

Memo



Date: June 22, 2011
File: 1345-20
To: City Manager
From: Manager, Strategic Projects
Subject: Sanitary Landfill/Recycling Fees

Recommendation:

THAT Council receives, for information, the report from the Manager, Strategic Projects dated June 22, 2011 regarding the Amendment to the Solid Waste Management Regulation Bylaw No. 10106 Sanitary Landfill/Recycling Fees;

AND THAT Council directs staff to return to Council with a policy regarding the development of uniform utility cost models based on the principle of full cost of service and revenue neutrality to ensure long-term fiscal viability;

AND FURTHER THAT Council directs staff to develop a Landfill Reserve Fund Strategy in 2012 to assure that regulatory risks and landfill replacement are properly secured in addition to the capital and closure allocations.

Purpose:

In July 2010 Council considered rate increases in the Solid Waste Management Regulation By-Law and recommended (R661/10/07/12) that staff build a full financial model for the solid waste functions and report back on the model and any required by-law amendments.

The purpose of the report is to provide new information in open Council related to the cash flow projections derived from the financial model, and outline the proposed rate increases necessary to maintain financial viability of Solid Waste Management services.

Background:

The financial model for the Glenmore Landfill operation was initiated in 2009. Since then there have been several changes including; the introduction of new accounting software, the realignment of budgets within City of Kelowna departments, the introduction of automated collection, and the closure of the Westside Landfill. The latter change has made the Glenmore Landfill the only solid waste disposal facility in the Central Okanagan region.

In response to these changes, it was determined that a long-term cost-of-service model that encompasses all of the solid waste services provided by the City of Kelowna would enhance transparency and the efficient management of the Solid Waste Management function. The expanded financial model could be used to predict future capital works impacts on cash flow, help clarify cost of service liabilities, and implement rate changes in a more controlled and predictable manner.

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The cost-of-service review and reconstructed financial modeling considered the following solid waste programs provided by the City:

- waste reduction and education programs;
- curbside and depot collection services;
- processing of recyclables collection through curbside and depot programs;
- processing of yard waste (e.g. Glenmore Grow composting); and
- waste handling and disposal.

Several supporting reports were prepared by CH2M HILL and are summarized in Attachment 2: CH2M HILL Summary Documents. These reports, combined with the financial model projections provide a picture of the actual cost of these services and provide the rationale for revisions to the Sanitary Landfill/Recycling Fees, Collection Fee, and Solid Waste Reduction Services Fee needed to pay for the projected costs of capital works, operating costs, and statutory closure and post-closure reserves. The outcomes from the review process are summarized below.

Waste Reduction and Education Programs:

These services are provided on a regional basis through the Waste Reduction Office (WRO) which is hosted by the RDCO. This review identified that the City of Kelowna's contribution towards the WRO operating costs have remained relatively constant. However, changes in the way that the City of Kelowna accounts for costs for this program have resulted in a reduction in the portion of the Solid Waste Reduction Services Fee that goes towards funding the City's commitment to the WRO.

Curbside and Depot Collection Programs:

It is expected that during 2011 and 2012, the City of Kelowna will be required to pay a "fuel surcharge" to the curbside collection service contractor in accordance with the contract terms. This, combined with consumer price index increases, and proposed Sanitary Landfill Fee increases will require increases in both the Collection Fee and the Solid Waste Reduction Services Fee.

The City of Kelowna's contribution and its share of the costs for the regional recycling depot program (managed by the WRO) are such that the service is essentially provided on a revenue-neutral basis.

Processing of Residential Recyclables:

Since the Solid Waste Reduction Services Fee was last amended, the contract terms with the private business that processes recyclable materials (e.g. cardboard, paper, newsprint) collected from City of Kelowna residents have been renegotiated. This, combined with changes in the way that the City of Kelowna accounts for the costs of this program, has resulted in the need to adjust the portion of the Solid Waste Reduction Services Fee that goes towards funding this service. The amount of the adjustment required is also positively affected by stronger-than-anticipated markets for recyclable materials.

