

ARBITRATION TO DETERMINE  
THE 2014 STEWARD OBLIGATION FOR THE BLUE BOX PROGRAM

B E T W E E N:

ASSOCIATION OF MUNICIPALITIES OF ONTARIO and THE CITY OF TORONTO

Applicants

- and -

STEWARDSHIP ONTARIO

Respondent

## Affidavit of ALEC SCOTT

Introduction.....	2
Background.....	2
MIPC .....	3
Continuous Improvement Fund.....	4
Datacall.....	4
Actual costs v amounts paid by SO.....	5
DATACALL ACCURACY .....	5
AUDITS OF DATACALL.....	6
KPMG COST MODEL.....	7
Problems with the KPMG cost model.....	9
Baseline cost model.....	10
WDO Best practice scores .....	11
WHY HAVE GROSS COSTS INCREASED – REFERENCE MODEL.....	12
MFAM OR “PAY-OUT” MODEL.....	14
CNA/OCNA.....	15

## Introduction

1. My name is Alec Scott, I am the Blue Box Program Coordinator for the municipal MIPC Team, including the Association of Municipalities of Ontario (AMO) and the City of Toronto. I am employed, on contract, with AMO. I live in Barrie, Ontario and provide advice to both AMO and the City of Toronto directly or on-line as required. My CV and original job description are attached as Appendix 1 and 2.

## Background

2. I have an education in Civil Engineering and Engineering Geology & Hydrogeology.
3. I am employed on a shared basis with 60% of my time allocated to AMO and 40% of my time allocated to CIF. My core duties for AMO currently include: provision of technical support to the municipal MIPC team; development of the pay-out model for distribution of the cash portion of the annual steward obligation; review and verification of the datacall on behalf of municipalities; coordination and delivery out outreach services to municipal clients on behalf of AMO; and liaison between CIF and municipal MIPC. My core duties for CIF include: coordination of Board and Project Committee meetings; project evaluation and support; design and delivery of education programs; and other general support duties.
4. I will be a witness at this arbitration because I am an employee of the municipal MIPC team and act as technical support person to them.
5. I am not neutral on the subject of Blue Box waste. Since 1987, I have been involved in Blue Box programs,
  - a. first promoting them in Simcoe Country in my role as a District Engineer / Area Supervisor with the Ministry of the Environment (MOE),
  - b. later managing provision of Blue Box services as the Manager of Environmental Services for the City of Barrie and,
  - c. subsequently, as the Operations Manager for Waste for the Regional Municipality of York, and,
  - d. most recently, as the technical support person for the municipal MIPC (mMIPC) team.
6. During this time, I made considerable efforts to understand and apply best practices. For example, I made substantial operational system improvements to the City of Barrie BB program, and obtained the cheapest price contract for contracted out services.

7. I was hired into my current position on October 2 2009, in addition to my original duties as Municipal Blue Box Program Coordinator. In 2012, my role changed to include work with CIF. At the present time 40 percent of my time is now allocated to the role of as the CIF Program Manager with the balance allocated to my municipal MIPC support role.

## MIPC

8. Right from when I started, on October 2 2009, it was apparent that Municipal MIPC was in a disadvantaged position with respect to the steward side. The municipal members were volunteers who sat on MIPC as a secondary function of their full time municipal jobs. While SO had access to four full time staff, the municipal side did not have any technical support before I started and were not given the same access to information that Stewardship Ontario enjoyed. This is noted in Mustan Lalani's affidavit in paragraphs 18 and 19.
9. Since starting with municipal MIPC, I have focused on outreach, involving and informing the over 230 programs of better practices in the delivery of Blue Box programs, creating networking opportunities through local workshops of program operators, providing information on the changing landscape of Blue Box service delivery.
10. I worked with Stewardship Ontario and Steward Edge representatives on changes to the "Baseline Cost Model", formerly referred to by the misleading name, "Best Practices Model". This is also discussed by Mustan Lalani in his affidavit in paragraph 62.
11. I provide information to mMIPC from database searches of the WDO database material compiled from data input by municipal programs since 2003.
12. Throughout my involvement with mMIPC and MIPC, I have focused on:
  - a. Providing accurate information;
  - b. Developing solutions to funding issues that are fair to both municipalities and stewards;
  - c. Promoting best practices that reduce costs but still maintain the integrity of the Blue Box program; and
  - d. Ensuring that municipalities get the best possible return on the money that they have already spent to provide Blue Box services.
13. The first two points benefit both municipalities and stewards.
14. The third point, promotion of best practices, requires an understanding that costs will continue to increase as long as the population increases, as our captured tonnage increases, as inflation occurs and, most significantly, as the architecture of containers changes, moving away from simple glass, cardboard and metal options to complex laminated plastics and multi material containers.

