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**REPORT TITLE:**      **Waste Management Financial Plan - Update on Potential Funding Approaches and Public Consultation**

**FROM:**                      Kealy Dedman, Commissioner of Public Works

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## **RECOMMENDATION**

**That the potential funding approaches outlined in the report of the Commissioner of Public Works, listed on the September 23, 2021 Regional Council agenda, titled “Waste Management Financial Plan – Update on Potential Funding Approaches and Public Consultation”, be endorsed for presentation to the public during the second round of public consultation;**

**And further, that the consultation plan outlined in the subject report for a second round of public consultation to solicit feedback on the potential funding approaches be endorsed.**

## **REPORT HIGHLIGHTS**

- In 2017, Regional Council approved Peel’s current long-term waste management strategy entitled ‘Roadmap to a Circular Economy in Peel’ (Roadmap). The Roadmap includes 17 actions to achieve the Region’s target of 75 percent 3Rs diversion by 2034.
- One of the actions in the Roadmap is the development of a Waste Management Financial Plan that considers volume-based user fees to incentivize diversion.
- In 2019, Council approved a workplan for the development of the Financial Plan that included the development of a detailed cost model and two rounds of public consultation.
- Feedback from the first round of public consultation indicated that there was general support for volume-based user fees but there was a concern with funding waste management services entirely through user fees unless there was an offsetting reduction in taxes.
- A dynamic cost forecasting model was developed to project waste management costs over the next 20 years.
- The following funding approaches have been modeled for waste management services:
  - ongoing reliance on tax funding only;
  - implementation and reliance on user fees only;
  - funding of current services through taxes and funding the identified funding gap for the Roadmap activities through user fees; and,
  - funding of capital works and activities that support the greater good (such as education, recycling and composting) through taxes and funding collection and disposal of garbage through user fees.
- Staff recommend that the second round of public consultations occur in Summer 2021 to elicit public feedback on the four potential funding approaches. Public consultations will be held virtually to ensure the safety of staff and the public.

# Waste Management Financial Plan - Update on Potential Funding Approaches and Public Consultation

## DISCUSSION

### 1. Background

On December 14, 2017, Regional Council approved Peel's long-term Waste Management Strategy titled, "The Roadmap to a Circular Economy in Peel" (Council Resolution 2017-972) which includes a list of 17 actions to achieve Peel's target of 75 percent 3R's diversion by 2034. The Roadmap identified a need for significant new funding and revenue sources to implement all the actions required to achieve Peel's diversion target.

One of the Roadmap actions is the development of a Waste Management Financial Plan that details how capital and operating expenses of the 17 actions will be financed. Development of the Financial Plan includes consideration of a volume-based user fee to incentivize waste diversion.

In 2019, Regional Council approved Peel's Updated Long-Term Financial Planning Strategy, (Council Resolution 2019-368), which set out the following guiding principles that are being considered in the development of the Waste Management Financial Plan:

- Respecting the taxpayer;
- Managing assets;
- Implementing user pay where appropriate;
- Delivering value for money; and,
- Mitigating significant fluctuations in tax and utility rates.

Staff used the guiding principles from Peel's Updated Long-Term Financial Planning Strategy to develop the following criteria for the funding model:

- **Financial Sustainability** – the funding model must provide a stable revenue source that mitigates risks associated with the uncertainty of fully variable user fees and the volatility of external revenues such as commodity revenues, stewardship funding and tipping fees.
- **Incentivize Waste Reduction and Diversion** – the funding model should incentivize waste reduction and diversion and give residents more control over their waste management costs (users pay where appropriate).
- **Administrative Impact** – the funding model should demonstrate value for money by having minimal impacts on administrative burden and costs during the development, implementation and ongoing administration of the funding model.
- **Respect the Taxpayer** – the funding model should be affordable and take into account the public feedback on user fees.

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On October 29, 2020, the Waste Management Strategic Advisory Committee endorsed a report that detailed the findings of the first round of public consultation and the next steps in the development of the Waste Management Financial plan (Council Resolution 2020-933). The main themes that came out of the first round of public consultations are:

- Incentivizing waste diversion is important to residents;
- Residents agree with the concept of “Pay for what you generate”;
- User fees should be accompanied by an offsetting reduction in taxes; and,
- Any user fee model should incorporate the use of the current cart-based collection system.

### **2. Waste Management Financial Plan Development**

Development of the Waste Management Financial Plan involved two concurrent streams of work.

