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SOLID WASTE MANAGEMENT RESERVE FUND

The Solid Waste Management Committee recommends the adoption of the recommendations contained in the following report, August 31, 2004, from the Commissioner of Transportation and Works and Commissioner of Finance subject to:

(a) Replacing Recommendation 2 with the following:

> **"2. The capital replacement fund to be funded with 25% for 2005 and with 50% for 2006 to 2008 of the WDO funding, and the balance to be distributed to the local municipalities according to the established formula."**

(b) Adding Recommendation 5 as follows:

> **"5. Staff bring back a report within six months dealing with all of the assets within this Committee's purview to establish an asset replacement fund for 2006."**

1. RECOMMENDATIONS

It is recommended that:

1. The Region establish a capital replacement fund as part of the Solid Waste Management Reserve Fund that will be used for the upgrade and replacement of the building and equipment at the new Bales Drive Material Recovery Facility and other waste management facilities.

2. This capital replacement fund be funded on an annual basis based on the equivalent depreciated cost of the facilities, estimated to be $1.29 million for the next 20 years starting in 2005.

3. The funding be made through the monies received from Waste Diversion Ontario (WDO) on an annual basis from 2005 to 2008.

4. Copies of this report be forwarded to the local municipalities.

2. PURPOSE

This report outlines the future capital replacement costs at the Bales Drive Material Recovery Facility (MRF) and transfer station and other solid waste management facilities. It seeks approval for an annually funded reserve fund.

3. BACKGROUND

On June 2003, Council adopted Report No. 7 of the Commissioner of Transportation and Works authorizing the construction of the new MRF and Transfer Station on Bales Drive in East Gwillimbury. This facility is currently under construction and will commence operations in July 2005.

Council also adopted Clause 1 of Report No. 5 of the Solid Waste Management Committee in June 2004 directing that all funds from Stewardship Ontario and Waste Diversion Ontario be distributed to the local municipalities for 2004. The use of these funds for 2005 and beyond was not addressed.

4. ANALYSIS AND OPTIONS

The Region is currently undertaking a corporate-wide review of the condition, life expectancy and replacement value of its capital assets. This is being done in order to develop a strategy to fund the eventual repair and replacement of these assets. Information regarding replacement requirements for Solid Waste capital assets has recently been determined, and is outlined herein. A further report on the balance of the Region's capital assets will be brought forward later in the year.

The Region currently owns and operates one transfer station and three household hazardous waste (HHW) depots. In 2004, a new HHW facility will open in Vaughan and the new MRF and Transfer Station in East Gwillimbury will open in July 2005. The majority of these facilities were funded from the Solid Waste Management Reserve Fund that was financed from royalty payments from the City of Toronto during the operational life of the Keele Valley Landfill Site. Staff are currently analyzing how major repairs, replacements and upgrades can be financed as there is no longer any funding to this reserve fund.

The largest and most complex facility the new MRF and transfer station in East Gwillimbury. This facility will allow more blue box materials to be diverted from landfill and has the capacity to increase our processing ability from 50,000 tonnes per year to 90,000 tonnes per year. This facility contains high speed conveyors, sorting equipment, balers and compactors that will wear out over time and will need to be replaced at regular intervals over the life of the operation. Even with a proper preventative maintenance system, the equipment and some building elements have a life of five to ten years. In addition, there will be equipment upgrades and new technology that the Region will want to install in the future to increase efficiencies and effectiveness of the facility. Planning for these future expenditures is necessary and recommended. Although this facility is not operating as yet, staff is preparing the 2005 Capital and Operating budgets and require direction on this issue.

Table 1 demonstrates the life expectancies and replacement costs (current dollar) of major equipment and buildings. Given it is inevitable that the equipment will need replacement, staff believes that setting aside an appropriate amount of money each year will be fiscally prudent, as the current Solid Waste Management Reserve Fund will not have sufficient funds in the future.

Table 1
Building and Equipment Replacement

Item	Typical Life	Replacement Cost
Overhead doors	10 year	$10,000
Balers	7 year	750,000
Disk screens	5 year	1,250,000
Compactors	10 year	400,000
Conveyors	7 year	5,000,000
MRF building	30 years	12,000,000
Georgina transfer station	30 years	1,500,000
East Gwillimbury HHW	30 years	1,000,000
Prefab HHW facility	20 years	300,000