Glenmore Landfill/Glenmore Grow Operational Costs:

The cost of operating the Glenmore Landfill has not increased significantly over the past several years, which is a reflection of the amount of waste being delivered to the facility and operational efficiencies. The recent downturn in the regional economy has reduced the amount of wastes delivered to the site, but this has been countered somewhat by the closure of the Westside Landfill and increased amount of waste received from the West Kelowna/Peachland area. As a result, revenues at Glenmore Landfill have not been significantly impacted by the economic downturn.

The cost-of-service review identified that surplus revenues from disposal operations at the Glenmore site continue to offset the operating costs associated with the site's recycling, wood waste and yard waste processing programs. It is proposed that financial offsets of these programs should continue, but with formal Council direction. In the case of recycling, wood waste and yard waste programs, there are

recognizable benefits to diverting these materials from burial including the extension of the landfill's lifespan, and decreasing the potential of yard waste being disposed of through illegal dumping.

The cost-of-service review also identified that surplus revenue from disposal operations also offsets the costs associated with the reduced rate structure for self-hauled (i.e. small-load) waste loads. However, it is also proposed that the lower rate structure associated with self-hauled wastes should also continue with formal Council direction, albeit with a slight rate increase. Although the rates for self-hauled materials will remain less than the cost of service, this should help manage illegal dumping and abuse of the automated curbside collection program.

Attachment #3: Cost of Service Table outlines the 2010 service area costs, who is paying the cost and the net balance of revenues less costs.

Glenmore Landfill Capital Works Plan:

The most significant impact to the financial "picture" of the City's solid waste function results from the planned capital works at the Glenmore Landfill over the next twenty years. In addition to the \$12.2 million for Phase 1 of John Hindle Drive/Landfill Facility Entrance/Landfill Administration Building (2011-2013), there is an annual capital requirement of \$2.0 million per year for gas collection-utilization infrastructure, on-site road building, leachate collection infrastructure and surface water-groundwater protection. Modifications to the Phase 3 (southern area) of the Glenmore Landfill are also required so waste disposal can continue beyond 2018, and a new landfill compactor unit will have been budgeted in 2011 to sustain the operation.

These capital projects would normally be paid for from the City's Landfill Reserve Fund. However, based on the current valance Fund and anticipated costs during the next 10 years, there is insufficient funding to pay for the necessary capital works.

New Provincial Regulations:

New Extended Producer Responsibility (EPR) regulations for packaging are being adopted by the Province and are expected to result in a reduction in waste quantities delivered to the Glenmore Landfill in the 5 to 10 year period. This reduction will reduce the amount of revenue obtained through Sanitary Landfill Fees. However, the reduction may also result in reduced annual operating costs, and may allow some capital projects (e.g. new landfill cell construction) to be deferred.

An update to the Province's Landfill Criteria is also in progress. The Landfill Criteria were last updated in 1991, and there is the potential that the Ministry of the Environment will make significant changes to design, operating and closure requirements. This could result in the need for studies and additional works if and as new criteria are implemented. This is currently an unfunded liability.

Disposal Fees in Adjacent Jurisdictions:

Currently, the disposal fees at the Glenmore Landfill (i.e. \$55/tonne) are significantly lower than at many nearby jurisdictions (attachment # 4: Tip Fee Comparisons). There is the potential that these lower rates will create a financial incentive for waste generators outside of Regional District users to divert their waste to the Glenmore Landfill. No significant increase in waste importation has been observed in the last year, but staff is continuing to monitor this situation as disposal fees in other jurisdictions increase.

Proposed Fee Changes:

It is proposed that the Sanitary Landfill/Recycling Fees charged at the Glenmore Landfill be increased to reflect projected operating and capital costs and significant costs for capital construction to maintain the fiscal viability of the only disposal facility in the region on a "user-pay" basis without support from City of Kelowna's tax base.