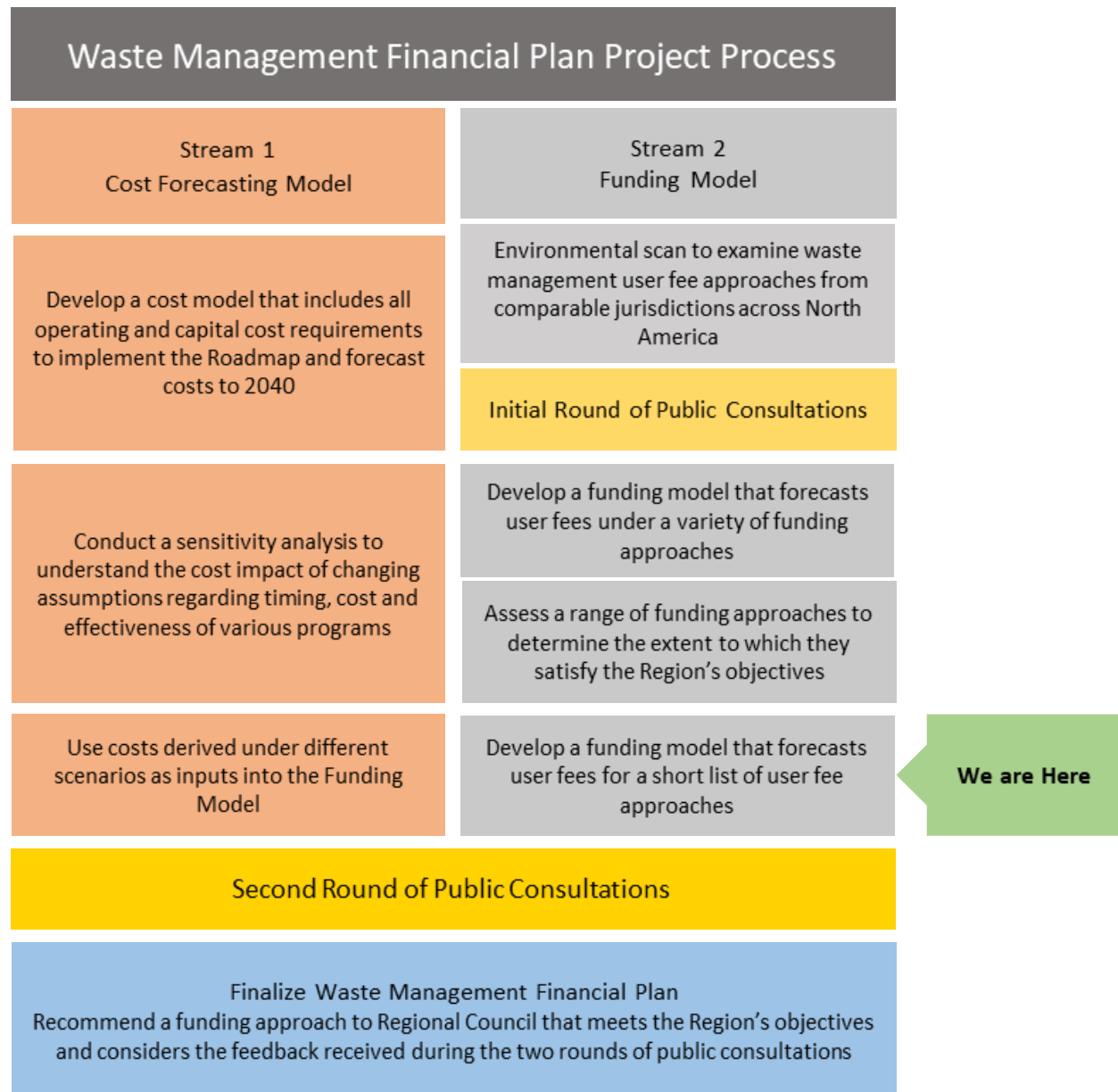
**Stream 1** - focused on the development of a cost forecasting model to forecast Peel’s annual gross and net waste management costs to 2040. The cost model includes all current and expected future operating and capital expenditures of waste management services as outlined in the Roadmap. The cost forecasting model allows for adjustments for situations that may impact cost such as schedule modifications or regulatory changes. It can also be updated periodically to account for changes to the Region’s waste management program, such as the recent cancellation of the procurement process for the Peel-owned Anaerobic Digestion facility.

**Stream 2** - focused on the development of a funding model and the assessment of user pay systems. The funding model is a decision support tool that allows staff to examine how the different user-fee approaches impact waste management funding. The funding model also helps staff determine the funding structure that best meets the Region’s objectives while adhering to the Region’s guiding principles.

