

TORONTO STAFF REPORT

June 29, 2004

To: Works Committee

From: Barry H. Gutteridge, Commissioner, Works and Emergency Services

Subject: Recycling/Litter Bins Program – Options for Acquiring 1,000 Additional Bins

Purpose:

To outline the options currently available for the City to enhance its Clean City campaign by installing at least 1,000 additional recycling/litter bins.

Financial Implications and Impact Statement:

Appendix A outlines the financial implications of maintaining the existing contract with Eucan for the duration of the contract that expires in October 2009, and purchasing 1,000 additional recycling/litter bins. This has an estimated cost of \$4.6 million.

Appendix B outlines the financial implications of the proposal from Eucan and summarizes the estimated financial benefits to the City of accepting Eucan's proposal versus maintaining the existing contract and purchasing 1,000 additional recycling/litter bins. These financial benefits would vary depending on the number of EcoMupis installed. At the minimum threshold of 1,500 EcoMupis, there could be an estimated net benefit to the City of \$10.3 million over the 10.5-year period following execution of a new contract. This benefit would increase should there be further acceptable locations for EcoMupis, the large illuminated litter/recycling bins.

Appendix C outlines the projected impact on Solid Waste Management Services budgets of accepting the proposal from Eucan compared to maintaining the existing contract and purchasing 1,000 additional recycling/litter bins.

The Chief Financial Officer and Treasurer has reviewed this report and concurs with the Financial Implications section.

Recommendations:

It is recommended that:

1. City Council continue with the existing agreement with Urban Equipment of Canada Inc. (“Eucan”) and agree in principle to independently purchase 1,000 additional recycling/litter bins without advertising, through a tender process;
2. The Acting Commissioner of Works and Emergency Services report through the Budget Committee to Council with a funding strategy for the acquisition of 1,000 additional litter/recycling bins without advertising including the associated operating costs; and,
3. Should Council decide to pursue the current offer from Eucan offer to amend and extend the existing agreements or to enter into a new agreement(s), for the provision of recycling/litter bins with advertising within the City of Toronto, the proposal be subject to evaluation by an objective third party with knowledge of the advertising industry and subject to a further report through Works Committee to Council.

Background:

At its meeting of March 1, 2 and 3, 2004, City Council authorized Solid Waste Management Services to negotiate new terms and conditions of the agreements for the provision of recycling/litter bins with Eucan, with the objective of improving the recycling/litter bins with advertising program, and report further to Works Committee with any recommended changes to the agreements. Council also recommended that “a Committee be established, composed of the Chair and Vice Chair of the Works Committee, a representative from the Urban Design Division of the Urban Development Services Department, a representative from Local 416 and an appropriate representative of the Works and Emergency Services Department, to review Eucan’s design proposal and make recommendations to the Works Committee no later than June 2004, and the Chair of the Works Committee, or her designate, be part of the negotiating team with staff when negotiating the design of the new bins.”

Comments:

There will be approximately 4,000 Eucan recycling/litter bins in place across the City this year. There are also a number of City-owned litter bins without a recycling component. To enhance the Clean City campaign, an additional 1,000 recycling/litter bins are required within the public road allowances to adequately collect litter.

There are currently two options available to the City if we wish to install at least 1,000 additional recycling/litter bins:

- (a) Continue with the existing contract for litter bins with advertising with Eucan and independently purchase 1,000 additional recycling/litter bins without advertising; or,
- (b) Accept a proposal from Eucan to amend the existing agreement.

(A) Continue with Existing Contract and Purchase 1,000 Additional Recycling/Litter Bins.

The City is currently under contract to Eucan for the provision of recycling/litter bins with advertising at various locations within the public road allowances in the City of Toronto. The ten-year agreement expires on October 14, 2009. The agreement provides Eucan with the exclusive right to install recycling/litter bins with advertising, with the City entitled to purchase litter bins from any source, without advertising.

The bins with advertising are owned by Eucan and retained by them at the end of the contract. Eucan supplies, installs and maintains the recycling/litter bins at their cost. Collection of material from the bins is the responsibility of the City.

Under the terms of the agreement, Eucan pays the City guaranteed revenue of \$10 per installed bin per month in years one to three of the contract, \$15 per bin per month in years four and five, and \$20 per bin per month in years six to ten. The City is currently receiving revenue of \$15 per bin per month. On October 15, 2004, the rate increases to \$20 per bin per month. In addition to this guaranteed revenue, Eucan will pay the City 10 percent of their gross advertising revenue, less standard advertising commissions, for the ten-year period. Payment of the 10 percent of gross advertising revenues will commence at the end of year five and will be paid in six annual instalments from years five to ten. The City is entitled to use 5 percent of all advertising faces for public service announcements, at no cost.

