
Subject: 2020 Budget-Waste Management Services Operating Budget and Requisition

Report to: Budget Review Committee of the Whole

Report date: Thursday, November 28, 2019

Recommendations

1. That the net 2020 Waste Management Services operating base budget increase of \$75,657 or 0.2% plus \$1,782,969 or 5.1% for the new curbside collection contract net of stabilization reserve funding **BE APPROVED**;
2. That an additional net increase of \$1,603,551 or 4.5% for the negative revenue pressures related to end market recyclables **BE APPROVED**;
3. That the total 2020 gross Waste Management Services operating budget of ~~\$57,279,626~~ **\$57,194,079** and net budget amount of \$38,790,490 as per Appendix 1, **BE APPROVED**;
4. That the net budget amount of \$38,790,490 **BE APPORTIONED** between the local municipalities in accordance with the methodology approved in PWA 55-2011 as per Appendix 2;
5. That the necessary by-laws **BE PREPARED** and **PRESENTED** to Council for consideration; and
6. That a copy of this Report **BE CIRCULATED** to the Local Area Municipalities (LAM) for information.

Key Facts

- The proposed net 2020 Waste Management Services (WMS) operating base budget before the new collection contract and negative revenue pressure is below Council's budget planning direction for 2020 of 2%.
- The net budget including the impacts of the start of the new collection contract and negative revenue pressures is proposed at an increase of \$3,462,177 or 9.8% over the approved 2019 net budget.
- Staff are recommending a 9.8% increase each year for the next three years, which includes significant use of the Waste Management Stabilization reserve funding over this same time period to mitigate the pressure associated with the new collection contract award; however, future years are subject to the availability of future year reserves and approval of Council.

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- The draft budget does not include any of the Optional Collection Services as presented in PW 65-2019, with the exception of the delivery of roll-offs for special events recycling, or Diversion Container Distribution Options, as they are not recommended by staff.
 - The five-year average year-over-year net budget requisition change (2016 to 2020) represents an average annual change of 1.83%.
 - Assessment growth in aggregate for the Niagara Region is projected to be 1.42% for 2019, resulting in the net requisition changes by local area municipality as summarized in **Appendix 2** ranging from an estimated increase of ~~5.69% to 14.52%~~ **5.92% to 12.85%** (total net requisition after growth estimate equals 8.38%).
 - The net requisition amount has been allocated in accordance with the methodology approved in PWA 55-2011. The impacts by local area municipality is affected by the budget increase as well as growth in households and the enhanced services (as requested and selected by each LAM), and results in an increase/decrease for each municipality, as per **Appendix 3**.
 - **The municipal requisitions have been adjusted to reflect some further amendments to negotiated prices for enhanced municipal services with the offset being a benefit to the amount used from the reserve to mitigate the overall budget increase.**

Financial Considerations

Year over Year Budget Change

The gross budget proposed for 2020 totals ~~\$57.3 million~~ **\$57.2 million** with a net budget of \$38.8 million, which is \$3.5 million or a 9.8% increase over 2019 as outlined in Table 1.

As shown below, net base expenditures have increased by 0.2% over 2019 excluding the impacts of the new collection contract and negative end-market revenue pressures.

There are two main drivers of the additional annual increase, which includes decreased net end market recycling revenue of approximately 4.5% or \$1.6 million over the 2019 budget, and increased net collection contract costs of 5.1% or \$1.8 million associated with the new collection contract anticipated to start in October 2020, after stabilization reserve funding to partially mitigate the increases.

The proposed 2020 program increases the permanent staff resources from 32.0 FTEs to 34.0 FTEs through a business case that has been prepared to recommend that two temporary FTEs (Collection & Diversion Advisors) be made permanent starting 2020 to continue providing on-road collection contract support. The net impact of this change is \$0. The 2020 budget also proposes an increase in temporary staffing (1 FTE) and student interns (1.8 FTEs) for a one-year period to support service level changes anticipated under the new collection contract (discussed in detail under the Analysis

section). The temporary staffing is to be funded from the stabilization reserve as a one-time expenditure.

