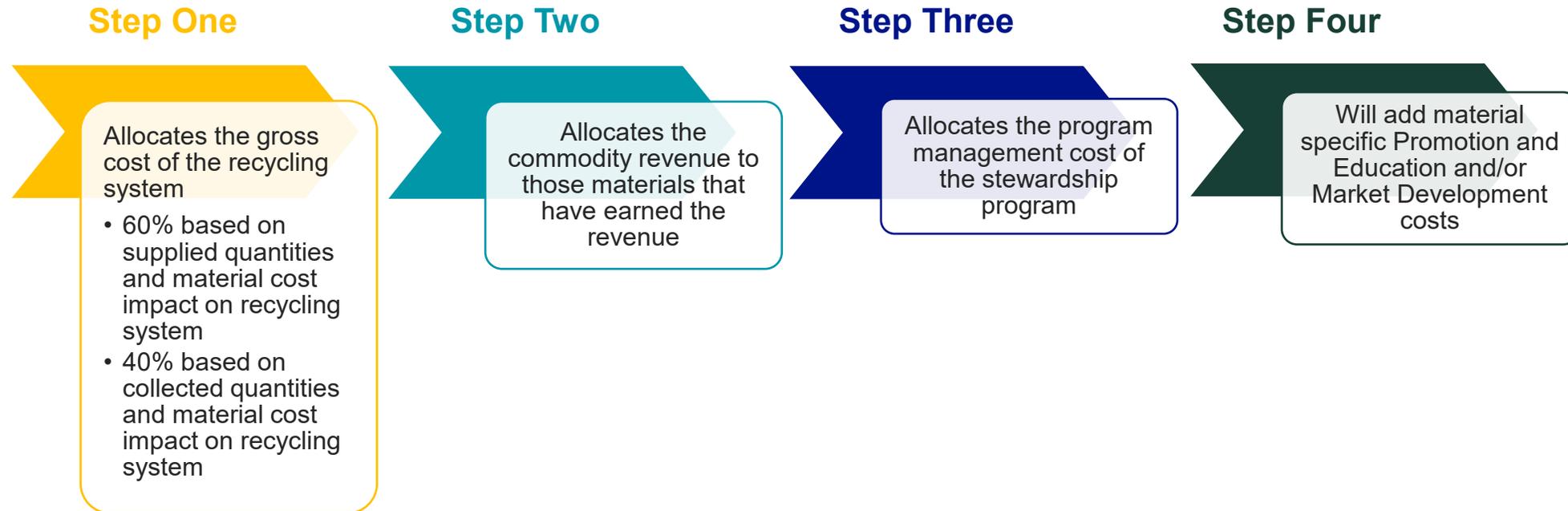
- SO proposes a new methodology for setting steward fees
- When proposing the new methodology, SO highlights:
 - fairness, transparency and repeatability challenges with the existing approach
 - practical difficulties of executing the ABC studies
- In 2015, SO joined an in-depth review of the methodologies led by CSSA, which would address the issues and harmonize fee-setting across Canada

New principles proposed

Existing principles	Proposed principles
<p>The fee-setting methodology should:</p> <ol style="list-style-type: none">1. Encourage reduction, redesign and recyclability2. Reflect the costs to manage each designated material category3. Recognize the benefits to all stewards from the high recycling rates achieved by certain designated materials4. Equitably share program management costs among all stewards	<p>The fee-setting methodology should:</p> <ol style="list-style-type: none">1. Ensure all obligated stewards who put obligated materials into the marketplace contribute to the recycling system2. Ensure the material management costs allocated to each material reflect the material's impact on the cost to collect and manage it3. The commodity revenue should be attributed only to the materials that earn that revenue