15. I believe that municipalities have consistently and continue to demonstrate willingness to control costs and to cooperate with stewards, providing them with support in difficult financial times. I believe that this willingness has not been reciprocated by stewards whose sole interest appears to be in reducing their payments.

## Continuous Improvement Fund

16. For the Continuous Improvement Fund, my duties are:

- a. coordination of Board and Project Committee meetings;
- b. project evaluation and support;
- c. design and delivery of education programs; and
- d. other general support duties.

17. I report to Michael Birett. I attach a copy of his affidavit as Appendix 3, and adopt the following paragraphs: 27, 28, 29, 30, 31, 32, 34, 35, 36, 37, and 38, which I have marked on the attached copy.

18. Part of my duties is to help municipalities continue to improve their BB programs, and to operate them as efficiently and effectively as possible. We do this in many ways. For example, in 2012, Monika Turner, Mike Birett and I held consultations with municipal program operators at 4 locations throughout the province between the end of February and the end of June at: Chatham; Smith's Falls, North Bay and Kenora.

19. An additional consultation took place, on-line, as part of the Ontario Recycler's workshop in Barrie. We also attended 4 major municipal conferences, FONOM, OSUM, OGRA/ROMA and the main AMO Conference in Ottawa. The purpose of these consultations was to continue to educate and encourage municipal leaders and municipal program operators on the need to employ Best Practices, reducing costs and increasing recovery of materials as well as to educate them on current issues relating to the Blue Box program.

20. Consultation and education with municipal operators were repeated in 2013 and 2014 at: London, Smith's Falls, North Bay, Dryden and Peel.

## Datacall

21. I work closely with WDO and with 230 municipal Blue Box programs to complete and verify each year's Datacall reports, including the reports for 2012. My duties include: checking data for accuracy of input; ensuring that municipal operators understood the context of the data that they input (e.g. reviewing percent residential and percent ICI estimates);

compiling reports for municipal MIPC on the status of the datacall; developing the pay-out model for distribution of the cash portion of the steward obligation.

22. For the 2012 Datacall reports, filed in early 2013, I spent 8 weeks reviewing data and compiling these reports. I have not yet compiled the final 2014 pay-out model because of the arbitration process.
23. At WDO, I work most closely with Will Mueller, who reports to Rick Findlay. I attach a copy of Mr. Findlay's affidavit as Appendix 4, and adopt the following paragraphs of it: 12, 25, 26,27, 30, 31, 33, 35, 36, 37, 42, 43, 44, 45, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 58, 83, 84, 97, , which I have marked on the attached copy.
24. The total verified net costs of municipal BB programs for 2012 were \$237,209,322, calculated as a gross cost of \$326,323,771 less the total revenue of \$89,114,449. This does not include the prior year adjustments of 4,498,204
25. In July 2013, WDO released a spreadsheet of 2012 verified gross costs and a second spreadsheet of verified tonnages, by municipal program. They are attached as Appendix 5 and 5A.
26. I prepared a spreadsheet comparing those 2012 verified gross costs, by program and program item, to the gross costs for 2011 and 2010 as verified by WDO. It is attached as Appendix 6.

## Actual costs v amounts paid by SO

27. I prepared a historic gross cost spreadsheet setting out the total verified net costs incurred by municipal BB programs against the amount of the Steward Obligation that was paid for the years 2004 to 2013, both with and without the "in kind" deduction claimed by SO. It is attached as Appendix 7.
28. I prepared a spreadsheet showing the payments made to each municipal BB program from the Steward Obligation in 2012. It is attached as Appendix 8.

