RECOMMENDATIONS

1. That the Board defer the 2020 budgeted Solid Waste program expenditures of $390,000 related to:
   a. the proposed household hazardous waste collection program; and,
   b. the contribution for a research/recycling hub for hard to recycle materials to be undertaken by the Nanaimo Recycling Exchange.

2. That the Board defer $710,000 from the 2020 budgeted contributions to the Solid Waste Services operating reserve to offset revenue shortfalls resulting from the pandemic emergency.

3. That the Board notify the Minister of Environment and Climate Change Strategy of any changes to the approved Solid Waste Management Plan.

SUMMARY

Solid Waste Services is projecting an 11% ($1.1 million) reduction in tipping fee revenues for 2020 as a result of the pandemic, although with a low level of confidence as it is currently not clear how long the pandemic will continue, and how quickly the post pandemic economy will rebound. The projected impact to tipping fee revenues outpaces the overall economic downturn forecast by financial experts. It anticipates brick and mortar businesses continuing at the same level of reduced activity as current, a reduction in the general population consumerism and a slowing of construction projects, particularly renovation/demolition projects that significantly impact tip fee revenues.

Most recently, the Provincial Government is signaling a phased reopening of the economy over the next few months, which could significantly lessen the originally anticipated revenue impacts. The estimated shortfall will be revised on an ongoing basis as the year progresses.

The 2020 approved budget includes a transfer to reserves to bring the operating reserve to $1.89 million and the capital reserve to $7 million balance respectively. These funds were to be applied to future year operating and capital expenses associated with delivery of the Solid Waste Management Plan (SWMP) and facility infrastructure projects. Therefore, the shortfall in tipping fee revenues can be offset by reducing the transfer to these reserves. The landfill has finite capacity; if waste is not received this year, it extends the life of the landfill and also defers capital projects (e.g. landfill gas expansion, landfill cell construction, progressive closure).
Therefore, adjustments to capital and operating reserves can be made once the actual 2020 revenues are known which will inform the 2021 budget, as well as future budgets.

This report also provides several options to further cut costs such as cutting programs and adjusting operating hours. Solid Waste Services will continue to explore further options to reduce costs to offset revenue reductions, which may include operating and/or service level adjustments.

**BACKGROUND**

The 2020 budgeted revenues for Solid Waste Services include $1.1 million from property tax and $9.5 million from tipping fees on waste received at the landfill and transfer station. Tax revenues equate to an average of roughly $11.10 for a $500,000 home. Tipping fee revenues fluctuate significantly with the economic factors, and as such, the estimates of impacts to tipping fee revenues are proportional to anticipated impacts to the economy resulting from the pandemic emergency. Solid Waste Services will continue to explore further options to reduce costs to offset revenue reductions, which may include operating and/or service level adjustments.

How long the effects of pandemic will continue or how quickly the economy will rebound cannot be estimated with a high level of confidence.

**Overall Economic Indicators:**

A review of economic markets assisted with developing projections on how tipping fees might be impacted:

- The April 2020 *Monthly Economic Monitor*\(^1\) issued by National Bank of Canada states, “Taking account of closures ordered by government, our bottom-up analysis suggests a sharp decline of GDP can be expected in Q1 followed by a steeper drop of over 30% annualized in Q2, before a subsequent rebound in the second half of the year. Under that scenario, 2020 real GDP growth is pegged at -4.8%, the largest annual contraction on records going back to 1961”.

- Deloitte Insights posted the article *Canada, Pandemic and oil shock trigger deep recession*\(^2\) on April 15, 2020. They state, “At the time of writing, the consensus is that the Canadian economy contracted about 3.8 percent annualized in the first quarter of 2020. Our forecast is that the decline will likely be closer to 5 percent. In the second quarter, we expect a significant economic downturn...Our base case is that containment efforts will prove successful in bending the curve on the number of net new cases (as it did in China), which will eventually set the stage for a rebound in economic growth when containment is relaxed. We expect this to happen sometime in the middle of the third quarter and anticipate a double-digit growth rate in the fourth quarter. If this happens—putting aside all of the quarterly volatility—the Canadian economy will post an economic contraction of between 4 and 5 percent for

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the year 2020 as a whole. In 2021, we anticipate a recovery, but the pace will be muted by the legacies of the recession this year.”

