



POLICY REPORT

Report Date: April 12, 2019
Contact: Albert Shames
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RTS No.: 13120
VanRIMS No.: 08-2000-20
Meeting Date: April 23, 2019

TO: Vancouver City Council
FROM: General Manager of Engineering
SUBJECT: Interim 2019 Solid Waste Utility (SWU) Fees Adjustment and By-law Changes

RECOMMENDATION

- A. THAT Council approve, in principle, the proposed increases to the 2019 Solid Waste Utility Rate for Green Bin (SWU), generally as set out in this report, including Appendix "A".
- B. THAT Council instruct the Director of Legal Services to bring forward for enactment amendments to the Solid Waste By-law to adjust rates and fees generally in accordance with this report, including Appendix "A".

REPORT SUMMARY

Solid waste utility rates for 2019 cover the cost of garbage and green bin collection as well as the cost of transfer and delivery of Vancouver residential waste to the Vancouver Landfill for disposal and green bin material to the Green for Life/EnviroSMART (GFL) composting facility in Delta for processing. GFL has notified the City of significant changes in the regulatory structure governing the operation of their facility that will significantly increase their costs. They have invoked the change in law clause in their contract in order to restructure their fees to recover their additional costs. This report provides the background on the changes and recommends an update to the 2019 utility charges that were previously approved by Council on December 18, 2018 (RTS No.12729) for the green bin program.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

To support the City's Green Bin (yard trimmings and food scraps collection) Program, the City requires a service provider with the capacity and capability to receive and process approximately 50,000 tonnes per year of organics to produce compost.

In June 2013 the City entered into an agreement with Enviro-Smart Organics Ltd. for processing organics, pursuant to the issuance of City RFP No. PS20120790. The City contract with Enviro-Smart for processing organics expired on May 31, 2018 at the end of its five year term.

In January of 2018 Council authorised staff to enter into a further 5 year contract commencing June 1, 2018 with Enviro-Smart Organics Ltd. (a division of GFL Environmental Inc.), for the services to receive, sort and process organic materials, to be funded through Solid Waste Utility Fees for Green Bin Collection and Processing Services.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager and General Manager of Engineering recommend approval of the rate change and by-law updates.

REPORT

Background/Context

Facilities processing green bin organic material within the lower mainland have come under significant pressure around odours over the past few years. The challenge that the facilities have been faced with are the result of the following:

1. Processing systems in BC were developed based on using an outdoor windrow approach to composting, rather than fully enclosed systems with air management and odour control as developed in other provinces;
2. Upward pressure on volumes of material to manage as more municipalities establish green bin programs and commercial facilities react to the requirements of the landfill disposal ban on compostable organics.
3. Increased enforcement of air quality issues, air quality permits issued by Metro Vancouver that require facility upgrades in order to manage odours and significantly escalated costs to comply.

One facility, Harvest Power located in Richmond that was processing upwards of 150,000 tonnes per year has ceased operations and closed in December of 2018 creating greater pressure on the remaining facilities to handle larger volumes of material.

EnviroSmart/GFL currently has a capacity to manage 150,000 tonnes of material per year and they are generally running close to that capacity. Approximately 50,000 tonnes of the total material delivered to EnviroSmart/GFL comes from the City of Vancouver. In order to address the new regulatory requirements surrounding their operation they are undertaking a number of capital improvements to properly enclose their facility, develop

and install air management systems including bio-filters for odour control, and to effectively manage their operation within a fully enclosed facility. The financial impact to GFL for these improvements is in the range of \$25 million.

GFL is invoking the change of law clause in their contracts in order to recover the costs of facility upgrades. The additional costs are added to the per tonne tipping fees charged for material processing such that all facility users pay the same increase. The proposal phases in the rate increase over 2019 such that the full rate won't be in effect until the end of 2019.

