



STAFF REPORT ACTION REQUIRED

Recommended 2013 Solid Waste Rates

Date:	November 6, 2012
To:	Budget Committee
From:	General Manager, Solid Waste Management Services Acting Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2012\Cluster B\SWM\November\012BC (AFS #15969)

SUMMARY

This report outlines the recommended 2013 Solid Waste Rates arising from concurrent adoption of the 2013 Solid Waste Management Services Recommended Operating and Capital Budgets. The recommended Rates represent a 0% increase from the 2012 Rates. The recommended 2013 Rates balances fiscal constraints while maintaining critical progress on waste diversion initiatives.

RECOMMENDATIONS

The General Manager, Solid Waste Management Services, and the Acting Deputy City Manager and Chief Financial Officer recommend that:

1. City Council adopt a zero percent rate increase for Solid Waste Volume-Based User Fees for the year 2013.
2. City Council consider this report concurrently with the 2013 Recommended Capital Budget, 2014-2022 Recommended Capital Plan and the 2013 Recommended Operating Budget of the Solid Waste Management Services.
3. City Council direct the General Manager of Solid Waste Management Services and the Acting Deputy City Manager and Chief Financial Officer to consider price hedging agreements as a means of stabilizing, directly or indirectly, Solid Waste Management Services annual revenue from the sale of its recyclable materials.

4. City Council direct the City Solicitor to submit the necessary bills to Council required to implement the above recommendations.

Financial Impact

The 2013 Recommended Operating Budget for Solid Waste Management Services is fully funded from a combination of user fee revenue, reserve funds, sale of recyclables and industry stewardship funding. The property tax budget is not impacted by adoption of the recommendations contained in this report.

The Recommended 2013 Volume-Based Solid Waste Rates are expected to generate \$245.388 million in revenue representing 70% of total revenues. The other 30% of total revenues (\$103.894 million) will be generated from the sale of recyclable materials, industry stewardship funding, tipping fees, paid commercial waste, and recoveries for waste collection from City agencies and programs. These revenues will provide funding to support Solid Waste Management Services' operations, capital projects and initiatives to help achieve the 70% waste diversion goal. For 2013, the recommended user fee rates represent a 0% change over 2012 approved user fees. The revenue to be generated from the recommended user fees is reflected in the 2013 Recommended Operating Budget and the 2013 Recommended Capital Budget and 2014 – 2022 Recommended Capital Plan for Solid Waste Management Services.

The Ten-Year Recommended Capital Plan of Solid Waste Management Services is currently primarily funded by recoverable debt, reserve funds and industry stewardship funding. The City issues debt on behalf of Solid Waste Management Services capital works and debt servicing costs are repaid by Solid Waste Management Services through its operating user fee revenues.

In 2013, the Solid Waste Management Services Recommended Operating Budget includes \$10.090 million to repay debt issued to fund capital infrastructure needs and \$18.500 million to repay debt issued to fund the Green Lane Landfill acquisition. The Program partially funds capital projects through operating contributions to the Waste Management Reserve Fund and the Perpetual Care of Landfills Reserve Fund.

For the 2013 – 2022 Recommended Capital Program, 23% of all funding is provided by the Waste Management Reserve Fund which represents a 35% increase over the 2012 Plan. The ultimate goal is to primarily fund the Solid Waste Management Services Ten-Year Capital Plan through the Waste Management Reserve Fund, supported by annual operating contributions generated through user fees.

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

DECISION HISTORY

Non-Residential Special Category

At its meeting of October 2, 3 and 4, 2012, City Council adopted the recommendations in the Public Works and Infrastructure Committee Report PW17.14 “Solid Waste Management Donated Items Reduced Rate for Non-Residential Special Category”.

The City Council Decision document can be viewed at:

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getCouncilDecisionDocumentReport&meetingId=5666>

2012 Solid Waste Rates

At its meeting of November 29, 30, and December 1, 2011, City Council adopted the recommendations in Executive Committee Report EX13.2 “2012 Rate Supported Budgets - Solid Waste Management Services and Recommended 2012 Solid Waste Rates”.

The City Council Decision document can be viewed at:

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getCouncilDecisionDocumentReport&meetingId=4422>

ISSUE BACKGROUND

A rate increase of 0% to the Volume-Based Program for single residential and multi-residential (bulk front-end collection) units is recommended for 2013, while continuing diversion initiatives and enhancing litter collection services.

Concurrent adoption of the Solid Waste Management 2013 Recommended Operating Budget, 2013 Recommended Capital Budget, and 2014-2022 Recommended Capital Plan will necessitate the 2013 waste rates outlined in this report.

