

2018 Rate Supported Budgets – Solid Waste Management Services and Recommended 2018 Solid Waste Rates and Fees

Date: October 31, 2017

To: Budget Committee

From: General Manager, Solid Waste Management Services and Acting Chief Financial Officer

Wards: All

SUMMARY

This report outlines the recommended 2018 Solid Waste Management Services Rates and Fees arising from the concurrent adoption of the 2018 Recommended Solid Waste Management Services Operating and Capital Budgets. Recommended rate and fee increases will vary based on customer group.

Table 1 highlights the recommended key Solid Waste Management Services Rates and Fees beginning January 1, 2018.

Table 1 – 2018 Recommended Rate and Fee Increases

Customer Group	% Rate Increase	Comments
Multi-Residential	1.0%	Same as 2017
Single Family & Residential Units Above Commercial	2.0%	Same as 2017
Bag Tags, Bin Purchase	2.1%	Rate of Inflation (2017 CPI)
Commercial, Divisions, Agencies and Corporations, Schools, Tipping	5.2%	Same as 2017
Blended Rate	1.9%	Lower than 2017 (2.2% blended)

The proposed blended 1.9% increase in Solid Waste Rates and Fees is anticipated to generate \$5.743 million in additional revenue in 2018. This recommended increase is required to fund the necessary reserve contributions that would ensure sufficient funds to implement Solid Waste Management Services' capital plan, offset inflationary costs on contracts, address escalating costs for fleet maintenance, and cover lost revenue.

The 2018 Recommended Operating Budget is \$382.163 million, an increase of \$0.501 million over 2017 or 0.1%, including a \$23.026 million reserve contribution, all of which is offset by total revenues of \$405.189 million. The 2018 Recommended Capital Budget is \$114.406 million, which is comprised of \$92.801 million in new 2018 funding, as well as \$21.605 million in funding carried forward from 2017 into 2018. These combined budgets reflect the cost to maintain the City Council approved service levels for Solid Waste Management Services.

A key priority for Solid Waste Management Services in 2018 is the continued implementation of the Waste Strategy, which includes making advancements in waste reduction and further diversion opportunities (funding efforts to increase the residential diversion rate from 52% in 2016 to 53% in 2018, and a target of 56% by 2022), as well as ensuring the long term fiscal sustainability of the Division. This is aligned with Council Strategic Action #7 (Develop a Long Term Solid Waste Management Strategy).

Given that 2018 is an election year and the first meeting of the new Council usually takes place in February of the following year, this report recommends that the rates, fees and charges adopted by City Council effective January 1, 2018 continue in full force and effect until such time as they are amended or repealed by Council.

RECOMMENDATIONS

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

1. City Council adopt the Solid Waste Management Services Rates and Fees in 2018 as set out in Appendix A to become effective on January 1, 2018;
2. City Council consider this report concurrently with the 2018 Recommended Capital Budget, 2018-2027 Recommended Capital Plan and the 2018 Recommended Operating Budget of the Solid Waste Management Services Division;
3. City Council authorize that the necessary amendments be made to Municipal Code Chapter 441 - Fees and Charges, and any other necessary Municipal Code Chapters as may be required, to give effect to these Recommendations;
4. City Council grant authority to the City Solicitor to introduce any necessary Bills required to implement these Recommendations, subject to any necessary refinements, including stylistic, format and organization, as may be identified by the City Solicitor, the Acting Chief Financial Officer and General Manager, Solid Waste Management Services; and,

5. City Council direct that all the rates, fees and charges set out in Appendix A to this report, adopted by Council in Recommendation 1 above, continue in full force and effect until such time as they are amended or repealed by City Council.

FINANCIAL IMPACT

Solid Waste Management Services is a utility funded from a combination of volume-based rates, recoverable debt, fee revenue, sale of recyclables and industry stewardship funding. The recommended budgets provide funding to support the long term financial sustainability of Solid Waste Management Services operations and capital projects, enhance diversion and reduce waste sent to landfill.

