

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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January 28, 2008

2008 OPERATING BUDGET**Executive Summary**

- The September 30th 2007 projected year-end net expenditure of \$177.486 million is \$4.672 million or 2.6% below the 2007 Approved Budget of \$182.158 million. This favourable variance is largely attributable to cost containment savings as well as lower tonnages of waste to Michigan.
 - Of a total savings from cost containment of \$3.731 million net, \$1.987 million is due to delayed implementation of the new single family containers as well as delaying diversion enforcement for single homes; \$0.908 million results from delayed start-up of door to door collection for townhouse developments, reduction of operating hours at transfer stations and reduced litter pick-up. Also included is a \$0.837 million reduction in discretionary spending for conferences, seminars, training, equipment, advertising & promotion.
 - 3rd quarter projected year-end variances included in the recommended base budget include the impact of lower expected tonnages at transfer stations which lowers the cost of shipping waste to Michigan. Year-end revenue shortfalls are expected to continue as revenue from the sale of recyclable materials is projected to be less than the 2007 sales projection. As a result, the 2008 Recommended Base budget has been adjusted by \$2.138 million net.
- The 3-Year Operating Budget for Solid Waste Management Services supports the Multi-Year Business Plan to transition from tax based funding to a rate-based funding model for waste diversion. The 3 year Operating Budget for Solid Waste Management Services is also based on 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 faces the several challenges in achieving its service mandate:
 - Implementing and rolling out in 2008 the volume-based rate structure to generate \$237.5 million annually as recommended in the staff report entitled “Proposed Initiatives and Financing Model to Get to 70% Solid Waste Diversion by 2010” approved by Council at its meeting of June 19, 20 and 22, 2007.
 - Managing multiple increased waste diversion initiatives to meet the 70% reduction target by 2010 while staying within budget which may be impacted by fluctuating prices for recycled material.
 - The continuing risk of a Michigan border closure, although mitigated to some extent with the purchase and integration into current operations of the Green Lane Landfill.
 - Ongoing costs for the perpetual care of former closed landfill sites and ensuring adequacy of the Perpetual Care Reserve Fund.

- The net 2008 Recommended Operating Budget for Solid Waste Management Services of \$276.7 million gross and \$182.2 million net is at the 2007 Approved Operating Budget target of a \$0 net increase.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	251,733.3	246,651.0	256,379.7	20,348.9	276,728.6	24,995.3	9.9	28,042.3	9,225.8
REVENUE	69,575.2	69,164.8	74,221.6	20,348.9	94,570.5	24,995.3	35.9	28,042.3	9,225.8
NET EXP.	182,158.1	177,486.2	182,158.1	0.0	182,158.1	0.0	0.0	0.0	0.0
Approved Positions	1,304.5	1,304.5	1,292.1	34.5	1,326.6	22.1	1.7		
TARGET			182,158.1		182,158.1				
\$ Over / (Under) Program Target			0.0		0.0				
% Over / (Under) Program Target			0.0%		0.0%				

- The 2008 Recommended Operating Budget for Solid Waste Management Services is \$182.158 million net. This is comprised of base funding of \$182.158 million with a number of fully funded new/enhanced service priorities. Approval of the 2008 Recommended Operating budget will result in an increase of 22.1 approved positions.
 - The 2009 and 2010 Outlook moves forward with the 70% Diversion Plan. The 70% Diversion Plan will be funded from user fees and generates no net incremental impact on the City's tax base. New user fees will offset the impact of various annualized adjustments in 2009. There is presently no provision for COLA increases in either 2009 or 2010 as these will be the subject of future negotiations.
- The 2008 Recommended Base Budget incorporates the Program's key cost drivers including COLA, and other non-discretionary expenditures that total \$6.824 million net. To meet target, efficiencies of \$5.628 million, reserve contribution increases of \$0.543 million and service level changes of \$0.653 million are recommended.
- New / Enhanced Service Priorities of \$20.349 million gross and \$0 net are recommended in order to proceed with the 70% Diversion Plan. These service priorities are 100% funded from the new volume-based user fees as included in the report entitled "Final 2008 Fees - Getting to 70% Diversion by 2010" which is going to Budget Committee in February 2008.
- The 2008 Recommended Budget provides funding to manage residual waste of 650,540 tonnes, recyclables (single stream) of 235,498 tonnes, Source Separated Organics of 136,613 tonnes and Leaf & Yard Waste of 98,222 tonnes.

