

Analyst Briefing Notes
Budget Committee
(March 26, 2007)

2007 OPERATING BUDGET

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2007 OPERATING BUDGET**Executive Summary**

- The 2006 preliminary year-end net expenditure of \$168.458 million is \$2.468 million below the 2006 Approved Budget due mainly to lower salary and benefit costs as a result of delays in filling vacant positions and additional revenues from Waste Diversion Ontario, offset by higher costs for processing various recyclable materials and lower revenues from the sale of recyclable materials.
 - The 2007 Recommended Operating Budget has been adjusted to reflect a decrease in revenue based on 2006 actual experience for lower revenues from the sale of recyclables materials and reduction in private waste material dropped off at transfer stations.
- In 2006, Solid Waste Management Services achieved a 42% diversion rate. The medium term objective for the Program is to work towards the goal of increasing the diversion rate to 70% by 2010 as per the Mayor's Mandate. Additional challenges include:
 - Completing Environmental Assessments and recommending new & emerging technology treatment options for the remaining 30% of waste, to further reduce waste to landfill;
 - Higher waste diversion costs resulting from higher volumes and higher processing fees;
 - Fluctuating and lower revenues from the sale of recyclable materials;
 - Examination of long term funding options for waste diversion initiatives. (As reflected in the SWMS Multi-Year Business Plan aggressive waste diversion initiatives will result in projected annual operating budget increases of approximately 7% through to 2016);
 - Liability for perpetual care of former closed landfill sites and adequacy of the Perpetual Care Reserve Fund;
 - The continuing risk of a Michigan border closure, although mitigated to some extent with the proposed purchase of the Green Lane Landfill; and
 - Integration of the new Green Lane Landfill site into Solid Waste Management Services operation.
- The 2007 Recommended Operating Budget of \$183.596 million net is comprised of base funding of \$183.596 million and no new/enhanced service priorities. This represents a \$12.670 million or 7.4% increase over the 2006 Approved Operating Budget of \$170.926 million.

Table 1: 2007 Recommended Budget

(In \$000s)	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget	\$	%	2008	2009
	\$	\$	\$	\$	\$			\$	\$
GROSS EXP.	228,849.4	226,495.6	237,859.4	0.0	237,859.4	9,010.0	3.9	1,458.4	0.0
REVENUE	57,923.1	58,037.6	54,263.3	0.0	54,263.3	(3,659.8)	(6.3)	295.1	0.0
NET EXP.	170,926.3	168,458.0	183,596.1	0.0	183,596.1	12,669.8	7.4	1,163.3	
Approved Positions	1,366.1	1,366.1	1,339.6	0.0	1,339.6	(26.5)	(1.9)		
TARGET			170,926.3		170,926.3				
\$ Over / (Under) Program Target			12,669.8		12,669.8				
% Over / (Under) Program Target			7.4%		7.4%				

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures

- The 2007 Recommended Operating Budget of \$183.596 million net represents a 7.4% increase over Solid Waste Management Services’ 2006 Approved Budget of \$170.926 million, while maintaining 2006 service levels which are currently at a 42% waste diversion rate, and examining long term funding options to enable initiatives to increase the diversion rate to 70% and beyond.
 - The net increase of \$1.163 million in 2008 maintains the 2007 recommended level of service while managing the COLA increments and merit changes, and adjusting for the annualization of various service level adjustments that promote waste diversion, e.g. increased fees and elimination of exemptions. The 2009 outlook shows no increase, however this excludes a provision for COLA, as the increase is subject to future negotiations.
- The additional \$9.010 million in expenditures recommended for the Program’s Base Budget represents a 3.9% increase over 2006, and is needed to fund annualizations, merit and step increases, union settlements and wage increases for exempt staff, non-salary inflationary increases, conversion of waste tonnage from disposal to higher diversion processing costs, and higher fuel and maintenance costs related to the Solid Waste Management Services, fleet.
- The budgeted revenue for 2007 is \$3.660 million lower than in 2006, or a 6.3% decrease. This is primarily attributed to lower revenues from the sale of recyclable material, particularly fibre material, and lower paid waste revenues due to a reduction in private waste material dropped off at transfer stations.
 - To compensate for some of the reduced revenue, the 2007 Recommended Operating Budget includes projected revenues for charging charitable organizations a waste management fee, increased recycling and disposal tipping fees, and eliminating the one-tonne exemption for tipping fees.

