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**Subject:** 2021 Budget-Waste Management Services Operating Budget and Requisition

**Report to:** Budget Review Committee of the Whole

**Report date:** Thursday, November 26, 2020

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## **Recommendations**

1. That the 2021 Waste Management Services net operating budget increase of \$1,548,984 or 3.99% inclusive of mitigations and reserve funding **BE APPROVED**;
2. That the 2021 Waste Management Services gross operating budget of \$62,677,760 and net budget of \$40,370,586 as per Appendix 3 of Report CSD 66-2020, **BE APPROVED**;
3. That the net budget amount of \$40,370,586 **BE APPORTIONED** between the local municipalities in accordance with the methodology approved in PWA 55-2011 as per Appendix 1;
4. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
5. That a copy of this Report **BE CIRCULATED** to the Local Area Municipalities.

## **Key Facts**

- The proposed Waste Management Service (WMS) net budget represents a \$1.5 million increase, or 3.99% over 2020 as shown in Table 1.
- The proposed 2021 WMS operating base budget after proposed mitigations is above the budget planning strategy for 2021 of 2% before COVID-19 expenditures. Due to operating cost pressures of 15.3% primarily attributed to the first full year of the new collection contract, the budget does not include enhanced capital financing as per the budget planning strategy.
- In recognition that the budget planning strategy proposed 2021 increase be limited to 2%, the budget includes a Stabilization Reserve draw of \$3.4M which is able to reduce the budget increase to \$1.5 million or 3.99%.
- In 2020, staff forecasted a 9.8% increase each year for 2020 through to 2022 (increased to 9.9% in 2020 and 10.7% for 2021 and 2022 as a result of additional enhanced services as directed by Council). This strategy included significant use of

the Waste Management Stabilization reserve funding over this same period to mitigate the pressure associated with the new collection contract award.

- Assessment growth for the Region and Area Municipalities has not been finalized however estimated assessment growth by municipality is summarized in Appendix 1. The Region's year-to-date overall assessment growth (as of November 3, 2020) is 1.33% for 2020, resulting in the net requisition increase to be approximately 2.66% (3.99% less 1.33%) with an average typically residential annual impact of \$3.85.
- The net requisition amount has been allocated in accordance with the methodology approved in PWA 55-2011. The impacts by municipality in Appendix 2 are affected by the budget increase as well as growth in households and the enhanced services (as requested and selected by each LAM)

### **Financial Considerations**

The gross budget proposed for 2021 totals \$62.7 million with a net budget of \$40.4 million, which is a \$1.5 million or a 3.99% increase over 2020 as outlined in Table 1. The significant driver of the annual increase is the new collection contract for which 2021 is the first full year. The proposed 2021 budget does not include any increases as a result of program changes or new staffing initiatives. In an effort to meet Budget Planning Strategy, staffing levels for 2021 have decreased by one-temporary FTE and 7.2 student FTE positions from 2020 due to budget mitigation proposals described further on in this report.

A schedule providing the revenues and expenditures for 2020 and 2021 is included as Appendix 3. This appendix includes the 2020 budget and the 2021 budget including the percentage change for comparison.

**Table 1 – 2021 Waste Management Gross & Net Budget ('000)**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total Operating Expenditures	50,653	56,957	58,810	60,194
Business Support	1,624	1,586	1,604	1,656
Capital Transfer to Reserve & Debt Charges	4,948	4,136	4,190	4,190
<b>Gross Budget</b>	<b>57,225</b>	<b>62,678</b>	<b>64,604</b>	<b>66,040</b>
Less: Revenues	-16,800	-18,735	-19,303	-21,356
<b>Net Budget Requisition – Before Reserve Funding</b>	<b>40,425</b>	<b>43,942</b>	<b>45,301</b>	<b>44,684</b>
Safe Restart Funding:				
<i>COVID-19 Related Expenditures</i>	0	-126	0	0
WM Stabilization Reserve:				
<i>One-Time Items (2020)</i>	-1,194	0	0	0
<i>New Collection Contract Mitigation (2020-2022) / Replenishment Strategy (2023)</i>	-410	-3,446	-901	601
<b>Net Budget Requisition – After Reserve Funding</b>	<b>38,822</b>	<b>40,371</b>	<b>44,400</b>	<b>45,285</b>
<b>Percentage Change</b>		<b>3.99%</b>	<b>9.98%</b>	<b>1.99%</b>

