

**Proposed New Multi-Residential Billing System and Rate Structure for Bulk Collection Customers**

<b>Date:</b>	May 28, 2010
<b>To:</b>	Public Works and Infrastructure Committee
<b>From:</b>	General Manager, Solid Waste Management Services Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	p:/2010/swms/June/015PW

**SUMMARY**

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At its meeting of May 11 and 12, 2010 City Council adopted MM49.14 which directed the General Manager of Solid Waste Management Services to report to the June 15, 2010 Public Works and Infrastructure Committee meeting with a proposed new Multi-Residential Billing System and Rate Structure for Bulk Collection Customers.

The current Multi-Residential Billing System and Rate Structure for Bulk Collection customers came into effect on July 1, 2008. Since the inception of the program, Solid Waste Management Services has received feedback from customers that the current volume-based rate system is difficult to understand, and does not adequately provide incentives for multi-residential bulk collection customers to undertake additional waste diversion strategies. As a result, the City of Toronto has experienced decline of 10-11% in the participating units to date. Furthermore, the City's Multi-Family Waste Diversion Working Group ("MFWDWG") has strongly advocated for a revised billing system and rate structure.

In order to simplify the billing system and rate structure and provide immediate environmental and financial incentives for multi-residential bulk collection customers to undertake waste diversion strategies, staff is recommending that the multi-residential billing system and rate structure be changed effective July 1, 2010. The new linear structured cost model is based on a standard upfront service fee for the collection of a base volume (which is equivalent to the current small waste equivalent volume) at a cost of \$175.00 per unit per year. Excess volume above the base volume would be charged a standard cubic yard fee of \$12.81 for uncompacted and \$25.63 compacted waste. All waste diversion services: recycling, green bin, yard waste composting, etc. would be unlimited and provided at no additional charge. A rebate of \$175.00 per unit per year would be allocated only to City of Toronto customers participating in the City's Solid Waste Collection Program.

## RECOMMENDATIONS

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### **The General Manager, Solid Waste Management Services recommends that:**

1. the new Multi-Residential Billing System and Solid Waste Rate/Rebate Structure for Bulk Collection customers as set out in Appendix A be adopted; and
2. the new Multi-Residential Billing System and Solid Waste Rate Structure, as set out in Appendix A, become effective July 1, 2010 and continue until Council adopts the 2011 Solid Waste Management Services Operating Budget and Capital Plan and the corresponding solid waste rates are approved.

### **Financial Impact**

Currently, if the existing Multi-Residential Billing System and Rate Structure for Bulk Collection is maintained, it is expected that the trend of customer losses will continue. As a result, there would be a \$4.9 Million revenue shortfall in 2010 and a further revenue shortfall of \$10.5 Million in the Year 2011 as it relates to the 2010 approved estimates. The proposed new Multi-Residential Billing System and Rate/Rebate Structure for Bulk Collection is expected to provide a rate structure which is more competitive with external vendors and the application of the proposed rate will be better understood by the property owners. As a result, revenues are expected to improve in the future as compared to the revenues shortfall expectation using the existing rate structure.

Staff believe the proposed new billing system and rate structure will limit the further loss of customers and provide incentives for the return of some customers who chose to leave the City program, thus improving the probability for attaining revenue targets for 2010 and in future years.

Table 1 shows a comparison of the current and proposed Multi Residential Rate Structure.