Changes proposed: four-step methodology

- New four-step methodology adopted in other Canadian provinces in 2016



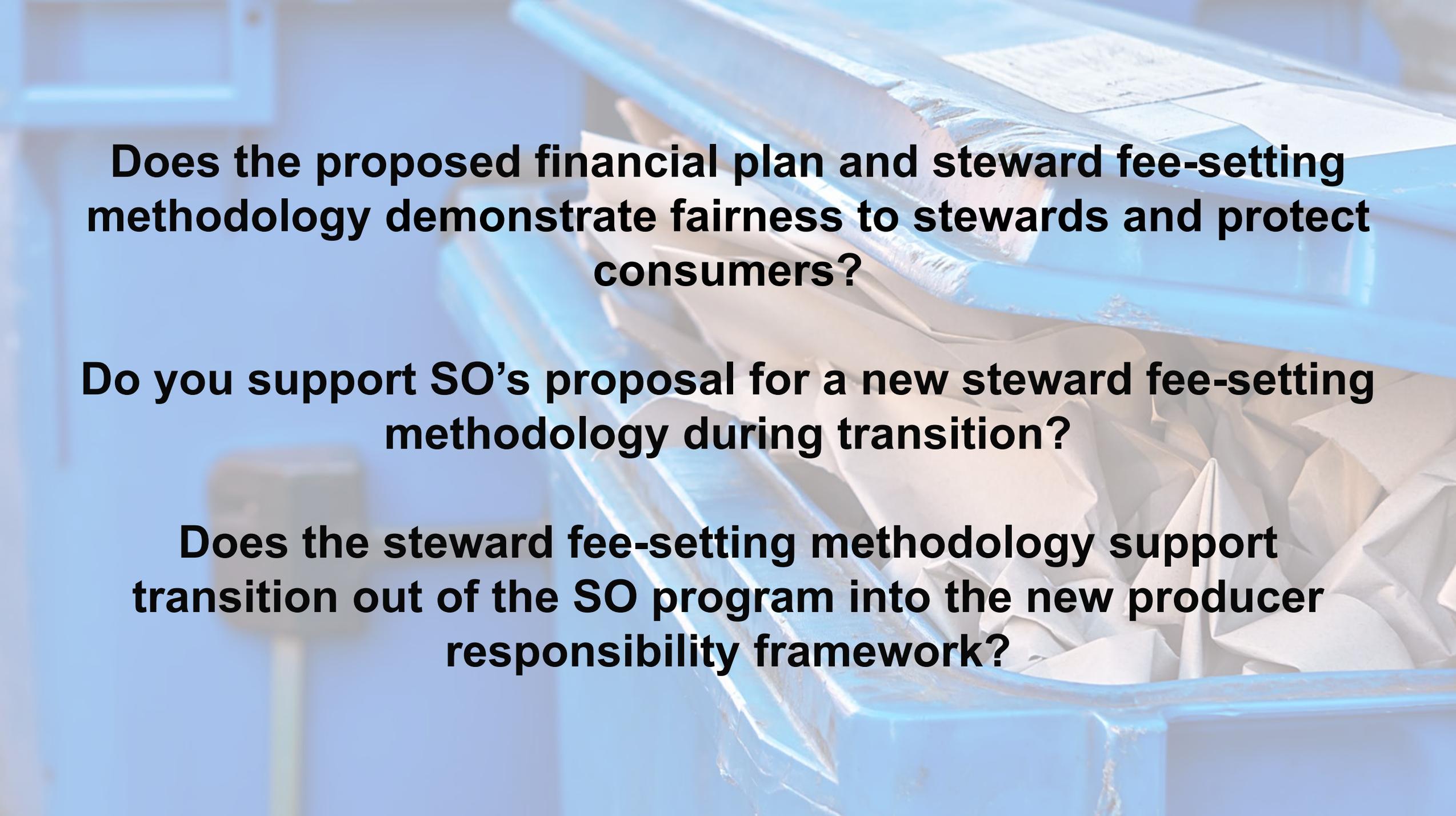
Changes proposed: replace ABC with MCD

- Material Cost Differentiation (MCD) methodology encompasses:
 - a computational model
 - measurement protocols
 - impact metrics
 - calculation procedures
 - assumptions and definitions
 - maintenance protocols
- Inputs:
 - lab measurements
 - system and costing information
- Outputs:
 - Material Cost Index used in Step One of the four-step methodology
- The MCD methodology is proprietary to CSSA

