



**STAFF REPORT
ACTION REQUIRED**

Green Lane Landfill - 2007 Capital and Operating Budgets

Date:	April 12, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\CF\ec07016Cf – et (AFS #2691)

SUMMARY

This report details a strategy for financing the Green Lane landfill acquisition by utilizing future revenues from the Green Lane landfill to finance the purchase of the landfill, and recommends the associated amendments to the Solid Waste Management Services 2007 Capital and Operating Budgets to reflect the increased costs and revenues of operating the Green Lane landfill site as a result of this capital acquisition. The City will use a combination of temporary and permanent financing between 2007 and 2011 with the timing dependent upon capital market conditions.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

- (1) the 2007 Approved Capital Budget for Solid Waste Management Services be increased to reflect the \$7.720 million in total project capital costs associated with 5 new sub-projects supporting the Green Lane landfill operation, funded from the Waste Management Reserve Fund Account and that the 2007 cash flows of \$1.777 million and future year commitments of \$5.943 million be approved.
- (2) With respect to reserve funds, City Council:
 - i) establish a reserve fund group within the State of Good Repair Discretionary Reserve Fund, called the “Solid Waste Group”, to accumulate funds to support active and retired landfill sites,

- ii) rename the Solid Waste Management – Perpetual Care Account in the State of Good Repair Discretionary Reserve Fund as the Perpetual Care Account,
 - iii) group the Perpetual Care Account and the Waste Management Account to the Solid Waste Group within the State of Good Repair Discretionary Reserve Fund,
 - iv) establish within the Solid Waste Group two additional reserve fund accounts called the ‘Green Lane Account’ to hold funds resulting from any surpluses resulting from the operation of the Green Lane landfill site and the ‘Green Lane Perpetual Care Account’ to provide funding for the future costs of long-term, post-closure care of the Green Lane landfill site, and
 - v) the Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the Solid Waste Group and its reserve fund account to Schedule #5–State of Good Repair Discretionary Reserve Funds;
- (3) the Solid Waste Management Services 2007 Operating Budget be amended by:
- i) increasing the Revenue Budget in an amount of \$10.990 million to reflect the new revenues accruing to the City with its ownership of the Green Lane landfill site;
 - ii) increasing the Expenditure Budget in the amount of:
 - a. \$5.366 million for the new operating costs including the addition of 3 positions for Green Lane offset by savings in Michigan Disposal costs,
 - b. \$2.500 million as a contribution to capital and corporate financing account (with the non-program budget adjusted accordingly for debt services costs); and
 - c. \$3.124 million as a contribution to the Green Lane Reserve Fund Account.
- (4) additional funds that become available in the Green Lane Reserve Fund Account between 2007 and 2011 be used to reduce the amount of short-term interest expense that would otherwise be required to be borrowed to permanently finance the acquisition;
- (5) Council authorize the appropriate City of Toronto officials to take the necessary actions to give effect thereto and authority be granted for the introduction of the necessary Bills in Council to give effect to the foregoing.

FINANCIAL IMPACT

Based upon debt issuance of \$100 million for a term of 20 years and using an assumed interest rate of 5.00% per annum, the 2007 Operating Budget impact is estimated to be \$2.5 million forecasted for a June 30, 2007 debt issue. The annualized debt charge impact for 2008 is estimated to be \$8.4 million.

The debt charges resulting from the acquisition will be financed through net revenue in Solid Waste Management's Operating Budget relating to landfill operations. The debt will be self-liquidating from 2007 to 2010 by utilizing revenue generated from existing contracts at Green Lane. From 2011 onward, the capital financing component that is being remitted to the operator of the Michigan site will then be available to finance and retire Green Lane's outstanding debt. Thus, the Green Lane landfill purchase will be financed from landfill revenues and reduced disposal and haulage costs and will not result in any additional tax burden to the City.

Future debt charges will be based upon the amount and timing of debt issuance until the full acquisition cost is permanently financed and will be included in the future operating budgets of Solid Waste Management Services. The forecasted debt charges over the term of the debentures equate to \$24.50 per tonne of landfill capacity, which is at the low end of the range previously reported to Council.