Attachment # 5, Changes to Solid Waste Management By-law 10106, outlines the proposed changes to Sanitary Landfill/Recycling Fees. The main changes are:

- an increase in the disposal rate for garbage to \$65/tonne from the current \$55/tonne, and
- an increase in the charge for self-hauled load to \$10 from the current \$6.

No changes to the fees for acceptance of yard waste are proposed.

Internal short term borrowing will be required over the next 3-5 years to level out cash flow projections.

These changes in Sanitary Landfill Fees would impact on the approximately 34,400 residential households within the City that receive curbside collection service that would be reflected in the Solid Waste Reduction Services Fee. This is because this will now pay the increased tipping fee associated with average household garbage. Additional increases to the Solid Waste Reduction Services Fee and Collection Fee are required as a result of fuel surcharges, scheduled contract increases, and contract renegotiations. Overall, a \$20.48 increase to residential customers for service is required. It is proposed that these increases be implemented over a two-year period in accordance with Attachment #6: 2011-2013 Residential Fees.

Next Steps for financial model refinement:

1. approve by-law with tip fee increases for gate fees and by-law schedule fees with the curbside portion being phased in over two years;
2. review reserve fund to manage operational contingencies, recycled material market fluctuations and regulatory changes;
3. review financial model on an annual basis to assure rate stabilization and cash flow certainty.

Internal Circulation:

Director, Civic Operations
Director, Financial Services

Legal/Statutory Authority:

Provincial Legislation requires that Closure-Post Closure Funding be established as a reserve.

Legal/Statutory Procedural Requirements:

The Community Charter requires that the City must consult with Interior Health (IH) regarding solid waste bylaw changes. IH have no concerns.

Financial/Budgetary Considerations:

Attachment #5 Bylaw No. 10565 being Amendment No. 5 to the Solid Waste Management Regulation Bylaw No.10106 proposes fee increases. If fee increases are not approved, the landfill entrance facilities project and the first phase of the John Hindle Drive project will need to be deferred. This project will be ready for tender in the next few weeks.

External Agency/Public Comments:

Both formal communication and meetings were held over the last year with customers of the Glenmore landfill including the Regional District of the Central Okanagan, West Kelowna, Peachland, Westbank First Nation and Lake Country (Technical Advisory Committee).

The RDCO Waste Reduction Office notes this subject has been on previous agenda of the interregional Board meeting and that:

- Extended Producer Responsibility under the Recycling Regulation will see reduction in waste buried over the next 5-10 years with emphasis on packaging and demolition and construction wastes which are a large volume of municipal solid waste now being buried;
- higher fees can act as a form of encouragement for recycling and waste reduction which, if successful, could extend the service life of the Glenmore landfill; RDCO's current waste reduction program emphasis is on the commercial and construction sectors;
- higher fees might also encourage illegal dumping which must be included in the cost of the solid waste business.

All other local government customers of the regional waste service will be advising their customers as soon as possible of the change.

The RDCO Waste Reduction Office will prepare a news release to notify customers of the tip fee changes to come into effect January 1, 2012.

Considerations not applicable to this report:

Personnel Implications:
Community & Media Relations Comments:
Legal/Statutory Procedural Requirements:
Existing Policy:
Community & Media Relations Comments:
Alternate Recommendation:

Submitted by:



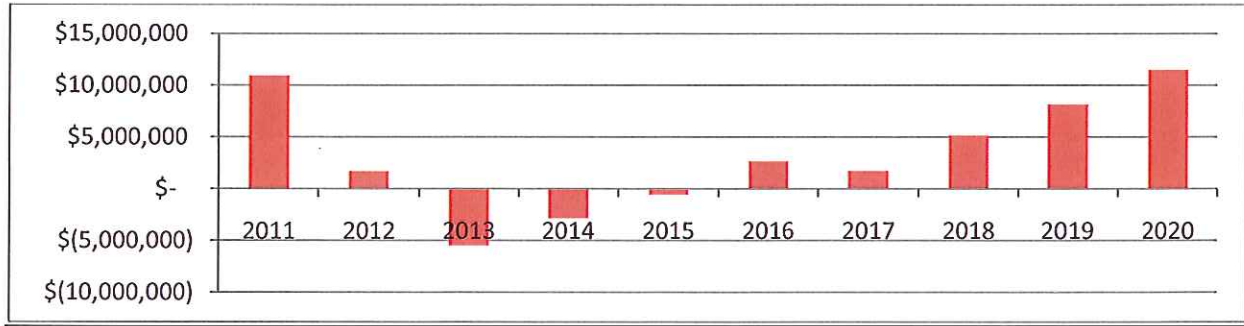
For M. Watt, Manager, Strategic Projects

Approved for inclusion:  R. Cleveland, Director, Infrastructure Planning

- Attachment 1: Financial Plan Bar Graph
- Attachment 2: Summary of CH2M HILL Technical Memoranda supporting new financial model
- Attachment 3: Cost of Service Table
- Attachment 4: Tip Fee Comparisons
- Attachment 5: Solid Waste Management By-Law Schedule Changes (By-law 10565)
- Attachment 6: 2011-2013 Residential Fees Changes

cc: General Manager, Community Sustainability
General Manager, Community Services
Director, Financial Services
Director, Civic Operations
Director, Community & Media Relations

ATTACHMENT # 1: RESERVE CASH BALANCE FROM FINANCIAL MODEL



ATTACHMENT #2: Summary of CH2M HILL Technical Memoranda reviewed for new financial model

Waste Import (Feb 2009)

It was recommended by this review that there should be a \$2.00/tonne differential for waste import with the benefit redirected to Kelowna. As part of the Budget approval in Dec. 2010, Council endorsed an on-going \$200,000 transfer of surplus funds from the Landfill Reserve to General Revenue to benefit Kelowna residents through a reduced tax increase.

Capital Plan (Nov 2009) and (2011) Capital Plan Update Chart

The existing Kelowna 10-year Capital Plan needs to be amended to account for the Glenmore Landfill Comprehensive Site Development Plan (July 2008) to include landfill entrance facilities, new equipment (compactor), gas, leachate and drainage infrastructure. The current estimate is \$28-30 million over the next 10-15 years and includes phase 3 area development.

Operating Cost Review (Jan 2010)

The review of 2007 and 2008 costs of services such as landfilling (burial), recycling, wood and yard waste handling /processing and composting shows that yard waste processing and composting is subsidized by including it in the cost of other services. This has been normal practice to divert organic materials from burial that saves landfill airspace and reduces GHG. None the less, yard waste handling and processing costs are escalating and that increase is addressed in the new financial model.

Solid Waste Services Reduction Fees Review (Feb 2010)

This 'cost of service' review supported staff recommendations for residential curbside fees adjustments in March 2009. The fees are associated with automation, waste reduction office operation, recycle processing and recycle depot operation. The automation launch costs are completed and recycle markets have slowly recovered. This cost reduction is reflected in the new financial model. A residential yard waste service review is in progress and may have future impacts.

Glenmore Landfill Financial Model (Feb 2010)

The model, in addition to cost/tonne calculations for operations also calculates airspace used and remaining, and includes anticipated revenues including future revenues from gas and electrical sales and reserves.

Reserve Funds (Mar 2010)

In 2010, the reserve fund is expected to receive a net surplus after all expenses of \$2.0 million. This is used to fund future capital and closure-post closure regulatory requirements, as well as land and emergency operational contingencies. This fund is now inadequate to meet the projected needs within the 10 year horizon and is addressed in the new financial model.

Glenmore Landfill Closure/Post-Closure (Apr 2010)

Sequential closure of sections of the landfill will begin in 2012. Updated costs for 2012-2022 closures are reflected in the new model.