- The 2007 Recommended Budget includes major cost savings, including a reduction of 26.5 positions due to closure of night shift operations at 2 transfer stations, and other operational efficiencies.
- Additional efficiencies in various areas within Solid Waste Management Services have been identified and serve as further reductions to offset base budget expenditure increases, including reduced cart purchases, converting from contracted to in-house White Goods Collection, reduced purchase of green bins & recycling containers, and reduced advertising & promotion expenses.
- Given the significant budget pressures for 2007, the funding for the 4 Enhanced Service Priorities approved by Council have been deferred for consideration, pending a report back from the Deputy City Manager responsible for Solid Waste Management Services in conjunction with the Deputy City Manager and Chief Financial Officer to the Budget Committee on innovative funding options and funding sources for the City's diversion initiatives. These initiatives include:
 - Enforcement of Mandatory Waste Diversion By-Law (Single Family Residences)
 - Multi-Unit Waste Reduction Levy (Apartments and Condominium Buildings)
 - Door to Door Waste & Recyclable Collection (Townhomes)
 - Introduction of New Recycling Materials
- Given the financial pressures, a proposed expenditure of \$3.435 million for a contribution to the Perpetual Care Landfill Reserve Fund in 2007, has been deferred for consideration pending a report from the Deputy City Manager/Chief Financial Officer to the Budget Committee during the 2007 Budget process on the appropriateness of using the 2006 operating surplus (if any) to fund the contribution to the Perpetual Care Landfill Reserve Fund.
- The General Manager, Solid Waste Management Services, has been directed by Council to report back to the Budget Committee in the Spring 2007 with the financial implications of the potential purchase of the Green Lane Landfill site on the 2007, 2008 and 2009 Operating Budgets.
- In 2007, Solid Waste Management Services plans to maintain its 2006 service levels and
 - Improve on the current residential diversion rate of 42%,
 - Divert 363,000 tonnes of residential waste
 - Dispose of 697,000 tonnes of residential, institutional, commercial, and industrial waste
 - Develop new diversion initiatives
 - Secure short/long term processing capacity for diverted material
 - Complete Environmental Assessment terms of reference, and initiate the Environmental Assessment process for residual waste treatment facilities
 - Continue the perpetual care of former closed landfill sites
- In addition, various fee increases that promote waste diversion are being introduced in 2007:
 - Eliminating the exemption for charities from the commercial yellow bag/tag charge
 - Increasing tipping fee for waste disposal at transfer stations from \$95 to \$100 per tonne
 - Charging a minimum flat tipping fee of \$10 per tonne on waste loads up to 100 kg

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for the Solid Waste Management Services of \$237.859 million gross and \$183.596 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Program Support	33,827.7	17,596.2
Collection	93,904.2	90,664.8
Transfer	23,674.3	12,969.7
Processing	38,430.9	16,777.0
Disposal	48,022.3	45,588.4
	<hr/>	<hr/>
Total Program Budget	237,859.4	183,596.1
	<hr/>	<hr/>

2. the \$3.435 million contribution to the Perpetual Care of Landfill Reserve Fund be deferred for consideration, pending a report back from the Deputy City Manager and Chief Financial Officer to the Budget Committee during the 2007 Budget process on whether any funding is available from the 2006 Operating Budget surplus to fund a 2007 reserve fund contribution;
3. funding for the following 4 Enhanced Service Priorities to increase the City’s diversion rate, be deferred to the 2008 Budget process for consideration, and that the Deputy City Manager responsible for Solid Waste Management Services in conjunction with the Deputy City Manager and Chief Financial Officer report back to the Budget Committee by June 2007 on a strategy to accommodate funding for the City’s Diversion initiatives, including the following:
 - Enforcement of Mandatory Waste Diversion By-Law (Single Family Residences)
 - Multi-Unit Waste Reduction Levy (Apartments and Condominium Buildings)
 - Door to Door Waste & Recyclable Collection (Townhomes)
 - Introduction of New Recycling Materials
4. given the significant service issues and pressures facing Solid Waste Management Services, the Deputy City Manager and General Manager responsible for Solid Waste Management Services continue to meet through 2007 with Budget Committee members assigned to review Solid Waste Management Services and Financial Planning staff, on a detailed review of this program, and report back to the Budget Committee as part of the 2008 Budget process.