The proposed 2018 Solid Waste Management Services Rates and Fees represents various rate increases based on customer type, which equate to a blended 1.9% increase to the 2017 approved Solid Waste Management Services Rates and Fees. Refer to Attachment – Appendix A for rate and fee increases associated with the Program's various customers and services. Factoring in the proposed rate increase, rate customers are budgeted to generate \$305.923 million in 2018 revenues.

Revenue totaling \$405.189 million also includes other revenue sources such as tipping fees, sale of recyclable materials, industry stewardship funding and capital recoveries.

The 2018-2027 Recommended Capital Budget and Plan for Solid Waste Management Services is financed by a combination of recoverable debt (approximately 29%) and reserve fund (approximately 71%) withdrawals. The City issues debt on behalf of Solid Waste Management Services and debt servicing costs are repaid to the City by Solid Waste Management Services through the Debt Reserve Fund, financed by its operating fee revenues. Capital projects are also funded through the Program's operating contributions to the Waste Management Reserve Fund, the Green Lane Reserve Fund, and the Perpetual Care Reserve Fund.

The 2018 Rate and Fee increase is required to support Solid Waste Management Services' capital expenditures reflecting current capital needs, as well as off-setting \$0.501 million of expenditure pressure. The Solid Waste Management Services Operating Budget includes a \$34.214 million payment to repay debt issued to fund capital infrastructure needs (\$14.882 million) and to pay over the long term for the Green Lane Landfill acquisition and development (\$19.332 million).

Financial analysis indicates that Solid Waste Management Services' below-inflation rate increases in 2017 and proposed for 2018 are not economically sustainable over the long term. If Solid Waste Management Services proceeds with rate-of-inflation rate increases (assumed to be 2.5%) for the years 2019 onward, the Waste Management Reserve Fund balance will be sufficient to finance the current 10-year forecasted capital projects, but may not be sufficient to fund capital projects beyond 2027.

However, there are a number of pending initiatives and actions that may impact Solid Waste Management Services' revenue opportunities and reduce operational costs that

will mitigate future reserve fund balance concerns. The recently legislated opportunity for Solid Waste Management Services to issue development charges in the near term, as well as recovery and sale of renewable natural gas will establish new revenue streams for the Division. In addition, reducing blue bin contamination in the short term will reduce costs associated with the Blue Bin program, while the Provincial legislative introduction of full extended producer responsibility for packaging and printed paper could potentially transfer all operating budget costs associated with operating the Blue Bin program from the City to producers and brand owners. The extent to which these aforementioned initiatives will impact future reserve balances are still unknown, but could begin to materialize within the next one to five years and will be better defined in the 2019 Budget process.

Figure 1 shows an estimated reserve balance of \$65.2 million by 2027. Table 2 provides a summary of anticipated capital investments required in the 15 year period beyond the 10 year Capital Plan (2028-2042).

Figure 1 – Waste Reserve Balance Forecast with 1.9% Rate Increase in 2018 and Rate of Inflation Increases of 2.5% for 2019-2027 (Assuming 85% Capital Spend Rate)

