
Subject: 2019 Budget-Waste Management Services Operating Budget and Requisition

Report to: Budget Review Committee of the Wholes

Report date: Thursday, January 24, 2019

Recommendations

1. That the 2019 net Waste Management Service operating budget increase of \$519,035 or 1.5% over 2018 operating budget **BE APPROVED** in accordance with Council approved guidance;
2. That the 2019 net Waste Management Service operating budget increase of an additional \$173,012 or 0.5% over 2018 operating budget **BE APPROVED** in accordance with Council approved additional guidance;
3. That the total 2019 net Waste Management operating budget increase of an additional \$33,929 or 0.1% above Council guidance for a total gross Waste Management Services operating budget of \$54,927,292 and net budget amount of \$35,328,313 as per Appendix 1 to Report CSD 7-2019, **BE APPROVED**;
4. That the net budget amount of \$35,328,313 **BE APPORTIONED** between the local municipalities in accordance with the methodology approved in PWA 55-2011 as per Appendix 2 to Report CSD 7-2019;
5. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
6. That a copy of Report CSD 7-2019 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The proposed net 2019 Waste Management Services (WMS) operating budget was prepared with consideration of Council's budget guidance for 2019, however represents an increase of \$726 thousand or 2.10% over the approved 2018 net budget. The 5 year average year-over-year requisition change (including 2019) represents an average annual change of 0.0%.
- The 2016, 2017 and 2018 WMS operating budgets provided net year-over-year decreases of \$277 thousand, \$410 thousand and \$289 thousand, respectively.
- Assessment growth in aggregate for the Region is 1.65% for 2018, resulting in the net requisition changes by local area municipality as summarized in **Appendix II**

ranging from a decrease of 1.24% to an increase of 1.94% (total net requisition after growth of 0.45%).

- The proposed net 2019 budget reflects a continued investment in the sustainability of infrastructure, continuation of diversion efforts in the Corporate and Area Municipal sectors (e.g. service level review, MRF opportunity review and Public Space Recycling), and doing business differently by continued monitoring of alternative waste processing technologies and transition of Blue Box program to full producer responsibility under the Resource Recovery and Circular Economy Act.
- The net requisition amount has been allocated in accordance with the methodology approved in PWA 55-2011. The impact by local area municipality is affected by the budget increase as well as growth in households and results in an increase/decrease for each municipality, as per **Appendix III**

Financial Considerations

Year over Year Budget Change

The gross budget proposed for 2019 totals \$54.9 million with a net budget of \$35.3 million, which is \$726 thousand or a 2.10% increase over 2018 as outlined in Table 1. The proposed 2019 program maintains the current level of staff resources, with a permanent FTE complement of 32.0 and 2.2 temporary FTEs. As a result of the ongoing collection contract service challenges, an additional 2 temporary FTEs were hired in 2018 and are funded through the liquidated damages issued to the contractor for breaches of contractual performance standards.

Table 1 – 2019 Waste Management Gross & Net Budget ('000)

	2018	2019	% Change
Total Operating	47,435	48,428	2.09%
Business Support	1,664	1,547	-7.04%
Capital Transfer to Reserve & Debt Charges	4,955	4,952	-0.06%
Gross Budget	54,054	54,927	1.61%
Less: Revenues	(19,452)	(19,019)	-2.23%
Less: Reserve Transfers	-	(580)	-
Net Budget Requisition	34,602	35,328	2.10%

A schedule providing the revenues and expenditures by object of expenditure for 2018 and 2019 is included as **Appendix I**. This appendix includes the 2018 budget and the 2019 budget including program changes and the percentage change for comparison. If it is Council direction to limit the budget increase to 2% in accordance with the guidance policy or to 1.5% increase in accordance with the previous Council direction, reductions as identified in the Alternatives Reviewed section would need to be considered.

Analysis

2019 Waste Management Budget

Overview

The 2019 WMS budget represents an increase of 2.10% over the approved 2018 net budget. The proposed net budget year-over-year increase is \$34,000 above the overall guidance of 2%. Trends over the last few years, as summarized in Table 2, show that historically the WMS net operating budget increase/decrease has been at or below previously established Council approved budget guidance. The 5 year average year-over-year requisition change (including 2019) represents an average annual change of 0.0%.