The 5 year table below outlines the amendments required to the 2007 Capital and Operating Budgets and the annualized expenditure on an ongoing basis. The 2007 estimates represent nine months of operation of the Green Lane landfill effective April 1, 2007. Paid revenue will be increased by \$10.990 million in 2007, and be annualized to \$14.569 million in 2008. The Solid Waste Operating expenditures will be increased by \$5.366 million in 2007 for Green Lane Operations offset by savings in Michigan disposal costs, and annualized to a full year's operating cost of \$7.718 million in 2008. Other expenditure increases include debt service costs of \$2.500 million in 2007 which are annualized to \$8.357 million in 2008. Finally the 2007 Operating Budget will have a surplus of \$3.124 million which will be contributed to the Green Lane Reserve Fund Account, and used to offset the short term interest expenses in 2008 to 2010, prior to the permanent financing in 2011 of the balance of the debt requirements. The 5-year Operating Plan assumes that the revenue over 5 years exceeds the incremental expenditures by \$13.560 million, which will be contributed to the Green Lane Reserve Fund Account.

Table 1

**Green Lane Landfill - Operating Budget Projections - 2007 to 2011
(\$ Millions)**

	2007	2008	2009	2010	2011	Total
Expenditures						
Green Lane Operations (includes Contribution to Perpetual Care Reserve and Contribution to Green Lane Reserve Fund for capital expenditures)	6.83	10.04	10.09	10.77	32.34	70.07
Michigan Disposal & Haulage Savings	<u>(1.46)</u>	<u>(2.32)</u>	<u>(2.70)</u>	<u>(3.44)</u>	<u>(42.07)</u>	<u>(51.99)</u>
Total Expenditures	5.37	7.72	7.39	7.33	(9.73)	18.08
Revenue	<u>(10.99)</u>	<u>(14.57)</u>	<u>(14.85)</u>	<u>(15.13)</u>	<u>(15.42)</u>	<u>(70.95)</u>
Net (Revenue) excluding Financing	(5.62)	(6.85)	(7.45)	(7.80)	(25.14)	(52.87)
Debt Service Costs	2.50	8.36	8.36	8.36	11.74	39.31
Contribution to (Withdrawal from) Green Lane Reserve Fund	<u>3.12</u>	<u>(1.51)</u>	<u>(0.90)</u>	<u>(0.56)</u>	<u>13.40</u>	<u>13.56</u>
Total Net Expenditures	0.00	0.00	0.00	0.00	0.00	0.00

As indicated in Table 1, \$13.56 million should be available in the Green Lane Reserve Fund that would either reduce or eliminate the need to debt finance the capitalized interest resulting from the temporary borrowing and thereby reduce the overall amount that will be permanently financed through the issuance of debentures.

Included in the 5 year Green Lane operating costs are contributions to the Perpetual Care Reserve, and the Green Lane Reserve Fund for capital expenditures.

As outlined in Appendix A, the 5 year 2007-2011 Capital Plan to support the Green Lane landfill operation consists of 5 new sub-projects totalling \$10.169 million in new funding of which \$1.777 million represents the 2007 cash flow and \$5.943 million relates to future year commitments. This Capital Plan is to be funded from the Waste Management Reserve Fund Account.

Additional funding over the 5 year period is required for the installation of various systems for landfill gas control (\$1.8 million) and leachate control (\$2.6 million) as well as for the final cover and stormwater control (\$0.9 million). Funding is required for the ongoing engineering and monitoring of the landfill site (\$2.4 million) and for other remediation costs including the installation of new landfill gas incinerator and blower systems (\$2.5 million from 2008-2011).