- The 2008 Recommended Budget also provides collection frequency as follows: once every two weeks for recycling, waste and durable goods and once a week for green bins. These service levels are supported by a fleet of 319 collection vehicles and 934 positions.
- Solid Waste Management Services currently provides services to over 500,000 single family homes with plans to expand to 500,000 apartment/condominum units in 2008/2009.
- For 2008, Solid Waste Management Services will begin the transition where multi-residential buildings and single-family houses will be charged a user fee for waste services in order to fund the move toward a target of 70% waste diversion by the year 2010. The focus of the 2008 Operating Budget will enable staff to secure long term processing and residual waste treatment capacity, manage closed landfill sites as well as addressing Council priorities, such as a Clean & Beautiful City.
- Beginning in 2008, Solid Waste Management Services will develop new diversion initiatives such as Multi-Unit Mandatory Diversion Enforcement and green bins in Multi-Unit Residences, Improved Recycling Cart Capacity and On-Floor Carts for Apartments.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for Solid Waste Management Services of \$276.729 million gross and \$182.158 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Program Support	47,921.5	10,348.5
Collection	95,474.7	92,162.4
Transfer	24,164.5	14,094.8
Processing	43,138.8	19,801.1
Disposal	66,029.2	45,751.3
	<hr/>	<hr/>
Total Program Budget	<u>276,728.7</u>	<u>182,158.1</u>

2. the Deputy City Manager and Chief Financial Officer report back to Budget Committee in-year on the appropriate adjustments to the 2008 Recommended Operating Budget to reflect the 2008 phased implementation of the transition to a user fee supported budget which includes a tax rebate program once the volume-based user fee structure has been implemented;
3. the General Manager Solid Waste Management Services and the Deputy City Manager and Chief Financial Officer report to Budget Committee as part of the 2008 Year-End Variance Report on the actual net contribution to the Waste Management Reserve Fund as a result of the implementation of new user fees in 2008.

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	% Unspent
GROSS EXP.	226,419.7	251,733.3	246,651.0	5,082.3	2.0
REVENUES	58,037.8	69,575.2	69,164.8	410.4	0.6
NET EXP.	168,381.9	182,158.1	177,486.2	4,671.9	2.6
Approved Positions	1,366.1	1,304.5	1,304.5	0.0	0.0

Source: *Projected Actuals Based on the September 30, 2007 Variance Report restated to reflect various approved in-year technical adjustments totalling \$5.447 million gross and \$4.330 million in revenue.

2007 Experience

Solid Waste Management Services' September 30th Variance Report indicates projected year-end actual expenditures of \$177.486 million net. This represents a positive variance of \$4.672 million or 2.6% below the Program's 2007 Approved Operating Budget of \$182.158 million net.

The net favourable variance as of September 30th of \$4.672 million net is due primarily to three factors:

- Cost containment measures of \$3.731 million net comprised of the following: \$1.987 million from the delay of implementation of the new single family waste containers as well as delaying diversion enforcement for single homes and reduced overtime. \$0.908 million in service level adjustments include reduced litter collection (\$0.280 million) and delaying the start of door-to-door collection for townhouse developments (\$0.400 million), cancellation of yard waste collection after December 15, 2007, (\$0.128 million), elimination of the night-shift at the Disco Transfer Station (\$0.100 million) and \$0.837 million in reduced discretionary spending on conferences, training and advertising.
- Lower tonnages at transfer stations resulting in lower costs to ship waste to Michigan of \$1.3 million.
- Lower revenues of \$0.410 million mainly due to higher revenue from the sale of recyclable material offset by lower than planned Green Lane revenues and lower draws from the Waste Management Reserve Fund as the implementation of the 70% Diversion Plan has been delayed.
- Actual positions are projected to be 1,304.5 by 2007 year-end which is on budget.

2007 Cost Containment Savings

The cost containment savings for Solid Waste Management Services total \$3.731 million (see table below). Continued cost savings for 2008 total \$1.337 million due to delayed implementation of diversion enforcement and recycling initiatives.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
Hiring Freeze/Salary Savings:			
Delayed implementation of mandatory diversion enforcement.	1,730.3	400.0	Delay in achieving waste diversion goals will cause reduction in startup costs for the waste reduction levy and the new single family waste container implementations as well as delayed implementation of diversion enforcement for single homes.
Reduce overtime expenses.	257.0	387.7	Increased risk of collection delays or late collections.
Sub-total	1,987.3	787.7	
Service Level Adjustments:			
Eliminate night-shift at the Disco Transfer Station.	100.0		Customers will be required to go to other transfer stations open during night hours.
Early layoff of temporary staff in litter function.	230.0		Reduced service will result in an increase in litter across the City.
Reduce the number of contracted litter vacuum equipment on the street from 12 to 10 daily.	50.0		Will result in more visible litter on the street.
Cancellation of yard waste collection after December 15, 2007.	128.0		Yard waste collection may not be completed by December 15, 2007.
Delay startup of door to door collection for townhouse developments.	400.0	400.0	Townhouse residents will not receive curbside collection, and be required to carry waste to a central location in the development.
Sub-total	908.0	400.0	
Discretionary Savings:			
Reductions for conferences, seminars, training, equipment, advertising & promotion	835.9	150.0	
Sub-total	835.9	150.0	
TOTAL COST CONTAINMENT	3,731.2	1,337.7	