## Analysis

The 2021 WMS budget represents an increase of 3.99% over the approved 2020 net operating budget. In Table 2, the increases/pressures for 2021 are \$5.9 million before recommended mitigation measures totaling \$4.3 million.

**Table 2 – Summary of Proposed Waste Management Budget with Pressures and Mitigations ('000)**

<b>Waste Management 2021 Budget Summary</b>	<b>Total \$</b>	<b>Total %</b>
2020 Net Requisition	38,822	
Gross Increase/Pressures	5,938	
<b>Operating Subtotal</b>	<b>44,760</b>	<b>15.3%</b>
Mitigations	(4,263)	
COVID-19	(126)	
Net Operating Increase	1,549	
<b>2021 Net Requisition</b>	<b>40,371</b>	<b>3.99%</b>

Increases/Pressures/Mitigation

The budget planning strategy of a 2% increase would provide for \$0.8 million additional funding for 2021 operating expenditures. Given the largely fixed cost nature of the operations (i.e., contract services, etc.) mitigation options focused on discretionary items that do not significantly impact the daily operations of the services.

Recommended mitigations reduce the increase as much as possible without introducing risk in the future years due to lack of available reserves. The proposed mitigations will decrease the net requisition increase from 15.3% or \$5.9 million as identified in Table 2.

Approximately 51% of the gross budget is related to the waste collection followed by 24% for waste diversion, 19% for disposal operations and processing, with the remaining 6% of the budget for administration, policy and planning. As much of the program is delivered through partnerships with private service providers, 85% of the operating-related costs (before capital financing and business support) are in the form of outsourced costs (alternative service delivery) and are subject to contract escalations and conditions. Of total expenses, only approximately 3% are considered discretionary.

The 2021 net budget pressures of \$5.9 million and are largely comprised of the following:

- New Collection Contract (\$6.6 million) – The new contract came into effect October 2020 with the first full year in 2021.
- Recyclable Purchases (\$0.6 million) – due to increase in recycling commodity prices on Haldimand and Waterloo contracts based on recent trend.
- Compost Processing (\$0.4 million) – additional tonnage estimate for compost material plus inflationary increase to per unit processing rate
- 2020 Reserve Funding (\$0.9 million) – one-time draws from stabilization reserve in 2020 to mitigate requisition increase.
- End Market Revenue (-\$0.4 million) – projected increase in 2021 material rates based on Q3 2020 actuals and projected trends.
- Debt Charges (-\$0.8 million) – outstanding debt obligation associated with a previously completed capital works project has been satisfied in 2020.
- Resource Productivity & Recovery Authority (-\$1.3 million) – Increase in funding as a result of the forecasted recovery percentage and historical financial results in 2019 for which the 2021 funding is based on.
- Bag Tag Revenue Fee Increase (-\$0.1 million) – anticipated increase in sales based on trending due with no increase in per unit price.

External Disposal Services (-\$0.2 million) – reduction in landfill disposals as a result of the move to every other week waste collection under the new collections contract. The mitigations to the 2021 budget are -\$4.3 million and are comprised of the following:

- New Collection Contract Reserve Funding (-\$3.4 million) – The 2020 budget proposed a three-year mitigation plan to assist in phasing in the increased costs of the new collection contract. The 2021 budget, recommends similar reserve funding from the WM stabilization reserve to reduce the annual increase.
- Student Positions Deferral & Salary Gapping (-\$0.3 million) – Students supplement staff resources to enable staff to focus on special projects. Also included is a newly implemented salary gapping strategy, which estimates the savings due to staff turnover at approximately 1% of the proposed personnel budget.
- Eliminate Free Containers Exchange Program (-\$0.1 million) – elimination of free exchanged bins will see additional revenue from bin sales for the Region.
- Defer Tip Fee Exemption for Charities (-\$0.2 million) until 2022– Charities currently receive an exemption from tip fees at Region facilities.
- Defer Mattress Recycling Program and Diversion of Construction and Demolition Wood Products until 2022 (-\$0.2 million) – programs that support diversion of these materials from landfills.