Table 2 – Historical WMS Net Budget Increases / (Decreases) Summary (\$000)

<u>Year</u>	<u>Net Budget Requisition (\$)</u>	<u>\$ Change</u>	<u>% Change</u>
2015	35,579	233	0.66%
2016	35,301	(278)	-0.78%
2017	34,891	(410)	-1.16%
2018	34,602	(289)	-0.83%
2019 (Proposed)	35,328	726	2.10%

Approximately 38% of the gross budget is related to the waste collection and disposal program areas, followed by 18% for organics collection and processing, 35% for recycling collection and processing, with the remaining 9% of the budget for a range of other diversion programs, planning, and administration. As much of the program is delivered through partnerships with private service providers, 79% of the operating-related costs (before capital financing and cost allocation) are in the form of outsourced costs (alternative service delivery) and are subject to contract escalations and conditions.

Pressures

Pressures to the 2019 budget include: Collection contract escalation as a result of adjustments for the number of households, CPI, and fuel costs (\$746 thousand), and decreased Resource Productivity & Recovery Authority (RPRA) blue box funding for 2019 (\$230 thousand).

Also contributing to the budget pressure for 2019 is an overall forecasted decrease in end market recycling revenue of approximately \$641 thousand based on current market conditions. The Chinese government has adopted strict contamination standards that are difficult to meet, creating domestic market surplus and a lack of demand and therefore lower market pricing for newsprint. Niagara Region continues to generate

revenue for its newsprint, whereas according to recent Continuous Improvement Fund (CIF) pricing sheets, five Ontario Material Recycling Facility (MRFs) are reporting that they are paying to move mixed paper rather than generating revenue.

WMS has budgeted for an increase in recycling centre operation costs related to labour of \$388 thousand in order to reduce contamination and improve the quality of the end market product, including additional overtime costs and sorting labour, as well as an increase resulting from collective agreement negotiations of \$147 thousand. Niagara Region also has contracts to transport and process recyclable material from the Region of Waterloo and Haldimand County. With the current market conditions, Niagara's budgeted expenses for these purchases, including freight costs, have decreased by approximately \$502 thousand, however a projected net profit of \$274 thousand is forecasted.

Staff has forecasted an offsetting increase in other revenue for 2019 when compared to 2018 of approximately \$450 thousand. This increase is primarily as a result of increases in landfill tipping fee revenues (\$227 thousand) and garbage bag tag revenues (\$90 thousand).

Despite projected cost savings (notably in consulting services, promotion and education, and utility costs) staff are recommending a draw from the Waste Management Stabilization Reserve Fund to mitigate the budget pressures generated from a lump-sum collection contractual payment of \$350 thousand in 2019 (as per report PW 35-2016) for expenditures related to capital maintenance for the fleet, and the forecasted decrease in RPRA funding for 2019 of \$230 thousand. RPRA funding methodology relies on previous net operating expenditures from waste diversion activities to determine current year funding. For the purposes of RPRA, 2019 funding will be based on 2017 net waste diversion program expenditures. Accordingly, staff are projecting a one-time decrease in 2019 funding as a result of higher than usual end market recycled material commodity pricing in 2017. Staff are projecting that annual RPRA funding will normalize in 2020 based on current projections for 2018.

As summarized in Table 3, the operating budget includes a \$4.1 million transfer to reserve funds consistent with CSD 70-2017 - Waste Management Reserve Strategy, which proposes a strategy to fund waste management capital needs, landfill liability for closure and post-closure care and operating budget risks. It proposes that the \$4.1 million base budget be reallocated into the three separate waste management reserves as follows:

- \$1.6 million to the Waste Capital Reserve (Projected 2018 y/e balance of \$14.8 million) – to fund open landfill site and MRF capital.
- \$2.3 million to the Landfill Liability Reserve (Projected 2018 y/e balance of \$7.7 million) – to fund the landfill liability related to existing closed landfill site capital, and Humberstone and NR12 post-closure operating and capital, estimated at \$79.2 million in 2017. This will provide for base operating budgets currently used

for operation of the landfills to address disposal costs in the future when the Region no longer has open landfills for this purpose and generating tipping fee revenue.

- \$247 thousand to the Waste Stabilization Reserve (Projected 2018 y/e balance of \$6.4 million) – to fund operating budget fluctuations, one-time items, contingencies, and risks such as those associated with pending regulations that may affect the recycling facility and operations.