In order to acquire 1,000 additional recycling/litter bins, the City would need to purchase them at an estimated cost of \$1,800 per bin including installation, replace them when required and maintain the bins at a cost of approximately \$180 per bin per year. The additional bins could be any style of bin as long as they did not contain advertising.

Before the existing agreement expires on October 14, 2009, the City would then issue a tender for approximately 4,000 litter/recycling bins with or without advertising.

(B) Accept The Proposal from Eucan

Eucan is interested in ensuring the viability of their advertising medium. Eucan has put forward the following proposal to provide the City with up to 5,000 new and improved recycling/litter bins.

Two types of new bins, which Eucan calls the EcoMupi and EcoBox, would replace the 4,000 current-style Eucan bins (SilverBoxes) and 1,000 bins would be installed in new locations as part of the Clean City campaign. Appendix D shows pictures of the EcoMupi and EcoBox. The EcoBox has the same components and capabilities of the EcoMupi but does not have advertising panels. The EcoMupi has illuminated panels and requires electrical hook-up.

The following are the dimensions of the EcoMupi, EcoBox and SilverBox.

	SilverBox		EcoMupi		EcoBox	
Height	50 in	128 cm	90 in	230 cm	59 in	150 cm
Width	69 in	176 cm	53 in	136 cm	53 in	136 cm
Depth	23 in	58 cm	23 in	58 cm	23 in	58 cm
Footprint	11.02 ft ²	1.02 m ²	7.7 ft ²	0.72 m ²	7.7 ft ²	0.72 m ²

It is recognized that the EcoMupi would not be suitable for all locations as the height of the unit could block sightlines. Therefore, a combination of EcoMupis and EcoBoxes would be installed.

Their proposal includes the following terms:

1. Eucan would supply and install up to 5,000 new recycling/litter bins (EcoMupis and EcoBoxes) at no cost to the City at locations, approved by the City, that are within the public road allowances and donate up to 3,000 of the replaced SilverBoxes for use by the City in parks, schools, public buildings and interior public areas. The proportion of the different bins that needs to be maintained for the proposal to be financially viable to Eucan would be that for each EcoMupi installed, the City of Toronto would receive one EcoBox and 1.20 SilverBoxes (e.g., if Eucan installed 2,500 EcoMupis, they would install 2,500 EcoBoxes and provide the City with 3,000 of the replaced SilverBoxes).
2. If additional EcoBoxes are required by the City, Eucan would provide them and would discount their cost from revenues owed to the City (e.g., if Eucan installed only 2,000 EcoMupis, they would only be required to install 2,000 EcoBoxes. If the City wished to purchase 1,000 EcoBoxes from Eucan to maintain the level of 5,000 new bins, the cost of the bins would be deducted from the share of gross advertising revenue paid to the City).
3. Eucan would transfer ownership of all the EcoMupis and EcoBoxes, as soon as they are installed, and the SilverBoxes, when they are removed, to the City of Toronto. The ownership of the units will be transferred to the City, but all design and manufacturing rights, patents and trademarks remain in the ownership of Eucan.
4. Eucan would clean and maintain all EcoMupis and EcoBoxes, and replace damaged EcoMupis and EcoBoxes at their cost. Once the SilverBoxes were donated to the City, it would be the City's responsibility to clean and maintain the SilverBoxes.
5. The City would be entitled to use 10 percent of all advertising faces of installed EcoMupis for public service announcements and other City messages, at no cost.