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	215,696.8	228,849.4	226,495.6	(2,353.8)	(1.0)
REVENUES	58,452.6	57,923.1	58,037.6	114.5	0.2
NET EXP.	157,244.2	170,926.3	168,458.0	(2,468.3)	(1.4)
Approved Positions	1,325.0	1,366.1	1,366.1	0.0	0.0

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures

2006 Experience

The 2006 Solid Waste Management Services' preliminary year-end gross expenditure is \$226.496 million, which is \$2.354 million or approximately 1.0% below the 2006 Approved Operating Budget (gross) of \$228.849 million.

The preliminary year-end revenue for Solid Waste Management Services is \$58.038 million, which represents an increase of \$0.114 million or 0.2% in revenue compared to the 2006 Operating Budget of \$57.923 million.

The preliminary year-end actual net expenditures is \$168.458 million, which is \$2.468 million or 1.4% under the 2006 Approved net Operating Budget of \$170.926 million.

This net favourable year-end variance is mainly attributable to the following factors:

- Lower salary & benefit costs as a result of delays in filling vacant positions and lower overtime costs (\$3.3 million)
- Contracted disposal savings due to lower waste tonnage received at Transfer Stations (\$1.1 million)
- Lower than budgeted expenditures due to changes and delays in various recycling initiatives including pilot projects (\$0.7 million)
- Lower costs related for Support Services, Technical Services, and payment in lieu of taxes (\$0.9 million)
- Additional revenues from Waste Diversion Ontario (\$2.5 million).

Offsetting the above favourable variances were the following unfavourable items:

- Higher than budgeted processing costs for various recyclable materials (Source Separated Organics \$1.5 million, Leaf and Yard Waste \$0.9 million, and Single Stream Waste \$0.9 million), due to increased volumes of materials being processed and higher than budgeted processing costs as a result of a change to originally planned suppliers.
- Higher contracted costs for collection of waste & recyclables (\$1.2 million), due to the migration of tonnes from the less expensive waste material to the more expensive diverted materials, and an increase in volume.
- Unbudgeted legal costs relating to the Michigan landfill closure as well as securing an alternative landfill site – Green Lane (\$0.8 million).
- Lower revenues for sale of recyclable materials, especially fibre (\$2.5 million), as a result of the actual price per tonne being lower than the budgeted price per tonne.

The 2006 key accomplishments by the Solid Waste Management Services division included:

- Securing long term Ontario based landfill space (Green Lane)
- Initiated the environmental assessment process for residual waste, and initiated the CEAT public consultation team
- Solidified the transfer contract for waste disposal
- Achieved 42% waste diversion in 2006
- Achieved a 40% litter reduction target in 2006.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The 2007 Recommended Budget for Solid Waste Management Services of \$183.596 million net, exceeds the 2006 projected actual expenditures by \$15.138 million or 9.0% net.

The following 2006 Operating Variances are expected to impact the 2007 Recommended Budget:

- Lower expenditures for the disposal of waste in Michigan are anticipated to continue, resulting from the receipt of lower paid and municipal waste tonnage, as waste diversion increases. A reduction of \$0.630 million has been reflected in the 2007 Recommended Budget.
- Lower revenues from the sale of recyclables are expected to continue, and have been adjusted by \$2.658 million in the 2007 Recommended Operating Budget.
- Lower revenues from the receipt of lower paid waste tonnes from the private sector are also expected to continue, and have been adjusted by \$1.000 million in the 2007 Recommended Operating Budget.
- Increase in processing costs for source separated organics, single stream recycling, leaf and yard waste of \$4.167 million.
- Increased corporate fleet charges for fuel and maintenance, adjusted based on 2006 actuals results in a pressure of \$1.153 million for 2007.

Section B: 2007 Operating Budget Overview**3-Year Operating Budget Overview**

The Solid Waste Management Services' Operating Budget is directly linked to the Solid Waste Management Services Capital Program and the Multi-Year Business Plan, and is impacted by the implementation of the diversion initiatives that are planned.

The 3 year Operating Budget for Solid Waste Management Services is based on fulfilling the goals outlined in their Mission Statement and supported by its Business Plan. This would incorporate providing effective and efficient waste management and resource recovery services to residents, visitors and businesses in the City of Toronto in order to maintain a clean and healthy City, and to minimize the impact of waste on the environment. The Program's mandate includes the collection of waste/recyclables/organics, and the operation of transfer stations, Material Recovery Facilities (MRF), a Source-Separated Organics (SSO) processing facility and an enhanced Litter Program to support the Clean and Beautiful City initiatives. The Program also manages several waste diversion programs including: environment days, backyard composter distribution, recovery of household hazardous waste, tire and white goods recycling.