COMMENTS

Volume-Based Solid Waste Rates

The General Manager, Solid Waste Management Services, and the Acting Deputy City Manager and Chief Financial Officer have recommended a 0% rate increase in the 2013 City’s Solid Waste Rates. This was achieved, in part, by generating savings from the following initiatives:

- annualized impacts arising from contracting out curbside collection for District 2 in 2012;
- detailed line-by-line review of the operating budget; and

- management initiatives related to continuous improvement and efficiencies.

The 2013 Recommended Operating Budget for Solid Waste Management Services includes \$16.282 million in net expenditure savings. These savings will be achieved through base budget changes and service efficiency savings that do not result in any reductions to approved service levels. In fact, the 2013 Recommended Operating Budget includes provisions for enhanced litter collection service.

Target 70

The current key program objective is to achieve a residential diversion rate of 70% to assist in securing long term waste disposal capacity by extending the life of the Green Lane Landfill. This budget continues implementing the Target 70 objectives, such as the expansion of the durable goods program, and the continued roll-out of green bin collection in multi-residential diversion programs.

In the 2012 budget process, City Council requested staff to report to the Public Works and Infrastructure Committee and Budget Committee prior to the 2013 budget process, to reconfirm City Council’s commitment to continue with the Target 70 Plan, and proceeding with the Mechanical Biological Treatment Facility. Due to the scope of this request, Solid Waste Management Services intends to report to Public Works and Infrastructure Committee and City Council in the first quarter of 2013. This will include a five-year review of “Target 70”, including a complete financial assessment regarding the viability of proceeding with the Mechanical and Biological Treatment Facility. Rates for future years will be dependent on the outcome of this analysis.

In the interim, Solid Waste Management Services is putting forward a tentative three-year rate model for 2013-2015 based on the current plan that Solid Waste Management Services utilize a mechanical and biological treatment process. This technology will process residual waste, extract the recyclables and produce a compost-like material from the waste organics that meets legislative standards. Table 1 below summarizes the current projected Residential Volume-Based rates percentage increases required to support this initiative.

Table 1

Proposed Residential Volume-Based Rate Increase		
2013	2014	2015
0.00%	3.00%	3.00%

Non-Residential Special Category for the Donated Items Reduced Rate

Beginning in July of 2012, Non-Residential Customers have been subject to a phased-in solid waste rate for both collection and tipping services. In October 2012, a Special Category for the Donated Items Reduced Rate was approved by City Council. As the program is currently in the process of being rolled out, Solid Waste Management

Services recommends a status quo approach for 2013 and will report back if necessary as part of the 2014 budget process.

2013 Recommended Operating Budget

The 2013 Recommended Operating Budget for Solid Waste Management Services has assumed that revenue generated from the Volume-Based Rates will remain unchanged and that the number of multi-residential units will stabilize, resulting in no significant change from the overall total unit counts estimated in the 2012 budget process. It is expected that the market for the sale of recyclable material and industry stewardship funding will continue to provide significant revenues.

2013 Summary of Changes

The 2013 Recommended Operating Budget gross expenditures are \$349.282 million. The Residential Volume-Based Solid Waste Rates will generate \$245.388 million in volume-based program revenue representing 70% of total revenues. The other 30% of total revenues (\$103.894 million) will be generated from the sale of recyclable materials, industry stewardship funding, tipping fees, paid commercial waste and recoveries for waste collection from City agencies and programs.

The 2013 Recommended Operating Budget funds base budget pressures and enhanced service priorities, while maintaining a 0% rate increase through base budget and service efficiency savings as outlined in Table 2 below. Further details on base budget pressures, savings and enhanced service priorities are available within the Analyst Notes in Part III: Recommended Base Budget; Part IV: Recommended New/Enhanced Service Priority Actions; and Appendix 2, “2013 Recommended Operating Budget by Expenditure Category and Key Cost Driver”.

Table 2
2013 Recommended Service Change Summary
(In \$000s)