- CIBC In Focus, April 24, 2020, states: “In a previous research article, we identified a number of “highly vulnerable” sectors which would firstly see a bigger reduction in employment in the near term and secondly take longer to recover than other areas of the economy. These included many either directly related to tourism (accommodation services) or highly influenced by spending from travelers (museums, restaurants etc.). To little surprise, provinces with a greater proportion of such workers also tend to be ones with a larger reliance on tourism (Chart 6).” The report shows that BC has the highest percentage in Canada of vulnerable areas correlated with tourism.

Taking the above in account, experts anticipate an economic rebound in the second half of the year and netting an overall contraction of about 5% for Canada. Furthermore, due to reliance on tourism and related jobs, contraction could be higher in BC and be slower to respond than other provinces.

**Projected Revenue Reductions:**

Solid Waste Services is projecting an 11% ($1.1 million) reduction in tipping fee revenues for 2020. The overall impact on tipping fee revenues is expected to be significantly larger than the 5% contraction of the economy as a whole. Commercial, construction and demolition waste production accounts for approximately 60% of tipping fee revenues, which is anticipated to be more heavily impacted than residential waste production. For example:

- Residential curbside waste volumes are not likely to change significantly. Although more people are at home generating waste, reduced consumerism is expected to balance this. A short-term increase in residential drop-offs occurred in March and April, as residents began to shelter at home and appear to have taken advantage of the opportunity to do spring cleaning, however residential waste volumes are expected to return to historic levels.

- With many brick and mortar retail outlets closed or with curtailed operations, there is expected to be significantly less waste generated from this sector.

- Although construction projects that are underway and expected to continue, there is potential that new projects will be delayed in moving forward.

- Demolition/renovation projects alone have generated on average of $925,000 in tipping fee revenues for asbestos waste (e.g. primarily insulation, drywall) over the last 3 years. With isolation, it is likely that homeowners will defer renovation projects. With large projects, demolition adds significantly to the timeline as well as the cost, and as a result, it is more likely these projects will be delayed over other construction projects. Revenues anticipated from this source could be significantly impacted. Significant reductions in asbestos disposal volumes in April support this assumption.

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3 [https://economics.cibccm.com/economicsweb/cds?id=10910&type=EC_PDF](https://economics.cibccm.com/economicsweb/cds?id=10910&type=EC_PDF)
Sources of Funds to Offset Tipping Fee Reductions

1. Transfers to Reserves

Solid Waste Services manages three reserve accounts:

- The Post-Closure Reserve has been established to manage the landfill for 200 years following closure. The 2020 balance in the account is $2.3 million and projected to be $7 million at the time of landfill closure.

- The operating reserve proposed to be set up this year will essentially replace the carryover of surplus from year-to-year and is being established to finance Solid Waste Management Plan initiatives with a forecast 2020 contribution of $1.89 million.

- The capital reserve has been established to finance facility infrastructure and purchase of heavy equipment. The 2020 budget forecast a contribution of $1.8 million, and a year-end balance of $7 million.

Reducing the transfer to the operation and/or capital reserves can offset the loss in tipping fee revenue. As the landfill has finite capacity; if waste is not received this year, it will be received in the future which will generate future revenues. Delaying the receipt of waste extends the life of the landfill and defers capital projects. Once actual revenues and expenditures are known as we approach year end, the information will be used to inform the 2021 budget as well as future budgets.

2. Proposed Solid Waste Management Plan Initiatives

The recently approved SWMP commits to initiating three activities in 2020 that could be deferred to 2021, releasing approximately $454,000 in 2020 to offset revenue losses. Note that only the first to items are included in the staff recommendation totaling a deferment of $390,000.