### Reserve Management

The operating budget includes a \$4.1 million transfer to reserves consistent with CSD 70-2017 - Waste Management Reserve Strategy, which included a strategy to fund waste management capital needs and landfill liability for closure and post-closure care. Waste Management reserve contributions are as follows:

- \$2.7 million to the Waste Capital Reserve – to fund open landfill site and MRF capital.
- \$1.5 million to the Landfill Liability Reserve – to fund the liability related to existing closed landfill site capital, and Humberstone and NR12 post-closure operating and capital, estimated at \$61.3 million in 2019. This will provide for operating revenues currently generated from operation of the landfills to address disposal costs in the future when the Region no longer has open landfills generating tipping fee revenue.
- No contributions to the Waste Stabilization Reserve – the Reserve strategy called for an end to stabilization reserve contributions of \$0.4 million in 2021 as it was anticipated that the Reserve would reach the desired target balance (before mitigation usage).

Report CSD 70-2017 - Waste Management Reserve Strategy showed the WMS capital reserve in a positive position over the proceeding 10-year capital forecast period. The reserve is projected to be at \$2.1 million by the end of 2020 (net of capital commitments pending for the Environmental Centre Expansion of \$7.9 million) and to decrease to \$0 by the end of 2022 which limits the capital program each year to pay-as-you-go until the reserve is replenished in the future.

As noted in Table 3, the existing post-closure landfill liability is \$61.3 million. The projected balance of the Landfill Liability reserve for the end of 2020 is estimated at \$10.6 million, which is not adequate to address the future liability. As such, the contribution to the reserve continues as outlined above so that the Region is in a suitable position for the future.

As previously identified in Table 1, funding from the WMS stabilization reserve totalling \$3.4 million is proposed to mitigate the impacts of the new collection contract. The reserve funding is part of a multi-year strategy, which was originally presented with the 2020 budget deliberations. As noted in Table 3, the proposed strategy to utilize the WM stabilization reserve will reduce the reserve to near zero by the end of 2022. This approach does have risk, as there will be no stabilization funding available in the future to mitigate one-time pressures or in-year deficits, therefore contributions to the stabilization reserve will be evaluated each year. In the absence of reserve balances to fund year-end deficits, increases to future budgets will be required. The current multi-year budget includes \$0.6 million to partially replenish the stabilization reserve in 2023

**Table 3 – WMS Forecasted Reserve Balances and Targets (\$M)**

<b>Reserve</b>	<b>Projected 2020 YE Balance</b>	<b>Projected 2021 YE Balance</b>	<b>Projected 2022 YE Balance</b>	<b>Projected 2023 YE Balance</b>	<b>Target Reserve Balance</b>
Waste Capital Reserve	\$2.1	\$2.3	\$0.0	\$0.0	<b>\$7.0</b>
Landfill Liability Reserve	\$10.6	\$9.6	\$8.4	\$8.8	<b>\$61.3</b>
Waste Stabilization Reserve	\$5.1	\$1.7	\$0.8	\$1.4	<b>\$5.7 to \$8.6</b>
<b>Total</b>	<b>\$17.8</b>	<b>\$13.5</b>	<b>\$9.1</b>	<b>\$10.1</b>	<b>\$74-77</b>

#### COVID-19 Impacts

Staff have identified \$0.1 million in COVID-19 related expenditures that will be offset from Safe Restart funding for 2021 waste management operations. These amounts primarily relate to enhanced cleaning and social distancing measures.