Description	2013 Recommended Service Changes				Net Incremental Impact			
	Position Changes	Gross Expense	Net Expense	%Change over 2012 Gross Budget	2014		2015	
					Net Expenditure	Position Change	Net Expenditure	Position Change
Base Changes:								
Base Expenditure Changes								
Annualization of Contracting Out District 2		(5,046.5)	(5,046.5)	(1.5%)				
70% Diversion - City of Toronto waste tonnage and disposal		(471.4)	(471.4)	(0.1%)	796.3		301.3	
Line by Line Reduction Options Based on Experience		(1,450.4)	(1,450.4)	(0.4%)				
IDC Fleet Fuel Cost Reduction		(511.0)	(511.0)	(0.1%)				
Waste Bin Purchases Single Residential		(1,115.3)	(1,115.3)	(0.3%)				
Additional Reduction to Reserve Fund Contribution		(3,047.7)	(3,047.7)	(0.9%)	(2,240.0)		(3,290.0)	
Base Expenditure Changes		(11,642.2)	(11,642.2)	(3.4%)	(1,443.7)		(2,988.7)	
Base Revenue Changes								
Volume Based User Fee - Growth Changes			(719.1)	(0.2%)	(879.0)		(708.4)	
Sale of Recyclable Materials			(2,777.6)	(0.8%)	(961.2)		(799.3)	
Various Base Revenue Changes			(157.1)	(0.0%)	(1,189.3)		(1,010.1)	
Tipping & User Fees (CRO) Implementation			(501.2)	(0.1%)	(429.6)		(429.6)	
Base Revenue Changes			(4,155.0)	(1.2%)	(3,459.1)		(2,947.4)	
Sub-Total Base Budget Changes		(11,642.2)	(15,797.3)	(4.6%)	(4,902.8)		(5,936.0)	
Service Efficiencies								
Service Efficiency Study for Collections Operations	(7.8)	(484.4)	(484.4)	(0.1%)				
Sub-Total Service Efficiencies	(7.8)	(484.4)	(484.4)	(0.1%)				
Total Service Changes	(7.8)	(12,126.6)	(16,281.7)	(4.7%)	(4,902.8)		(5,936.0)	

This budget allows Solid Waste Management Services to maintain or improve all major services currently provided to the residents of Toronto, and sustains Solid Waste Management Services ability to achieve the objectives set out in the Target 70 Plan.

Revenue from the Sale of Recyclables

The sale of recyclables is an important revenue component of Solid Waste Management Services operating funding requirements. The 2013 recommended budget for the revenue from the sale of recyclables is \$20.7 million. In setting this number, Solid Waste Management Services has reviewed trends in its recycling revenues over the past ten years. However, what makes this estimate problematic is that our revenues have fluctuated significantly over the past ten years, leaving Solid Waste Management Services with budget shortfalls in some years, while creating substantial surpluses in other years. (Refer to Table 3 below).

Table 3

Year	Budget Revenue (in millions)	Actual Revenue (in millions)	Revenue Variance (in millions)	Actual Tonnage (tonnes)
2002	\$8.3	\$12.3	\$4.0	146,078
2003	\$11.0	\$13.4	\$2.4	155,831
2004	\$14.0	\$16.9	\$2.9	164,971
2005	\$18.8	\$17.8	(\$1.0)	172,335
2006	\$22.7	\$20.3	(\$2.4)	185,463
2007	\$20.1	\$24.0	\$3.9	175,987
2008	\$21.9	\$23.7	\$1.8	175,463
2009	\$26.5	\$13.1	(\$13.4)	152,444
2010	\$19.4	\$21.4	\$2.0	168,702
2011	\$18.3	\$26.6	\$8.3	167,595
*2012	\$19.0	\$18.5	(\$0.5)	168,000
**2013	\$20.7			170,000

* 2012 figures are based on approved budget and year-end projection

**2013 figures are based on recommended budget

While the additional revenue over the past ten years can partially be attributed to the increased volume of recyclables diverted from the waste stream, the year-to-year fluctuations in actual revenues are a result of changes in market demand for the recycled materials Solid Waste Management Services has to offer.

In order to mitigate the risk of these market-based fluctuations, it is recommended that Solid Waste Management Services work with Corporate Finance to consider price hedging agreements as a means of stabilizing, directly or indirectly, Solid Waste Management Services' revenue from the sale of its recyclable materials, which are

generated in the normal course of the City's provision of services to its residents. In addition, the August 5, 2009 City Council approved Statement of Commodity Hedging Policies and Goals may require amendment to include the sale of a commodity.

Billing Model

During the 2012 budget process, City Council directed the Deputy City Manager and Chief Financial Officer, and the Acting General Manager, Solid Waste Management Services, to report with recommendations to the appropriate committee as soon as possible on a fair and equitable means by which solid waste service fees can be calculated and charged without resort to the mathematical process of applying charges and crediting rebates on each invoice.

Staff from the above divisions held several meetings to discuss the rate-rebate model. Staff found that the rate-rebate system remains relevant in the continued effort to achieve the objectives outlined in the Target 70 report, which was to bring customer awareness to the cost of Solid Waste Management Services as well as provide financial incentive when customers reduce their waste output and increase their diversion.