DECISION HISTORY

At the special Council meeting held on September 19, 2006, the following recommendations were approved as contained in the report, “Long-Term Waste Disposal Capacity”;

- “(3) the Solid Waste Management Services 2006 Capital Budget be increased by \$220.310 million to purchase the Green Lane Landfill Site with cash flow commitments in 2006 for any purchase deposit required, and with cash flow commitments for the balance in 2007, and that this project be financed through the issuance of debenture(s) with a term not exceeding twenty years,
- (6) the Deputy City Manager and Chief Financial Officer report back in 2007 on a financing strategy;”

ISSUES BACKGROUND

By-law 109-2007 authorizes temporary borrowing for capital projects that will be financed by the issuance of debentures or a bank loan(s) up to a limit of \$550 million during 2007.

As with all capital projects, the acquisition of the landfill site will initially be financed on a temporary basis by using own-source cash flow until it is considered advisable to issue permanent debenture financing. These temporary funds are borrowed from the City’s reserves and replenished when debentures are issued.

This process enables the City to finance capital expenditures when they are initially incurred and while the project is under construction. After completion, the project is permanently financed with a combination of grants, reserve fund withdrawals and debt as approved in the Capital Budget.

The City is contractually committed to solid waste disposal at the Republic site in Michigan until December 31, 2010 at which point the City’s overall cost for waste disposal, including haulage, will decrease. However, the City will realize tipping revenues from the Green Lane site immediately upon acquiring the site due to existing contracts with other clients.

Staff has examined various financial instruments, as permitted under the *City of Toronto Act, 2006*, to provide a means to structure the interest and principal payments to coincide with the cash flows by possibly deferring a portion of the debt issuance until 2011. These options included:

- (1) the use of the provision in the construction financing regulations that allows the City to issue a zero-coupon bond which would defer the payment of interest and principal for the first 5 years or until the facility begins to generate revenue;

- (2) finance the full amount of \$220.3 million after the site has been acquired for a term of 15 years;
- (3) issue a portion of the purchase amount in debt during 2007 and finance the remainder on a temporary basis through a combination of the City's operating cash flow and promissory notes with a maturity of one year or less until December 31, 2010 and then issue the remainder of the required debt in 2011.

Unfortunately, the provision for construction financing contained in the regulations applicable to the *City of Toronto Act 2006* that allows the City to issue a zero-coupon bond cannot be used to finance this project because the City is acquiring and not constructing the landfill site.

COMMENTS

Staff examined two available options for financing the acquisition:

1. Borrow the full amount of \$220.3 million for a term of 15 years during 2007. This option would result in fully annualized debt charges of approximately \$22 million in 2008 which is in excess of the projected net operating budget reduction from the new tipping fee revenues at the site. Since this option would cause an undue impact on the City's 2008 operating budget, it is not being recommended;
2. Borrow a portion of the \$220.3 million in 2007 and finance the balance through a combination of the temporary use of the City's operating cash flow and/or promissory notes until 2011 with the fully annualized costs being included in the 2012 operating budget.

Debt charges are more appropriately matched to tipping fee revenues throughout the term of financing in Option 2 and fit the estimated lifecycle of the site by borrowing \$100.0 million in 2007 with a term of 20 years and deferring the permanent financing of the balance of \$120.3 million plus accrued interest until 2011 using an assumed interest rate of 4.00% per annum. Under this scenario, debt charges are estimated at \$8.4 million annually from 2008 to 2010, then increasing to \$11.74 million in 2011 and \$21.9 million per year when the site is fully operational in 2012 until 2027.

The remainder of \$120.3 million will be financed on a temporary basis until the tipping fees generated by Green Lane and cost savings from the completion of disposal in Michigan are sufficient to support permanent debt issuance. The cumulative interest expense, estimated at \$15.0 million, will be capitalized to the end of 2010 after which the entire amount will be financed on a long-term basis for a term of 15 years. The following table summarizes the impact of the deferred permanent borrowing:

Table 2

Temporary Financing of \$120.3 million until 2010

Year	Amount Financed	Interest to be Capitalized	Capitalized Principal
2008	120.3	4.8	125.1
2009	125.1	5.0	130.1
2010	130.1	5.2	135.3

As noted per Table 1, estimated Green Lane reserve funds of \$13.56 million in 2011 will be utilized to either reduce or eliminate the need to debt finance the capitalized interest resulting from the temporary borrowing and thereby reduce the overall amount that will be permanently financed through the issuance of debentures.