Table 1 – 2020 Waste Management Gross & Net Budget ('000)

-	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Total Operating Expenditures	48,431	50,707	59,047	60,264
Business Support	1,544	1,624	1,651	1,664
Capital Transfer to Reserve & Debt Charges	4,952	4,948	4,136	4,136
Gross Budget	54,927	57,280	64,834	66,063
Less: Revenues	-19,019	-16,800	-17,326	-17,401
Net Budget Requisition – Before Reserve Funding	35,908	40,480	47,508	48,662
Percentage Change	-	12.73%	17.36%	2.43%
Less: Reserve Transfers:	-	-	-	-
2019 Reserve Transfer	-580	-	-	-
Service Level Campaign	-	-485	-	-
Collection Contract One-time Payment	-	-259	-	-
Revenue Fluctuation Mitigation	-	-450	-	-
New Collection Contract Mitigation (2020)	-	-495	-4,916	-1,896
Net Budget Requisition – After Reserve Funding	35,328	38,790	42,592	46,766
Percentage Change	-	9.80%	9.80%	9.80%

Table 1 – 2020 Waste Management Gross & Net Budget ('000) - REVISED

	2019	2020	2021	2022
Total Operating Expenditures	48,431	50,622	58,646	59,854
Business Support	1,544	1,624	1,651	1,664
Capital Transfer to Reserve & Debt Charges	4,952	4,948	4,136	4,136
Gross Budget	54,927	57,194	64,432	65,653
Less: Revenues	-19,019	-16,800	-17,326	-17,401
Net Budget Requisition – Before Reserve Funding	35,908	40,394	47,106	48,252
Percentage Change		12.49%	16.62%	2.43%
Less: Reserve Transfers:				
2019 Reserve Transfer	-580	0	0	0
Service Level Campaign	0	-485		
Collection Contract One-time Payment	0	-259		
Revenue Fluctuation Mitigation	0	-450		
New Collection Contract Mitigation (2020)	0	-410	-4,514	-1,486
Net Budget Requisition – After Reserve Funding	35,328	38,790	42,592	46,766
Percentage Change		9.80%	9.80%	9.80%

A schedule providing the revenues and expenditures by object of expenditure for 2019 and 2020 is included as **Appendix 1**. This appendix includes the 2019 budget and the 2020 budget including program changes and the percentage change for comparison.

Analysis

Overview

The 2020 WMS budget represents an increase of 9.8% over the approved 2019 net operating budget. As discussed below, the main drivers of the annual increase are a result of decreased end market recycling revenue of approximately 4.5% and increased collection contract costs of 5.1% over the 2019 budget after reserve funding.

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 five-year average year-over-year requisition change (including 2020) represents an average annual change of 1.83%.

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

<u>Year</u>	<u>Net Budget Requisition (\$)</u>	<u>\$ Change</u>	<u>% Change</u>
2016	35,301	(278)	-0.78%
2017	34,891	(410)	-1.16%
2018	34,602	(289)	-0.83%
2019	35,328	726	2.10%
2020 (Proposed)	38,790	3,462	9.80%
Average (5-yr)			1.83%

Approximately 39% of the gross budget is related to the waste collection and disposal program areas, followed by 18% for organics collection and processing, 34% 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, 76% 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

Expenditure pressures to the 2020 budget include:

- New Collection Contract (~~Gross = \$2.3 million, Net = \$1.8 million~~) (**Gross = \$2.2 million, Net = \$1.8 million**) – Staff are projecting an increase in the new collection contract annual amount above current collection costs as per the pricing submitted by the successful proponents in 2019-RFP-156 Request for Proposal for Niagara Region Curbside Collection, Haulage of Garbage, Recycling, and Organics. With the new collection contract anticipated to start October 2020, staff have included an estimate of anticipated collection costs under the new contract for the last 3 months of the year only. The full impact of a new contract will not be included until 2021. Staff have proposed a three-year mitigation plan to assist in phasing in the increased costs of the new collection contract. Under the proposed approach, staff are recommending reserve funding from the WM stabilization reserve over 2020, 2021 and 2022. The intent of the reserve funding is to limit the annual increase in the WM operating budget to 9.8% over the next three years. Please see impact on reserves in Table 3.
- One-time Lump Sum Collection Contract Payment (Gross = \$0.26 million, Net = \$0 million) – As per the Budget Planning By-law, staff are recommending that the one-time lump sum payment under the current collection contract (as identified in PW 35-2016) be funded from the waste management stabilization reserve for 2020.

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- Contractual increases including CPI, fuel and household count increases (\$0.57 million) – the current curbside collection contract includes annual provisions for CPI increases for various operating expenditures as well as increases for updated household counts and fuel costs.
 - Service level marketing campaign (Gross = \$0.49 million, Net \$0 million) - As part of the 2020 operating budget, staff are recommending additional resources to assist with the transition between collection contractors, as well as for the transition to every-other-week garbage collection service and other changes that may occur with the new contract. As mentioned above, the annual impact amounts to \$0.49 million for 2020 which includes the addition of 1 FTE (temporary 1-year), 2 student interns for 2020 as well as program and education expenditures. As a result of the one-time nature of these expenditure, staff are recommending a one-time draw from the waste management stabilization reserve in the amount of \$0.49 million to offset these expenditures.
 - Other operational contracts including disposal operations, landfill operation and attendants, drop-off depot and leachate collection & processing (\$0.43 million).
 - Repairs and maintenance (\$0.16 million).
 - Operational supplies (\$0.16 million).
 - Mitigation efforts to reduce the impact of these pressures have included postponing the potential expansion of the Region's partnership with Links for Greener Learning, and elimination of subsidies and funding provided for public space recycling materials and recycling and organics carts.

Revenue pressures to the 2020 budget include:

- End Market Recycling Revenue (Gross = \$2.05 million, Net = \$1.60 million) - A significant pressure is on end market recycling revenues. The decreased revenue from end market recycling represents an increase in the 2020 WM operations budget due to forecasted decreases in end market recycling revenues for 2020 of \$2.05 million. Staff expect there to be an improvement in the end market revenue starting 2021. Reserve funding has been used to mitigate the temporary pressure seen in 2020.

Poor market conditions have existed throughout 2019 and are anticipated to continue into 2020. The revenue projections are based on 2019 rates received by the Region and are typically estimated using the previous year's actual rates and market trends. However, for the 2020 budget, revenues were developed based on the May and June 2019 rates as being representative of anticipated average rates and the market trend for 2020 because the rates have continued to further decrease since June. Rates per tonne of recycled goods are currently at an unprecedented low and are not anticipated to improve to the extent seen in previous years. Staff recognize a potential risk in the recycling revenue assumptions for 2020 as markets have continue to deteriorate further since the finalization of the budget and this trend may continue into 2020.

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 have decreased by approximately \$1.65 million in alignment with the decreased revenue rates. During 2019, Council approved initiation of Recycling Facility improvements (PW 48-2019). These improvements were to ensure the facility continues to operate efficiently and to improve the quality and marketability of the end market recyclable products. These improvements are anticipated to help mitigate additional decreases seen in end market revenues. Staff will continue to explore other options or process enhancements in 2020 with the goal of maximizing end market recycling revenues.