## **2021 Waste Management Requisition**

The net requisition amount will be allocated in accordance with the methodology approved in PWA 55-2011. As such, base WMS costs will be apportioned based on the 2019 percentage of residential units in each municipality, while the enhanced collection services and associated disposal costs will be apportioned to the requesting municipalities.

The year-over-year increase in requisition amount by municipality before assessment growth equates to an increase ranging from 3.57% to 5.23% with an average increase of 3.99%, as outlined in Appendix 1.

The net requisition changes by municipality after year-to-date assessment growth (as at November 3, 2020) of 1.33% ranges from 0.27% to 4.24%. This range is the result of the differences in household growth between local area municipalities as well as net assessment growth. The WM levy is collected as a special levy with the Region establishing the tax rates for each municipality (with the exception of NOTL). Note that these are average impacts and the actual impact will vary on each individual property based on year-over-year assessment change relative to the average assessment change attributed to growth.

Appendix 2 provides the impacts of the WMS requisition for 2021 in comparison to 2020 on a cost per typical residential unit basis by area municipality. The 3.99% increase on the budget will impact the average residential property between \$0.36 to \$6.88 annually depending on the municipality (average annual impact of \$3.85).

Waste Management staff are reviewing the allocation methodology utilized for the WMS requisition between area municipalities. The current methodology was reaffirmed by Council in 2011 and has not been reviewed since that time. As part of the review, staff will engage the local area municipalities and review relevant legislation. No change will be proposed for 2021.

### **Risks & Opportunities**

The proposed budget, like any budget, has a number of risks, as well as opportunities, which include:

- Recycling Commodity Prices –The market for commodities fluctuations. The 2021 commodity process are based on current market trends.

- Uncertainty around the Waste Free Ontario Act and the transition to extended producer responsibility and the impacts on the recycling facility.
- Other Price Risks – the collection contract with the private sector contains a number of contract adjustments related to fuel prices and CPI. If these factors exceed the forecast, that could have a material impact on the budget.
- Counterparty risk related to the waste collection contract for services that represents 49% of WMS's 2021 total gross operating costs.
- Reserve mitigation – utilize the Waste Management Stabilization Reserve to phase-in the pressure from the new collection contract that started in October 2020. This is projected to decrease reserve to a balance of \$0.8 million by the end of 2022. This may limit staff's ability to mitigate budget pressures as they arise (i.e. decreased end-market revenues) and could therefore result in increased pressure on future year budgets.
- Other mitigation measures – there are risks associated with all mitigations and details are included in supplementary business cases.

### **Alternatives Reviewed**

None.

### **Relationship to Council Strategic Priorities**

The 2021 WMS budget supports responsible growth and infrastructure planning and supports Council's objective of environmental sustainability and stewardship.

### **Other Pertinent Reports**

PWA 55-2011 – Waste Management Services Financing Study

CSD 70-2017 – Waste Management Reserve Strategy

WMPSC-C 33 – 2018 Waste Management Tipping Fees

PW 61-2019 – Base Level Service for Waste Management Collection Contract

PW 65-2019 – Confidential – Pricing of Successful Proponents and Review of Optional Services for WM Collection Contract



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**Appendices**

Appendix 1	Proposed 2021 Requisition by Municipalities
Appendix 2	2021 WM Requisition for Typical Residential Property by Municipality
Appendix 3	Waste Management – Schedule of Revenues and Expenditures