Impact of 2007 Operating Variance on the 2008 Recommended Budget

- Solid Waste Management Services is currently forecasting to be under spent by \$3.731 million due to cost containment measures implemented in 2007. However, measures resulting in \$1.337 million in savings are recommended to continue into 2008 as detailed in the table above.
- Other 3rd quarter projected year-end variances included in the recommended base budget include the impact of lower expected tonnages at transfer stations which lowers the cost of shipping waste to Michigan. Year-end revenue shortfalls are expected to continue as revenue from the sale of recyclable materials is projected to be less than the 2007 sales projection. As a result, the 2008 Recommended Base budget has been adjusted by \$2.138 million net.

Section B: 2008 Operating Budget Overview**3-Year Operating Budget Overview**

The Solid Waste Management Services' Operating Budget supports the Multi-Year Business Plan to transition from tax based funding to a rate-based funding model to reach the 70% diversion target by 2010. 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 2008, Solid Waste Management program will expand 2007 service levels and begin the implementation of user fees based on waste output 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 such as Multi-Unit Mandatory Diversion Enforcement and green bins in Multi-Unit Residences, Improved Recycling Cart Capacity and On-Floor Carts for Apartments.
- Secure short/long term processing capacity for diverted material
- Undertake analysis of mixed waste residential processing requirements.
- Continue the perpetual care of former closed landfill sites

For 2008, Solid Waste Management Services will begin the transition where multi-residential buildings and single-family houses will be charged a user fee for waste services in order to fund the move toward a target of 70% waste diversion by the year 2010. The focus of the 2008 Operating Budget will enable staff to secure long term processing and residual waste treatment capacity, manage closed landfill sites as well as addressing 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.

The 2009/2010 Outlook currently includes funding for initiatives which advance strategic priorities to achieve the 70% diversion target. 2009 will be the first full year that Solid Waste Management Services will be funded by user fees based on volume instead of the traditional property tax base. COLA for future contract settlements with Local 416/79 and non-union wage settlements are not currently included in 2009/2010 as these are dependant on future negotiations.

Challenges and Issues

Given the substantial resources required to achieve the 70% diversion target, 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 somewhat mitigated with the purchase of the Green Lane Landfill site in Ontario. In addition, the 2008 Recommended Budget includes provision for volume rate based user fees to offset cost to implement recycling initiatives as part of the 70% Diversion Plan. Achieving 70% Diversion is dependant for the most part on the success of the rate based user fee program providing stable funding. New/enhanced service level priorities recommended for 2008 total \$20.349 million for the 70% Diversion Plan initiatives to be funded through new user fees.

Challenges for Solid Waste Management Services include:

- Managing multiple new waste diversion initiatives to meet the 70% reduction target by 2010, with fluctuating prices for sale of recyclable materials
- Implementing in 2008 the volume-based rate structure to generate \$237.5 million annually as recommended in the staff report entitled "Proposed Initiatives and Financing Model to Get to 70% Solid Waste Diversion by 2010" approved by Council at its meeting of June 19, 20 and 22, 2007.
- Undertaking analysis of mixed waste residential processing requirements.
- Continued liability for perpetual care of former closed landfill sites and adequacy of the Perpetual Care Reserve Fund, risk of Michigan border closure, although mitigated to some extent with the purchase of the Green Lane Landfill,
- Managing the integration of new the Green Lane Landfill site.

Strategic Priorities

The 2008 Recommended Operating Budget for Solid Waste Management Services directly addresses, through a number of initiatives, the following strategic priorities outlined in the Council's policy agenda:

- ***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 2008 Recommended Operating Budget directly addresses the above priority, by creating a team from various ABCDs 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.