## DATACALL ACCURACY

29. Every year, starting around the beginning of February, WDO does a datacall of municipal costs, revenues, tonnages, contracts and other information related to the provision of municipal Blue Box and, in less detail, other diversion and waste management services. Data is collected through a web based system that records data into the WDO database. Municipal MIPC has had access to read-only records from this database since 2011. Stewardship Ontario had access to limited information before that and used this

information in the development of the Best Practices Cost Model and the MFAM or pay-out model.

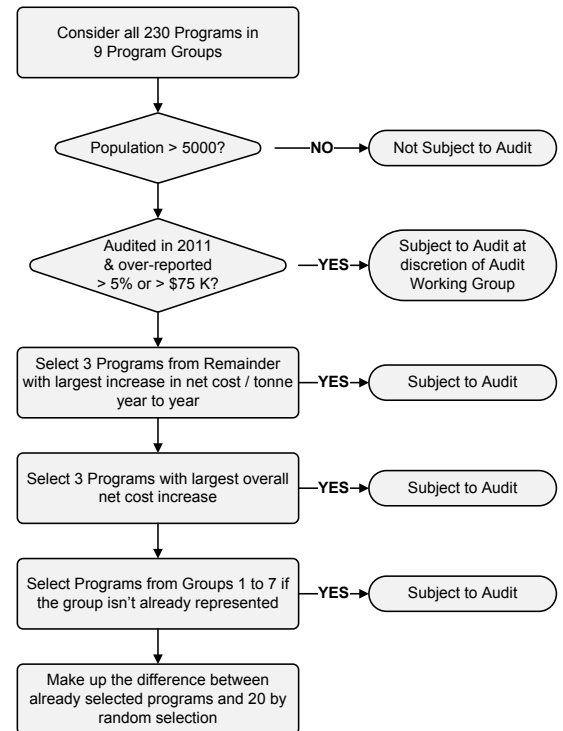
- 30. Following the close of the datacall in the third week of April, all parties can view the collected information, but only WDO has the ability to change it. This is a reasonable data protection protocol.
- 31. In May and June, WDO staff verify the data according to predetermined rules, looking for obvious errors, unexpected increases or decreases from prior years and making corrections in consultation with municipal staff. I double check this verification process, calling municipalities if I feel that they may have misunderstood the information requirements and discussing corrections with them and WDO staff. SO staff also check the information for consistency.
- 32. WDO verification checking by WDO is discussed in detail in Richard Findlay’s affidavit in paragraphs: 42, 43, 44 and 45.

## AUDITS OF DATACALL

- 33. Twenty programs were audited in 2012 by WDO based on costs and tonnages reported in 2011 and a re-audit of Toronto’s results from 2010 was conducted. In total, the audits showed that selected municipal programs had over-reported by 3.33%. The previous year’s audits of costs and tonnages reported in 2010 showed that programs selected, for that year, had under-reported by 2.58%

- 34. Audit selection is not representative or random. The process first focuses on programs that had previously been identified for over-reporting, programs with the largest year to year increases in net costs per tonne, programs with the largest overall year to year cost increases, before randomly selecting the balance of audit candidates.

- 35. Audit variations happen for many reasons, such as: programs omit costs for aspects of their program; programs incorrectly assign costs to their program; auditors disagree on how programs allocate ICI and non ICI tonnages or blue box and non-blue box costs within their diversion and waste programs; or disagree on which year’s budget costs should be assigned to.



36. Overall, audits have not revealed consistent patterns indicating large variations between reported and verified costs. In my opinion, this indicates that the datacall reasonably represents actual costs. In any event, where cost discrepancies are identified, adjustments are made in subsequent years.

## KPMG COST MODEL

37. The 2007 KPMG so-called “Best Practices Cost Model” is an Excel workbook. To the best of my knowledge, the original version was never provided to AMO. According to the KPMG report, that original workbook was populated with data from the 2006 program year Datacall.