In 2007, Solid Waste Management Services plans to maintain its 2006 service levels and

- Improve on the current residential diversion rate of 42%,
- Divert 363,000 tonnes of residential waste
- Dispose of 697,000 tonnes of residential, institutional, commercial, and industrial waste
- Develop new diversion initiatives
- Secure short/long term processing capacity for diverted material
- Complete Environmental Assessment terms of reference, and initiate the Environmental Assessment process for residual waste treatment facilities
- Continue the perpetual care of former closed landfill sites

In addition, various fee increases that promote waste diversion are being introduced in 2007, including

- Eliminating the exemption for charities from the commercial yellow bag/tag charge
- Increasing tipping fee for waste disposal at transfer stations from \$95 to \$100 per tonne
- Charging a minimum flat tip fee of \$10 per tonne on waste loads up to 100 kg

The focus of the 2007 operating budget is on achieving Council approved diversion targets, securing long term processing and residual waste treatment capacity, managing closed landfill sites as well as working towards Council priorities, such as a Clean & Beautiful City. Primarily, the Program is responsible for providing collection, transfer and disposal services for residual waste and the collection, transfer and processing of recyclable and organic materials throughout the City as well as for City Programs, Agencies, Boards, and Commissions. The Program also accepts waste from the commercial sector. As well, the Program coordinates with other City Programs and ABCs, activities that support the Mayor's Clean & Beautiful City Program.

A large proportion of the Program's 2007 Budget increases are driven by base cost increases, and the Mayors Mandate of a 70% diversion target by 2010. Given the substantial resources required to achieve the 70% diversion target, the public's sensitivity to the initiative, as well as the City's

affordability factor, Solid Waste Management Services potentially faces significant challenges in future years. Further complicating the situation is the possibility of the closure of the U.S. border to Toronto's waste. However, this is mitigated now with the recent proposal to purchase the Green Lane Landfill site in Ontario.

Solid Waste Management Services has identified \$4.428 million in savings through service rationalizations and reduced contributions to reserves, as well as \$0.140 million in new revenue sources, to help reduce the 2007 Budget to a 7.4% increase. However, the requirement to meet a full 0% target would negatively impact the Program's ability to meet Council priorities for increased waste diversion rates.

The 2008/2009 Outlook currently excludes funding for any new initiatives which advance priorities set out in the Mayor's Mandate to achieve the 70% diversion target.

Service Delivery - Challenges and Issues

The Solid Waste Management Services Division will be facing considerable challenges in meeting the Council direction and the Mayor's Mandate of a 70% diversion target by 2010, while at the same time dealing with funding issues.

Due to financial pressures in 2007, the funding for the four Enhanced Service Priorities that support increasing the City's diversion rate, have been deferred for consideration pending a report back from the Deputy City Manager responsible for Solid Waste Management Services in conjunction with the Deputy City Manager and Chief Financial Officer to the Budget Committee on innovative funding options and funding sources for the City's Diversion initiatives. The 4 Council approved Enhanced Service Priorities include:

- Enforcement of Mandatory Waste Diversion By-Law (Single Unit Residences)
- Multi-Unit Waste Reduction Levy (Apartments and Condominium Buildings)
- Door to Door Waste & Recyclable Collection (Townhomes)
- Introduction of New Recycling Materials

Solid Waste Management Services is expected to continue experiencing significant operating pressures. It is anticipated that these pressures will continue in future years and as a result, the current service levels being provided will be difficult to sustain. These include:

- Increased waste diversion initiatives to meet the 70% reduction target by 2010,
- Completing Environmental Assessments and recommending new & emerging technology treatment options for the remaining 30% of waste, to further reduce waste to landfill.
- Higher costs related to waste diversion resulting from higher volumes and higher processing fees;
- Fluctuating and lower revenues for sale of recyclable materials

- Examination of long term funding options for waste diversion initiatives. (As reflected in the SWMS multiyear Business Plan aggressive waste diversion initiatives will result in projected annual operating budget increases of approximately 7% through to 2016)
- Liability for perpetual care of former closed landfill sites and adequacy of the Perpetual Care Reserve Fund
- The continuing risk of Michigan border closure, although mitigated to some extent with the proposed purchase of the Green Lane Landfill.
- Integration of new Green Lane Landfill site.