6. The City would be entitled to use 25% of all advertising faces on the SilverBoxes for public service announcements at no cost, during the transition period while SilverBoxes remain on the public road allowances.
7. The advertising space available for the City could be used in any city or country where Grupo EUMEX has current operations. Grupo EUMEX currently has operations in Argentina, Chile, Colombia, Panama, Dominican Republic, Costa Rica, El Salvador, Guatemala, Mexico, United States (New York) and Canada (Toronto, Montreal and Ottawa).
8. Eucan would pay the City guaranteed revenue of \$20 per installed EcoMupi per month. The \$20 per bin rate would also apply to the SilverBoxes until removed from the road allowances. Eucan would also pay the City an amount annually equivalent to 10 percent of its gross advertising revenue, less standard advertising commissions, from the EcoMupis and from the SilverBoxes during the transition period. Eucan would not pay any revenue on the EcoBoxes, or the SilverBoxes once they are donated to the City, as they would not contain advertising.
9. Eucan would provide up to a total of \$1.0 million worth of advertising during the first three years of the contract to be used by the City in a campaign to promote use of the public recycling/litter containers.
10. In order for Eucan to amortize the total investment, they have requested that the existing contract be extended by approximately 5½ years (approximately April 2015). The EcoMupis must be installed within a period of two years after execution of the contract, by the City and Eucan making their best effort to find suitable locations. At the end of the term of the contract, the City would have the option of extending the contract for 3 or 5 additional years.
11. The above terms and conditions are subject to the City providing Eucan with a minimum of 1,500 locations for EcoMupis to be installed. A protocol would be established by Solid Waste Management Services and Transportation Services to approve individual locations for the EcoMupis. If Eucan were not allowed to install a minimum of 1,500 bins, further negotiations and changes to the contract would be required.

Review of Options

Option A - Continue with Existing Contract and Purchase 1,000 Additional Recycling/Litter Bins

Continuing with the current contract and purchasing litter/recycling bins without advertising has the following advantages:

- (i) The City could entertain a comprehensive and harmonized RFP for the supply of street furniture at the end of the existing Eucan contract that expires on October 14, 2009. The

transit shelter advertising program with Viacom expires in 2007 at which time the City owns the bus shelters that could then become part of a comprehensive and harmonized RFP; and,

- (ii) The City would conduct a competitive bid to determine a proponent for the supply of bins with advertising instead of extending the contract with one supplier.

There are, however, the following disadvantages:

- (i) The City would be required to purchase, maintain and replace 1,000 new bins at an approximate total cost of \$4,635,000; and,
- (ii) The City would be required to modify all the existing bins to accept cigarette butts, organics and/or batteries and chewing gum.

Option B – Accept A Proposal from Eucan to Modify the Existing Contract

The proposal from Eucan appears to have certain advantages:

- (i) The City could increase the number of bins available in all public spaces from 2,800 to 4,000 bins (5,000 in road allowance and remainder elsewhere);
- (ii) The City would own the bins after the contract expires;
- (iii) The new bins would have a number of operational advantages over the existing bins including:
 - 13% greater capacity to receive waste and recyclables;
 - waste being placed directly into an open top compartment without having to touch a metal flap as is currently the case with the existing bins;
 - better locking mechanism to keep bin doors closed;
 - capability to collect organics and/or batteries;
 - capability to collect cigarette butts and chewing gum; and,
 - a smaller footprint than the existing bins;
- (iv) There would be a reduction of anywhere from 5% to 43% of commercial street advertising space available for Eucan and an increase of anywhere from 70% to 183% of free advertising space available for City use. (See also following table).

The following disadvantages have been identified with the proposal:

- (i) The City would have extended and significantly amended a contract with an existing supplier instead of conducting a public request for proposals to ensure the best financial terms and arrangements that best meet the City's needs,

- (ii) Extending the existing Eucan contract would not allow for a comprehensive, harmonized approach to street furniture to be place until after April 2015; and,
- (iii) The implications of introducing 1,500 or more illuminated advertising structures with litter/recycling bins into the streetscape.

The following table compares the number of bins and advertising faces that would be available under the two options:

Number of Bins and Advertising Faces

	Existing Contract and Purchase of 1,000 Additional Bins	Eucan Proposal (1)		
		With 1,500 EcoMupis	With 2,000 EcoMupis	With 2,500 EcoMupis
Number of Bins Provided to City at No Cost	4,000	4,800	6,400	8,000
Number of Bins Purchased by City	1,000	2,000	1,000	0
Total Number of Bins	5,000	6,800	7,400	8,000
Square Metres of Advertising Faces Available for Eucan	9,424 ⁽²⁾	5,400	7,200	9,000
Square Metres of Free Advertising Available to City	2,976	5,064	6,752	8,440

- (1) The number of bins and advertising faces under the Eucan Proposal include recycling/litter bins that would be within the road allowances as well as parks and other public spaces.
- (2) Assumes use of main advertising panels only and does not include advertising on other parts of the bins such as the end panels.

Conclusions:

There are at least two options available to the City if we wish to enhance the City's Clean City campaign by installing at least 1,000 additional recycling/litter bins:

- (a) continue with the existing contract for litter bins with advertising with Eucan and purchase 1,000 additional recycling/litter bins without advertising; or,

- (b) accept the proposal from Eucan, which would extend the term of the existing agreement by approximately five and half years, amend the financial returns and place 1,500 or more large advertising bins in the road allowance.