To summarize, the cost forecasting model estimates the amount of money that is required to finance waste management programs and services over the next 20 years and the funding model is used to help determine the optimal approach to financing waste management programs and services. The two-stream process is summarized in Figure 1 below.

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Figure 1: Funding and Cost Forecasting Model Development Process



## 3. Cost Forecasting Model

The cost forecasting model uses several assumptions and tonnage data to forecast the waste management capital and operating expenses over a 20-year period and accounts for the capital and operating impacts of the Roadmap actions.

The baseline cost forecast uses the following key assumptions:

- 2019 actual tonnage, expenses and revenue data prior to COVID-19 impacts.
- Household growth: 1.12 percent for residential and 2.34 percent for multi-residential.

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- 1.5 percent general inflation applied to all fixed costs.
- 2.0 percent annual increase applied to variable costs to account for contract escalations during the 20-year forecast period.
- Tax supported annual funding increase of 2.5 percent (reflecting 1.5 percent for general inflation and 1.0 percent for household growth).

Any additional capital and operating costs to implement Peel's Roadmap were added using the following assumptions based on the most up to date information:

- Region of Peel transitions to full producer responsibility in October 2024, with Peel maintaining some partial blue box collection activities and accounting for approximately 25 percent savings in blue box expenses in 2024 and additional savings in blue box expenses for the remainder of the 20-year period.

### **Funding Model and Potential Funding Approaches**

The funding model uses the output from the cost forecasting model to evaluate different approaches for funding the growing expenses of waste management services.

Initial results from the funding model indicate that a combination of taxes and user fees meets the Region's objectives, is consistent with the principles set out in the Region's Long-Term Financial Planning Strategy and feedback provided by residents during the first round of public consultation.

A user-pay model that makes use of Peel's current waste collection carts and bins was shown to be a feasible and reasonable approach and is consistent with resident feedback during the first round of consultation where residents clearly indicated that they were partial to the current cart collection system and that any user-pay model should incorporate the use of carts.

Initial modelling results show a combination of taxes and user fees best meets the Region's objectives. However, staff recommends that, in addition, public feedback should be solicited on the following four potential funding approaches during the second round of or public consultations:

#### **a) Ongoing reliance on taxes; no user fees**

Currently, the cost of waste management activities is largely financed through property tax. A "no user fee" approach would continue to rely on property tax as the main source of funding for new incremental costs.

This approach meets the objective of providing stable funding but does not meet the objective of incentivizing waste diversion. It also does not reflect resident feedback from the first round of public consultation that user fees are a fair way to pay for waste management and that people should pay for the waste they generate. With this approach, the amount of property tax would increase substantially over time.

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### **b) Full reliance on user fees; no taxes**

With this approach, the cost of waste management activities would be funded entirely through user fees with no property tax funding for normal operations. Taxes would be relied upon solely for rate stabilization in the event of sudden or unforeseen cost increases.

Funding waste management programs solely through user fees meets the Region's objective of incentivizing waste diversion. However, a fully variable fee (based on the size of garbage cart) could lead to unstable funding if enough residents switched to smaller garbage carts to minimize cost. It could also lead to illegal dumping and contamination of the blue bin and green bin. To address these concerns the fee structure could be designed with a flat base fee plus a smaller volume-based fee to meet the objective of providing stable funding and to reduce the potential for illegal dumping. However, funding waste management through user fees without a compensating reduction in taxes goes against feedback/concerns raised by residents during the first round of public consultations that implementation of user fees without a proportional reduction property taxes would increase their overall cost and would, in their view, amount to a tax increase.

Funding waste management entirely through user fees could also result in some multi-residential buildings switching to private waste collection to save money (if they can find a lower cost private service provider). Experience in other municipalities with full user fees shows that this can lead to buildings opting for service providers who offer less diversion at a lower cost.

### **c) Combination of taxes and user fees (1): with the majority of the cost of current services paid through taxes and the cost of Roadmap initiatives paid through user fees**

This approach utilizes both property taxes and user fees, with the majority of waste management net costs (approximately 80 percent) remaining on the tax base and only the costs associated with new programs and initiatives funded through user fees.

This approach meets all of the Region's objectives and reflects feedback received during the first round of public consultation. It provides stable funding and incentivizes waste diversion. It charges based on the size of garbage cart, which residents thought was fair. It also limits future tax increases for waste management services. However, funding waste management through a combination of taxes and user fees without a compensating reduction in taxes goes against feedback/concerns raised by residents during the first round of public consultations that implementation of user fees without a proportional reduction in property taxes would increase their overall cost and would, in their view, amount to a tax increase.