Mayor's Mandate

There are several initiatives in the Mayor's Mandate that relate to services provided by the Solid Waste Management Services Division. These include:

- ***Create a Coordinated Litter Action Team that Will Quickly Clean Up Serious Litter and Dumping problems Identified by Resident's Calls to an New "311" telephone service.***

The 2007 Recommended Operating Budget directly addresses the above priority outlined in the Mayor's Mandate, by creating a team from various ABCD's with a goal of responding within 48 hours to any serious problem area. No additional costs are anticipated, however this will require increased coordination with other divisions and staff managing the 311 initiative.

- ***Increase Toronto's Waste Diversion rate to 70% by 2010:***

Several new initiatives corresponding to the above priority in the Mayor's Mandate have been proposed by the Program, but have been deferred for consideration pending a report back to the Budget Committee on innovative funding strategies and new sources of funding.

To achieve the higher diversion target, the Solid Waste Management Services Division is planning to expand Toronto's aggressive diversion plan by:

- Expanding the Green Bin program to include apartments & condominiums.
- Expanding the range of recyclable materials in the blue box to include: polystyrene, plastic film, ceramics/ plate glass, and plastic milk jugs.
- Establishing a reusable goods drop-off centre to provide residents with a one-stop location for reusable goods
- Providing single unit residences with larger recycling carts that will increase their ability to recycle
- Building a composting plant that will increase capacity and provide and provide long term stability for the Green Bin Program

Expanding the green bin program to include apartments & condominiums will have an incremental operating impact of \$6.1 million by 2010.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change		FY Incremental Outlook	
			2007 Recommended Base v. 2006 Appvd. Budget		2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	228,849.4	237,859.4	9,010.0	3.9	1,458.4	0.0
REVENUE	57,923.1	54,263.3	(3,659.8)	(6.3)	295.1	0.0
NET EXP.	170,926.3	183,596.1	12,669.8	7.4	1,163.3	0.0
Approved Positions	1,366.1	1,339.6	(26.5)	(1.9)		
NET TARGET		170,926.3			0.0	0.0
\$ Over / (Under) Program Target		12,669.8			1,163.3	0.0
% Over / (Under) Program Target		7.4%			0.68%	0.00%

2007 Recommended Base Budget

- The Solid Waste Management Services’ 2007 Recommended Base Budget is \$183.596 million net, and is \$12.670 million or 7.4%, over the target of \$170.926 million.

Expenditure Changes

- The additional \$9.010 million expenditures recommended for the Program’s Base Budget represents a 3.9% increase over 2006, and is needed to fund annualizations, merit and step increases, union settlements and wage increases for exempt staff, non-salary economic factors, as well as other base changes, such as conversion of waste tonnage from disposal to the higher cost diversion processing cost.
 - Salary and benefits pressures from COLA, merit, and an additional workday in 2007 (\$3.388 million)
 - Increased costs for processing of larger volumes of recyclables collected and diverted (\$4.401 million)
 - Increased costs for disposal of residual waste (\$0.348 million)
 - Higher fuel and maintenance costs related to the Solid Waste Management Services fleet (\$1.153 million)

Revenue Changes

The budgeted revenue for 2007 is \$3.660 million lower than in 2006. This is primarily attributed to:

- Lower revenues from sale of recyclable material, particularly fibre material (\$2.658 million), and

- Lower paid waste revenues, due to a reduction of private waste material dropped off at transfer stations (\$1.000 million).

To compensate for some of the reduced revenue, the 2007 Recommended Base Budget includes projected higher revenues for:

- Charitable Organizations Waste Management Fees (\$0.195 million)
- Increased Recycling Tipping Fee (\$0.049 million)
- Eliminating One-Tonne Exemption (\$0.063 million)

Actual 2007 revenues from the sale of recyclable materials will be dependent on prevailing market rates and volumes marketed for recyclable materials.