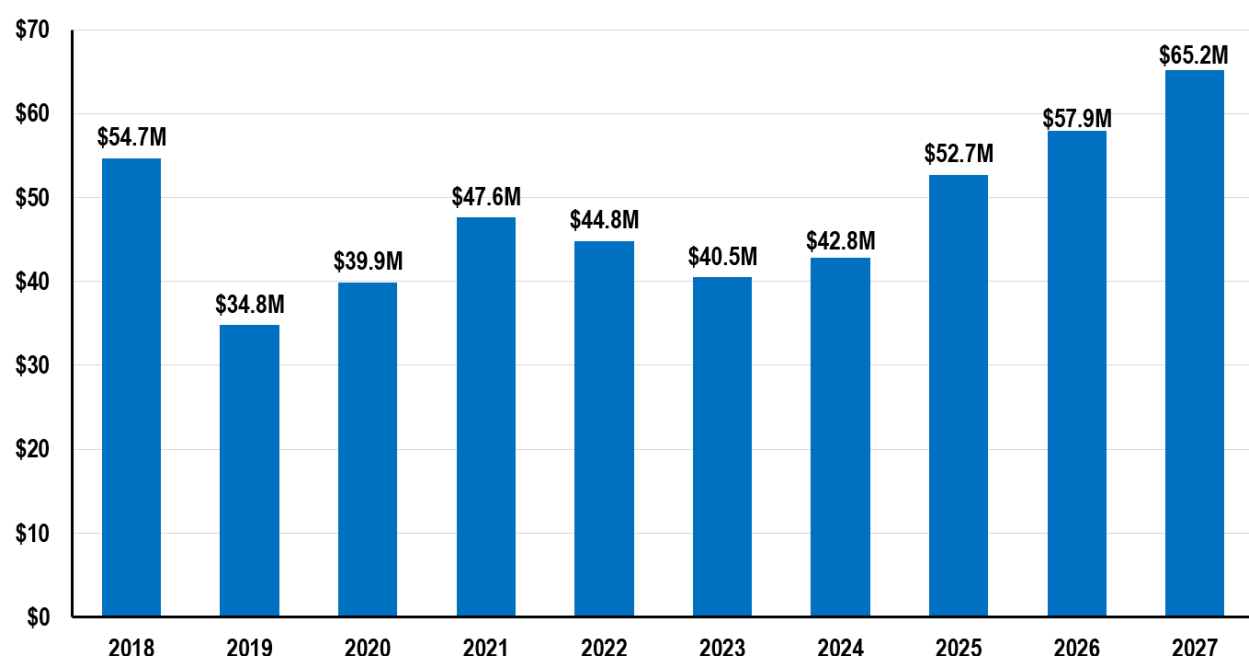


Table 2 – Required Capital Investments, 2028-2042

Capital Investment	2028-2032 (\$ million)	2033-2037 (\$ million)	2038-2042 (\$ million)	Total (\$ million)
Mixed Waste Processing Facility with Organics Recovery	\$127.8	\$124.0	\$ 0.0	\$251.8
Securing Future Landfill Capacity	\$ 10.0	\$ 50.0	\$ 50.0	\$110.0

Capital Investment	2028-2032 (\$ million)	2033-2037 (\$ million)	2038-2042 (\$ million)	Total (\$ million)
Future Green Bin Organics Processing Capacity	\$ 10.0	\$ 50.0	\$ 40.0	\$100.0
Totals	\$147.8	\$224.0	\$ 90.0	\$461.8

DECISION HISTORY

At its meeting of December 13 and 14, 2016, City Council adopted the recommendations in the Executive Committee Report EX20.23 “2017 Rate Supported Budgets – Solid Waste Management Services and Recommended 2017 Solid Waste Rates” and directed the General Manager of Solid Waste Management Services to:

1. Negotiate and amend the Agreement between the City of Toronto and Rehrig Pacific Company, dated December 10, 2007 (in connection with Purchase Order No. 47013061) to allow for an additional \$3.5 million for the supply and maintenance of garbage and recycling bins for residential and non-residential customers until November 30, 2017, on terms and conditions satisfactory to the General Manager, Solid Waste Management Services and in a form satisfactory to the City Solicitor. After reviewing the Agreement, it was determined no amendment was required, as the Agreement does not specify maximum quantities. An internal Solid Waste Management Services budgeting change to anticipate an additional \$3.5 million in spending against the contract was all that was required.
2. Report back to the Budget Committee in the second quarter of 2017 on the next steps for developing a third anaerobic digester to process organic waste, given the business case for planning and securing additional capacity with an earlier timeline due to potential Provincial/Federal funding programs, maturation of multi-residential Green Bin program, and long-term contract opportunities to accept organic waste from private entities and other municipalities.