### **d) Combination of taxes and user fees (2): capital expenses and the cost of the diversion programs funded through taxes and the cost of collection and disposal of garbage funded through user fees**

This approach utilizes both property taxes and user fees, with the majority of waste management costs (approximately 60 percent) remaining on the tax base and only the

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costs associated with the collection, transfer, haulage and disposal of garbage funded through user fees. All waste management activities that benefit the environment and contribute to a community of life (i.e., the greater good) would remain on the tax base.

Funding capital activities and “greater good” diversion programs like organics, education and communications through the tax base and collection and disposal of garbage paid through a user fee meets all of the Region’s objectives. It provides stable funding, incentivizes waste diversion and respects the taxpayer. However, as identified previously, funding waste management through a combination of taxes and user fees without a compensating reduction in taxes would be viewed as a tax increase by residents.

### **Round Two Public Consultation Plan**

How Peel funds waste management programs and services for the future will have an impact on taxpayers and the residents who utilize waste management services. To ensure the public and other stakeholders are fully engaged in the development of the Waste Management Financial Plan and potential funding model, a second round of public consultations has been incorporated into the process.

The objectives of the second round of public consultations are as follows:

- Present the evaluation criteria used as part of the User Fee Assessment including the feedback from public consultations.
- Present the four potential funding approaches under consideration and solicit feedback.
- Elicit public feedback on what needs to be considered as part of any user fee implementation.

Staff is planning to complete the second round of public consultations in early 2022.

To ensure the health and safety of staff and the public during COVID-19, the second round of consultations will be completed virtually. The virtual consultations will include options for residents to submit feedback at any time throughout the consultation period as well as interactive opportunities to ensure high participation and engagement. The virtual consultations will ensure there is appropriate representation from the Cities of Brampton and Mississauga, and the Town of Caledon through registration options.

### **Online Open House**

An online open house, similar to the one carried out March 2020 as part of the first round of public consultations, will be used. This format proved to be successful in the first round of consultations and resulted in a high level of participation and engagement. The online open house will be structured using value-based questions to elicit feedback from the public on the preferred model and various fee scenarios.

### **Interactive Sessions**

In addition to the online open house, the virtual consultations will provide an interactive engagement as an alternative to our typical face-to-face interactions, which is key component to successful public consultations.

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This will include an opportunity for residents to listen, learn and respond with comments and questions in a live setting. This will provide the project team with a greater depth of understanding related to comments and questions and will supplement the quantitative feedback gathered through the open house.

### **STAFFING**

In order to ensure adequate staffing for the finalization of the Waste Management Financial Plan, one contract staff will be hired in 2022 to oversee the development of an implementation plan, including user fee rate refinements, identifying technology and other resources required to implement a potential user fee system; which will assist with the completion of the Waste Management Financial Plan. This contract position will be funded through existing capital and have no financial impact on the 2022 operating budget.

### **NEXT STEPS**

Subject to approval of the recommendations in this report, staff will conduct the second round of public consultation.

Staff will consider feedback from the second round of public consultations to finalize the recommended funding approach.

Staff will report to a future meeting of Council with a final Financial Plan that includes a recommended funding approach and recommended implementation timelines.

### **RISK CONSIDERATIONS**

As the impacts from COVID-19 pandemic continue, staff is aware of the public's sensitivities regarding any new fees and will take this into consideration during the second round of public consultations.

Presenting the public with the user fee models under consideration could result in negative reception of the concept especially if the public is unable to understand why a particular user fee model does not directly result in a reduction of property taxes. To mitigate this risk staff will provide a clear explanation of impact to property taxes during public consultations and develop and implement thorough change management, communications and implementation plans.

As part of its long-term financial planning, the Region is also conducting public consultations regarding its Water and Wastewater utility rate structure. Engaging in public consultations immediately following Water and Wastewater could cause consultation fatigue and impact public feedback. The Region will mitigate this risk by ensuring that consultation plans and approaches for both Waste Management and Water and Wastewater are coordinated and aligned to achieve valuable engagement and a positive resident experience, while meeting the objectives of both projects.



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### **FINANCIAL IMPLICATIONS**

One contract staff will be required to assist with finalizing the Waste Management Financial Plan. This contract position will be funded from existing Capital Project 15-6943 at the cost of \$138,000 and will have no impact on the 2022 operating budget.

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