38. In 2010, the municipal MIPC team asked me to review the workbook.

39. I received a copy of a version of this workbook from Mustan Lalani in 2010. The version that I received was called the “2007 Best Practices Cost Model”, and had notes referring to 2007. According to the titles on the individual worksheets, however, the model had been populated with 2008 program year Datacall data for every municipal BB program.

40. This is not the same as the original KPMG workbook, but it is the closest copy that we have. The workbook continued to be modified every year. The major changes between the various computer cost models are summarized in Appendix 9.

41. For example, the workbook as provided to me did not include a “normalization” step, such as the one described on pages 3 and 6 of Volume 2 of the KPMG report and para 24 d. of Mr. Lalani’s affidavit. There was no normalization worksheet or instructions or notes.

42. It included Toronto as a normal member of Band 1, as if Toronto’s program were comparable to the other Band 1 programs. KPMG noted in its report that Toronto’s program was unlike all others and could not be compared; I agree.

43. The analog communities that were selected by KPMG in 2007 were

Group	Description	Analog
1	Large Urban	City of Hamilton
2	Urban Regional	Regional Municipality of Durham
3	Medium Urban	City of Peterborough
4	Rural Regional	Quinte Waste Solutions
5	Small Urban	City of Orillia
6	Rural Collection - North	City of Timmins

7	Rural Collection - South	Township of Russell
8	Rural Depot - North	Township of Casey
9	Rural Depot – South	Township of Amaranth

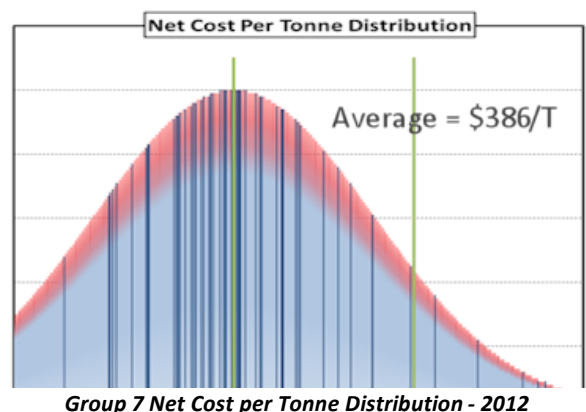
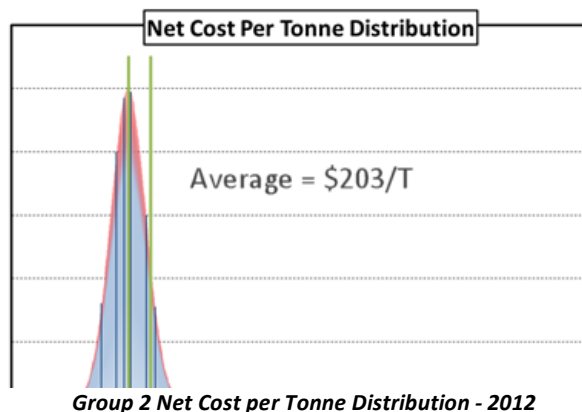
44. By 2008, the Band 9 analog was changed to Augusta.
45. The municipal groupings have changed somewhat since 2007. WDO’s most recent definition of the Municipal Groups or “cost bands” is included in Appendix 9.
46. On the computer cost model, I worked most closely with Mustan Lalani. I attach a copy of Mr. Lalani’s affidavit as Appendix 10, and adopt the following paragraphs of it:18, 19, 20, 21, 23, 25, 28, 30, 32, 33, 34, 35, 36, 37, 40, 43, 44, 45, 57, 62, 63, 64, 65, 66, 67, 68, 70, 72, 73, which I have marked on the attached copy.
47. To show what the KPMG-like model first provided to me would predict for the 2012 program year, I have populated it with 2012 Datacall information for each program, downloaded from the WDO database on April 1, 2014, where the workbook called for such information. I also made the following corrections, all required to use the model:
- a. I reinstated formulas that had been overwritten with fixed numbers;
  - b. I updated the capital amortization factor to correct what I believe was an incorrect reference to the year 2008 in the reference year for the processing cost curve. (The KPMG model artificially reduced the capital cost of processing facilities from both actual 2006 cost values and their calculated artificial cost curve back to 2001 values. Whether or not that was justified, I am not aware of any justification for extending this artificial cost compression for an extra two years, to 2008, as the workbook provided to me did); and
  - c. I updated the prime rate to 3%, representing the prime rate in 2012;
  - d. I updated the MRF List to include the new London MRF and removed the Simcoe County MRF that is no longer in use;
  - e. I updated the inflation rate to 1.407%, the inflation rate for 2011 to 2012.
  - f. I created an equation for the KPMG MRF capital cost curve that predicted the same values as the plotted version of the curve.
48. I did not change the analog programs and I did not attempt to normalize any of the analog data.