Impact of the proposed methodology

- The methodology results in a significant increase in the load on printed paper stewards, increasing the portion of the obligation paid to municipalities and First Nation communities through the In-Kind Program
 - For 2020 this would have been a difference of \$3.5M, a 70% increase
 - SO expects the impact will be reduced in future years due to declining printed paper supplied tonnage
- SO proposes implementation in 2 stages:
 - 2021 fees: 50% existing, 50% new methodology
 - 2022 fees: 100% new methodology

Category	Impact on fees
Printed paper	↑
Paper packaging	Varies by program
Plastics	↓
Steel	↑
Aluminum	Varies by program
Glass	↑

A blue recycling bin is shown, filled with crumpled paper and documents. The bin is slightly out of focus, with the background being a blurred blue wall. The text is overlaid on the bin.

Does the proposed financial plan and steward fee-setting methodology demonstrate fairness to stewards and protect consumers?

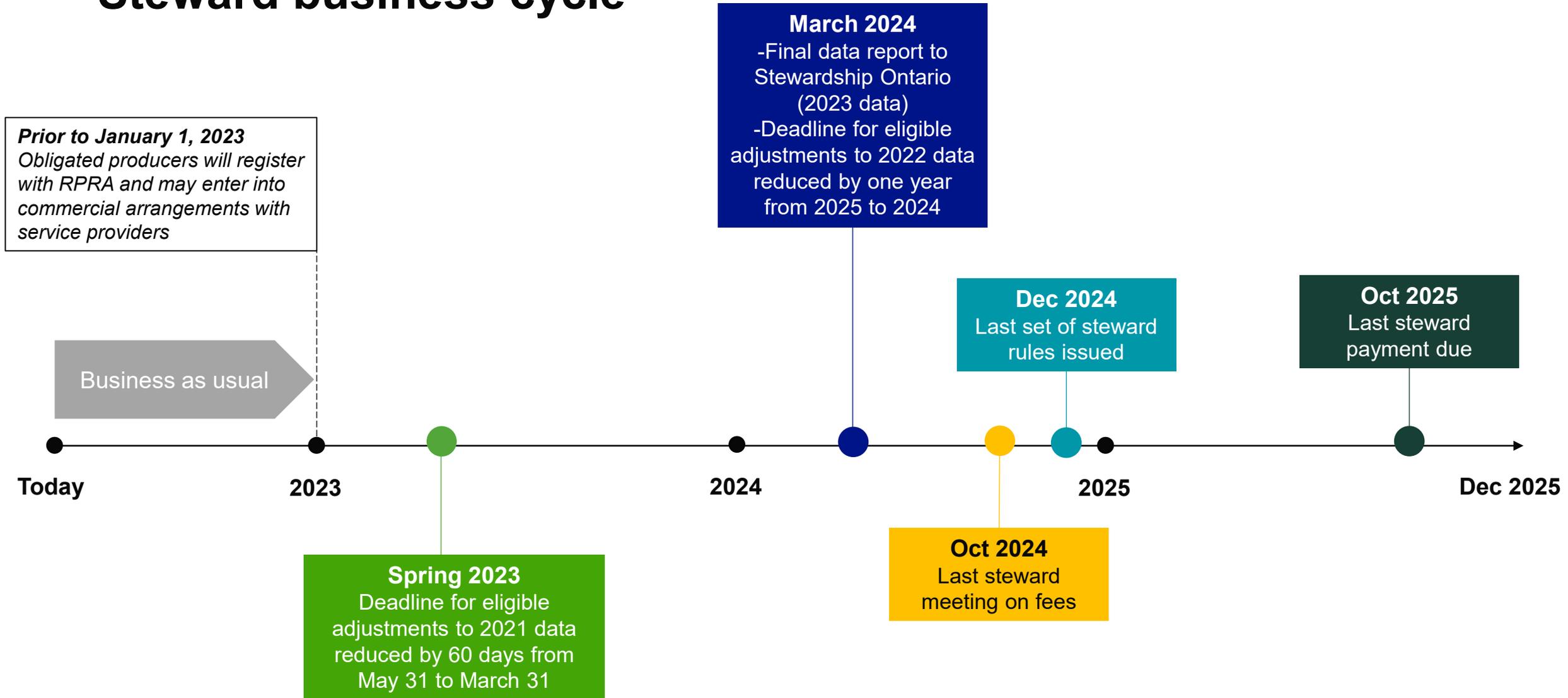
Do you support SO's proposal for a new steward fee-setting methodology during transition?