Table 3 – WMS Forecasted Reserve Balances, Contributions and Targets

Reserve	Projected 2018 Year-End Balance	Reserve Transfers from Operating – 2019	Target Reserve Balance
Waste Capital Reserve	\$15.1 million	\$1.6 million	\$19.4 million
Landfill Liability Reserve	\$7.7 million	\$2.29 million	\$79.2 million
Waste Stabilization Reserve	\$6.4 million	\$248 thousand	\$5.5 to \$8.2 million
Total	\$28.9 million	\$4.14 million	\$104 to \$106.8 million

2019 Waste Management Requisition

The net requisition amount will be allocated in accordance with the methodology approved in PWA 55-2011. As such, base waste management costs will be apportioned based on the 2017 percentage of residential units in each municipality, while the enhanced collection services and associated disposal costs will be apportioned directly to the requesting municipalities.

The year-over-year increase in requisition amount by local area municipality before assessment growth equates to a range from an increase of 1.21% to 4.41% with an average increase of 2.10%, as outlined in **Appendix II**.

The net requisition changes by local area municipality after growth ranges from a decrease of 1.24% to an increase of 1.94%. This range is the result of the differences in household growth between local area municipalities. 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.

Appendix III provides the impacts of the WMS requisition for 2019 in comparison to 2018 on a cost per typical residential unit basis by area municipality.

Risks & Opportunities

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

- Recycling Commodity Price Risk –The market for commodities does have significant risk based on market fluctuations. Staff have projected a decrease in commodity revenues for 2019 but there is a further risk that the commodity prices could decrease more than what has been projected.
- 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.
- Risk associated with the uncertainty around the Waste Free Ontario Act and the transition to extended producer responsibility and the impacts on the recycling facility.
- Counterparty risk related to the waste collection contract for services that represents 39% of Waste Management's operating costs.
- Current collection contract provider issues may result in increased costs in 2019. The current waste management curbside collections contract is set to expire in March 2021. Once tendered, the new collections contract may result in an increase in annual collection contract costs.
- The Niagara Region continues to explore opportunities for procurement of recyclable material processing for other municipalities.

Alternatives Reviewed

1. To limit the 2019 net Waste Management Service operating budget increase to \$519,035 or 1.5% over 2018 operating budget in accordance with Council approved guidance the following items totalling \$211,540 or 0.6% would have to be eliminated. This alternative is **NOT RECOMMENDED** due to the service impact on the following areas:
 - a. **Extending Humberstone landfill site hours of operation (\$49,700).**
This proposal is to extend the operating hours of the site by one hour daily as per the request from the collections contract provider. Staff are recommending the program change as the service provider has indicated that this will assist in improving service to residents.
 - b. **Mattress Recycling Program (\$84,000).** Mattresses are an issue operationally and do not compact well, resulting in lost air space and capacity in the landfill. By delaying the re-introduction of this program, it may result in higher costs and the loss of a landfill capacity mitigation opportunity.
 - c. **Reduction of Construction and Demolition Wood Grinding Service for 2019 (\$51,000).**

This material does not compact well without grinding and the wood chips are used in the landfills for operations. Although there is enough material on hand at the landfills for 1 year of operations, reducing this service for 2019 will increase the waste tonnage and result in lost air space and capacity in the landfills.

d. **Reduction in Promotion and Education Resources (\$26,840).**

WMS provides a variety of promotion and education resources and campaigns for residents for the diversion of waste from landfills. Failure to fully implement these waste reduction campaigns and communication plans will impact the Niagara Region's diversion rates and associated recycling revenues and funding, and more material will end up in landfills, resulting in reduced capacity.

2. To limit the 2019 net Waste Management Service operating budget increase to \$519,035 or 1.5% plus an additional \$173,012 or 0.5% over 2018 operating budget in accordance with Council approved additional guidance the following item totalling \$33,929 or 0.1% would have to be eliminated. This alternative is **NOT RECOMMENDED** due to the service impact on the following area:

- a. **6 Month Delay in Mattress Recycling Program (\$33,929).** Mattresses are an issue operationally and do not compact well, resulting in lost air space and capacity in the landfill. By delaying this program, it may result in higher costs and the lost of a landfill capacity mitigation opportunity.