49. With these updates, the model predicted total net costs incurred for 2012 of \$230,265,495, as compared to the verified net costs for 2012 of \$237,209,322. Both numbers are before the verified prior year adjustment of \$4,498,204. The workbook is attached as Appendix 11.
50. Because of continual updating in the WDO database that is available to me, the 2012 numbers that I have put into the model are not the same as the July 15, 2013 verified net costs, resulting in a predicted total cost that is approximately \$2 million too low compared to the verified net cost for 2012. This reflects changes that will be prior year adjustments for the 2015 Stewards' Obligation.

## Problems with the KPMG cost model

51. KPMG designed the original model as a theoretical calculation to determine so-called, "best practices costs", on the basis of identified programs that they felt most closely fit their concepts of best practices at the time that they wrote the model which was in 2006.
52. The KPMG model's fundamental assumption was that all programs, within a municipal grouping or "cost band", were sufficiently similar that they could perform as well as the 'analog' program for that group. This analog program had been selected by KPMG, MIPC and WDO that, although not necessarily the cheapest program in their grouping, were among the cheapest 50% of the programs reporting in 2006.
53. One of the problems with this fundamental assumption was that the cost bands were not so similar. Toronto was not comparable to any of the other BB programs. KPMG recognized the uniqueness of the City of Toronto in their design and, although it remained in Group 1, its cost profile was determined separately from the remaining programs in Group 1. (Later models lump Toronto in.) Smaller programs in Bands 4 to 7 are highly variable, and many can not operate at the cost of the 'analog' program for that group.
54. From a statistical point of view, the remaining 5 programs in Group 1, Group 2 and Group 3 are the most reasonable groups to model in the fashion contemplated by the KPMG model. Beyond that the programs within the remaining groups become increasingly diverse.
55. The smallest, rural and remote programs included in Groups 6 to 9 bear very little similarity to each other. For example, in 2012, Group 6 had programs with recoveries ranging from



8.7 tonnes to 3,077 tonnes.

56. As another example, Group 3 includes Thunder Bay, Barrie, Sault Ste Marie and Peterborough whose only real similarities are population and density. These graphs illustrate the problem.
57. There is some logic in comparing the Group 2 programs, although each one has unique features. The Group 6 to 9 programs are hardly alike at all.
58. The KPMG model had other weaknesses, such as the MRF cost curve discussed later and it did not correctly handle contractor revenue sharing.
59. The original KPMG model has not been used since 2008.

## Baseline cost model

60. Both parties began work on a new model in 2009, this time with the intention of determining a 'baseline' cost, i.e. finding the "next lowest cost tonne" in each group. This approach could, in theory, have helped identify the cheapest system-wide ways of increasing waste diversion. That is, some municipal programs are cheaper than others. It could be cheaper, over the whole province, for them to collect more BB material, rather than higher cost programs collecting more. But it was never used this way.
61. I worked with Mr. Lalani on this baseline cost model. MIPC accepted the model as a benchmark for the negotiations in 2010, based on discussions that occurred before my involvement. No model was used in the 2011 or 2012 negotiations.
62. A baseline cost model seeks the lowest possible costs of operating the system without consideration of its sustainability or requirements for future investments, without determining whether the real world system can operate for those lowest costs, and without considering the time or cost necessary to build the assumed infrastructure. It is not a real world Blue Box program cost model.
63. The baseline cost model that I worked on with Mr. Lalani does not measure waste or inefficiency in what Ontario blue box programs were doing in 2012. Because some programs in a band are cheaper does not mean that the other programs in the same band are or should or can be cheaper. Municipal Blue Box programs are all different for good reasons.
64. As Mustan Lalani, notes in his paragraph 72, "The computer model that Mr. Scott [Alec Scott] and I [Mustan Lalani] developed was not designed to, and does not, represent the costs that municipal Blue Box programs could realistically have achieved in the year of the relevant Datacall."

