



STAFF REPORT ACTION REQUIRED

Recommended 2016 Solid Waste Rates

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| Date: | November 6, 2015 |
| To: | Budget Committee Executive Committee |
| From: | Acting General Manager, Solid Waste Management Services Deputy City Manager and Chief Financial Officer |
| Wards: | All |
| Reference Number: | P:\2015\Cluster B\SWM\November\020BU (AFS#20853) |

SUMMARY

This report outlines the recommended 2016 Solid Waste Rates and Fees arising from the concurrent adoption of the 2016 Solid Waste Management Services (SMWS) Recommended Operating and Capital Budgets. A three (3) per cent increase is recommended on all Solid Waste Rates and Fees beginning January 1, 2016, with minor exceptions noted in this report.

It is anticipated that the three (3) per cent increase on all SWMS fees will generate \$8.410 million in additional revenue in 2016. This recommended rate increase is required to accommodate SWMS capital expenditures reflecting current capital needs including opportunities to extend the life of Green Lane Landfill, as well as expenditures that are anticipated for the implementation of the Long Term Waste Management Strategy ("Waste Strategy"), which will be completed in 2016. The recommended budget also balances fiscal constraints while maintaining critical progress on waste diversion initiatives, operational improvements, and capital investments in state of good repair.

The 2016 Recommended Operating Budget is \$389.009 million and the 2016 Recommended Capital Budget is \$96.512 million – comprised of \$89.167 million in new 2016 funding, as well as \$7.345 million in funding carried forward from 2015 into 2016. These combined budgets reflect the cost to maintain the City Council approved service levels for SWMS.

A key priority for the SWMS Division for 2016 is the completion of the Waste Strategy, which includes making advancements on further diversion opportunities as well as ensuring the long term fiscal sustainability of the solid waste utility. In keeping with

Council Strategic Action #7 (Develop a Long-term Solid Waste Management Strategy), this report also discusses taking continued steps toward increased diversion and rate sustainability through consideration of possible further reductions to the Single Family Residential Solid Waste Rebate in 2016 as part of the City's Tax Supported Budget to be released later this year.

A Solid Waste Rebate reduction strategy, depending on the Garbage Bin size, should be considered for Single Family Residential customers as part of the City's Tax Supported Budget to be released later this year. Change to the Solid Waste Rebate has no impact on the SWMS 2016 Rate or budget. Any change to the Solid Waste Rebate will be supported by comprehensive communications to Single Family Residential customers on how to reduce the size of their Garbage Bin at no cost through the City's 311 Service online or via phone, and will also include educational information on how to improve waste diversion.

RECOMMENDATIONS

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

1. City Council adopt a three (3) per cent increase on all Solid Waste Rates and Fees in 2016 as set out in Appendix A to become effective on January 1, 2016;
2. City Council approve the harmonization of the Residual Management Landfill Disposal: Biosolids and Water Treatment Residue fee per tonne to the ABC&Ds Waste loads delivered directly to Transfer Stations fee per tonne and a Roll-off Services Fee as set out in Appendix A;
3. City Council consider this report concurrently with the 2016 Recommended Capital Budget, 2017-2025 Recommended Capital Plan and the 2016 Recommended Operating Budget of the SWMS Division; and
4. City Council direct the City Solicitor to submit the necessary bills to City Council required to implement the above recommendations.

Financial Impact

SWMS is a utility funded from a combination of volume-based rates, fee revenue, reserve funds, sale of recyclables and industry stewardship funding. The recommended budget will provide funding to support SWMS operations, capital projects, and initiatives to help achieve the projected waste diversion goal of 55 per cent for 2016.

The proposed 2016 Solid Waste Rate represents a three (3) per cent increase to the 2015 approved Solid Waste Rates and Fees. The recommended 2016 Single Family Residential and Multi-Residential Solid Waste Rates are expected to generate \$263.789 million in revenue. The remaining \$125.221 million in revenue includes an internal transfer of \$43.266 million for City of Toronto waste landfilled at Green Lane Landfill and \$81.955

million in revenue generated from the sale of recyclable materials, industry stewardship funding, fees, paid commercial waste and recoveries for waste collection from City agencies and programs. Together these revenues will provide funding to support SWMS operations and capital projects.