- ***Climate Change, Clean Air and Sustainable Energy Action Plan***

Solid Waste Management Services is involved in several initiatives that will affect the environment in terms of climate change, clean air and sustainable energy:

- Increased waste diversion (to 70% by the year 2010):

Several new initiatives corresponding to the above priority have been approved by Council and will be funded through the new volume rate based user fee system which will generate an additional \$54 million on an annualized basis. New Solid Waste Management projects totaling \$20.349 million, supported by new user fees, will allow the City to achieve a waste diversion rate of 70% by the year 2010. These projects will be phased-in during 2008 for multi and single residential buildings and will improve recycling, residual waste and organics collection and processing. By diverting waste from landfills, less biogas is produced which benefits the environment. Biogas will also be investigated as a potential source of energy generation. Increased contributions toward the perpetual care of landfills are also recommended in 2008.

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.
- Building a composting plant that will increase capacity and provide and provide long term stability for the Green Bin Program.
- Enforce mandatory waste diversion practices for apartments & condominiums.
- Expand recycling activities in apartments & condominiums by providing on-floor carts.
- 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 green bins, garbage and recycling carts that will increase their ability to compost and recycle in order to achieve diversion targets.
- Establishing Curbside collection of durable and reusable goods commencing on July 1, 2008 for multi-unit residences and November 1, 2008 for houses.

- Implementing comprehensive on-going promotion and education campaign aimed at changing the purchasing behaviour of residents.
- Renewable Energy Systems with landfill gas utilization:
 - At its meeting of July 16, 17, 18, & 19, 2007, City Council adopted recommendations embodied in the staff report entitled “Climate Change, Clean Air and Sustainable Energy Action Plan: Moving from Framework to Action”. Solid Waste Management has focused on utilizing digester and landfill gases as requested in the following recommendations outlined from the amended report:
 - i Direct the General Manager of Solid Waste Management to report on plans to collect and utilize landfill gas at the recently acquired Green Lane Landfill site and plans to utilize digester gas from the City’s anaerobic digestion facilities that process organic materials collected through the Green Bin program.
 - ii Authorize the General Manager of Solid Waste Management Services to negotiate and execute an Agreement between the City of Toronto, the Toronto and Region Conservation Authority and Toronto Hydro Energy Services Inc. (THESI), to install and operate electrical generation equipment to utilize methane from the Thackeray Landfill Site.

The current status of various landfills include Keele Valley which generates 20MW of energy per year, Beare Road generates 2 MW, and Brock West generates 2MW. Green lane currently collects and flares landfill gas to reduce air emissions. The Program is recommending moving forward with a Request for Proposal for landfill gas utilization at Green Lane to generate electricity. At the Thackeray landfill plans are currently underway to introduce gas flaring to reduce air emissions by mid-year 2009.

- Greening of Collection vehicles with bio-diesel. All 324 collection vehicles are mandated to run on 5% bio-diesel to reduce harmful emissions. Solid Waste Management Services is currently working with Fleet Services to introduce more vehicles during 2008 that meet this standard.
- Greening of litter collection vehicles with vacuums and sweepers incorporating higher emission standards for particulate matter. Solid Waste Management Services is currently working with Fleet Services to introduce more vehicles during 2008 that meet this standard and with the Toronto Environment office to test current vehicles and refine standards.
- Use of green roofs where possible at Solid Waste Management facilities. Green roofs are currently planned for the Dufferin Transfer Station Admin building, the Bermondsey and Ingram Collection Yards and the Disco & Dufferin Separated Source Organics Processing Plants. Green roof technology will reduce air emissions by saving energy and reducing water use.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Approved. Budget	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
					2009	2010
	\$	\$	\$	%	\$	\$
GROSS EXP.	251,733.3	256,379.7	4,646.4	1.8	1,240.9	552.0
REVENUE	69,575.2	74,221.6	4,646.4	6.7	1,240.9	552.0
NET EXP.	182,158.1	182,158.1	0.0	0.0	0.0	0.0
Approved Positions	1,304.5	1,292.1	(12.4)	(1.0)		
NET TARGET		182,158.1			0.0	0.0
\$ Over / (Under) Program Target		0.0			0.0	0.0
% Over / (Under) Program Target		0.0%			0.0%	0.0%

2008 Recommended Base Budget

- The 2008 Recommended Base Budget of \$182.158 million net is at target. The 2008 Recommended Base Budget will largely serve to maintain service levels offered in 2007.
- The gross expenditure increase of \$4.646 million is mainly due to cost-of-living adjustments (COLA) that average 3.25% for 2008 are non-discretionary outlays that total \$2.334 million. Also included are \$5.409 million for annualization of fully funded operating costs for the Green Lane Landfill. Non-labour inflationary increases of \$2.040 million and \$0.540 million for the on-going cost of 2007 harmonization of non-union employees wage grades.
- Service level reduction options totaling \$6.283 million offset the base pressures and include \$4.293 million for the in-sourcing of the York Collection contract, various divisional efficiencies and additional cost containment savings (\$1.337 million) and a reduction of service at transfer stations and for litter pick-up (\$0.653 million).
- Revenues are \$4.646 million higher than 2007 mainly due to revenues from the Green Lane operation, increased contributions from the Waste Management Reserve Fund offset by lower revenue from the sale of recyclable materials, paid transfer station tonnage and landfill gas royalties.
- The 2008 staffing complement of 1,292.1 approved positions, 12.4 approved positions lower than 2007. This is due to an increase of 2 approved positions for Household Hazardous Waste and decreases of 6 approved positions due to the closure of a transfer station night shift, 4 positions for chemists being transferred to Toronto Water and a reduction of 4.4 positions for litter pick-up.