65. In his paragraph 73, Mr. Lalani goes on to say, “the Baseline Cost Model will always produce a calculated figure substantially less than the verified costs incurred by municipalities. The gap between the two figures is likely to be greater when there is greater variability in costs, recovery and Best Practice scores within each municipal grouping. This will occur because every municipality was benchmarked against the top 50% of municipalities in a band.”
66. There are many theoretical ways to reduce the total system cost, but that does not reduce the real cost. For example, BB programs could theoretically be cancelled entirely in high cost areas, including most of bands 6 through 9. This is not permitted by Reg. 101/94, and would reduce total waste diversion, but it would be cheaper. Attached as Appendix 12 is a drawing showing the distribution of programs in Southern Ontario categorized by their net cost ranges.
67. Total system cost could also be theoretically reduced by cancelling pickup of expensive light weight materials, especially plastic and gabletop containers. This would also slightly reduce total waste diversion and has been strongly opposed by stewards. Attempts to remove plastic from BB programs could also meet with significant public resistance. Attached as Appendix 13 is a chart I prepared showing the average cost per tonne per type of material based on 2011 data.
68. In my opinion, the data collected in the annual datacall is the only reliable indicator of the total program costs incurred by municipalities. This data is subjected to a rigorous multi-party verification process involving WDO, SO and the municipal team. Twenty programs are selected from the group for a detailed audit and cost and tonnage adjustments are made on the basis of the outcome of this audit process. While there may have been some justification for development of a model in 2005 and 2006, only 2 or 3 years into the program, data variations have now normalized and the datacall, verification and audit process represents the most accurate assessment of actual costs possible. A model will not improve this accuracy.

## WDO Best practice scores

69. In general terms, the Best Practices questions cover a reasonable range of best practices questions, exploring:
- a. Planning and monitoring;
  - b. Reasonable business, audit and accounting practices;
  - c. Encouraging inter-municipal cooperation toward system optimization;
  - d. Training and education;

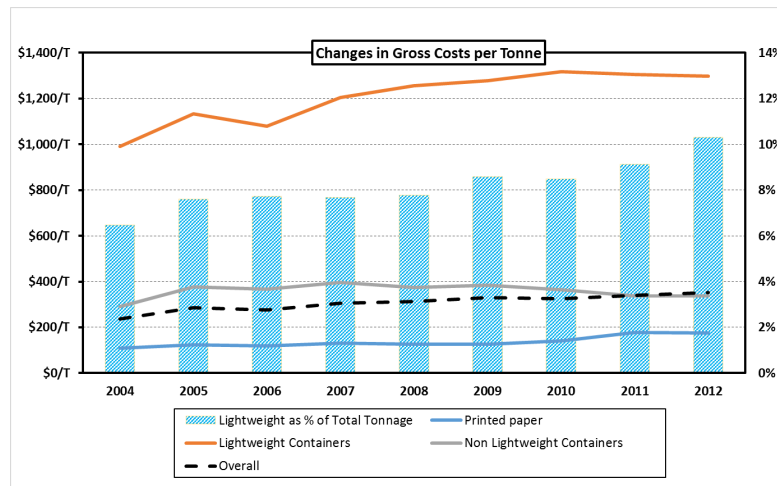
- e. Promotion and Education planning; and
  - f. Development of good policies to promote Blue Box diversion.
70. But there is no discernable relationship between best practices score and net cost per tonne.
71. BP scores are not “one size fits all”. In fact, previous versions of the questions actually discriminated against depot programs by suggesting only practices that could be adopted by programs with collection systems. Many of the best practices are considerably more attractive to larger programs and may, in some cases not be appropriate for programs managing only a few tonnes. Some of the questions used to calculate the scores are inappropriate for some programs.
72. Many of the practices are aimed at improving program recovery, which in most cases would actually drive costs up by recovering increasing tonnages of lightweight material. This action would decrease the available funding, making the overall program more costly.
73. Until the 2013 datacall, many of the questions implied that private sector solutions were best practices. This is not the case in many remote programs where limited local expertise and competition actually makes private sector service delivery more risky, less efficient and more expensive.
74. The best practices scores ignore some key measures that would indicate best practices including achieving the stated goal of 60% recovery or maximizing the recovery of lower cost materials which would represent a best practice for municipal programs in the current funding environment.
75. Municipal programs typically do not receive their scores until early in the following year. That is, municipal programs are just now receiving their BP scores for 2012. This reduces the usefulness of the scores to BB managers.
76. I prepared a spreadsheet setting out the WDO “Best Practice” scores for all municipal BB programs for 2012. This is based on the 2012 Datacall. It is attached as Appendix 14.
77. The weighted average of WDO BP 2012 scores was 86.7%.