The 2016-2025 Recommended Capital Budget and Plan for SWMS is funded by a combination of recoverable debt (approximately 59 per cent) and reserve funds (approximately 41 per cent) contributions. The City issues debt on behalf of SWMS and debt servicing costs are repaid to the City by SWMS through its operating fee revenues. Capital projects are also funded through operating contributions to the Waste Management Reserve Fund, the Green Lane Reserve Fund, and the Perpetual Care Reserve Fund.

The 2016 Rate and Fee increase is required to support SWMS capital expenditures reflecting current capital needs as well as expenditures anticipated for the implementation of the Waste Strategy. The SWMS Operating Budget includes \$36.848 million to repay debt issued to fund capital infrastructure needs (\$17.508 million) and to pay for the Green Lane Landfill acquisition and development (\$19.340 million).

An analysis of the 2016-2025 10-Year Capital Plan was undertaken to determine reserve contribution requirements to fund the SWMS 10-Year Capital Plan. The analysis determined that an annual rate and fee increase of a minimum of three (3) per cent will be required to ensure that reserve funds have a positive balance from 2016 to 2024, with the balance in 2025 being subject to the Waste Strategy and timing of implementation. This plan will be adjusted in the 2017 budget process upon approval of the Waste Strategy in 2016 with the longer term goal to fully fund the SWMS 10-Year Capital Plan through reserve funds, supported by annual operating contributions generated through fees.

In 2015, Council approved a reduction in the Solid Waste Rebate (Grant) for Single Family Residential customers in the amount of \$17.92 million as part of the 2015 Tax Budget. Further changes to the Single Family Residential Solid Waste Rebate should be considered for Single Family Residential customers as part of the City's Tax Supported Budget to be released later this year. Change to the Solid Waste Rebate has no impact on the SWMS 2016 Rate or budget. Any change to the Solid Waste Rebate will be supported by comprehensive communications to Single Family Residential customers on how to reduce the size of their Garbage Bin, at no cost, through the City's 311 Service online or via phone, and will also include educational information on how to improve waste diversion.

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

DECISION HISTORY

2015 Solid Waste Rates

At its meeting of March 10 and 11, 2015, City Council adopted the recommendations in the Executive Committee Report EX3.2 “2015 Rate Supported Budgets - Solid Waste Management Services and Recommended 2015 Solid Waste Rates” and requested that the General Manager of SWMS report to the Public Works and Infrastructure Committee prior to the 2016 Budget process on:

1. a. any increases in the waste diversion rate arising from the changes to the bin rates and rebate program;
- b. establishing a uniform and equitable pricing model setting annual collection fees for the various City-provided household waste collection bins which accounts for fixed costs and is relatively proportionate to their size and capacity;
- c. establishing a uniform and equitable rebate rate applied to each household; and
2. a. the feasibility of maintaining the garbage bin rebate at 2015 levels for single family homes; and
- b. the benefits and the means to create a solid waste rebate program for low-income seniors and low-income persons with disabilities using the same eligibility criteria contained in Municipal Code, Chapter 849, Water and Sewer Services and Utility Bill.

The City Council Decision document can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX3.2>

Expanding the Eligibility Criteria for Commercial Customers

At its meeting of April 9, 2015, the Public Works and Infrastructure Committee adopted MM 3.15 “Solid Waste Collection Services for Commercial Customers” and requested the General Manager, Solid Waste Management Services, to review the eligibility criteria for commercial properties and report back through the 2016 budget process on the impact of expanding the criteria that would allow larger commercial establishments to apply to receive City collection services.

The Public Works and Infrastructure Committee document can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.PW3.15>

COMMENTS

2016 Operating Budget

The 2016 Recommended Operating Budget gross expenditure of \$389.009 million is outlined in detail in the concurrent SWMS 2016 Operating Budget Notes. These expenditures are fully recovered by revenues as outlined in Table 1.

Table 1 – Operating Budget Summary

| | | |
|---|-------------------------|--------------------------|
| 2016 SWMS Gross Expenditures | | \$389.009 million |
| 2016 SWMS Revenues | | |
| Residential Volume Based Solid Waste Rate | \$263.789 million | |
| Internal Transfer for City of Toronto waste disposal fees | \$43.266 million | |
| Other revenues (sale of recyclable materials, industry stewardship funding, fees, paid commercial waste, and recoveries for waste collection from City agencies and programs) | <u>\$81.955 million</u> | |
| Total 2016 SWMS Revenues | | \$389.009 million |

This budget allows SWMS to maintain all major service levels currently provided and sustains the Division's ability to achieve its objectives pending the recommendations of the Waste Strategy. The 2016 Recommended Operating Budget Changes are outlined in Table 2.