2008 Key Cost Drivers and Reduction Strategies

- An additional \$10.930 million is required to fund the annualized cost of new services approved in 2007 such as Green Lane Operations (\$5.409 million), the cost of merit and step increases, union settlements and wage increases for exempt staff (\$2.957 million and non-salary economic factors (\$2.040 million). As well, other base changes (\$2.196 million) include the Separated Source Organics program, Household Hazardous Waste Collection, the Etobicoke collection contract and a provision for the leap year as well as fleet service charge increases for rental rates and fuel.
- Reduced revenues for the sale of recyclable materials, paid transfer station tonnage, landfill gas royalties and user fees from other City programs result in a \$2.137 million pressure.
- To mitigate these pressures, the 2008 Recommended Base Budget incorporates, the following:
 - A contribution from reserves to offset the cost of operating the Green Lane landfill of \$5.409 million.
 - A contribution of \$0.543 million from the Waste Management Reserve to offset general operating expenses as the Program moves towards funding from the new rate based user fees which will begin to be implemented in 2008.
 - the closing of the night shift at the Disco Transfer Station for \$0.359 million as well as reducing litter collection by \$0.294 million.
 - Savings from in-sourcing collection for York and for white goods (\$4.682 million).
 - Divisional efficiencies, reduced overtime, a new multi-unit collection contract and implementation of cost containment (\$0.948 million).

2009 and 2010 Outlook: Net Incremental Impact

The 2009 and 2010 Outlooks moves forward with expanded service under the 70% Diversion Plan. The 70% Diversion Plan will be funded from user fees and generates no net incremental impact on the City's tax base. New user fees will offset the impact of various annualized adjustments in 2009. These annualizations include provision for a net incremental reduction for 2009 for the reversal of the additional day for the leap year (\$0.449 million), Household Hazardous Waste Collection service extension (\$0.029 million), annualization of the newly negotiated Etobicoke Collection contract (\$0.665 million) and reversal of a draw on the Waste Management Reserve Fund (\$3.246 million). There is presently no provision for COLA increases in either 2009 or 2010 as these will be the subject of future negotiations.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved						
1	Contribution to the Perpetual Care of Landfill Reserve Fund	3,500.0	0.0			
1	Solid Waste Management Reserve Contribution	7,225.8	0.0			
1	70% Diversion - Multi-Unit Mandatory Diversion Enforcement	807.9	0.0	10.0		
1	70% Diversion - SSO in Multi-Unit Residences	359.2	0.0	2.2		
1	70% Diversion - Additional Recycling Materials	856.2	0.0			
1	70% Diversion - Reuse Centres	200.0	0.0			
1	70% Diversion - Collection of Usable and Durable Goods	302.1	0.0	15.0		
1	70% Diversion - Improved Recycling Cart Capacity	1,762.1	0.0	3.3		
1	70% Diversion - Rate Based User Fee Implementation - Start Up	3,181.8	0.0	4.0		
1	70% Diversion - Reduction/Promotion/Education/Awards	1,944.4	0.0			
1	70% Diversion - On-Floor Carts for Apartments	209.5	0.0			
(b) Enhanced Service Priorities - Program Initiated						
Sub-Total Enhanced Services		20,348.9	0.0	34.5	0.0	0.0
(a) New Service Priorities - Council Approved						
(b) New Service Priorities - Program Initiated						
Sub-Total New Service Priorities		0.0	0.0	0.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		20,348.9	0.0	34.5	0.0	0.0

Recommended Enhanced Service Priorities – Council Approved:***Contribution to the Perpetual Care of Landfill Reserve Fund (\$3.5 million gross and \$0 net)***

Recommended contribution of \$3.5 million to the reserve fund dedicated to the perpetual care of landfills. Under provincial legislation, the Program is responsible for the perpetual care of 158 closed City landfill sites after primary operations have ended. Current projections indicate that the reserve fund will provide for perpetual care expenses only until 2011; therefore contributions are required. The 2007 Operating Budget did not include a contribution. The recommended contribution of \$3.500 million will be funded from revenue generated by the new volume-based rate structure for solid waste services.