### Proposed 2021 Requisition by Municipality

Municipality	2020 Charges (\$000)	2021 Requisition (\$000)	Difference		Growth Impact %	
			Increase/ (Decrease) (\$000)	% Increase/ (Decrease)	Taxable Assessment Growth (%)*	Net Increase/ (Decrease) (%)
Fort Erie	\$ 2,954	\$ 3,067	\$ 114	3.85%	1.69%	2.15%
Grimsby	\$ 2,121	\$ 2,220	\$ 100	4.70%	0.46%	4.24%
Lincoln	\$ 1,770	\$ 1,845	\$ 75	4.21%	2.71%	1.50%
Niagara Falls	\$ 7,615	\$ 7,915	\$ 300	3.94%	1.22%	2.72%
Niagara-on-the-Lake*	\$ 1,682	\$ 1,750	\$ 68	4.02%	1.23%	2.78%
Pelham	\$ 1,343	\$ 1,400	\$ 58	4.30%	2.91%	1.38%
Port Colborne	\$ 1,946	\$ 2,032	\$ 85	4.39%	1.70%	2.69%
St. Catharines	\$ 11,816	\$ 12,254	\$ 437	3.70%	0.41%	3.30%
Thorold	\$ 1,642	\$ 1,728	\$ 85	5.19%	4.91%	0.27%
Wainfleet	\$ 601	\$ 622	\$ 22	3.60%	1.28%	2.32%
Welland	\$ 4,355	\$ 4,511	\$ 155	3.57%	1.49%	2.08%
West Lincoln	\$ 975	\$ 1,026	\$ 51	5.23%	1.18%	4.04%
<b>Total</b>	<b>\$ 38,822</b>	<b>\$ 40,371</b>	<b>\$ 1,549</b>	<b>3.99%</b>	<b>1.33%</b>	<b>2.66%</b>

\* NOTL assessment growth value on increase in residential units NOT CVA (as per NOTL requisition methodology).

\* Total taxable assessment growth percentage of 1.33% represents Niagara actual growth for 2020 as of November 3, 2020

### Change in Residential Units - 2021 Budget over 2020 Budget

Municipality	Residential Units 2020 Budget	Residential Units 2021 Budget	Difference	
			Increase/ (Decrease)	% Increase/ (Decrease)
Fort Erie	15,697	15,792	95	0.61%
Grimsby	11,175	11,297	122	1.09%
Lincoln	9,305	9,363	58	0.62%
Niagara Falls	38,306	38,496	190	0.50%
Niagara-on-the-Lake	8,605	8,711	106	1.23%
Pelham	7,064	7,097	33	0.47%
Port Colborne	10,304	10,313	9	0.09%
St. Catharines	59,879	60,012	133	0.22%
Thorold	8,510	8,608	98	1.15%
Wainfleet	3,220	3,231	11	0.34%
Welland	23,293	23,415	122	0.52%
West Lincoln	5,399	5,462	63	1.17%
<b>Total</b>	<b>200,757</b>	<b>201,797</b>	<b>1,040</b>	<b>0.52%</b>

**2021 WM Requisition For Typical Residential Property by Municipality**

Municipality	2020 Final		2021 Draft <sup>3</sup>			Annual		Monthly
	CVA <sup>1</sup>	WM taxes	CVA <sup>1</sup>	WM Tax Rate	WM taxes	\$	%	\$
Fort Erie	216,145	\$ 152.17	216,145	0.00071891	\$ 155.39	\$ 3.22	2.12%	\$ 0.27
Grimsby	400,088	\$ 163.11	400,088	0.00042489	\$ 169.99	\$ 6.88	4.22%	\$ 0.57
Lincoln	364,773	\$ 159.96	364,773	0.00044494	\$ 162.30	\$ 2.34	1.46%	\$ 0.19
Niagara Falls	262,988	\$ 139.79	262,988	0.00054585	\$ 143.55	\$ 3.76	2.69%	\$ 0.31
Niagara-on-the-Lake <sup>2</sup>								
Pelham	364,292	\$ 172.61	364,292	0.00048019	\$ 174.93	\$ 2.32	1.35%	\$ 0.19
Port Colborne	207,501	\$ 185.74	207,501	0.00091878	\$ 190.65	\$ 4.91	2.64%	\$ 0.41
St. Catharines	259,643	\$ 172.94	259,643	0.00068792	\$ 178.61	\$ 5.68	3.28%	\$ 0.47
Thorold	228,358	\$ 138.12	228,358	0.00060641	\$ 138.48	\$ 0.36	0.26%	\$ 0.03
Wainfleet	273,324	\$ 159.72	273,324	0.00059775	\$ 163.38	\$ 3.66	2.29%	\$ 0.30
Welland	214,079	\$ 165.85	214,079	0.00079062	\$ 169.26	\$ 3.40	2.05%	\$ 0.28
West Lincoln	323,030	\$ 145.97	323,030	0.00046995	\$ 151.81	\$ 5.83	4.00%	\$ 0.49

<sup>1</sup> 2020 and 2021 average CVA based on average value from 2020 tax policy study. No change from 2020 to 2021 as a result of Provincial one year delay of new assessment cycle.