Table 2 – 2016 Recommended Operating Budget Changes

| (In \$Millions) | 2015 Approved Budget | 2016 Budget Request | \$ Change | Change |
|--|----------------------------|---------------------------|-------------|-----------|
| General Operating Expenditures | 263.7 | 267.2 | 3.5 | 1% |
| Contribution to Capital | 67.9 | 78.6 | 10.7 | 16% |
| Internal Transfer to Green Lane Landfill | 39.1 | 43.3 | 4.1 | 11% |
| Total Expenditures | 370.8 | 389.0 | 18.2 | 5% |
| General Revenues | 331.7 | 345.7 | 14.1 | 4% |
| Internal Transfer to Green Lane Landfill | 39.1 | 43.3 | 4.2 | 11% |
| Total Revenues | 370.8 | 389.0 | 18.2 | 5% |

2016 Operating Budget Changes

The 2016 Operating Budget includes pressures resulting primarily from escalating contract costs due to contract price schedule increases and changes in the tonnages of waste to be collected and processed, and reduced Blue Box Recyclables Program Funding. These pressures were offset by two (2) per cent in efficiencies found in non-contracted operational expenditures.

2016 Capital Budget & Plan

The SWMS 2016-2025 Capital Budget and Plan Budget Notes provide details on SWMS's proposed 10-Year Capital Plan. SWMS has over \$600 million in assets and the maintenance of these assets, as well as the development of new infrastructure, is funded through the Capital Budget. The 2016 Recommended Capital Budget of \$96.512 million is comprised of a recommended \$89.167 million and a Carry Forward of \$7.345 million from 2015. The recommended budget includes projects in the Legislated (\$23.449 million), State of Good Repair (\$17.720 million), Service Improvement (\$55.193 million), and Growth Related (\$0.150 million) categories.

The 10-Year Capital Plan was updated to reflect potential outcomes of the Waste Strategy and an analysis of reserve contribution requirements was undertaken. Compared to the 2015-2024 10-Year Capital Plan, the 2016-2025 10-Year Capital Plan was increased by \$388.286 million to ensure funding is available for the future diversion and waste management programs or facilities required once approved by City Council. 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. Rate increases of a minimum three (3) per cent per year will be required to support the capital plan over the next ten years. In 2016, SWMS has included a \$20.775 million contribution to the Waste Management Reserve Fund.

This plan and associated rate modelling will be adjusted as part of the 2017 Budget Process, making the necessary changes to future rate estimates to reflect the approval of the Waste Strategy in 2016; making any resulting adjustments to annual diversion and tonnage estimates; and, considering the impact of continuing to decrease the application of recoverable debt.

2016 Solid Waste Rates and Fees

Development of a Sustainable Rate Model for SWMS Fees

In 2014, SWMS initiated the development of a Waste Strategy for the City, which will guide the Division's decision-making for the next 30 to 50 years. Current project timelines have recommended the draft Waste Strategy be presented to the Public Works and Infrastructure Committee and City Council in the second quarter of 2016. As part of the development of the Waste Strategy, the project team is developing a 10 to 20 year capital infrastructure plan and a sustainable rate model to finance future program and capital expenditures.

Before a revised rate model can be proposed, the first step is to review the current program costs and revenues. This work is underway and the Waste Strategy project team is currently working on an allocation exercise to determine SWMS operating costs by activity (collection, processing, disposal, other) based on various customer data assumptions and revenue generation to determine the net operating costs attributable to each customer by material type. Using the net operating cost, the new sustainable rate model resulting from the Waste Strategy will identify a new SWMS user fee rate model that needs to be charged in order to cover net operating expenditures. It will also include steps to further reduce and eliminate the Solid Waste Rebate, identify ongoing funding for capital infrastructure investments and future capital expenditures related to the Waste Strategy implementation.