## WHY HAVE GROSS COSTS INCREASED – REFERENCE MODEL

78. I have developed a model that evaluates the effect on gross costs of various factors including:
- a. Increase in percentages of lightweight materials;
  - b. Increase in gross processing costs for materials;

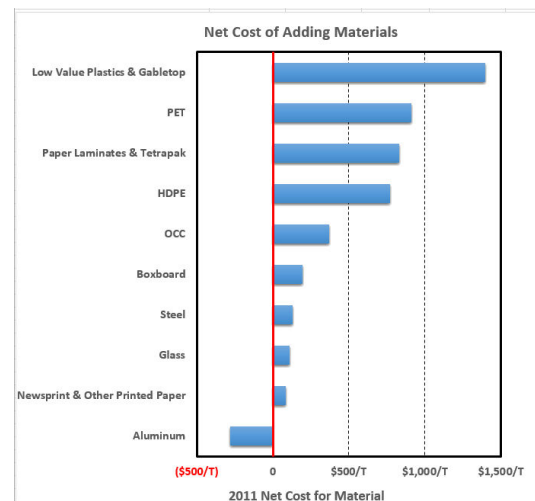
- c. Inflation;
- d. Fuel and Electricity cost increases;
- e. Overall changes in total recovered tonnage
- f. Increased population and households.

79. Lightweight materials represent packaging choices that replace heavier plastic units, cardboard, boxboard, steel cans and glass bottles with thin profile plastics, plastic laminates, paper laminates and coated paper based packaging units. Because these materials are not as robust as the containers they have replaced, they tend to become flattened and sorted as fibre. At the same time, use of this type of container disguises a significant increase in the total number of containers that must be handled on the sorting



line. Since sorting line costs are related to the number of units sorted, costs increase while tonnages appear to decrease.

80. Costs of lightweight material processing per tonne has increased as the actual unit weight decreases and the complexity of materials increases, shifting from single plastic containers to containers made of complex layers of multiple plastic types, paper and aluminum. The increase in processing costs per tonne is shown in the figures above and to the right.



## MFAM OR “PAY-OUT” MODEL

81. The MFAM and later the “Pay-out” Models were developed to pay programs at different rates, in order to recognize and reward their efficiency in controlling net costs, and their effectiveness in maximizing recovery rates.
82. The original model, developed in 2003, had proven too complicated and had been replaced, following the 2007 KPMG study, by a supposedly simpler model based on 3 factors, comparing them to peers within their designated costs bands:
- A program’s reported net cost proportional to the total reported net cost;
  - An Efficiency and Effectiveness (E&E) factor, essentially an estimate of a program’s cost at 100% recovery (which incorrectly assumes that all recovered tonnes have the same cost); and
  - The program’s WDO “Best Practices” score multiplied by its recovered tonnage proportional to the total recovered tonnage.
83. From 2010 to 2012 funding years, the weighting of these components changed as shown below.