70% Diversion Plan Initiatives:

All recommended enhanced service priorities discussed below are funded from new user fees based on the new volume-based rate structure for solid waste services to be implemented starting in July 2008.

Solid Waste Management Reserve Contribution – (\$7.226 million and \$0 net)

The enhanced service priority represents the remaining revenue generated from the new volume-based rate structure for solid waste services for single and multi-unit residential customers that is then contributed to the Waste Management Reserve in 2008. This contribution of \$7.226 million will fund the various ongoing initiatives to reach 70% diversion by 2010. The actual net contribution to the reserve will be included in the 2008 Year-End Variance Report.

Multi-Unit Mandatory Diversion Enforcement – (\$0.808 million and \$0 net)

This enhanced service priority of \$0.808 million provides funds to enforce the City's mandatory diversion by-law for multi-unit residential units through a progressive and escalating program of education and written warnings (effective June 2008). An additional manager and 9 technical positions are required to staff the new enforcement function, as well as the purchase of vehicles for bylaw officers.

SSO in Multi-Unit Residences – (\$0.359 million and \$0 net)

This enhanced service priority, recommended in the amount of \$0.359 million will begin implementation of source separated organics (SSO) collection (once a week) for multi-residential buildings beginning November 2008. The program will be phased over approximately one and a half years. Funding is required for an additional 2 student worker positions.

Additional Recycling Materials – (\$0.856 million and \$0 net)

\$0.856 million is recommended to expand the recycling programs to include polystyrene and plastic film and will be implemented once the new recycling carts are in use.

Reuse Centres (\$0.2 million and \$0 net)

This enhanced service priority provides funding of \$0.200 million to study the establishment of reuse centres across the City. This pilot program will divert reusable goods to charitable organizations in Toronto that accept and utilize reusable goods and will determine the best method and the quantity of materials that would be acceptable to these charities for reuse.

Collection of Usable and Durable Goods (\$0.302 million and \$0 net)

\$0.302 million is recommended to provide all residents with collection of durable goods for reuse and recycling (once every two weeks). This will include some of the larger, bulkier items generated by residents such as carpets, furniture, mattresses and building materials. Materials not suitable for reuse due to their age and quality would be recycled. An additional approved 15 positions will be required to implement the program.

Improved Recycling Cart Capacity (\$1.762 million and \$0 net)

\$1.762 million is recommended to provide larger recycling carts with wheels to all houses in the City by year-end 2008. The recycling carts will be offered to residents in three sizes. The addition of more materials to the recycling program has and will continue to increase the need for additional bin capacity. An additional 3 student workers is required to distribute the carts.

Rate Based User Fee Implementation - Start Up (\$3.182 million and \$0 net)

\$3.182 million is required for promotion, education, billing, customer services and administration of the approved volume - based rate structure for solid waste services for single and multi-unit residential customers. 4 student worker positions will assist in the start up of the program. Solid Waste Management is working in conjunction with Revenue Services to start up the Rate Base User Fee program.

Reduction/Promotion/Education/Awards (\$1.944 million and \$0 net)

The recommended \$1.944 million will provide a comprehensive promotion and education campaign aimed at changing the purchasing behaviour of residents regarding product packaging. The goal is to reduce waste to help achieve the goal of 70% Diversion by 2010, as well as generate collection and disposal savings for the City.

On-Floor Carts for Apartments (\$0.210 million and \$0 net)

\$0.210 million will provide recycling carts to multi-unit dwellings (in June 2008) to place in different areas of the building such as laundry rooms, different parking levels, the mailroom and other common areas. This initiative will provide approximately 50% of apartments with carts in 2008.

Section E: Issues for Discussion**2008 Operating Budget Issues****2008 Recommended Operating Budget vs. Guideline**

Solid Waste Management Services' 2008 Recommended Operating Budget is \$182.158 million net and is equal to the 2008 target. This has been achieved by implementing service level efficiencies and reductions as well as funding strategies, through rate based user fees, for enhanced service priorities to continue implementation of the 70% Diversion Plan as approved by Council. The service level adjustments required to achieve the 0% target include divisional efficiencies such as in-sourcing collection activities, reducing overtime and eliminating night service at the Disco Transfer Station. In addition, a \$0.543 million draw from the Waste Management Reserve Fund is also required.