Continued Harmonization of Agencies, Boards, Commissions, Divisions and School Boards Rate

As approved in the 2014 Solid Waste Rate Report, SWMS will continue the harmonization of rates and fees for Agencies, Boards, Commissions, Divisions (ABCDs) and School Boards in 2016. Beginning January 1, 2016 the rates will be increased by 75 per cent of the difference between the Commercial rates and the 2013 rates. The third phase of the rate harmonization is expected to generate \$1.218 million from Agencies, Boards, Commissions, Divisions and School Boards. The final phase (of four) will be implemented in 2017 at which time ABCDs will be paying full Commercial rates.

Solid Waste Rebate

As part of the 2015 Budget Process, City Council approved a reduction of the Solid Waste Rebate (Grant) for Single Family Residential customers in the amount of \$17.922 million as an initial step towards moving to a full user pay system. Multi-Residential customers were not considered for the initial phase of the Solid Waste Rebate reduction strategy because of potential impacts to both revenue loss and adherence to City waste diversion objectives that would result if Multi-Residential customers choose to opt out of City services. This continues to be the case for 2016. Changes to the Multi-Residential Solid Waste Rebate are being deferred to the completion of the revised solid waste rate model that is being developed as part of the Waste Strategy.

SWMS Fees are structured to encourage customers to increase diversion through programs such as Blue Bin recycling and Green Bin organics by introducing a financial incentive and placing the fee on the amount of garbage generated.

Waste Diversion Impacts following 2015 SWMS Fee and Solid Waste Rebate Changes

The 2015 SWMS Fees and the Solid Waste Rebates were approved in March 2015 and became effective April 1, 2015. An analysis of Garbage Bin distributions from January 2015 to October 2015 shows a 1.4 per cent shift in the City's curbside residential Garbage Bin size distribution from extra-large and large to medium and small.

Although the Single Family Residential customer group saw increases in the cost for waste collection services, there did not appear to be a significant shift in Garbage Bin size distribution or diversion. Recent waste audits confirmed that more materials can be diverted from the Garbage Bin to the Blue and Green Bins, regardless of the size of Garbage Bin with greater opportunities existing for diversion from customers with larger Garbage Bins. Combined, this information suggests that the present financial incentive may not be sufficient to change behavior to use a smaller Garbage Bin or that Single Family Residential customers are already using a Garbage Bin size that best meets their needs.

Residential diversion rates vary seasonally with materials such as yard waste and, as a result, it is premature to see trends with a partial year implementation. For the purpose of this report, the analysis and comparison of curbside collected waste included only the three major material streams – Garbage Bin, Blue Bin recycling, and Green Bin organics – to determine whether there was a correlation between diversion and the combined impact of the SWMS Fee increases and the Solid Waste Rebate changes.

There was a slight decrease in garbage and Green Bin organics tonnes collected based on the comparison of the first nine (9) months of 2014 compared to 2015. Garbage and Green Bin organics decreased by 3.5 and 7.1 per cent respectively. There was no significant change in tonnes of Blue Bin recycling collected. It is difficult at this time to establish a direct correlation between tonnage collected and the net cost of Garbage Bins including the three (3) per cent rate increase. The shift in customer choices in Garbage Bin size could be due to other factors such as changes in buying behaviours, which may have an effect on the type of packaging that needs to be disposed of or recycled and economic factors, which may have an effect on the amount of waste generated.

Review of Solid Waste Rebate Program for Low-Income Seniors and Persons with Disabilities

The introduction of a solid waste rebate program for low-income seniors and low-income persons with disabilities would be considered a service level enhancement. The SWMS Division currently offers programs which accommodate persons with disabilities and those receiving dialysis treatments.

The Side Door/Back Door Collection Program provides collection services for customers with disabilities from the side or back door, enabling ease of set out of waste material. The City currently services 689 customers under this program.

The Dialysis Program provides approved applicants an additional large Garbage Bin at no charge above their first Garbage Bin, in order to help alleviate additional garbage generated from home dialysis medical treatment. The City currently services 495 customers under this program. These programs offer convenience and cost savings to the customer.

To estimate potential impacts of a solid waste rebate for low-income seniors and low-income persons with disabilities, a review of Toronto Water's Rebate Program was undertaken. In 2015, Council approved a new Low-Income Seniors and Low-Income Persons with Disabilities Water Rebate Program (Chapter 849 of the Municipal Code, Sewer and Water Services). The same sections and provisions found under the Toronto Water Rebate Program could be modified to create a solid waste rebate program for low-income seniors and low-income persons with disabilities. Currently there are approximately 6,000 water utility accounts that receive the Water Rebate.