A report is being prepared for the Public Works & Infrastructure Committee on November 28, 2017.

The City Council Decision document can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.23>

COMMENTS

2018 Operating Budget

The 2018 Recommended Operating Budget's gross expenditure of \$382.163 million is outlined in detail in the concurrent Solid Waste Management Services 2018 Operating Budget Notes. These expenditures are fully recovered by revenues as outlined in Table 3.

Table 3 – Operating Budget Summary

2018 Solid Waste Management Services Gross Expenditures	\$382.163 million
Waste Management Reserve Fund Contribution	\$ 23.026 million
Total	\$405.189 million
2018 Solid Waste Management Services Revenues	\$ Million
Residential Volume Based Solid Waste Management Services Rate and Property Tax Support	\$305.923 million
Internal Transfer for City of Toronto waste disposal fees	\$ 40.172 million
Other revenues (sale of recyclable materials, industry stewardship funding, fees, paid commercial waste, and recoveries for waste collection from City agencies and programs)	\$ 59.093 million
Total 2018 Solid Waste Revenues	\$405.189 million

This budget allows Solid Waste Management Services to maintain all current service levels and allocate sufficient funds to the reserve to support in the financing of future capital needs over the 10-Year Capital Plan timeframe. The 2018 Recommended Operating Budget Changes are outlined in Table 4.

Table 4 – 2018 Recommended Operating Budget Changes

	2017 Approved Adjusted Budget	2018 Recommended Budget	\$ Change	% Change
General Operating Expenditures (including internal transfer to Green Lane Landfill)	\$381.7M	\$382.2 M	\$0.5M	0.1%
Contribution to Capital	\$12.0M*	\$23.0 M	\$11.0M	91.1%
Total Expenditures	\$393.7M	\$405.2 M	\$11.5M	2.9%
General Revenues	\$354.4M	\$365.0	\$10.6M	3.0%
Internal Transfer to Green Lane Landfill	\$39.3M	\$40.2 M	\$0.8M	2.1%
Total Revenues	\$393.7M	\$405.2 M	\$11.5M	2.9%

* Reserve contribution retroactively revised down from 2017 Budget Approved \$19.8 million due to a one-time City Council approved adjustment related to recycling processing contract amendments.

The 2018 Operating Budget includes pressure of \$4.642 million resulting primarily from:

- Ongoing fleet maintenance and fuel costs;
- Increased Blue Bin contamination rates;
- Fluctuating tonnages of waste and recyclable material to be collected and processed;
- Gradual loss of multi-residential customers to private companies;
- Existing and new contract terms with annual escalation factors (CPI); and
- Single Family customers continuing to downsize bins in reaction to rebate reductions.

2018 Capital Budget and 10-Year Plan

The Solid Waste Management Services 2018-2027 Capital Budget and Plan Notes provide details on Solid Waste Management Services' proposed 10-Year Capital Plan. Solid Waste Management Services has over \$542 million in assets. The maintenance of these assets, as well as the development of new infrastructure, is funded through the Capital Budget. The 2018 Recommended Capital Budget of \$114.406 million is comprised of a recommended \$92.801 million for previously approved and new capital projects and a carry forward of \$21.605 million from 2017. The recommended 2018 budget, including carried forward amounts, includes projects in the Legislated (\$28.695

million), State of Good Repair (\$31.802 million), Service Improvement (\$21.889 million) and Growth Related (\$32.020 million) categories.

The top three projects (by dollar value) in 2018 will be:

1. Dufferin Organics Processing Facility (\$27.615 million in 2018), targeted for completion in Q4 2018.
2. Transfer Station Asset Management (\$26.402 million in 2018), a diverse program of state of good repair projects at Solid Waste Management Services' seven (7) transfer stations.
3. Perpetual Care of Closed Landfills (\$15.743 million in 2018), funding to monitor Solid Waste Management Services' 160 closed landfills and maintain regulatory compliance.