70% Waste Diversion Program and New User Fees

Starting in 2008, Solid Waste Management Services will transition from being funded by property taxes to being funded through new user fees. The 2008 Recommended Operating budget will be adjusted in-year to reflect the phased implementation of the transition to a user fee supported budget which includes a tax rebate program. The implementation is to be phased as follows: Multi-residential Solid Waste Management services is to be implemented starting July 1, 2008; while single family-residential Solid Waste Management services will be implemented starting November 1, 2008.

The new user fees will be based on the volume of residual waste that property owners produce for curbside collection. Beginning in mid-2008, property owners will be required to pay an annual fee for a waste container provided by the City. These waste containers come in 3 sizes with the largest bin having the largest fee. The objective is to have users pay for waste collection based on the amount waste they produce and thereby encourage recycling and composting and ultimately increase waste diversion rates and decrease the volume of residual waste actually sent to landfills.

While user fees will be collected as property owners pay annual fees for their garbage bins, the portion of property taxes for Solid Waste Management will be refunded through a combined utility bill. The tax rebate will be based on refunding a base amount (equivalent to the smallest bin) of \$157 per bin for multi-residential customers and \$209 per bin for single-family. All residents will receive a credit on their utility bill (equivalent to the cost of the smallest bin) and depending on the size of bin chosen, residents may pay a premium (for medium or large size bins). The tax rebate program will be funded through Non-Program Budget.

As recommended in the report entitled "Final 2008 Fees - Getting to 70% Diversion by 2010" an additional \$58.1 million in revenues will be generated in 2008 from new user fees. The recommended base budget for Solid Waste Management Services will be reduced by \$58.1 million once the roll-out of the new bins begins in July for multi-residential and November for single-family residential. At the same time residents will receive a rebate equivalent to the proportion of their property taxes dedicated to Solid Waste Management. In addition, \$20.4 million has been recommended in 2008 for new/enhanced service priorities necessary to implement strategies and

2008 Operating Budget

Solid Waste Management Services

programs to help reach the waste diversion target of 70% by the year 2010 (*please see Section D for details*). This \$20.4 million will fund new initiatives (\$13.1 million), repayment of capital debt charges (\$1.8 million) and estimated contributions to the Waste Management Reserve Fund (\$5.4 million). As a result, the 2008 Recommended Operating Budget will be revised twice: in July 2008, for implementation of multi-residential customers bins and in November 2008, for implementation of single-family customers bins. The 2008 budget will be revised to \$276.7 million gross and \$124.1 million net to reflect these adjustments.

The following table summarizes the budget implications from transitioning to a user fee based program through 2008 and 2009:

\$ millions	2008 Budget						2009 Budget					
	Solid Waste Management			Non-Program Tax Rebate			Solid Waste Management			Non-Program Tax Rebate		
	Gross	Rev	Net	Gross	Rev	Net	Gross	Rev	Net	Gross	Rev	Net
Base Operating Budget	256.4	74.2	182.2	-	-	-	276.7	152.6	124.1	58.1	-	58.1
Total Base Adjustments	-	58.1	(58.1)	58.1	-	58.1	6.5	121.0	(114.6)	124.1	-	124.1
Base Operating Budget Revised	256.4	132.3	124.1	58.1	-	58.1	283.2	273.7	9.5	182.2	-	182.2
New Revenue Allocation:												
Base Pressures			-			-		9.5	(9.5)			-
New Service Priorities	13.1	13.1	-	-	-	-	12.1	12.1	-	-	-	-
Repayment of Capital	1.8	1.8	-				8.9	8.9	-			
Estimated Contribution to Reserve	5.4	5.4	-				19.1	19.1	-			
Operating Budget (at Year-end)	276.7	152.6	124.1	58.1	-	58.1	323.3	323.3	-	182.2	-	182.2

For 2009, the budget includes adjustments for inflationary increases and other incremental base changes for 2009 including the reversal the additional day for the leap year, annualization of the Etobicoke collection contract and a reversal of the 2008 draw from the Waste Management Reserve Fund. In addition to these base adjustments, annualized revenue (of \$124.1 million) from user fees results in a \$9.5 million net expenditure that is funded from user fees. Total new/enhanced service priorities of \$12.1 million are planned in 2009 and include annualization of the new 2008 initiatives (\$7.8 million) and further new service priorities for 2009 (\$4.4 million). \$8.9 million will fund repayment of capital debt charges and \$19.1 million will be contributed to the Waste Management Reserve Fund. This contribution amount will fund future waste diversion initiatives as well as future base operating pressures.

By year-end 2009, the entire Solid Waste Management program will be funded through revenue other than property taxes including sources such as WDO (Waste Diversion Ontario), the sale of recyclable materials and the new volume based user fees.

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.