The Low-Income Seniors and Persons with Disabilities Water Rebate Program defines what a low-income senior or person with disability is, the eligibility criteria to receive a Water Rebate, the application process in order to be granted a rebate and how the credit to the utility bill or reimbursement will occur. One requirement in order to be eligible for this Program is that water consumption must not exceed 400 cubic metres per year.

An analysis was completed to estimate the financial benefit and related budget impact if a solid waste rebate program was offered to low-income seniors and persons with disabilities. It has been assumed that approximately 6,000 accounts would be eligible to receive the rebate, based on a similar number of accounts to the Toronto Water program.

Scenarios were developed to show the financial benefit of a rebate for eligible customers based on either 10 per cent, 20 per cent, or 30 per cent off the net cost of the small Garbage Bin, which is then applied to all Garbage Bin sizes based on the proposed 2016 Solid Waste Rate and 2015 Solid Waste Rebate.

At 2016 Solid Waste Rate and 2015 Rebate levels, Table 3 shows that there is currently little financial savings to the customer relative to the cost of administration for a solid waste rebate program for low-income seniors and low-income persons with disabilities.

An eligible customer would receive at most a \$5.33 reduction in annual solid waste net costs.

Table 3 – Solid Waste Rebate Program for Low-Income Seniors and Persons with Disabilities - with Proposed 2016 Solid Waste Rate and 2015 Solid Waste Rebate

| Garbage Bin Size | Estimated Number of Billable Bins | Proposed 2016 Solid Waste Rate | 2015 Solid Waste Rebate | Net Cost (Current Program) | Net cost for eligible low-income seniors and persons with disabilities by Bin Size | | |
|---------------------|-----------------------------------|--------------------------------|-------------------------|----------------------------|--|--|--|
| | | | | | \$1.78 rebate (10 per cent Reduction Net of Small) | \$3.55 rebate (20 per cent Reduction Net of Small) | \$5.33 rebate (30 per cent Reduction Net of Small) |
| Small | 1,560 | \$244.77 | \$227.01 | \$17.76 | \$15.98 | \$14.21 | \$12.43 |
| Medium | 2,460 | \$297.15 | \$199.76 | \$97.39 | \$95.61 | \$93.84 | \$92.06 |
| Large | 1,500 | \$403.56 | \$144.41 | \$259.15 | \$257.37 | \$255.60 | \$253.82 |
| Extra-large | 480 | \$468.08 | \$110.85 | \$357.23 | \$355.45 | \$353.68 | \$351.90 |
| Revenue Loss | 6,000 | | | | \$10,680.00 | \$21,300.00 | \$31,980.00 |

At present, there is insufficient benefit to the implementation of a new solid waste rebate program for low-income seniors and low-income persons with disabilities living in single family homes. However, should the existing Solid Waste Rebate be further eliminated in the future, SWMS staff would revisit the introduction of a rebate program to alleviate the financial burden of Solid Waste Fees on these customer groups.

Upon request, additional scenarios to the 10 per cent to 30 per cent reduction of the net cost of a small bin can be provided as part of Budget Committee's consideration of the 2016 Solid Waste Rate Budget.

Expansion of Commercial Eligibility Criteria

SWMS provides garbage, Blue Bin recycling and Green Bin organics collection services to eligible commercial establishments that apply to the Yellow Bag Program. Eligibility criteria requires that applicants have a foot print of less than 500 square meters or a residential space that is at least a third of the space and less than four stories. Eligible customers receive garbage collection for a fee and receive free collection of Blue Bin recycling and Green Bin organics materials, incentivizing establishments to reduce garbage and divert waste. The expansion of commercial eligibility criteria to include applicants with a foot print of greater than 500 square meters would result in an increase in service levels and would require an assessment of impacts to the integrated waste management system. Options for expanding the commercial customer sector are captured in the list of options under consideration in the Waste Strategy.

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SIGNATURES

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Solid Waste Management Services

Roberto Rossini
Deputy City Manager &
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Attachment

Appendix A – Recommended 2015 Solid Waste Rates