Budgeted at \$5.576 million in 2018, the Long Term Waste Management Strategy will be executing three priority actions:

1. Reduction & Reuse Initiatives (e.g. Food Waste Reduction Strategy, Textiles Strategy, Sharing Library and Multi-Res Data Management Strategy) (\$3.311 million).
2. Mixed Waste Processing Facility Study (\$1.685 million).
3. Development of Promotion & Education Tools (\$0.580 million).

The top three projects (by dollar value) for the 10-year period 2018-2027 are:

1. Long Term Waste Management Strategy implementation (\$159.361 million).
2. Green Lane Landfill Cell Development including gas utilization (\$154.105 million).
3. Transfer Station Asset Management (\$99.194 million).

The 10-Year Capital Plan was updated to reflect an updated Debt Servicing Charge Plan, recommendation outcomes of the Waste Strategy and an analysis of reserve contribution requirements. Compared to the 2017-2026 10-Year Capital Plan (\$668.929 million), the 2018-2027 10-Year Capital Plan (\$648.481 million) decreased by \$20.448 million.

The purpose of the Waste Management Reserve Fund is to provide funding for the capital needs of the Division. The rate model 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 2018, Solid Waste Management Services has included a \$23.026 million contribution to the Waste Management Reserve Fund.

Perpetual Care of Closed Landfill Sites

Since amalgamation, the City has funded the closed landfill operations. A pay-as-you-go Perpetual Care Reserve was established for the post-closure maintenance, monitoring and overall management of 160 closed landfill sites managed by Solid Waste Management Services. In 2001, City Council adopted the Harmonized Policy, which addressed risk management of old landfills by harmonizing the approach to site identification, risk assessment and prioritization. While there is no minimum level of funding for perpetual care prescribed by environmental regulations, in 2017 Solid Waste Management Services initiated a study to establish an appropriate funding level for the Perpetual Care Fund. The City has retained KPMG LLP, partnered with Tetra Tech, to undertake the study. A final report will be provided in December 2017.

In 2011, the Auditor General expressed concern about the unfunded liability posed by the closed landfill sites. At that time, the amount held in the Fund was \$38 million and the estimated environmental liability reported on the City's financial statements was \$121 million.

The amount held as of January 1, 2016 is \$29.3 million, and the estimated environmental liability reported on the City's financial statements as of 2016 is \$128 million.

2018 Solid Waste Rate and Fee Increases and Financial Sustainability

In 2008 and 2009, as part of the strategy to achieve the waste diversion target of 70%, Solid Waste Management Services was reorganized as a utility that would be funded from volume-based user fees that would fund both current operations and capital works necessary to achieve the 70% diversion target.

Over the past nine years, Solid Waste Management Services has averaged an annual rate increase of 1.6%, trailing the rate of inflation. As a result, Solid Waste Management Services' annual contribution to the capital reserve required to support current and long term capital needs has only increased from \$14.4 million in 2009 to \$19.8 million in 2017.

Moving forward, Solid Waste Management Services would benefit from an approved multi-year planned rate increase, similar to Toronto Water's multi-year rate plan allowing for sustainable long term capital planning based on predictable annual rate increases. Due to the uncertain impact to the program's revenue streams of potential future legislative changes, as well as the potential for a future revenue stream from renewable natural gas, a multi-year rate plan is not being proposed as part of the 2018 Recommended Operating Budget for Solid Waste Management Services. The intention is for Solid Waste Management Services to bring forward a multi-year rate plan as part of its 2019 Recommended Operating Budget.