<b>Table 1 - Comparison of Existing to Proposed Rates</b>		
<b>Solid Waste Rate for Multi-Residential Bulk Collection Services</b>		
	<b>Existing</b>	<b>Proposed</b>
Annual Waste Fee (per unit/per year)		
Small Bin Equivalent (Base Rate)	\$ 150.00	\$ 175.00
Medium Bin Equivalent	\$ 175.00	n/a
Large Bin Equivalent	\$ 205.00	n/a
Extra Large Bin Equivalent	\$ 235.00	n/a
Excess waste over base : un-compacted (per yd <sup>3</sup> )	\$ 9.56	\$ 12.81
Excess waste over base : compacted (per yd <sup>3</sup> )	\$ 28.67	\$ 25.63
Solid Waste Rebate: (per unit/per year)	\$ 157.00	\$ 175.00

If approved, the new rate structure is expected to generate a revised annual revenue projection of \$101.2 million in the year 2010 and total annual revenue of \$98.6 million for the year 2011. Table 2 shows a comparison of the expected revenues under the existing and proposed new rate structure.

<b>Table 2 – Revenue Projection to Year End</b>					
		<b>2010</b>		<b>2011</b>	
	<b>2010 Approved Estimate</b>	<b>Projected Status Quo (to Dec. 31/10)</b>	<b>Recommended New Rate Structure (eff. July 1/10)</b>	<b>Projected Status Quo</b>	<b>Recommended New Rate Structure (eff. July 1/10)</b>
Total Number of Multi-Residential Units	465,000	371,995	411,757	331,076	421,227*
Revenue (\$ 000)	\$100,736.1**	\$95,820.3	\$101,171.9	\$85,280.1	\$98.573.1***

\* 2011 unit projection increase is based on multi-residential unit growth and returning units throughout the year.

\*\* 2010 Approved Estimate is based on the original approved 2010 budget of \$106,500,000 less \$5,763,894 (transferred to curbside subscription billing).

\*\*\*2011 projected revenue includes an estimated 5% reduction in volume and associated operational cost savings.

Under the proposed new billing system and rate structure, the rebate applied to each unit using the City's solid waste services would be increased by \$18/unit from \$157.00 to \$175.00. This increase can be absorbed within the 2010 Approved Budget for Non-Program rebate which totals \$182.4 million with no incremental financial impact in 2010 or 2011. Current actual rebate expenditures for 2009 are \$152.8 million and projected to be \$163 million in 2010 and \$177 million in 2011. In addition, there is sufficient funding within the Non-Program rebate budget to fund the program for approximately five (5) more years assuming an annual account growth of 1% and approximately 50% of properties that have opted out of the City's solid waste service will opt back in over the next five (5) years as their contracts with external providers expire.

Revenue generated from other volume-base rate structure sources including single-residential households, residential units above commercial and curbside subscription customers are unaffected by the proposed new multi-residential billing and rate structure system. Staff will further undertake a similar billing system and rate structure review of all rate categories including single-residential bin fees as part of a Multi-Year Fee Strategy directed by Council and any recommended changes will be included with the 2011 Operating Budget submission of Solid Waste Management Services.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## DECISION HISTORY

At its meeting of June 19, 20 and 22, 2007, City Council adopted the recommendations in Executive Committee report EX9.1 entitled "Proposed Initiatives and Financing Model to

Get to 70% Solid Waste Diversion by 2010”, as amended. The City Council Decision document can be viewed at (relevant pages from 2 to 10):

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-06-19-cc10-dd.pdf>

At its special meeting of March 31, 2008, City Council adopted the recommendations in the 2008 Budget committee recommended operating budget “Final Fees-2008 Getting to 70% Diversion by 2010”. The City Council Decision document (Item 30) can be viewed at (relevant pages 10 and 11):

<http://www.toronto.ca/legdocs/mmis/2008/cc/decisions/2008-03-31-cc18-dd.pdf>

At its meeting of November 30, 2009, City Council adopted the Executive Committee Item EX36.26 “Recommended 2010 Solid Waste Rates”. The City Council Decision document can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2009/cc/decisions/2009-11-30-cc42-dd.htm>

At its meeting of May 11 and 12, 2010 City Council adopted the motion MM49.14 to direct the General Manager of Solid Waste Management Services to report back to the June 15, 2010 Public Works and Infrastructure Committee meeting with a proposed new Multi-Residential Billing System and Rate Structure for Bulk Collection customers.