Does the steward fee-setting methodology support transition out of the SO program into the new producer responsibility framework?

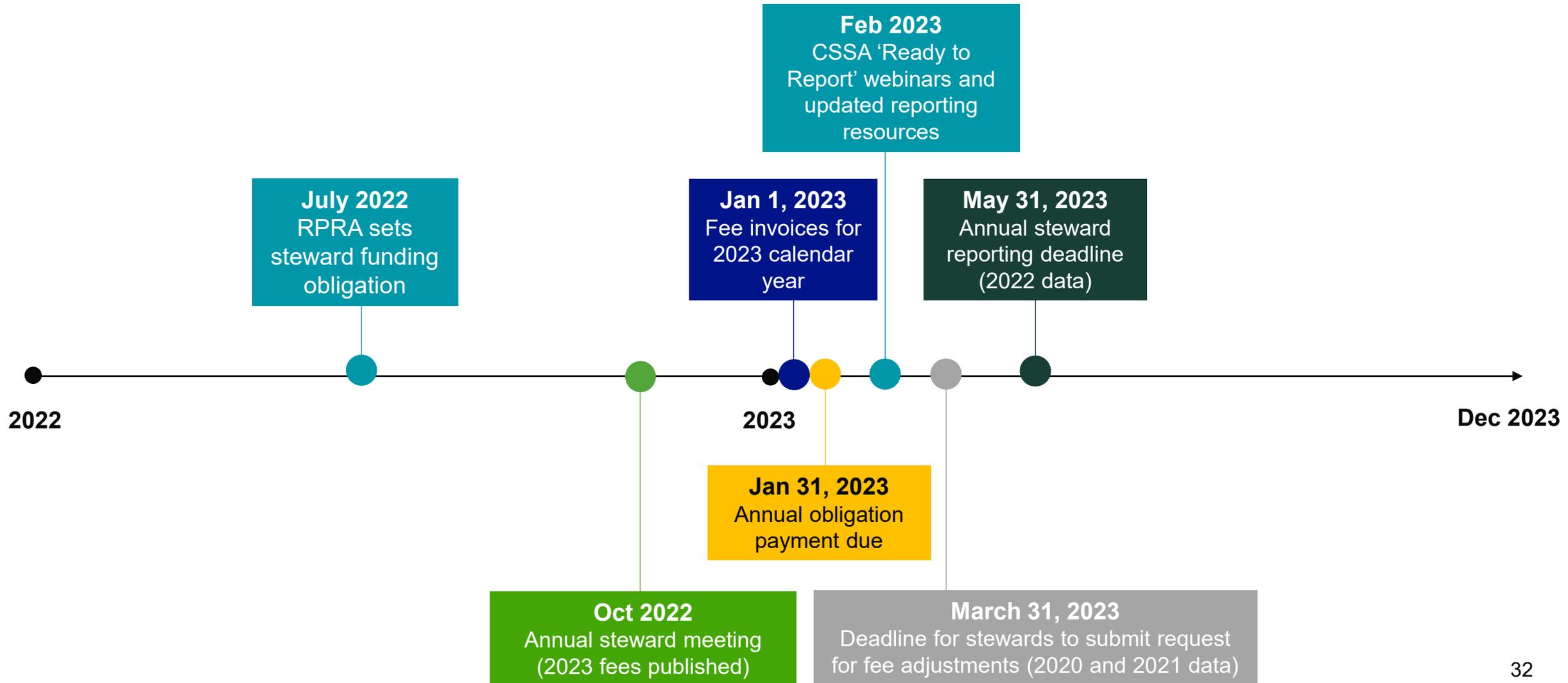
Steward Operations



Steward business cycle



Example: steward business cycle in 2023

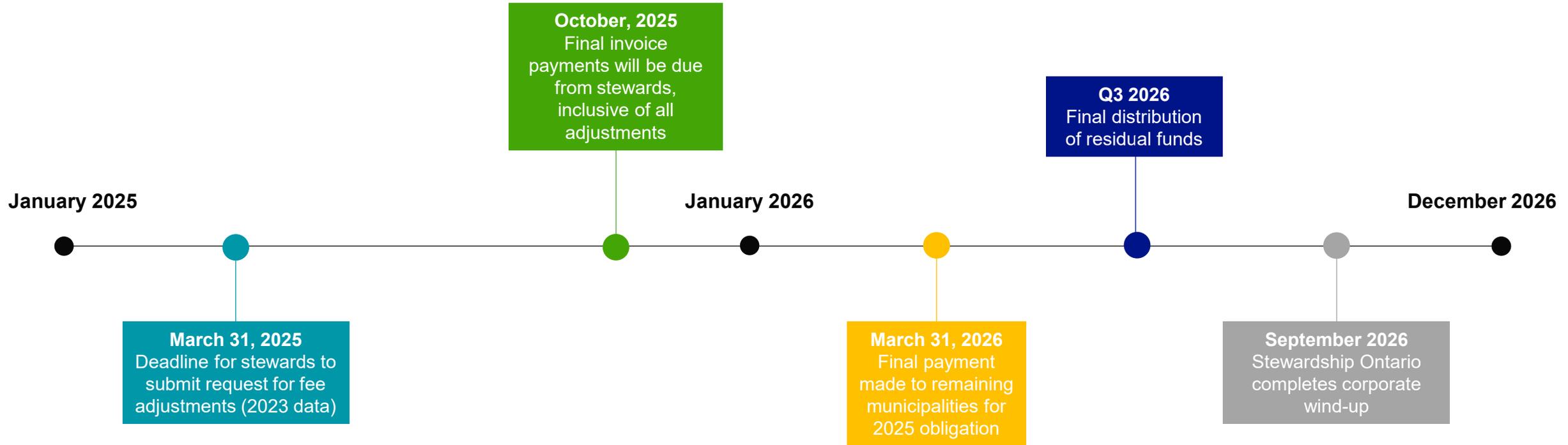


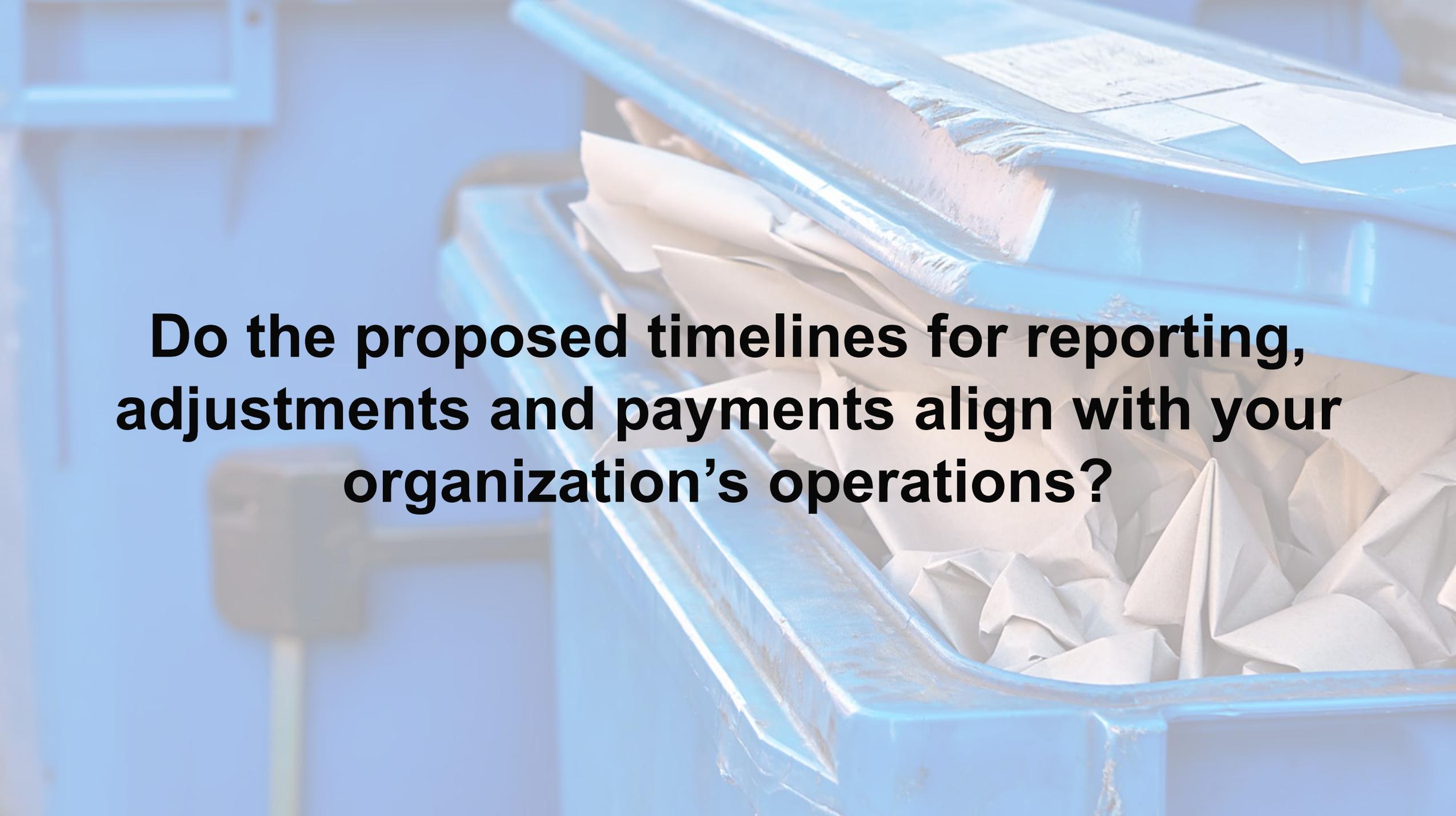
Adjustment deadlines

Deadlines for finalizing Steward Data Reports

Year material supplied to market	Deadline for initial report to SO	Year for which data is used to set fees	Normal deadline for data to be final	New deadline for data to be final
2021	May 2022	2023	March 2024	No change
2022	May 2023	2024	March 2025	May 2024
2023	May 2024	2025	March 2026	May 2024

Cut-off dates



A blue metal filing cabinet is shown, slightly open, revealing several papers and a large amount of crumpled white paper inside. The scene is lit with a soft, blue-tinted light, creating a professional and organized atmosphere.

Do the proposed timelines for reporting, adjustments and payments align with your organization's operations?

Next steps

- This presentation deck and a recording will be posted to our [consultation webpage](#)
- Provide feedback by **Tuesday, November 10, 2020** via:
 - Email to consultations@rpra.ca
 - [Online survey](#)
 - Webinar, group discussion or 1:1 meeting (upon request)
- Feedback from the consultation will be summarized in a report that will be available on the Authority's website
- If you have questions about the wind-up plan or would like to discuss it in more detail, email us at consultations@rpra.ca



A large stack of newspapers is shown, tied together with a thick, light-brown rope that runs vertically down the center. The newspapers are stacked in a way that their edges are visible, showing various headlines and text. The background is slightly blurred, suggesting a large quantity of newspapers. Overlaid in the center of the image is the text "Thank You" in a large, bold, black font.

Thank You