Service Level Changes

- The 2007 Recommended Operating Budget includes major cost savings, including a reduction of 26.5 positions due to:
 - Closure of Night Shift Operations at 2 Transfer Stations (\$1.047 million & 15 positions)
 - Other Operational Efficiencies (\$0.631 million & 10.5 positions)
 - Reduction in Policy, Planning, Finance & Administration function (1 position)
- Additional efficiencies in various areas within Solid Waste Management Services have been identified, and serve as further reductions to the base budget changes including:
 - Reduced Cart Purchases (\$0.193 million)
 - In House White Goods Collection (\$0.171 million)
 - Reduced Green Bin & Recycling Containers (\$0.026 million)
 - Reduced Advertising & Promotion (\$0.120 million)
 - Reduced Purchase of Toters (\$0.065 million)
- At this time, the proposal to discontinue collection of commercial single stream, source separated organics, and waste in 2008 (i.e. yellow bag program), has been deferred for consideration with the 2008 budget process, and pending the review and direction of the proposal by the Public Works Committee, as this will have a major service impact on the existing commercial customers.
- In order to achieve the guideline level of 0% over the 2006 Approved Operating Budget, Solid Waste Management Services would either have to make further service cuts, or seek out additional sources of revenue. Further reductions would limit the Program's ability to deliver at current service levels, much less moving forward on increased diversion.
- A plan for the potential purchase of the Green Lane Landfill site in St. Thomas, Ontario is currently in progress, and Solid Waste Management staff are requested to report back with the financial implications on 2007 to 2009 Operating Budgets once the purchase is finalized.
- The 2007 Recommended Operating Budget will maintain its existing service level of a 42% waste diversion rate, while examining long term funding options to enable initiatives to increase diversion rate to 70% and beyond.

2007 Key Cost Drivers

Solid Waste Management Service is experiencing increased costs for larger volumes of recyclables collected and diverted. This is manifested in services such as the expansion of collection to more ABCDs, increased recycling material, and increased volumes of Hazardous Household Waste received during Environment Days and at permanent depots. Also, as the public participates more in diversion e.g. with the operation of the green bin program in the City, the associated costs of the program are expected to increase. All these anticipated costs are contained in the Solid Waste Management Services Business Plan which was approved by Council in June 2005.

The 2007 Recommended Operating Budget contains salary and benefits pressures related to Cost of Living Allowance (COLA), arbitration awards, and an additional workday in 2007. Non-labour key drivers include inflationary factors for materials, supplies, and contracted services; higher fuel and maintenance costs related to the Solid Waste Management Services fleet; lower costs for waste disposal due to lower expected paid and municipal waste tonnage; lower unit revenues on sale of recyclable material, particularly fibre material; and lower revenues from the receipt of paid waste due to expected lower paid tonnage from the private sector.

2008 and 2009 Outlook: Net Incremental Impact

The net increase of \$1.163 million in 2008 maintains the 2007 recommended level of service while managing the COLA increments and merit changes, and adjusting for the annualization of various service level adjustments that promote waste diversion, e.g. increased fees and elimination of exemptions. The 2009 outlook shows no increase, however this excludes a provision for COLA, as the increase is subject to future negotiations.

The 2008/2009 Outlook also currently excludes funding for new initiatives which advance priorities set out in the Mayor's Mandate to achieve the 70% diversion target.

Issues for Discussion

2007 Operating Budget Issues

2007 Recommended Operating Budget vs. Guideline

Due to budgetary restrictions and the zero net budget increase target, only new and enhanced services with third party funding can be considered for implementation in 2007.

Solid Waste Management Services' 2007 Recommended Operating Budget is \$183.596 million net. In an effort to limit, as much as possible, the net budget increase to the corporate affordability target of 0%, it is recommended that no new or enhanced initiatives be approved at this time. Even with adjustments to the Program's Base Budget, the 2007 Recommended Operating Budget is still \$12.670 million or 7.4% over the Program's target of \$170.926 million.

This increase is driven by higher prices for waste recycling rather than waste disposal, adjusting for lower revenues for the sale of recycling material, and lower revenues due to reduced private waste received at the City's transfer stations.

It is recommended that the given the significant service issues and pressures facing Solid Waste Management Services, the Deputy City Manager and General Manager responsible for Solid Waste Management Services continue to meet with Budget Committee members assigned to review Solid Waste Management Services and Financial Planning staff, through 2007 on a detailed review of this program, and report back to the Budget Committee as part of the 2008 Budget process.

Perpetual Care of Landfill Reserve Fund

Under provincial legislation, the Program is responsible for the perpetual care of 161 closed City landfill sites after primary operations have ended. Current projections indicate that the Perpetual Care of Landfill Reserve Fund will provide for perpetual care expenses only until 2011; therefore contributions are required. A staff report from the Acting Commissioner, Works and Emergency Services, and the Chief Financial Officer & Treasurer, entitled "Adequacy of Perpetual Care of Landfill Reserve", dated November 3, 2004 recommended an annual operating fund contribution of \$3 million to the Perpetual Care Reserve Fund with increases of 5.55% each year thereafter.