Waste Management Reserve Fund and Debt Charges

The purpose of the Waste Management Reserve Fund is to provide funding for the capital needs of the Program as well as rate stabilization. The rate modelling is predicated on the replenishment of the reserve through contributions from the Operating Budget sufficient to ensure that an adequate balance is maintained in this reserve fund. In 2013, Solid Waste Management Services has included a \$15.546 million contribution to the Waste Management Reserve Fund.

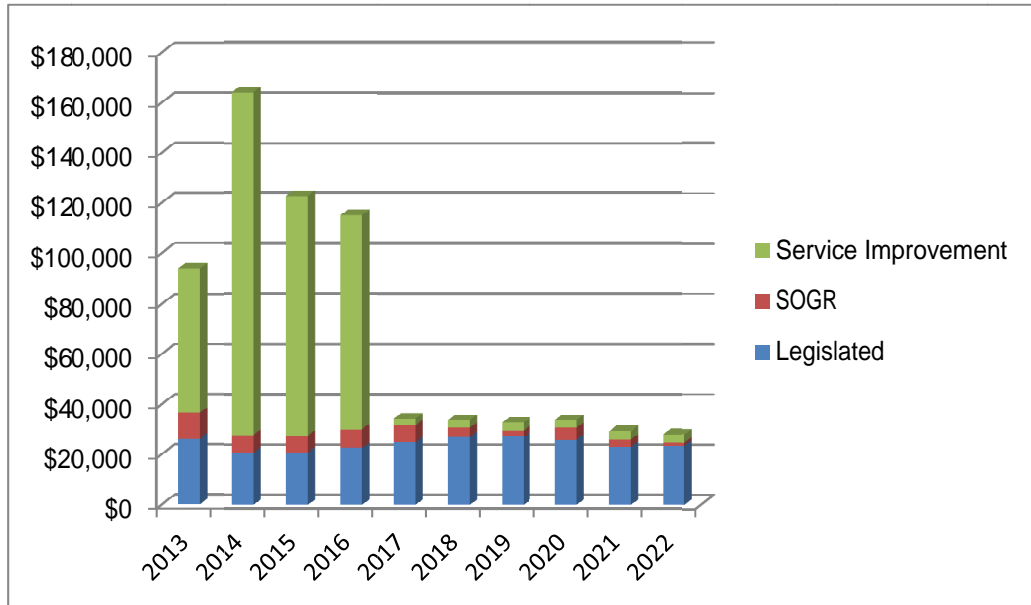
Solid Waste Management Services is continuing to reduce debt charges significantly by funding capital cash flows through the Waste Management Reserve Fund. In so doing, Solid Waste rates can be stabilized.

2013 Recommended Capital Budget and 2014 – 2022 Recommended Capital Plan

The Ten-Year Recommended Capital Plan provides funding of \$93.9 million in 2013 for the following capital projects:

- Diversion Systems and Facilities (\$47.0 million);
- Ongoing maintenance of Perpetual Care of Closed Landfills (\$6.1 million);
- Transfer Station Asset Management (\$8.2 million);
- Collection Yard Asset Management (\$2.1 million); and
- Development of Green Lane Landfill (\$30.1 million).

Table 4
2013–2022 Capital Plan by Project Category
(In \$000s)



- *Legislated and State of Good Repair* represents the remaining 29% or \$153.0 million of the funding requirement in the first five years and 90% or \$141 million over the last five-year period. Legislated projects include the ongoing development of the Green Lane Landfill and Perpetual Care of Old Landfills. State of Good Repair projects represent 8% of the Ten-Year Recommended Capital Plan.
- *Service Improvement Projects:* Achieving a waste diversion rate target of 70% continues to drive Solid Waste Management Services' Capital program. Over the first five years, investments in these projects represent 71% or \$377 million of all project funding, declining to 10% or \$16 million in the remaining five years.

By 2018, funding within the Ten-Year Recommended Capital Plan declines to an average of \$31.4 million per year as the majority of major facilities work is projected to be completed, with remaining funding levels reflecting ongoing development and asset management costs only.

Summary

Of the total \$349.282 million gross operating budget, the Recommended 2013 Residential Volume-Based Solid Waste Rates are expected to generate a total of \$245.387 million in volume-based user fee revenue, with recycling and other revenues funding the remainder of the operating expenditures. There will be no increase in the Residential Volume-Based Solid Waste Rates and Solid Waste Fees (0%) for 2013. Solid Waste Management Services will continue to fund existing recycling initiatives as well as new initiatives that will enable the Program to move towards the 70% Diversion Target.

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SIGNATURE

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