Relationship to Council Strategic Priorities

The 2019 Waste Management budget supports an environment to enable economic prosperity. The proposed budget supports Council's strategic priorities of doing business differently and organizational excellence through outsourcing of operations and increasing accessibility and service in key areas, including increasing revenues through renegotiation of third party recycling processing contracts.

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

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Appendices

Appendix I	Waste Management – Schedule of Revenues and Expenditures
Appendix II	Proposed 2019 Requisition by Municipality
Appendix III	2019 WM Requisition for Typical Residential Property by Municipality

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	2017 Actual	2018		2019						
	Total	Q3 Forecast Total	Budget Total	Base Services	Base Variance	Base Variance %	Budget Total Program Changes	Total	Total Variance	Total Variance %
A_40000AB Compensation	3,273,657	3,358,724	3,575,409	3,678,050	102,641	2.9%	8,100	3,686,150	110,741	3.1%
A_41000AB Administrative	569,145	1,442,120	1,211,155	1,037,950	(173,205)	(14.3%)	40,000	1,077,950	(133,205)	(11.0%)
A_44000AB Operational & Supply	39,082,364	37,863,405	39,759,868	40,806,872	1,047,004	2.6%	41,600	40,848,472	1,088,604	2.7%
A_50000AB Occupancy & Infrastructure	1,341,764	1,435,149	1,492,330	1,438,380	(53,950)	(3.6%)	-	1,438,380	(53,950)	(3.6%)
A_52000AB Equipment, Vehicles, Technology	986,067	1,206,181	1,087,577	1,053,036	(34,541)	(3.2%)	-	1,053,036	(34,541)	(3.2%)
A_56000AB Partnership, Rebate, Exemption	139,608	165,847	173,309	195,700	22,391	12.9%	-	195,700	22,391	12.9%
A_58000AB Financial Expenditures	41,745	(4,891)	-	-	-	-	-	-	-	-
A_75100AC Transfers To Funds	4,526,631	4,135,500	4,135,500	4,135,500	-	-	-	4,135,500	-	-
A_60000AC Allocation Between Departments	163,084	138,475	135,539	128,626	(6,913)	(5.1%)	-	128,626	(6,913)	(5.1%)
Gross Expenditure Subtotal	50,124,066	49,740,509	51,570,686	52,474,112	903,427	1.8%	89,700	52,563,812	993,127	1.9%
A_30000AB Taxation	(34,892,419)	(34,602,337)	(34,602,336)	(35,203,719)	(601,382)	1.7%	(124,594)	(35,328,312)	(725,976)	2.1%
A_32400AB By-Law Charges & Sales	(18,358,285)	(13,434,693)	(14,837,455)	(14,588,064)	249,391	(1.7%)	-	(14,588,064)	249,391	(1.7%)
A_34950AB Other Revenue	(4,676,136)	(4,913,565)	(4,614,571)	(4,430,915)	183,656	(4.0%)	-	(4,430,915)	183,656	(4.0%)
A_75000AC Transfers From Funds	(204,037)	(521,831)	-	(580,000)	(580,000)	-	-	(580,000)	(580,000)	-
Gross Revenue Subtotal	(58,130,876)	(53,472,426)	(54,054,362)	(54,802,697)	(748,335)	1.4%	(124,594)	(54,927,291)	(872,929)	1.6%
Net Expenditure (revenue) before indirect allocations	(8,006,811)	(3,731,917)	(2,483,676)	(2,328,585)	155,092	(6.2%)	(34,894)	(2,363,478)	120,198	(4.8%)
A_70000AC Indirect Allocation	1,417,334	1,466,831	1,553,752	1,457,141	(96,611)	(6.2%)	34,894	1,492,035	(61,717)	(4.0%)
A_70200AC Capital Financing Allocation	907,047	926,414	929,924	871,443	(58,481)	(6.3%)	-	871,443	(58,481)	(6.3%)
Allocation Subtotal	2,324,381	2,393,245	2,483,676	2,328,585	(155,091)	(6.2%)	34,894	2,363,478	(120,198)	(4.8%)
Net Expenditure (revenue) after indirect allocations	(5,682,430)	(1,338,672)	0	-	0	-	-	-	0	-