- Other revenues are forecasting to increase for 2020 when compared to 2019 of approximately \$0.79 million. This increase is primarily as a result of increases in landfill tipping fee revenues based on current tonnage trends (\$0.49 million) and garbage bag tag revenues (\$0.25 million). The increase in garbage bag tag revenue is a result of a combination of increased garbage tag user fee rates from \$2.00 per tag to \$2.50 per tag in April 2020, in order to fully recover the increasing costs of collection and disposal associated with additional garbage bags, as well as increased projected quantities based on 2019 actuals to date.
- Resource Productivity & Recovery Authority (RPRA) Blue Box program funding had decreased in 2019 as a result of higher than anticipated end market recycling revenue in 2017 (on which the 2019 funding RPRA amount is based). Accordingly, for 2019 Council approved a one-time draw from the WM stabilization reserve of \$0.23 million to offset the decreased RPRA funding. For the 2020 WM operating budget, staff are projecting that annual RPRA funding will normalize to historical levels meaning the draw on reserves that occurred in 2019 will not be required for 2020. Conversely, staff are projecting that the RPRA funding for 2020 will increase by \$0.7 million over 2019.

Reserve Management

As summarized in Table 3, the operating budget includes a \$4.14 million transfer to reserves consistent with CSD 70-2017 - Waste Management Reserve Strategy, which proposed a strategy to fund waste management capital needs, landfill liability for closure and post-closure care and operating budget risks. It proposed that the \$4.14 million base budget be reallocated into the three separate Waste Management reserves as follows:

- \$2.52 million to the Waste Capital Reserve – to fund open landfill site and MRF capital.
- \$1.39 million to the Landfill Liability Reserve – to fund the landfill liability related to existing closed landfill site capital, and Humberstone and NR12 post-closure operating and capital, estimated at \$61.4 million in 2018. 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 for this purpose and generating tipping fee revenue.

- \$0.23 million to the Waste Stabilization Reserve – 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 and Targets (\$M)

Reserve	Projected 2019 YE Balance	Projected 2020 YE Balance	Projected 2021 YE Balance	Projected 2022 YE Balance	Target Reserve Balance
Waste Capital Reserve	\$6.3	\$0.6	\$0.0	\$0.0	\$7.0
Landfill Liability Reserve	\$8.2	\$9.5	\$8.1	\$7.9	\$61.4
Waste Stabilization Reserve	\$5.9	\$4.7	\$0.9	\$0.2	\$5.5 to \$8.2
Total	\$20.4	\$14.8	\$9.0	\$8.1	\$74-77

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

Reserve	Projected 2019 YE Balance	Projected 2020 YE Balance	Projected 2021 YE Balance	Projected 2022 YE Balance	Target Reserve Balance
Waste Capital Reserve	\$6.3	\$0.6	\$0.0	\$0.0	\$7.0
Landfill Liability Reserve	\$8.2	\$9.5	\$8.1	\$7.9	\$61.4
Waste Stabilization Reserve	\$5.9	\$4.8	\$1.4	\$1.1	\$5.5 to \$8.2
Total	\$20.4	\$14.9	\$9.5	\$9.0	\$74-77

Report CSD 70-2017 - Waste Management Reserve Strategy when presented showed the WMS capital reserve in a positive position over the proceeding 10-year capital forecast period. Due to higher than anticipated capital program costs over the last 3 years, the reserve is projected to be at \$0 by the end of 2020. The main capital project that contributed to the utilization of the reserve was the Environmental Centre Expansion, which required reserve funding of \$7.9 million.

As noted in Table 3, the existing post-closure landfill liability is \$61.4 million. The projected balance of the Landfill Liability reserve for the end of 2019 is estimated at \$8.2 million, which is not adequate to address the future liability. As such, staff recommend that the contribution to the reserve continues as outlined above so that the Region is in a suitable position for the future.

As discussed under the Financial Considerations section of this report, staff are recommending funding from the WMS stabilization reserve totalling ~~\$1.69 million~~ **\$1.6 million** for 2020, which has been summarized below in Table 4. The reserve funding will assist in mitigating pressures from one-time expenditures and decreased recycling revenue. The reserve funding for the new collection contract mitigation is part of a three-year mitigation strategy, which will require reserve funding to be included in the 2020, 2021 and 2022 WMS operating budgets. As noted in Table 3, the proposed strategy to utilize the WM stabilization reserve to mitigate the impacts of the new collection contract will reduce the reserve to near zero by the end of 2022. This approach does generate operational 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 following table summarizes the recommended use of stabilization reserve for the 2020 operating budget.