The City Council Decision document can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2010/cc/decisions/2010-05-11-cc49-dd.htm>

## **ISSUE BACKGROUND**

### Current Billing System and Rate Structure

In June 2007, Council adopted a Volume-Based Rate Structure for the multi-residential sector. The principles of the system included a rate structure that was set up to encourage diversion, with a \$157 rebate for each multi-residential unit. Under the current rate structure, multi-residential properties (bulk customers) are billed based on a formula that includes three (3) variables:

- number of units within the building;
- waste volume generation; and
- number of bin lifts for each collection visit.

Based on the above variables, a property is currently categorized as a small, medium, large, extra-large and extra-large plus excess equivalent bin customer, and charged the respective rates.

The current rate structure establishes a volume range for each waste bin equivalent category based on a 3:1 compacted to uncompacted ratio as described below in Table 3.

<b>Table 3 – Current Equivalent Bin Size Determination</b>			
Equivalent Bin Size	Uncompacted Waste Set Out per Month (yd <sup>3</sup> /unit/month)	Compacted Waste Set Out per Month (yd <sup>3</sup> /unit/month)	Base Annual Rates
Small	0.000 – 0.142	0.000 - 0.047	\$150.00 per unit
Medium	0.143 – 0.227	0.048 - 0.076	\$175.00 per unit
Large	0.228 – 0.453	0.077 – 0.151	\$205.00 per unit
Extra Large	0.454 – 0.680	0.152 - 0.227	\$235.00 per unit
Extra Large plus Excess	>0.680	>0.227	\$9.56 or \$28.67 (uncompacted to compacted) standard cubic yard rate

Based on staff review of the current billing system and rate structure and input from the MFWDWG, it is recommended that it be replaced by the proposed new Multi-Residential Billing System and Rate Structure for Bulk Collection customers for the following reasons:

- The bin equivalent categories do not provide an immediate reward to multi-residential bulk collection customers for their diversion efforts. While the City's customers may be making significant diversion improvements, it may not be sufficient to see a difference on their bill due to the tiered structure of the billing system;
- The complexity of the current billing model makes it challenging for customers to understand their bills. This has led to significant confusion and complex recalculations when lift quantities are being adjusted, even when they are in the favour of the customer; and
- The existing calculation does not allow customers to compare the City's rates to private sector collection rates, which is having a negative impact on their decision to participate in the City Collection program.

As a result, the City of Toronto has seen an approximately 10-11% reduction (estimated 375 buildings) in participating units since the initiation of the current multi-residential billing system, on July 1, 2008.

It is therefore recommended that the City move to a linear rate structure that is similar to the private sector. The proposed billing system and rate structure is recommended for implementation on July 1, 2010 and is provided in Appendix A.

## COMMENTS

### Proposed New Multi-Residential Billing System and Rate Structure for Bulk Collection Customers

Under the proposed new Multi-Residential Billing System and Rate Structure for Bulk Collection customers, Multi-Residential customers would be provided collection service for a standard upfront service fee of \$175.00 per unit per year for the collection of the base volume bin equivalent of up to 1.704 cubic yards for uncompacted waste per unit per year and up to 0.852 cubic yards for compacted waste per unit per year. Excess cubic yards of waste above and beyond the base volume equivalent would be charged a standard cubic yard rate of \$12.81 for uncompacted and \$25.63 for compacted waste.

The solid waste rate structure includes the unlimited collection of recycling, yard waste, organics (as available), bulky items, electronics, white goods/metal items and household hazardous waste at no additional charge. In most cases, customers that have chosen to leave the City program enter into a private collection contract with a service level that does not include the full range of waste diversion services making an 'apples to apples' comparison difficult.