Cost of Service Review (May 2011)

This report compared the actual costs of services to the fees charged to determine true cost of service and who pays.

Solid Waste Financial Model (May 2011)

The model was completed using the 2010 Cost of Service, 2011-2030 capital, 2011-2030 growth projections including tonnage, Operations costs, Reserve capital, closure -post closure costs, and all solid waste reduction costs (recycle processing and Waste Reduction Services). This model allows staff to predict cash flow fluctuations, assess for changes to by-laws and to stabilize tip fees and charges to customers.

ATTACHMENT #3: Current Cost of Service Summary

Service/Program	Revenues	Costs	Net Cost/ (Surplus)
Waste Reduction and Education			
WRO Operations	\$596,291	\$426,988	(\$169,303)
Collection Services			
Residential Curbside Collection	\$4,674,727	\$4,687,542	\$12,815
Regional Depot Program (RDCO)	\$352,807	\$330,994	(\$21,813)
Processing of Residential Recyclables			
Regional processing contracts (RDCO)	\$1,513,861	\$1,055,386	(\$458,475)
Glenmore Landfill/Glenmore Grow			
Disposal operation and management	\$6,552,648	\$3,127,361	(\$3,425,287)
Recycling activities	\$637,499	\$945,437	\$307,938
Wood/yard waste handling and composting	\$671,220	\$1,336,005	\$664,785

ATTACHMENT # 4: Landfill Tip Fee Comparisons (MSW)

	Current			(proposed for 2012)			
	Gate	Min	DLC	Gate	Min	DLC	Landfill
	(\$/mT)	charge	mixed	(\$/mT)	charge	mixed	capacity
		(flat	load		(flat	load	(yrs)
		rate)	(\$/mT)		rate \$)	(\$/mT)	
CORD	55	6	150	65	10	150	70
CSRD	70	5	70	70	5	140	50-70
RDEK	0	0	200				
TNRD	60	5	60	60	5	60	40-50
NORD	85	3	155	86	3	156	23
RDCK	80	5	260	80	5		35
RDOS	55	5	125/200	55	5	125/200	40-50
RDKB	80	7	130	85	7	130	50
Metro	92-101						
Vancouver	97	(Green Waste	\$65)				
Edmonton	68	(Green Waste	\$35)				
Calgary	85						
New York	200						

ATTACHMENT #5

CITY OF KELOWNA

BYLAW NO. 10565

Amendment No. 5 to the Solid Waste Management Regulation
Bylaw No. 10106

The Council of the City of Kelowna, in open meeting assembled, enacts as follows:

1. THAT SCHEDULE "B" - CURBSIDE PICK UP LIMITS AND COLLECTION FEES of the "Solid Waste Management Regulation Bylaw No. 10106" be amended by:
 - a) deleting in Section 2 the paragraph that reads:

"\$176.82 per year, for each individual *Collection and Solid Waste Reduction Service fee* and an additional \$72.00 per year *Large Cart Fee* for each individual *Residential Dwelling Premise* using the 240 litre Cart collection service for *Garbage* as per section 2.2.15. Notwithstanding this provision, where a waiver of service has been approved pursuant to section 2.1 of this bylaw, a *Collection Fee* shall not be levied, however a *Solid Waste Reduction Services Fee* shall be levied for landfill disposal costs, waste reduction activities, recycling depot and recycle processing facility operations. This fee for *Solid Waste Reduction Services* is set at \$89.42 per year for each *Residential Dwelling Premise*."