- The SWMP commits $300,000 per year for the period of 2019 to 2013 for the establishment of a research/recycling hub for hard to recycle materials to be undertaken by the Nanaimo Recycling Exchange (NRE). The NRE ceased operations at their facility in March 2018 and to date has been silent regarding future plans and not proposing projects to access any of the funds.

- The SWMP commits to establishing a Household Hazardous Waste Program to collect and recycle materials through a contracted service. As a result of challenges posed by the pandemic, Solid Waste Services intends to defer startup of this project to 2021, resulting in a budget savings of $90,000 this year.

- The Board committed $70,000 on December 10, 2019 to a school education pilot project. The service contract with School District 68 was signed January 2, 2020 to develop and implement the project for both School District 68 and 69. The pilot was underway to be complete this June, however, the project has been delayed due to the pandemic and there is currently an unspent balance of approximately $64K. A request letter from School District 68 has been submitted for an extension from the June deadline to use the remaining funds during the 2020 fall semester. A staff report is being prepared for the June Board recommending the extension. If the
extension is supported, these funds would be again committed and, therefore, the recommendation does not include savings with respect to this program. Because the above projects are included in the approved SWMP they form an obligation for the Regional District of Nanaimo (RDN). If the Board were to choose not to proceed with these programs, the Ministry of Environment and Climate Change Strategy would need to be advised of the change which may entail an amendment to the SWMP. Nevertheless, it is likely that the NRE committed money will be underspent at the end of the year.

3. Operations and Service Level Adjustments

Net savings of approximately $100,000 in 2020 could be realized by closing the landfill and transfer station on Sundays. The proposal would create inconvenience for some residential customers. It is expected that waste, other than yard and garden waste, normally received on Sundays would be received on other days; yard and garden waste would flow to private sector facilities. The potential savings would be through reduction of casual employee hours and no layoffs of permanent staff would be required. Additional costs related to security, increased traffic flow on Saturdays, and the potential for increased illegal dumping costs are included in the estimated savings.

Solid Waste Services will continue to explore further options to reduce costs to offset revenue reductions, which may include operating and/or service level adjustments.

4. Reduce Project, Capital Expenditures

Capital expenditures budgeted in 2020 are primarily funded through capital reserves, and as such do not provide an opportunity to offset revenue losses. No items are proposed for reduction in this option. Work on some capital projects, namely a portion of the transfer station facility upgrades and the landfill commercial lane, will be deferred to 2021 due to delays in completing engineering work. A future report will be provided to the Board on any capital projects that will not be proceeding as planned.

ALTERNATIVES

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   b. the contribution for a research/recycling hub for hard to recycle materials to be undertaken by the Nanaimo Recycling Exchange.

2. That the Board defer $710,000 from the 2020 budgeted contributions to the Solid Waste Services operating reserve to offset revenue shortfalls resulting from the pandemic emergency.

3. That the Board notify the Minister of Environment and Climate Change Strategy of any changes to the approved Solid Waste Management Plan.

4. That the Board provide alternate direction.
FINANCIAL IMPLICATIONS

Solid Waste Services has developed a draft 20 year financial and asset management plan that allows modelling of alternate revenue and expense scenarios. This Plan will be presented to the Board at the Solid Waste Management Select Committee meeting in June.

The long term effects of reducing the transfer to reserves in 2020 to offset tipping fee revenue reductions is minimal in terms of future costs. In essence, the tipping fee revenue reductions in 2020 resulting from reduced waste, have the effect of extending the life of the landfill, deferring capital expenses, and thereby deferring the requirement to draw on reserves. Total waste volumes received over the life of the landfill will not change, as the landfill has a fixed capacity, and waste not received in 2020, will be received in the future. Further details will be provided to the Board in June with presentation of the 20 year financial and asset management plan.

STRATEGIC PLAN IMPLICATIONS

Environmental Stewardship - Achieve the 90% waste diversion target as per the Solid Waste Management Plan.

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