Each year, funding is contributed to the reserve fund based on paid tonnages at transfer stations. For 2007 this resulted in a \$0.427 million contribution. For 2008, the amount is projected to be \$0.410 million. Additional 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 significant base pressures in this Program, and therefore was not recommended to be included in the Solid Waste Management Services 2007 Operating Budget. For 2008, a \$3.500 million contribution to the Perpetual Care of Landfill Reserve Fund is recommended to be funded from new user fees. For 2009 & future years, it is planned that the contributions increase incrementally by 5.5% per year, funded from user fees.

Appendix 1

Summary of Recommended Base Budget Changes

From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	1,341.6	246,286.4	65,245.0	181,041.4		
In-year approvals and technical adjustments	(63.8)	(1,509.4)	0.0	(1,509.4)		
70% Diversion by 2010 -Start-up	26.7	2,773.0	2,773.0	0.0		
Adjustment for Green Lane Debt Payment		3,963.2	1,463.2	2,500.0		
SWM ABCD User Fee Increase		0.0	94.0	(94.0)		
Corporate adjustments (insurance)		220.1	0.0	220.1		
2007 Approved Operating Budget	1,304.5	251,733.3	69,575.2	182,158.1	0.0	0.0
Prior year impacts		5,830.1	6,171.2	(341.1)		
Zero base items		(0.5)	0.0	(0.5)		
Economic factors (Salary & Benefits)		2,333.6	108.1	2,225.5		
Economic factors (Non-Salary)		2,039.8	143.2	1,896.6		
Adjusted Base Budget	1,304.5	261,936.4	75,997.7	185,938.7	0.0	0.0
Other base changes	(2.0)	630.6	(275.1)	905.6		
Base revenue changes		95.9	(2,041.7)	2,137.6		
Recommended Base Adjustments:						
Service efficiencies		(5,630.2)	(2.7)	(5,627.5)		
Revenue adjustments			543.3	(543.3)		
Minor service impact	(10.4)	(653.0)		(653.0)		
Major service impact						
Total Recommended Base Adjustments	(12.4)	(5,556.7)	(1,776.2)	(3,780.6)	0.0	0.0
2008 Recommended Base Budget	1,292.1	256,379.7	74,221.6	182,158.1	0.0	0.0
2008 Program Operating Target	N/A	N/A	N/A	182,158.1	0.0	0.0
% Over (Under) Program Target				(0.0%)	0.0%	0.0%
% Over (Under) 2006 Appvd. Budget				(0.0%)	0.0%	0.0%

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2008 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 September 2007 \$	Proposed Withdrawals (-) / Contributions (+)		
			2008 \$	2009 \$	2010 \$
Vehicle Reserve- Solid Waste Compactors -Collection Support	XQ1021	3,421.9	150.0		
(") -Equipment Replacement			8,417.4	12,817.4	
subtotal: Vehicle Reserve- Solid Waste Compactors	XQ1021	3,421.9	8,567.4	12,817.4	
Insurance Reserve Fund	XR1010	25,055.3	1,715.6		
Perpetual Care of Landfill Reserve Fund	XR1013	36,783.4	3,500.0	3,692.5	3,895.6
(") -Bermondsey Transfer Station Operations			110.6		
(") -Disco Transfer Station Operations			24.6		
(") -Ingram Transfer Station Operations			81.9		
(") -Victoria Park Transfer Station Operations			53.2		
(") -Dufferin Transfer Station Operations			8.2		
(") -Scarborough Transfer Station Operations			90.1		
(") -Commissioner Transfer Station Operations			41.0		
subtotal: Perpetual Care of Landfill Reserve Fund	XR1013	36,783.4	3,909.6	3,692.5	3,895.6
Waste Management Reserve Fund- to fund 2008 Base 70% Diversion	XR1404	24,401.1	(543.3)		
Waste Management Reserve Fund- 2008 Contribution from User fees			5,400.1	19,054.3	23,555.1
subtotal: Waste Management Reserve Fund	XR1404	24,401.1	4,856.8	19,054.3	23,555.1
Green Lane Reserve Fund Contribution	XR1408	232.7	672.8		
Green Lane Reserve Fund Contribution to Operating			(1,042.9)		
subtotal: Green Lane Reserve Fund	XR1408	232.7	(370.1)		
Green Lane Perpetual Care Reserve Fund	XR1409	90.5	261.6		
Green Lane Liability Trust	XT6109	100.0	101.9		
subtotal: Green Lane (XR1408, XR1409, XT6109)	Green Lane	423.2	(6.6)		
Total Reserve / Reserve Fund (Draws) / Contributions		90,084.9	19,042.8	35,564.2	27,450.7