And replacing it with:

\$187.92 for 2012 and \$197.30 per year starting in 2013, for each individual *Collection and Solid Waste Reduction Service fee* and an additional \$72.00 per year *Large Cart Fee* for each individual *Residential Dwelling Premise* using the 240 litre Cart collection service for *Garbage* as per section 2.2.15. Notwithstanding this provision, where a waiver of service has been approved pursuant to section 2.1 of this bylaw, a *Collection Fee* shall not be levied, however a *Solid Waste Reduction Services Fee* shall be levied for landfill disposal costs, waste reduction activities, recycling depot and recycle processing facility operations. This fee for *Solid Waste Reduction Services* is set at \$99.04 for 2012 per year and \$108.42 per year for starting in 2013 for each *Residential Dwelling Premise*. *Collection Fee* portion of the *Collection and Solid Waste Reduction Service Fee* is \$88.88."

b) Deleting in Section 2.4 the fee "\$89.42" after the words "to the annual Solid Waste Reduction Services fee of" and replacing it with "\$99.04 in 2012 per year and \$108.42 per year starting in 2013."

2. AND THAT SCHEDULE "E" - SANITARY LANDFILL/RECYCLING FEES of the "Solid Waste Management Regulation Bylaw No. 10106" be amended by:

a) Deleting sub-section (k) in its entirety and replacing it with the following:

"(k) Carcasses weighing under 100 kg \$65.00 per metric tonne"

b) Deleting sub-section (m) in its entirety and replacing it with the following:

"(m) All other residential *Garbage* not included above: \$65.00 per metric tonne"

c) Deleting sub-section (n) in its entirety and replacing it with the following:

"(n) Any material determined by the *Director of Civic Operations* to require burial in an area away from the active face \$50.00 per metric tonne surcharge, over and above any other required"

d) Deleting in Section 2 the following:

"Utility Trailer, or Vehicles up to 3/4 ton	\$6.00
Tandem Axle Trailer	\$40.00
Side Dump Collector Truck, less than 50m ³	\$75.00"

And replace it with:

"Utility Trailer, or Vehicles up to 3/4 ton	\$10.00
Tandem Axle Trailer	\$50.00
Side Dump Collector Truck, less than 50m ³	\$100.00"

e) Deleting in Section 3 the following:

- \$1.00 per *Standard Garbage Bag* up to six (6) *Standard Garbage Bags*
- \$6.00 per load of *Garbage* for loads weighing up to and including 250 kg
- \$50.00 per metric tonne of *Garbage* for loads weighing greater than 250 kg"

And replacing it with:

- \$2.50 per *Standard Garbage Bag* up to six (6) *Standard Garbage Bags*
- \$10.00 per load of *Garbage* for loads weighing up to and including 250 kg
- \$65.00 per metric tonne of *Garbage* for loads weighing greater than 250 kg”

f) Deleting the last sentence of the paragraph in Section 4 that reads:

“This *Solid Waste Reduction Services Fee* is \$89.42 per residential unit per year.”

And replacing it with:

“This *Solid Waste Reduction Services Fee* is \$99.04 per residential unit per year for 2012 and \$108.42 for 2013. The *Collection Fee* portion of the *Collection and Solid Waste Reduction Fee* is \$88.88.”

4. This bylaw shall come into force and take effect as of January 1, 2012.

5. This bylaw may be cited for all purposes as “Bylaw No. 10565 being Amendment No. 4 to the Solid Waste Management Regulation Bylaw No. 10106.”

Read a first, second and third time this

Deposited with the Minister of Health, this

Adopted by the Municipal Council of the City of Kelowna this

Mayor

Clerk

ATTACH #6: 2011-2013 Residential Fee Changes

Fee Component	Bylaw	2012	2013
Collection Fee	\$87.40	\$88.88	\$88.88
SWRS Fee:	\$89.42	\$99.04	\$108.42
Total	\$176.82	\$187.92	\$197.30
	Changes	\$ 11.10	\$ 9.38

The Collection Fee Portion of the bylaw is the curbside collection service.

The Solid Waste Reduction Fee component of the by-law covers off the following services:

- 1) Waste Reduction Office Operation and Programs
- 2) Recycle Processing
- 3) Landfill Disposal (burial, capital and operations)
- 4) Cart Financing