The closure of Harvest Power, the increased regulatory requirements for GFL and approval from Delta for GFL to construct all occurred after the City's 2019 budget was finalised and GFL notified the City of the changes and potential cost impacts in February 2019. As a result the additional costs to the City were not included in the budget approved by Council in December 2019 or reflected in the proposed and approved 2019 SWU fees. Since the Solid Waste Utility operates on a cost recovery basis, these costs will ultimately need to be recovered through the utility rate charges for the Green Bin program. There are two alternatives available:

1. An adjustment, effective May 1, 2019, to the previously approved 2019 Green Bin Utility rate to recover the extra costs for 2019 as the higher rate is phased in over 2019. This adjusted rate would be reflected on rate payers 2019 annual bill issued in May 2019.
2. Utilize the accumulated collections reserve to offset the impact from 2019 and reflect the full cost increase as part of the annual approval of the SWU operating budget and fees for 2020.

Strategic Analysis

One of the key issues in the operation of the original composting facilities in Metro is that they were developed as outdoor windrow systems handling leaf, yard and landscaping waste that are open to the weather, with no environmental controls and no odour management systems. These types of systems are low cost and fine for leaf, yard and landscaping wastes with minimal odour concerns, but unsuitable for food wastes where odour issues can be significant. In addition, the significant increases in the number of municipalities operating green bin programs and the resulting increases in volume of material handled resulted in greater facility operating challenges as volumes approached the maximum facility capacities.

For the last few years there have been significant odour management issues associated with composting facilities processing municipal green bin and commercial compostable organics within Metro Vancouver. Increased enforcement around odour complaints coupled with more stringent requirements on facility infrastructure and operations to control odours has resulted in one composting facility (Harvest Power) closing and others being faced with significant capital and operating investments to meet the new regulatory requirements.

The City of Surrey recently opened their new composting facility. This facility is fully enclosed, has comprehensive systems for air management and odour control and a bio-filtration system to remove odours from any exhausted air. Tipping fees at this facility are

significantly higher than what has been typically charged at other local facilities because of the more complex infrastructure needed.

In general terms, municipalities within Metro have had the benefit of low cost composting facilities which now are no longer viable. New regulatory requirements now specify that all operations must be conducted indoors, air management and odour control systems must be in place and odours cannot create a nuisance in the surrounding areas. This puts the remaining facilities within Metro on a similar footing to Surrey and to other provinces within Canada – more robust and complex operations coupled with higher costs for processing.

Implications/Related Issues/Risk

Financial

On December 19, 2018, Council supported a 3.1% increase to Solid Waste Utility fees for a representative single family home, bringing their total cost of Garbage, Green Bin (240L Cart) and Street Cleaning services from \$294 to \$303:

Collection Fees for a Representative Single Family Home

Utility Rates	2018	% Increase	2019	% Increase
180 L Garbage Cart	\$ 114	11.8%	\$ 112	-1.8%
240 L Green Bin Cart	\$ 161	7.3%	\$ 170	5.6%
Subtotal	\$ 275	9.1%	\$ 282	2.5%
General Street Cleaning Services	\$ 19	0.0%	\$ 21	10.5%
Total	\$ 294	8.5%	\$ 303	3.1%

The cost increase proposed by GFL equates to an additional \$53.77/tonne. This increase will be applied in addition to the existing processing fee of \$61/Mt and will be implemented over 3 equal increments for the first year. Negotiations regarding this increase are ongoing and as a result, the final cost increase may change and any variance up or down will result in a contribution from or to the stabilization reserve in 2019.

The collections side of the Solid Waste Utility operates on a cost-recovery basis, therefore, the proposed cost increases coming from GFL will need to be recovered through the SWU fees. As proposed, the cost increase equates to an annual impact of \$2,689,000 and SWU fees for Green Bin services would need to increase by \$31 for a representative single family home.

This cost increase from GFL is being implemented in 2019, over 3 equal increments, which results in the City having a cost increase within the current year of \$1,959,000. City staff have put together two options to deal with the current year cost increases:

Option 1: Revise the SWU Fees with an effective date of May 1, 2019 (RECOMMENDED):

While the rate increase agreed upon by Council on December 19th, 2018 cannot be changed retroactively, the effective date of the required \$31 increase in the SWU rate for Green Bin Carts can be brought forward from January 1, 2020 to May 1, 2019 in order to maintain cost recovery in 2019.

