

## 2012 OPERATING BUDGET BRIEFING NOTE

### Original Intent of the 70% Diversion Program – Long Term Financing

#### Issue/Background:

At its meeting on November 14, 2011, the Budget Committee requested the Acting General Manager, Solid Waste Management Services (SWMS) to provide a Briefing Note to the Executive Committee for its meeting on November 21, 2011 on the original intent of the 70% Diversion Program regarding being debt-free and pay-as-you-go.

The intent of the transition of the SWMS Operating Budget from the property tax base to a volume-based rate structure in 2008 was to provide SWMS a self-sustaining funding source to fund initiatives required to achieve the 70% diversion goal and to provide individuals with the opportunity and means to divert and reduce their generation of waste.

#### Key Points:

- As part of the Executive Committee report EX9.1 entitled "Proposed Initiatives and Financing Model to Get to 70% Solid Waste Diversion by 2010" approved by City Council at its meeting of June 19, 20 and 22, 2007, Appendix D of that report outlines 10-year projected costs and revenues (in \$ millions) required to support 70% Diversion and is detailed below:

2007-2016 Capital & Operating Summary	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Capital Funding</b>										
Capital Debt Requirement	\$26.45	\$77.30	\$74.40	\$95.52	\$31.00	\$27.60	\$11.50	\$7.10	\$7.10	\$7.10
Less: Capital Debt Target (2007, & 50% of 2008 Approv	(\$19.27)	(\$16.45)								
Less: 2007 New Capital to be Funded from SW Reserve	(\$7.18)									
Capital to be Debentured/(Repaid) by Rates	\$0.00	\$60.86	\$74.40	\$95.52	\$31.00	\$27.60	\$11.50	\$7.10	\$7.10	\$7.10
<b>Cumulative Debentures</b>	<b>\$0.00</b>	<b>\$60.86</b>	<b>\$135.26</b>	<b>\$230.78</b>	<b>\$261.78</b>	<b>\$289.38</b>	<b>\$300.88</b>	<b>\$307.98</b>	<b>\$315.08</b>	<b>\$322.18</b>
<b>Operating Revenue</b>										
Revenue from New Solid Waste Rates (as of July 1, 200	\$0.00	\$118.77	\$245.85	\$254.42	\$263.32	\$272.54	\$282.08	\$291.95	\$302.17	\$312.74
Revenue from Tax Program	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54	\$183.54
Less: Grant to Rebate Taxes (As of July 1, 2008)	\$0.00	(\$91.77)	(\$183.54)	(\$183.54)	(\$183.54)	(\$183.54)	(\$183.54)	(\$183.54)	(\$183.54)	(\$183.54)
Total Revenue	\$183.54	\$210.54	\$245.85	\$254.42	\$263.32	\$272.54	\$282.08	\$291.95	\$302.17	\$312.74
<b>Operating Expenditures</b>										
Solid Waste Base Net Operating Costs	\$183.54	\$190.79	\$200.02	\$205.41	\$211.76	\$217.01	\$222.47	\$228.07	\$233.82	\$239.73
Additional Diversion Operating Costs	\$2.70	\$11.87	\$15.91	\$17.07	\$23.41	\$25.12	\$25.68	\$26.25	\$26.84	\$27.44
Debt Charges for Capital over Target	\$0.00	\$1.83	\$10.75	\$21.80	\$33.24	\$37.48	\$40.86	\$42.34	\$43.33	\$44.32
Total Operating Expenditures	\$186.24	\$204.48	\$226.68	\$244.28	\$268.41	\$279.61	\$289.01	\$296.66	\$303.99	\$311.50
<b>Operating Surplus/(Deficit)</b>	<b>(\$2.70)</b>	<b>\$6.06</b>	<b>\$19.17</b>	<b>\$10.13</b>	<b>(\$5.09)</b>	<b>(\$7.08)</b>	<b>(\$6.93)</b>	<b>(\$4.71)</b>	<b>(\$1.83)</b>	<b>\$1.24</b>
<b>Solid Waste Reserve Fund</b>										
Deposit to (Draw from) Reserve Fund	(\$9.88)	\$6.06	\$19.17	\$10.13	(\$5.09)	(\$7.08)	(\$6.93)	(\$4.71)	(\$1.83)	\$1.24
<b>Cumulative Reserve Fund Contribution (Draw)</b>	<b>(\$9.88)</b>	<b>(\$3.83)</b>	<b>\$15.35</b>	<b>\$25.48</b>	<b>\$20.39</b>	<b>\$13.32</b>	<b>\$6.39</b>	<b>\$1.67</b>	<b>(\$0.15)</b>	<b>\$1.09</b>

- As detailed above, revenue from Solid Waste Rates was required to offset debt charges on capital required for initiatives supporting 70% diversion. Cumulative debentures were originally forecasted to climb to \$322.18 million and the Waste Management Reserve Fund was to reach a balance of \$1.09 million by 2016.
- Volume-based user fees are set annually during the budget process to offset the budgeted gross expenditures so the Program nets to zero for the upcoming year. Any operating savings are contributed to the Waste Management Reserve Fund to be utilized for stabilization and to fund future capital expenditures. It was originally projected that the rate would be increased by 3.5% per year to offset inflation and debt service cost pressures projected for SWMS in order to achieve 70% Diversion.
- There was originally no expectation that SWMS would be debt free until at least 2023. However the transition off the property tax base to a volume-based rate structure allows debt to be recovered from ratepayers generating the waste.
- Since 2008 operating savings has enabled the Waste Management Reserve Fund to fund an increased portion of the SWMS Capital Budget, including the Disco Source Separated Organics Facility, and reduce reliance on capital funding through debentures despite the lack of increases to the volume-based user fees between 2008-2010.
- The 2011 SWMS Operating Budget was the first year, since transition to being a 'rate based' program in 2008, in which there was an increase in the volume-based user fees. Council approved the volume-based user fee increase of 3% for 2011. Council also approved a user fee increase of 2% for the 2010 but also that it be offset by the labour disruption savings accrued in 2009.
- The 2012 Operating & Capital Budget Recommendations do not negatively impact Solid Waste Management's existing diversion targets; allow for a contribution to the Solid Waste Management Reserve; and allow Solid Waste Management Services to continue as a self-sustaining entity.
- SWMS will continue to examine opportunities to utilize any future savings to fund future capital expenditures through the Waste Management Reserve Fund in order to offset future debt servicing pressures.

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