Table 4 – Recommended 2020 WMS Reserve Funding

Program/Item to be Funded	Amount (\$)
Service Level Campaign	\$485,000
Collection Contract One-time Payment	\$258,950
Revenue Fluctuation Mitigation	\$450,000
New Collection Contract Mitigation (2020)	\$495,250
Total	\$1,689,200

Table 4 – Recommended 2020 WMS Reserve Funding - REVISED

Program/Item to be Funded	Amount (\$)
Service Level Campaign	\$485,000
Collection Contract One-time Payment	\$258,950
Revenue Fluctuation Mitigation	\$450,000
New Collection Contract Mitigation (2020)	\$409,653
Total	\$1,603,603

2020 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 2018 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 local area municipality before assessment growth equates to an increase ranging from 8.36% to ~~16.23%~~ **8.59% to 14.56%** with an average increase of 9.80%, as outlined in **Appendix 2**.

The net requisition changes by local area municipality after growth of 1.42% ranges from ~~5.69% to 14.52%~~ **5.92% to 12.85%**. 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.

Appendix 3 provides the impacts of the WMS requisition for 2020 in comparison to 2019 on a cost per typical residential unit basis by area municipality.

Staff are also recommending a review of 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. Any changes that may occur based on this review will not impact the 2020 requisition.

Risks & Opportunities

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

- Recycling Commodity Price Risk –The market for commodities does have significant risk based on market fluctuations. As noted in WMPSC-C 29-2019, staff have noted decreased in commodity pricing for 2019. This negative trend in pricing is projected to continue in 2020 but there is a further risk that the commodity prices could decrease more than what has been projected.
- 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.
- 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 44% of WMS's 2020 operating costs.
- Multi-year collection contract mitigation – staff are recommending to utilize the waste management stabilization reserve to help phase-in the pressures generated from the new collection contract start October 2020. As a result, the stabilization reserve is projected to decrease to a balance of \$0.2 million by the end of 2022. This may limit staff's ability to mitigate in-year budget pressures as they arise (i.e. decreased end-market revenues) and could therefore result in increased pressure on future year budgets.
- The Niagara Region continues to explore opportunities for procurement of recyclable material processing for other municipalities.

Alternatives Reviewed

The 2020 budget includes base and enhanced collection services as approved by Council and does not include additional Optional Collection Services (with the exception of the delivery of roll-offs for special events recycling, as outlined in Confidential PW 65-2019) which are **NOT RECOMMENDED** due to the significant budget pressure related to base services. Should these be considered, they would require an additional budget increase to be added to the recommended 9.8% budget increase.

The 2020 budget does not include the Diversion Container Distribution Options 4 or 5, which would be to maintain the existing distribution program but with a 50% subsidy for a period of six (6) months (Option 4) or twelve (12) months (Option 5), as presented to Public Works Committee on November 5. The incremental cost of Option 4 is \$225,000 and would change the budget increase from 9.8% to 10.4%. The incremental cost of Option 5 is \$251,000 and would change the budget increase from 9.8% to 10.5%. Staff are recommending the status quo service, which is to sell the containers to residents on a full-cost recovery basis through 13 different distribution locations throughout the Region, due to the significant budget pressure related to base services. Staff are also not recommending the use of the stabilization reserve for the one time expenditure as the reserve is already significantly depleted to mitigate the base budget to 9.8%.

Relationship to Council Strategic Priorities

The 2020 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	Waste Management – Schedule of Revenues and Expenditures
Appendix 2	Proposed 2020 Requisition by Municipalities
Appendix 3	2020 WM Requisition for Typical Residential Property by Municipality