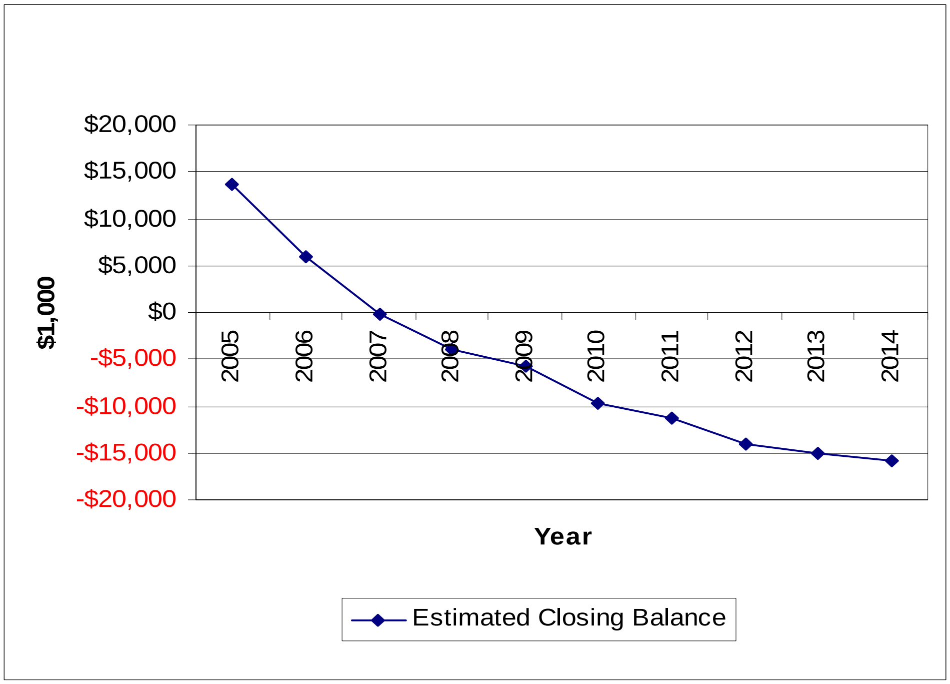
4.1 Solid Waste Management Reserve Fund

The Solid Waste Management Reserve Fund was financed through royalty payments from the City of Toronto from the Keele Valley Landfill and through development charges. As of January 2003, with the closure of Keele Valley Landfill Site, there is no longer any revenue being accrued to this reserve fund.

This reserve fund is primarily used to pay for the Solid Waste Capital Program. With the proposed 2005 10 year capital plan (*see Attachment 1*), without any contributions, this reserve fund will be depleted by the end of 2007 (Figure 1).

Council needs to determine how it will fund the proposed capital plan which includes equipment and building upgrades and replacement. This report is not intended to deal with debenture options or tax levy impact on the entire plan, rather just the capital replacement and upgrading costs with the new MRF and other waste management facilities.

Figure 1
Projected Solid Waste Management Reserve Fund Balance



4.2 Equipment Upgrade/Replacement Fund

The building and equipment replacement expenses itemized in Table 1 are predictable and necessary. It is estimated that given the buildings and equipment life and costs, a constant dollar annual contribution of $1.29 million would be required to fund the replacement and upgrade expenditures over a 20 year period.

It is, therefore, proposed that the Region fund the capital replacement fund on an annual basis starting in 2005. As the MRF facility will only be in operation for six months in 2005 and as there has not been any capital recharge for the other existing waste management facilities, a recharge of 50% or $645,000 is proposed for 2005. Starting in 2006 and for the following 19 years, it is proposed that 100% or $1,290,000 be recharged to the fund.

4.3 Waste Diversion Ontario Funding

As discussed in the June 2004 Committee report, the Region will be receiving $717,507 from Stewardship Ontario/Waste Diversion Ontario from February to June 2004. It is expected that a comparable amount of funding will be forthcoming for the balance of 2004. Council adopted a resolution to distribute all of the funds to the local municipalities for 2004. Council did not address the distribution of the WDO funding for 2005 and beyond.

It is estimated that the Region will receive 35% of the net Regional "Blue Box Program" costs in 2005 or about $2 million dollars. It is proposed that the Region fund the capital replacement reserve with the WDO money for 2005 to 2008, as that is the current time frame regulated under the Waste Diversion Act and controlled by the WDO. It is expected that a similar funding will be available beyond 2009 as long as the Waste Diversion Act is in effect. The balance of the WDO money could be distributed to the local municipalities on an annual basis.

If the WDO money is not used to fund the capital replacement reserve, staff recommend funding the reserve through the tax levy.

5. FINANCIAL IMPLICATIONS

The operation of the MRF requires that equipment and buildings be replaced and upgraded over the life of the facility. The other waste management facilities are primarily buildings without processing equipment and therefore have fewer upgrade and repair needs. In both cases, there is no funding mechanism for these significant future expenses. It is projected that there will not be sufficient funds in the Solid Waste Management Capital Reserve Fund if there are not any contributions to it. Therefore, the equipment replacement can be paid as a tax levy expense in the year of expenditure or out of an annually funded reserve fund. The latter is proposed as it has a lower annual financial impact on the annual tax levy requirements.

It is further proposed that this replacement reserve fund be funded from the WDO monies and used to pay for the future upgrade and replacement costs, as this is a new source of revenue to the Region, specifically identified for waste reduction. Funding from the WDO money will result in a zero tax levy impact and ensure that adequate funds are available in the future.

If the WDO money is not used to fund the capital replacement reserve, staff recommend funding the reserve through the tax levy.

6. LOCAL MUNICIPAL IMPACT

The local municipalities are currently developing their 2005 budgets. To date, the Region has indicated that the distribution of WDO funding is only for the year 2004. If Regional Council adopts the recommendations of this report, the local municipalities will be able to include the appropriate WDO funding in their 2005 budgets.

7. CONCLUSION

The Region's new MRF and Transfer Station will start operations in July 2005 and enable the Region to increase its diversion rate. The mechanical equipment in these facilities will wear out due to normal operations and will need to be replaced in time. The other HHW and waste transfer facilities in the Region will also need to be upgraded and replaced over time. It is proposed that the Region establish and annually fund a building and equipment replacement reserve to minimize future financial pressures. It is also proposed that the WDO funding received by the Region be used to eliminate any financial impact of these expenditures on the tax levy.

The Senior Management Group has reviewed this report.

(A copy of the attachment referred to in this clause is included with this report and a copy is also on file in the Regional Clerk's office.)