One-time funding for the Perpetual Care of Landfill Reserve Fund contribution (\$3.000 million) was provided in 2005 from the 2004 Operating Surplus. A similar contribution (\$3.167 million) was made in 2006 to the reserve from the 2005 Operating Surplus. In 2007, the requested \$3.435 million to fund the contribution to the Perpetual Care of Landfill Reserve Fund added to the significant base pressures in this Program, and therefore has not been recommended to be included in the Solid Waste Management Services 2007 Operating Budget.

The Deputy City Manager and Chief Financial Officer will report back to the Budget Committee, should any surplus become available from 2006 operations for the 2007 contribution.

Issues Referred to 2007 Operating Budget Process

The 4 enhanced service priorities listed below were directionally approved by Council; however the funding of these initiatives was referred initially to the 2006 budget process, and subsequently to the 2007 process. While these 4 new requests are driven by the City's Waste Diversion Initiative, the limited financial resources continues to be a major constraint, and therefore preclude their recommendation in 2007 even though they have been approved in principle by Council.

Instead, it is recommended that Solid Waste Management Services defer the 4 requests to the 2008 Budget process and that the Deputy City Manager responsible for Solid Waste Management Services in conjunction with the Deputy City Manager and Chief Financial Officer, report back to the Budget Committee on innovative funding options to support the City's diversion initiatives, and the Mayor's priority to achieve a 70% waste diversion target:

1. Enforcement of Mandatory Waste Diversion By-Law (Single Family Residences) (\$0.447 million)
2. Multi-Unit Waste Reduction Levy (Apartments and Condominium Buildings) (\$0.048 million)
3. Door to Door Waste & Recyclable Collection (Townhomes) (\$0.426 million)
4. Introduction of New Recycling Materials (\$0.006 million)

1) Enforcement of Mandatory Waste Diversion By-law (Single Family Residences)

Works Committee at its meeting of June 29, 2005 referred Works Committee Report 7 Clause 16(c) "Enforcement of Mandatory Waste Diversion By-Laws for Single Family" to the Budget Advisory Committee for consideration with the 2006 budget process. The original funding request of \$0.806 million was to be used to hire six By-Law Enforcement Officers and one administrative support person and as well as funds for vehicle related costs.

During the 2006 Budget process, the Program submitted a new request for \$0.359 million net funding and 5 positions in 2006, and \$0.252 million net funding and 2 positions in 2007. Consideration of this request was deferred to the 2007 Budget process.

During 2006, the SWMS staff responsible for bylaw enforcement and the related budget were transferred to the by-law enforcement team of the Municipal Licensing and Standards Division. SWMS would require increased funds of \$0.447 million for this initiative in 2007 for the increased cost for transfer, processing, and disposal services as a result of the increased enforcement. In addition the MLS program would require \$0.656 million funding and 7 positions in 2007, and \$0.270 million funding in 2008 related to the actual By-law Enforcement activity.

2) Multi-Unit Waste Reduction Levy (Apartments and Condominium Buildings)

Council adopted the implementation of the Multi-unit Residential Waste Reduction Levy as amended by Works Committee at its meeting on June 29, 2005. The Levy billing was to be delayed until July 1, 2006 with mock billing starting on January 1, 2006. Under the Levy, each condominium and apartment building would be given a fixed amount of no-charge undiverted waste volume per week/year based on the amount of waste the building should produce if it were to recover recyclables to the same extent as the average single home. If a building stayed within the

no-charge waste limit, there would be no levy. If, however, the volume was exceeded, a levy would be paid on the excess waste. Details are contained in the Works Committee Report entitled "Implementation of Multi-Unit Waste Reduction Levy, All Wards", dated June 20, 2005.

Approval of the delay in the billing of the levy until July 2006 and the no-charge waste limit would have resulted in a reduction in previously expected revenues in 2006. Moreover, there would be increases in the operating costs resulting from the addition of the by-law enforcement needed for monitoring. The approved report recommended the hiring of sixteen bylaw officers. .