Funding Year	2010	2011	2012
Datacall Year	2008	2009	2010
“Best Practice” score	5.0%	15.0%	25.0%
Performance	30.0%	40.0%	45.0%
Net cost	65.0%	45.0%	30.0%

84. The E&E factor began to have a significant effect on the funding level, an effect that defied rational explanation. Some programs received considerable bonuses as a result of its application while other, often reasonably performing programs, were penalized. The effect could not easily be explained. I attempted a statistical analysis but was unable to explain the variations. The changes were not driven by real changes in recovery rates or net cost by most programs, and was not related to best practices.
85. In 2011 and 2012, I worked with the mMIPC team to develop a fairer, simpler to understand Pay-Out Model to replace the numerous earlier versions that had evolved from the original MFAM model used for the allocation of the stewards’ obligation to individual municipal programs, recognizing their efficiency, effectiveness and adherence to best practices.
86. In 2012, I developed a simpler model that distributed cash portion of the steward obligation (remaining after deduction of the CNA/OCNA in-kind amount and the CIF funding) based on 4 factors:

- a. An allowable net cost, determined as the reported net cost per tonne for the program multiplied by its reported or calculated marketed tonnes, or if the program's net cost per tonne exceeded the 90<sup>th</sup> percentile of net costs per tonne for the program group, the 90<sup>th</sup> percentile net cost per tonne for the group multiplied by the programs reported or calculated marketed tonnes;
  - b. 50% of the cash obligation multiplied by the program's allowable net cost divided by the total of all programs' allowable net costs;
  - c. 35% of the cash obligation multiplied by the program's reported or calculated marketed tonnes divided by the total tonnage; and
  - d. 15% of the cash obligation multiplied by the program's allowable net cost divided by the total of all programs' allowable net costs.
87. The "best practices" factor only allocated the maximum amount to a program if it had a 100% "best practices" score. Many municipalities could not achieve this. This is discussed in Michael Birett's affidavit in paragraph 34. This left funds remaining in this category. These funds were redistributed to all programs based on the program's allowable net cost divided by the total of all programs' allowable net costs.
88. During the spring of 2012, I consulted with municipal program staff at 5 locations throughout Ontario, getting their feedback on the model and explaining its operation to them.
89. The model was posted as an operational spreadsheet on the WDO website. Prior to this, only model results had been posted. The operational spreadsheet allowed program staff to experiment with the model by improving their best practices scores, reducing their net costs and increasing their recovery to illustrate the effect that this would have on their funding.
90. Response to the model has been very positive. Municipal staff appreciate the simpler to understand model and the ability to experiment with it on-line.

## CNA/OCNA

91. Appendix 7 shows the amount of in kind deduction claimed by SO in each year since 2004.
92. In 2012, I looked in detail at how the in-kind deduction is calculated by SO. The methodology, as I understand it, as applied to the 2011 numbers, is attached as Appendix 15. To the best of my knowledge, they used a similar approach for 2012.
93. One key element of the calculation is the density assigned to each material class. In 2012, SO made significant changes to these assigned densities. These changes had the effect of

materially increasing the in-kind deduction. The changes were allegedly justified by studies that were not provided to the municipalities. I prepared a table showing the changes in the assigned densities, from the values in the SO pay in model which is published on the SO website. It is attached as Appendix 16.

94. In 2010 to 2012, SO did not disclose the amount of the deduction claimed for the following year until after the annual Stewards Obligation for that year had been negotiated.
95. WDO does not determine the amount of the total in-kind deduction. This is done solely by SO, with no input from municipalities, using a methodology that is not transparent to municipalities.
96. WDO allocates the in-kind amount to individual newspapers. I am not aware of any written description of the process used or the precise details of how the allocation is done.

## Conclusion

97. I understand that this affidavit is sworn evidence to be offered to a legal tribunal deciding a question of public importance. I have done my best to make this evidence as accurate and as truthful as I can. I intend to be bound by it.

WITNESS

Sworn or Affirmed before me

On April \_\_, 2014

at the City of \_\_\_\_

in the Province of Ontario

A Commissioner, etc..