Therefore, in order to recover the 2019 impact of \$1,959,000, SWU fees for Green Bin services will increase by a blended amount of \$22 (from \$170 to \$192) for a 240 litre container, which is the size for a representative single family home.

Collection Fees for a Representative Single Family Home

Utility Rates	2018 Budget	2019 Jan - Apr	2019 May - Dec	2019 Blended	\$ Change from 2018	% Change from 2018
Garbage	\$ 114	\$ 112	\$ 112	\$ 112	\$ (2)	-1.8%
Green Bin	\$ 161	\$ 170	\$ 201	\$ 192	\$ 31	19.3%
Subtotal	\$ 275	\$ 282	\$ 313	\$ 304	\$ 29	10.5%
General Street Cleaning Services	\$ 19	\$ 21	\$ 21	\$ 21	\$ 2	10.5%
Total	\$ 294	\$ 303	\$ 334	\$ 325	\$ 31	10.5%

No further increase to the Green Bin rate, relating to these added GFL costs, would be required in 2020 over the May to December period rates shown above.

This increase in the utility fees will result in a corresponding increase in the Solid Waste Utility's revenue and expenditure budget for 2019.

Option 2: Defer the SWU fee update to 2020

The City Of Vancouver has a collections stabilization reserve that was a result of surplus from past years and can be used to address unforeseen cost increases or moderate yearly increases seen by rate payers. This reserve has a balance of \$2,082,000 as of January 1, 2019, and could be used to offset the \$1,959,000 current year cost increase, delaying the rate increase until 2020.

This would translate into the following rate increase for Green Bin services provided to a representative single-family residence:

- 2019: No rate increase. \$1,959,000 pressure on the stabilization reserve.
- 2020: \$31 increase for a 240 L green bin cart (from \$170 to \$201 per household)

The 2019 annual SWU fees have not yet been sent to rate payers and therefore the City has the opportunity to revise the budget and SWU fees to reflect the added costs for organics processing. Given the significant impact that deferring the rate increase would have on the Collection stabilization reserve, City staff recommend updating the 2019 SWU fees as of May 1, 2019 and retaining the reserve for any future uncertainty.

Environmental

The extra charges for processing of organics are to provide for the upgrade of the Envirosmart/GFL facility to meet regulatory requirements, reduce odour emissions and minimize future environmental impacts.

Legal

If approved by Council, the Director of Legal Services will ensure the appropriate amendments to the Solid Waste By-law are drafted and brought forward for enactment.

Other

In addition to adjusting the Green Bin utility rate staff are recommending the following additional adjustments to the Solid Waste By-law;

- Aligning the rate for wood waste received at the Transfer Station with the rate at the Landfill of \$75 per tonne, to provide incentive to separate all wood waste rather than clean wood waste only.
- Reducing the fee for regular (fine) demolition hog that meets the City Engineer's specifications from \$45 to \$10 per tonne, to reflect the additional processing costs required. The fee for coarse demolition hog will remain at \$45 per tonne.

It is proposed that the above rates go into effect on June 1, 2019.

CONCLUSION

A mid-term adjustment to the green bin rate is recommended in order to maintain the utility as self-funding, and minimize the impact on the 2020 solid waste utility rates.

The proposed by-law amendments provide for better control of materials received at the landfill, support costs recovery for material handled and promote greater potential diversion.

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**Appendix A
Solid Waste By-Law No. 8417
2019 Rate Increases from 2018**

Schedule A	Flat Rate Collection Fees				
	2018	Jan-Apr 2019	May-Dec 2019	Blended 2019	% Increase from 2018
<u>Green Bin</u>					
Cart Size:					
120 L	\$119	\$126	\$149	\$143	20.2%
180 L	\$140	\$148	\$175	\$167	19.3%
240 L	\$161	\$170	\$201	\$192	19.3%
360 L	\$203	\$213	\$254	\$242	19.2%

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