The 2018 Recommended Operating Budget for Solid Waste Management Services includes a 1.9% blended average rate increase as of January 1, 2018, which includes rate increases as follows:

Table 5 – 2018 Recommended Rate and Fee Increases

Customer Group	% Rate Increase	Comments
Multi-Residential	1.0%	Same as 2017
Single Family & Residential Units Above Commercial	2.0%	Same as 2017
Bag Tags, Bin Purchase	2.1%	Rate of Inflation (2017 CPI)
Commercial, DACs, Schools, Tipping	5.2%	Same as 2017
Blended Rate	1.9%	Lower than 2017 (2.2% blended)

Appendix A provides the complete listing of each rate per customer group within the residential and non-residential sectors.

Extended Producer Responsibility – Future Impact

The former *Waste Diversion Act, 2002* provided a partial cost-recovery framework for certain municipal waste diversion programs, requiring producers to fund a portion of the City's cost to manage designated wastes. In November 2016, the Province of Ontario enacted the *Waste-Free Ontario Act, 2016* ("the Act"). The Act establishes a full Extended Producer Responsibility (EPR) system; a policy approach under which producers of designated wastes are held wholly responsible, financially and operationally, for the management of these materials.

Future regulations and policy statements issued under the Act will establish the service level standards for full EPR programs, as well as the scope of materials for which the stewards will have to comply. In the absence of draft regulations, policy statements, and programs established under the Act, the financial impacts on Solid Waste Management Services' program costs and funding are unclear. However, it is anticipated the net impact of future EPR programs will be to lower the current net costs of delivering recycling programs for City ratepayers.

Changes to the Development Charges Act – Future Impact

The Province passed amendments to the *Development Charges Act*, which now allows municipalities to recover growth-related costs for waste management services (excluding costs related to landfill) through development charges. Solid Waste Management Services' growth-related costs were determined by reviewing service levels and capital costs, and applying the development charge to a projected number of new residential developments. Eligible services include collection, transfer and processing of recyclables and organic waste, and collection and transfer of garbage.

Capital assets associated with the management of these materials are also eligible for cost recovery through development charges, including administrative buildings/land, new waste bins and collection vehicles. The total development-related costs for Solid Waste Management Services have been calculated at \$15.696 million to be collected over ten years, or approximately \$1.6 million per year.

Solid Waste Management Services currently collects fees through utility rates that account for both capital and operating costs, and contributions to debt repayment. As a result, development charges cannot be used to fund growth-related capital assets already funded through the utility rates. If a development charge were to be introduced, any growth-related capital costs funded through the development charge would have to be removed from the waste utility rate, and there would be a modification to the proposed future year blended rate increases recommended via the Rate Model.

City staff are currently undertaking a review of the Development Charges By-law, at which time Solid Waste Management Services will determine if development charges should be applied for growth-related costs beginning in 2019.

Contamination in the City's Recycling Stream

Solid Waste Management Services continues to see a significant amount of garbage and other non-recyclable material in the recycling stream. The current contamination rate is now approximately 26%. It will cost the City and its residents an extra \$5 million annually should this rate increase to over 27%. For every percentage point reduction in the contamination rate, the City saves approximately \$600,000.

Over the past several years, Solid Waste Management Services has implemented an extensive array of programs, initiatives and services to try and combat this problem, including various advertising campaigns, educational resources and customer engagement sessions.

During the last year, Solid Waste Management Services has also implemented:

- On-site monitoring – staff visually inspecting bins for contamination and tagging bins with obvious contamination issues.
- Bin Rejections – rejecting heavily contaminated bins at multi-residential locations and collecting the bin as garbage at the Council-approved garbage collection rate instead. This process has included direct contact with property management staff informing them of the action and offering support to improve performance.

The ultimate impact of these initiatives will be to avoid the costs associated with processing recyclable materials that are highly contaminated, resulting in reduced pressure on future year rate increases.

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SIGNATURE

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ATTACHMENTS

Attachment 1: Appendix A – Recommended 2018 Solid Waste Management Services
Rates and Fees