The financial analyses in this report show that accepting the proposal from Eucan appears financially better for the City rather than maintaining the existing contract and purchasing 1,000 additional bins. These analyses assume that if we continue with the existing agreement and go out for bids once it expires, we would receive royalties that are similar to the existing agreement. Without actually tendering or conducting a financial analysis by an independent party with knowledge of the advertising industry, there is no way of determining what the City's royalties could be after the current agreement expires. It is not possible to say unequivocally that accepting the proposal from Eucan would end up being financially advantageous to the City compared to maintaining the existing contract, purchasing 1,000 additional bins and tendering once the current contract with Eucan expires.

Due to the various considerations of:

- retaining flexibility to harmonise street furniture as part of the City's Beautiful City initiative;
- the implications on the streetscape of introducing 1,500 or more large illuminated advertising structures containing litter/recycling bins;
- the concerns with undertaking significant modifications to an existing contract without the benefits of a competitive process; and,
- the uncertainty around the financial benefits;

it is the staff recommendation not to proceed with the current offer from Eucan to modify the existing contract.

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Attachments: 1. Appendices A, B, C – Financial Implications
2. Appendix D – Photo of Bins

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APPENDIX A

Financial Implications of Maintaining Existing Contract and Purchasing Additional 1,000 Recycling/Litter Bins

Cost of Additional Bins ⁽¹⁾	
Cost of 1,000 bins including installation @ \$1,800/unit	(\$1,800,000)
Maintenance Cost of 1,000 bins @ \$180/unit per year	(\$1,890,000)
Replacement @ 5% per year	<u>(\$945,000)</u>
Total	(\$4,635,000)
Existing 4,000 SilverBoxes	
City Royalties	
Projected Actual for Duration of Existing Contract (October 2004 to October 2009)	
Fixed (4,000 units @ \$20/unit per month)	\$4,800,000
Variable (10% of gross advertising revenues)	<u>\$2,000,000</u>
Total for Existing Contract	\$6,800,000
Hypothetical Estimate of City Royalties from October 2009 to April 2015 to Compare to Eucan's 10.5 Year Proposal ⁽²⁾	
Fixed (4,000 units @ \$20/unit per month)	\$5,280,000
Variable (10% of gross advertising revenues)	<u>\$2,200,000</u>
Total Estimate for Extension Period	\$7,480,000
Total Estimated City Royalties for 10.5 year Period	\$14,280,000
Total Benefit of Maintaining Existing Contract and Purchasing 1,000 Additional Bins	\$9,645,000

- (1) For the purpose of this evaluation, we have assumed that the cost of purchasing new recycling/litter bins would be similar in value to new SilverBoxes.
- (2) Without tendering, there is no way of calculating what the City's royalties would be after the current agreement expires. However, in order to compare this option to Eucan's proposal, which is for 10.5 years, we have assumed that if we went out for bids, the prices would be similar to the current contract prices (\$20 per unit per month plus 10% of gross advertising revenues).

APPENDIX B

Financial Benefit to City of Accepting Eucan's Proposal

1,500 EcoMupi Boxes	
City Royalties	
Fixed (\$20/unit per month for EcoMupis and SilverBoxes until phased-out)	\$5,280,000
Variable (10% of gross advertising revenue)	<u>\$6,949,900</u>
Total	\$12,229,900
Street Furniture	
EcoMupi (1,500 units @ \$5,390/unit installed)	\$8,085,000
EcoBox (1,500 units @ \$3,504/unit installed)	\$5,256,000
Silver Boxes (1,800 units @ \$1,550/unit, depreciated at 50%)	<u>\$1,395,000</u>
Total	\$14,736,000
Cost of 2,000 EcoBoxes (City @ \$3,504/unit)	(\$7,008,000)
Total Benefit of Accepting Eucan's Proposal	\$19,957,900
Less: Benefit of Maintaining Existing Contract (Appendix A)	\$9,645,000
Incremental Benefit of Accepting Eucan Proposal (with 1,500 EcoMupis) over Maintaining Existing Contract and Purchasing 1,000 Additional Bins	\$10,312,900