The rebate within this proposed billing system and rate structure is \$175.00, which is \$18.00 more per unit than the current rebate per unit per year of \$157.00. After the rebate is applied customers will effectively pay only for any excess waste over the base volume. It is projected that the combined increase of rebate to \$175.00, a standard upfront service fee \$175.00 plus excess cubic yard fee will ensure that the City's proposed billing system and rate structure will encourage customers to remain on the City collection system.

Under the proposed new Multi-Residential Billing System and Rate Structure, the ratio would be changed to 2:1 compacted to uncompacted for waste volume from the current 3:1 waste volume ratio based on the experience gained over the past two (2) years.

The proposed new Multi-Residential Billing System and Rate Structure will address the major concerns of the City's customers and the challenges associated with the current billing system and rate structure. The proposed new billing system and rate structure will:

- Remove the waste bin equivalent categories and allow customers to see immediate financial savings for their waste diversion efforts;
- Allow customers to identify excess waste volume (above the base rate) to readily attain financial savings and plan for increased diversion efforts;
- Produce a waste bill that is transparent and easy to understand; and
- Simplify the bill which enables customers to compare the City's rates to private sector rates.

The revised billing system and rate structure will continue to involve a mandatory, all-or-nothing service. That is, customers must fully participate in the City's diversion programs to receive City waste collection and, if customers opt to choose private waste collection services, they are not eligible to utilize any of the diversion services which are provided free of charge to City customers. In order to receive the City's rebates, bulk collection customers must receive City solid waste collection service. Any applicable solid waste rebate would be applied to the customer's City of Toronto Utility Bill.

The above fees will be reviewed in the 2011 Multi-Year Rate Structure Report which is expected to be submitted to the new term of City Council in early 2011. This report will also include a comprehensive review of all volume-based rate structure programs including single residential.

### Consultation Efforts

The current Multi-Residential Billing System and Rate Structure for Bulk Collection customers took effect on July 1, 2008, and since that time, staff have held fourteen (14) meetings with the MFWDWG on the current billing system and new initiatives planned for Multi-Residential properties as part of the Getting to 70% Diversion Plan. The MFWDWG is composed of members from the Greater Toronto Apartment Association (GTAA), Toronto Community Housing Corporation, large and small property management companies, Tenant and Condo Associations, and other interest groups.

The MFWDWG has provided many comments to Staff and has identified an immediate need to restructure the current Bulk Billing system due to the complexity and the perceived and real costs of the current billing system to Multi-Residential Property owners. Comments from the MFWDWG group were directed at the primary components of the current billing system including the waste bin equivalent categories (small, medium, large, extra-large and extra-large plus excess bin equivalent categories), the compacted to uncompacted ratio of 3:1, their inability to compare the City's Collection fees with private sector collection services, and their difficulties to forecast and develop annual operating budgets.

Staff held a meeting with the MFWDWG on May 19, 2010 to advise, consult and seek comments on the formula components of the proposed Multi-Residential Billing System and Rates for Bulk Collection. Further one-on-one meetings with stakeholders such as the GTAA, Toronto Community Housing Corporation and other interested parties occurred in the first week of June 2010. As a result of these consultations efforts, staff have received general support for the framework and components of the proposed new Bulk Collection Billing System and Rate Structure.

### Future Considerations

Under the current billing system and rate structure, specially equipped buildings (utilize garbage compactors) are charged the compacted rate for all bins set-out even if they have one bin that is dedicated to uncompacted waste. It is expected that the Radio Frequency Identification Devices (RFID) program will be implemented in the Q1 of 2011. Staff will review a possible amendment to the rate structure to allow for specially equipped buildings to utilize uncompacted overflow bins for garbage and be charged accordingly.

Until implementation of the RFID program and the appropriate amendments have been made to the Rate Structure, customers who are compacting only a portion of their waste volume will continue to be charged as compacted customers for all their waste volume.

## **CONTACT**

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## **SIGNATURE**

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## **ATTACHMENTS**

Appendix A – Proposed New Multi-Residential Billing System and Rate Structure for Bulk Collection Customers