FTE - Reg	32.0	32.0	-	-	32.0	-
FTE - Temp	2.2	2.2	-	-	2.2	-

Appendix II - Proposed 2019 Requisition by Municipality

Municipality	2018 Charges (\$000)	2019 Requisition (\$000)	Difference		Growth Impact \$		Growth Impact %	
			Increase/ (Decrease) (\$000)	% Increase/ (Decrease)	Taxable Assessment Growth (\$000)	Net Increase/ (Decrease) (\$000)	Taxable Assessment Growth (%)	Net Increase/ (Decrease) (%)
Fort Erie	\$ 2,627	\$ 2,677	\$ 49	1.87%	\$ 60	\$ (11)	2.30%	-0.42%
Grimsby	\$ 1,811	\$ 1,850	\$ 39	2.15%	\$ 57	\$ (18)	3.14%	-0.99%
Lincoln	\$ 1,575	\$ 1,602	\$ 28	1.76%	\$ 21	\$ 7	1.33%	0.43%
Niagara Falls	\$ 6,746	\$ 6,930	\$ 185	2.74%	\$ 125	\$ 60	1.85%	0.88%
Niagara-on-the-Lake*	\$ 1,480	\$ 1,545	\$ 65	4.41%	\$ 37	\$ 29	2.48%	1.94%
Pelham	\$ 1,171	\$ 1,205	\$ 34	2.92%	\$ 25	\$ 9	2.11%	0.81%
Port Colborne	\$ 1,748	\$ 1,771	\$ 23	1.30%	\$ 13	\$ 10	0.75%	0.55%
St. Catharines	\$ 10,714	\$ 10,873	\$ 160	1.49%	\$ 36	\$ 123	0.34%	1.15%
Thorold	\$ 1,432	\$ 1,476	\$ 44	3.05%	\$ 61	\$ (18)	4.29%	-1.24%
Wainfleet	\$ 541	\$ 547	\$ 7	1.21%	\$ 8	\$ (2)	1.49%	-0.28%
Welland	\$ 3,898	\$ 3,964	\$ 66	1.68%	\$ 71	\$ (5)	1.81%	-0.13%
West Lincoln	\$ 861	\$ 888	\$ 28	3.22%	\$ 24	\$ 4	2.74%	0.48%
Total	\$ 34,602	\$ 35,328	\$ 726	2.10%	\$ 538	\$ 188	1.65%	0.45%

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

* Total taxable assessment growth percentage of 1.65% represents Niagara growth overall.

Appendix III - 2019 WM Requisition For Typical Residential Property by Municipality

Municipality	2018 Final		2019 Draft ¹		Annual Increase/(Decrease)		Monthly
	CVA ³	WM taxes	CVA ⁴	WM taxes	\$	%	\$
Fort Erie	205,289	\$ 139.50	210,015	\$ 138.97	\$ (0.53)	-0.38%	\$ (0.04)
Grimsby	361,650	\$ 147.98	382,289	\$ 146.09	\$ (1.88)	-1.27%	\$ (0.16)
Lincoln	338,742	\$ 149.92	354,651	\$ 150.61	\$ 0.69	0.46%	\$ 0.06
Niagara Falls	237,360	\$ 124.62	246,816	\$ 125.52	\$ 0.89	0.72%	\$ 0.07
Niagara-on-the-Lake ²							
Pelham	338,763	\$ 156.01	348,986	\$ 157.03	\$ 1.02	0.66%	\$ 0.09
Port Colborne	194,197	\$ 167.24	199,310	\$ 167.73	\$ 0.49	0.29%	\$ 0.04
St. Catharines	244,559	\$ 158.94	252,106	\$ 159.90	\$ 0.96	0.60%	\$ 0.08
Thorold	225,497	\$ 135.02	231,911	\$ 133.21	\$ (1.81)	-1.34%	\$ (0.15)
Wainfleet	246,135	\$ 145.09	255,870	\$ 143.97	\$ (1.11)	-0.77%	\$ (0.09)
Welland	203,129	\$ 157.47	208,841	\$ 157.09	\$ (0.39)	-0.24%	\$ (0.03)
West Lincoln	286,806	\$ 132.80	300,968	\$ 133.22	\$ 0.42	0.32%	\$ 0.04

¹ 2019 draft WM rates based on 2018 tax policy and 2019 draft requisition amounts.

² NOTL charge to residents based on fixed household amount.

³ Average Residential CVA from 2018 tax policy study.

⁴ 2018 CVA adjusted by the 2019 average MPAC phased-in assessment increase for the municipality.