<sup>2</sup> NOTL charge to residents based on fixed household amount.

<sup>3</sup> 2021 draft WM rates based on 2020 tax policy, 2021 draft requisition amounts and 2021 estimated returned roll assessment values.

Object of Expenditure	2020 WMS Budget Total (\$)	2021 WMS Budget Total (\$)	Total Variance (\$)	Combined Variance (%)	Note
A_40000AB Compensation	3,923,106	3,574,470	(348,636)	(8.9%)	(1)
A_41000AB Administrative	1,296,112	746,504	(549,608)	(42.4%)	
A_44000AB Operational & Supply	42,447,824	49,749,724	7,301,900	17.2%	(2)
A_50000AB Occupancy & Infrastructure	1,453,183	1,620,477	167,294	11.5%	
A_52000AB Equipment, Vehicles, Technology	1,214,097	1,150,164	(63,933)	(5.3%)	
A_56000AB Partnership, Rebate, Exemption	188,906	0	(188,906)	(100.0%)	(3)
A_75100AC Transfers To Funds	4,135,500	4,135,500	0	0.0%	
A_60000AC Allocation Between Departments	129,808	115,321	(14,487)	(11.2%)	
<b>Gross Expenditure Subtotal</b>	<b>54,788,537</b>	<b>61,092,161</b>	<b>6,303,624</b>	<b>11.5%</b>	
A_30000AB Taxation	(38,821,603)	(40,370,585)	(1,548,982)	4.0%	
A_32400AB By-Law Charges & Sales	(11,609,056)	(12,269,077)	(660,021)	5.7%	(4)
A_34950AB Other Revenue	(5,190,883)	(6,466,388)	(1,275,505)	24.6%	(5)
A_75000AC Transfers From Funds	(1,603,653)	(3,571,710)	(1,968,057)	122.7%	(6)
<b>Gross Revenue Subtotal</b>	<b>(57,225,194)</b>	<b>(62,677,760)</b>	<b>(5,452,564)</b>	<b>9.5%</b>	
<b>Net Expenditure (revenue) before indirect allocations</b>	<b>(2,436,657)</b>	<b>(1,585,599)</b>	<b>851,058</b>	<b>(34.9%)</b>	
A_70000AC Indirect Allocation	1,498,760	1,507,622	8,862	0.6%	
A_70200AC Capital Financing Allocation	937,897	77,977	(859,920)	(91.7%)	(7)
<b>Allocation Subtotal</b>	<b>2,436,657</b>	<b>1,585,599</b>	<b>(851,058)</b>	<b>(34.9%)</b>	
<b>Net Expenditure (revenue) after indirect allocations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	

Notes:

- (1) includes mitigations of student position deferral and salary gapping of \$(0.3M).  
(2) Includes pressures related to the new collection contract first full year of \$6.6M, recycling purchases of \$0.6M, compost processing of \$0.4M less the savings associated with external disposal services of \$(0.2M).  
(3) Includes proposed mitigation impacts associated with eliminating tip fee exemption for charities of \$(0.2M).  
(4) Includes increased revenue associated with the elimination of free container exchange of \$(0.1M), bag tag sales volume increase of \$(0.1M) and end market recycling revenue of \$(0.4M).  
(5) Includes increase in revenue from the resource productivity and recovery authority of \$(1.3M).  
(6) Includes proposed stabilization reserve mitigation measure of \$(3.4M) for 2021 less one-time stabilization reserve draw in 2020 of \$0.9M.  
(7) Includes decrease as a result of satisfying outstanding debt obligation of \$(0.8M).