The actual structure of the debt, term-to-maturity and timing will be based upon prevailing and forecasted capital market conditions during 2007 until 2010.

Operating and Capital Budget Impacts

2007 Operating and Capital Budget Implications:

The Solid Waste Management Services Budget will be amended as follows for 2007. The 2007 operating estimates represent nine months of operation of the Green Lane landfill effective April 1, 2007. Paid revenue will be increased by \$10.990 million in 2007, and be annualized to \$14.569 million in 2008. The Solid Waste Operating expenditures will be increased by \$5.366 million in 2007 for Green Lane Operations offset by savings in Michigan disposal costs, and annualized to a full year's operating cost of \$7.718 million in 2008. Other expenditure increases include debt service costs of \$2.500 million in 2007 which are annualized to \$8.357 million in 2008. Finally, the 2007 Operating Budget will have a surplus of \$3.124 million which will be contributed to the Green Lane Reserve Fund Account, and used to offset the short term interest expenses in 2008 to 2010, prior to the permanent financing in 2011 of the balance of the debt requirements. The 5-year Operating Plan assumes that the revenue over 5 years exceeds the incremental expenditures by \$13.560 million, which will be contributed to the Green Lane Reserve Fund Account.

As outlined in Appendix A, the 5 year 2007-2011 Capital Plan to support the Green Lane landfill consists of 5 new sub-projects totalling \$10.169 million in new funding of which \$1.777 million represents the 2007 cash flow and \$5.943 million relates to future year commitments. This Capital Plan is to be funded from the Waste Management Reserve Fund Account.

The additional funding over the 5 year period is required for the installation of various systems for landfill gas control (\$1.8 million) and leachate control (\$2.6 million) as well as for the final cover and stormwater control (\$0.9 million). Funding is also required for the ongoing engineering and monitoring of the landfill site (\$2.4 million) and for other

remediation costs including the installation of new landfill gas incinerator and blower systems (\$2.5 million from 2008-2011).

Reserve Funds:

Part of the financing strategy involves providing surplus tipping fee revenues into reserve starting in 2007 to mitigate the debt charge impact in future years prior to the full savings that will accrue when the current contract in Michigan concludes at the end of 2010. It is also prudent to establish a funding stream for future contributions to fund the perpetual care of the site. To give effect to these actions, it is necessary to establish two new reserve funds and to make technical amendments to other solid waste reserves. As such, it is recommended that Council:

- i) establish a reserve fund group within the State of Good Repair Discretionary Reserve Fund, called the “Solid Waste Group”, to accumulate funds to support active and retired landfill sites (see Attachment No. 1),
- ii) rename the Solid Waste Management – Perpetual Care Account within the State of Good Repair Discretionary Reserve Fund as the Perpetual Care Account,
- iii) group the Perpetual Care Account and the Waste Management Account in the Solid Waste Group within the State of Good Repair Discretionary Reserve Fund,
- iv) establish within the Solid Waste Group two additional reserve fund accounts called the ‘Green Lane Account’ to hold funds resulting from any surpluses resulting from the operation of the Green Lane landfill site (see Attachment No. 2) and the ‘Green Lane Perpetual Care Account’ (see Attachment No. 3) to provide funding for the future costs of long-term, post-closure care of the Green Lane landfill site, and
- v) the Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the Solid Waste Group and its reserve fund accounts to Schedule #5 –State of Good Repair Discretionary Reserve Funds.

The recommended financing strategy provides the City with the flexibility to achieve the lowest cost of funds, depending upon capital market conditions, as well as the ability to finance debt charges from future revenues derived from the operation of the landfill with no additional budget impact on Solid Waste Management’s operations.

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SIGNATURE

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ATTACHMENTS:

Attachment No. 1 - Solid Waste Management Reserve Fund Group
Attachment No. 2 - Green Lane Reserve Fund
Attachment No. 3 - Green Lane Perpetual Care Reserve Fund
Appendix A – Green Lane Capital Costs – 2007 to 2011 Gross Expenditures

ATTACHMENT NO. 1

Solid Waste Management Reserve Fund Group

(a) Statement of Purpose:

The Solid Waste Group (the “Group”) will provide funding to accumulate funds to support active and retired landfill sites or waste diversion activities.