2,000 EcoMupi Boxes	
City Royalties	
Fixed (\$20/unit per month for EcoMupis and SilverBoxes until phased-out)	\$6,360,000
Variable (10% of gross advertising revenue)	<u>\$8,925,230</u>
Total	\$15,285,230
Street Furniture	
EcoMupi (2,000 units @ \$5,390/unit installed)	\$10,780,000
EcoBox (2,000 units @ \$3,504/unit installed)	\$7,008,000
Silver Boxes (2,400 units @ \$1,550/unit, depreciated at 50%)	<u>\$1,860,000</u>
Total	\$19,648,000
Cost of 1,000 EcoBoxes (City @ \$3,504/unit)	(\$3,504,000)
Total Benefit of Accepting Eucan's Proposal	\$31,429,230
Less: Benefit of Maintaining Existing Contract (Appendix A)	\$9,645,000
Incremental Benefit of Accepting Eucan Proposal (with 2,000 EcoMupis) over Maintaining Existing Contract and Purchasing 1,000 Additional Bins	\$21,784,230

APPENDIX B – Financial Benefit to City of Accepting Eucan’s Proposal (Cont’d)

2,500 EcoMupi Boxes	
City Royalties	
Fixed (\$20/unit per month for EcoMupis and SilverBoxes until phased-out)	\$7,440,000
Variable (10% of gross advertising revenue)	<u>\$10,900,550</u>
Total	\$18,340,550
Street Furniture	
EcoMupi (2,500 units @ \$5,390/unit installed)	\$13,475,000
EcoBox (2,500 units @ \$3,504/unit installed)	\$8,760,000
Silver Boxes (3,000 units @ \$1,550/unit, depreciated at 50%)	<u>\$2,325,000</u>
Total	\$24,560,000
Total Benefit of Accepting Eucan’s Proposal	\$42,900,550
Less: Benefit of Maintaining Existing Contract (Appendix A)	\$9,645,000
Incremental Benefit of Accepting Eucan Proposal (with 2,500 EcoMupis) over Maintaining Existing Contract and Purchasing 1,000 Additional Bins	\$33,255,550

APPENDIX C

PROJECTED IMPACT ON SWMS BUDGETS OF EUCAN PROPOSAL VERSUS EXISTING CONTRACT AND PURCHASE OF 1,000 ADDITIONAL SILVERBOXES

	2,500 EcoMupis	2,000 EcoMupis	1,500 EcoMupis
Increase in Revenue to City of Toronto			
- term of proposed new contract	\$4,060,550	\$1,005,230	(\$2,050,100)
- 2004 (1)	\$26,000	\$26,000	\$26,000
- 2005 (1)	\$313,000	\$313,000	\$165,000
Avoided Operating Cost to Maintain 1,000 Additional SilverBoxes			
- term of proposed new contract	\$1,890,000	\$1,890,000	\$1,890,000
- 2004	\$9,000	\$9,000	\$9,000
- 2005	\$180,000	\$180,000	\$180,000
Avoided Capital Cost of 1,000 SilverBoxes and Replacements			
- term of proposed new contract	\$2,745,000	\$2,745,000	\$2,745,000
- 2004	\$360,000	\$360,000	\$360,000
- 2005	\$1,530,000	\$1,530,000	\$1,530,000
Total Incremental Benefit to SWMS Budgets with Proposed New Contract			
- term of contract	\$8,695,550	\$5,640,230	\$2,584,900
- 2004	\$395,000	\$395,000	\$395,000
- 2005	\$2,023,000	\$2,023,000	\$1,875,000

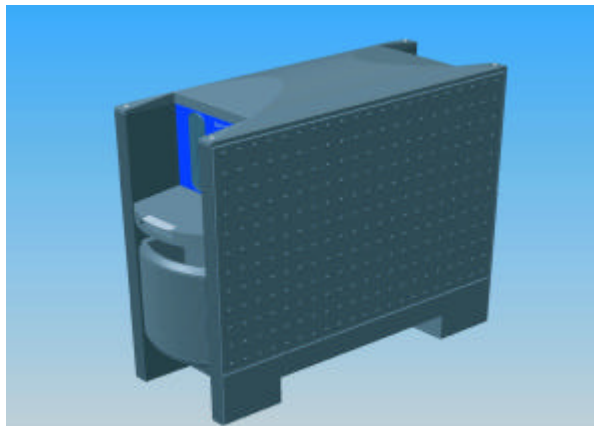
- (1) There is not a significant change in revenue to the City between the various scenarios in 2004 and 2005 as the EcoMupis, which provide revenue, are installed first in all the scenarios and the EcoBoxes, which do not have advertising and do not provide revenue, are installed later.

APPENDIX D

Photo and Illustration of Bins



EcoMupi and SilverBox



Ecobox