The 2006 Budget process recommended that the funding for this be deferred to 2007 due to financial constraints, and that the Deputy City Manager responsible for Solid Waste Management Services report back to the Works Committee prior to the start of the 2007 Budget process on a proposal for a coordinated, cost-effective, and efficient strategy. At its meeting of September 11, 2006, the Works Committee directed Solid Waste Management Services to include the Multi-Unit Waste Reduction Levy in the 2007 Operating Budget for consideration.

The enforcement of the waste diversion function and the associated budget was transferred from Solid Waste Management Services to the Municipal Licensing and Standards Division, as part of the transfer of the by-law enforcement team in 2006.

Funding of \$0.048 million in 2007 would be required to cover Program Support, Transfer, Processing, and Disposal service costs as a result of increased enforcement. The funding required to cover By-law Enforcement activities totals \$0.933 million net funding and 14 positions in 2007, and an additional \$0.418 million net funding in 2008.

3) Door to Door Waste & Recyclable Collection (Townhomes)

Providing to door-to-door collection of waste and recyclables from small residential buildings that are currently serviced through single point collection (e.g. townhouses) is detailed in the Works Committee Report entitled "Proposed Solution to Single Point Set Outs of Waste and Recyclables in Existing Townhouse Developments (All Wards)", dated February 15, 2005. The implementation of this initiative was initially referred to the 2006 Operating Budget review process. Solid Waste Management Services subsequently reviewed the implementation of this program and recommended that it be deferred to 2007.

The Program deferred the start of this program to 2007 and had proposed this initiative at a cost of \$0.426 million net funding and 12 positions in 2007, and an additional net cost of \$0.759 million in 2008.

4) Introduction of New Recycling Materials

Additional funding is required for the addition of new material, such as spiral cans, polystyrene, and plastic film, to the City's recycling program. Solid Waste Management has been directed to add additional products to the existing recycling programs, and a market has developed which will allow the addition of spiral cans to the program. The addition of new recycling material is part of the City's long term diversion plans to achieve a 70% diversion target by 2010.

This initiative would require \$0.006 million funding in 2007, and an additional \$0.212 million in funding in 2008.

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	1,366.1	226,084.0	55,235.8	170,848.2	0.0	0.0
In-year approvals and technical adjustments		2,765.4	2,687.3	78.1		
Corporate adjustments				0.0		
2006 Approved Operating Budget	1,366.1	228,849.4	57,923.1	170,926.3	0.0	0.0
Prior year impacts		4,564.0	0.0	4,564.0		
Zero base items		(82.0)	0.0	(82.0)		
Economic factors		5,467.4	142.5	5,324.9	2,119.6	
Adjusted Base Budget	1,366.1	238,798.8	58,065.6	180,733.2	2,119.6	0.0
Other base changes	(26.5)	3,555.7	(162.4)	3,718.1		
Base revenue changes		(67.1)	(3,779.4)	3,712.3		
Recommended Service Level Adjustments:						
Service efficiencies		(548.0)	0.0	(548.0)	(238.8)	
Revenue adjustments		(353.9)	139.5	(493.4)	(729.7)	
Minor service impact		(91.1)	0.0	(91.1)	12.2	
Major service impact		(3,435.0)	0.0	(3,435.0)		
Total Recommended Base Adjustments	(26.5)	(939.4)	(3,802.3)	2,862.9	(956.3)	0.0
2007 Recommended Base Budget	1,339.6	237,859.4	54,263.3	183,596.1	1,163.3	0.0
2007 Program Operating Target	N/A	N/A	N/A	170,926.3	0.0	0.0
% Over (Under) Program Target				7.4%	0.7%	0.0%
% Over (Under) 2006 Appvd. Budget				7.4%	0.7%	0.0%

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

(There are no 2007 Recommended New/Enhanced Service Priorities)

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
		\$	\$	\$	\$
Vehicle Reserve - Solid Waste	XQ1014	20,411.2	7,925.0	7,925.0	7,925.0
Vehicle Reserve - WES Support Services	XQ1401	65.5	6.3	6.3	6.3
Perpetual Care of Landfill Reserve Fund	XR1013	35,796.2	462.7	462.7	462.7
Insurance Reserve Fund (Corporate)	XR1010	17,536.0	1,495.5	1,495.5	1,495.5
Vehicle Reserve - Solid Waste Compactors	XQ1021	3,271.9	150.0	150.0	150.0
Waste Management Reserve	XQ1404	23,589.2	0.0	0.0	0.0
Total Reserve / Reserve Fund Draws / Contributions			10,039.5	10,039.5	10,039.5