(b) Service Area or Beneficiary Program:

For accounting purposes the Solid Waste Management Services Division shall have primary responsibility for the Group.

(c) Initial Contribution:

The Perpetual Care Account and the Waste Management Account will be transferred into the Group

(d) Contribution Policy:

Funds will be transferred into the various components of the Group from the Operating Budget in support of active and retired landfill sites

(e) Withdrawal Policy:

Funds to be withdrawn from the reserve account components of the Group as required as part of the operating and capital budgets as approved by Council from time to time.

(f) Review Cycle:

Given that the Group supports perpetual care of landfill sites, funding will be required over the long term and hence, there is no need for a periodic review of the appropriateness of the account.

ATTACHMENT NO. 2

Green Lane Account

(a) Statement of Purpose:

The Green Lane Account will be a repository for funds resulting from the operation of the Green Lane landfill site.

(b) Service Area or Beneficiary Program:

For accounting purposes the Solid Waste Management Services Division shall have primary responsibility for the Green Lane Account.

(c) Initial Contribution:

Net tipping fee revenues in 2007 after debt charges and contributions to new Green Lane Perpetual Care Account.

(d) Contribution Policy:

The annual net proceeds of the operation of the Green Lane landfill site will be transferred, on the advice of the Deputy City Manager and Chief Financial Officer, as part of the fiscal year-end processing.

(e) Withdrawal Policy:

Funds will be withdrawn from the Green Lane Account to support the operation of the Green Lane landfill site, and as consistent with the City's normal operating and capital budget processes.

Withdrawal of funds will be contingent upon prior approval by City Council.

(f) Review Cycle:

The Green Lane Account will be reviewed in 2011 and every five years thereafter to assess the appropriateness of the account, and the conditions, if any, on which it may be closed.

ATTACHMENT NO. 3

Green Lane Perpetual Care Account

(a) Statement of Purpose:

The Green Lane Perpetual Care Account is to provide funding for the future costs of long-term, post-closure care of the Green Lane landfill site;

(b) Service Area or Beneficiary Program:

For accounting purposes the Solid Waste Management Services Division shall have primary responsibility for the Green Lane Perpetual Care Account.

(c) Initial Contribution:

Not applicable.

(d) Contribution Policy:

Funding will be budgeted for in the annual Solid Waste Management Services operating budget.

(e) Withdrawal Policy:

Funds will be withdrawn from the account to support the perpetual care of the Green Lane landfill site, and as consistent with the City's normal capital budget processes.

Withdrawal of funds will be contingent upon prior approval by City Council.

(f) Review Cycle:

Given that the Group supports perpetual care of landfill sites, funding will be required over the long term and hence, there is no need for a periodic review of the appropriateness of the account.

**Green Lane Capital Costs
2007 - 2011 Gross Expenditures**

Sub-Project/Activity	2007	2008	2009	2010	2011	2007-2011
Landfill Gas Control System	\$355,000	\$529,880	\$311,508	\$317,427	\$323,458	\$1,837,273
Leachate Control System	\$814,800	\$602,433	\$519,181	\$544,916	\$107,819	\$2,589,149
Site Services/Final Cover/Storm Control	\$189,600	\$670,910				\$860,510
Engineering and Monitoring	\$417,500	\$450,908	\$485,434	\$521,109	\$557,965	\$2,432,916
Total Recommended Cash Flow and Future Year Commitments	\$1,776,900	\$2,254,130	\$1,316,123	\$1,383,452	\$989,243	\$7,719,848
Other remediation costs		\$764,250	\$519,181	\$1,058,090	\$107,819	\$2,449,340
Total 5 Year Capital Plan	\$1,776,900	\$3,018,380	\$1,835,303	\$2,441,542	\$1,097,062	\$10,169,187

Appendix A