

**REPORT TO ENVIRONMENTAL SERVICES COMMITTEE  
MEETING OF WEDNESDAY, SEPTEMBER 25, 2024**

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**SUBJECT**     **Environmental Resource Management – 2025 Operating and Capital Budget**

**ISSUE SUMMARY**

To provide an overview of the draft Environmental Resource Management (ERM) 2025 budget, highlighting the changes from the 2024 budget.

**BACKGROUND**

The Capital Regional District (CRD) established a local service for solid waste disposal in 1973. The ERM division is responsible for municipal solid waste management, including waste reduction, recycling programs and the operation of Hartland Landfill.

ERM in the capital region is based on the Ministry of Environment & Climate Change Strategy's 5R pollution prevention hierarchy of Reduce, Reuse, Recycle, Resource Recovery and Residuals Management, with the goal of extending the life of Hartland Landfill by minimizing waste disposal and maximizing diversion opportunities. The CRD's solid waste mandate, using the 5R pollution hierarchy, is delivered to the community through a provincially mandated and recently approved regional Solid Waste Management Plan (SWMP). The SWMP targets reducing per capita waste generation from the current rate of 409 kg/capita to 250 kg/capita by 2030.

All costs associated with the CRD's solid waste disposal and diversion programs are funded through tipping and user fee revenues at Hartland Landfill, service delivery agreements for stewarded materials, sale of energy and sale of recyclables. There is no requisition for this service.

The draft ERM 2025 budget has been prepared for consideration by the Environmental Services Committee (Appendix A).

**2024 Year-End Financial Projections**

There is an estimated one-time net favorable variance of \$1,250,000 for ERM's 2024 operating budget. This variance will be utilized as a transfer to capital reserve at year end. The net variance is primarily a result of savings in operating expenditures (\$2.85 million) offset by a reduction in revenue (\$1.6 million). Details can be found in Appendix A under the 2024 Estimated Actual column.

Year-end revenue and expenditure projections for 2024 have been established, and estimated variances are summarized, as follows:

<b>Budget Item</b>	<b>Variance (\$) Surplus / (Deficit)</b>	<b>Variance (%) Surplus / (Deficit)</b>
Diversion Services Expenditures	\$1,750,000	
Landfilling Services Expenditures	\$750,000	
Energy Recovery Services Expenditures	\$350,000	
<b>Total Operating Expenditures</b>	<b>\$2,850,000</b>	<b>7.8%</b>

<b>Budget Item</b>	<b>Variance (\$) Surplus / (Deficit)</b>	<b>Variance (%) Surplus / (Deficit)</b>
Revenue: Tipping Fee	\$1,650,000	
Revenue: Other	-\$3,250,000	
<b>Total Revenue</b>	<b>-\$1,600,000</b>	<b>-3.9%</b>
Reserve Fund Transfers	\$1,250,000	

Operating cost variance/savings (7.8%): Expenses related to the processing of materials contract in the waste diversion services, heavy equipment services and bird control in the landfilling services, and landfill gas program in the energy recovery services are forecasted to be lower than budget, resulting in \$2.85 million savings.

Revenue variance/pressures (-3.9%): Overall total revenue is expected to be lower than budgeted by \$1.6 million. While solid waste tipping revenue for 2024 is forecasted to be higher than budgeted by \$1.65 million, the Operating Reserve transfer is forecasted to be \$2.7 million below the budget. Renewable Natural Gas (RNG) net sales revenue is also forecasted to be lower than budgeted by \$495,000 due to the postponed project completion date of the Hartland Biogas Upgrading Plan construction.

The 2024 net budget surplus of \$1.25 million will be transferred to the ERM capital reserve funds to assist in funding the substantial 2025-2029 capital plan requirements.

### 2025 Operating Budget

While the draft ERM 2025 budget was prepared, considering the Board's service planning and financial expectations, the 2025 budget proposes significant operating and capital budget increases that will assist the community in achieving the goals set out in the new SWMP. The additional budget pressures are fully funded through revenue increases, resulting in no bottom-line impact. The following are key components of the proposed ERM 2025 budget:

#### Operating Budget

Operating budget expenses have increased by a total \$11.2 million over 2024 budget (31%), as follows:

- Diversion Services: increased by \$6 million over 2024 budget (26%)
  - Material Stream Diversion expenses (\$2.7 million)
  - New Curbside Blue Box contract in 2025 (\$2.4 million)
  - Increase in Solid Waste Management Plan programming (\$700,000)
- Landfilling Services: increased by \$2.6 million over 2024 budget (21%)
  - Corporate overhead (\$1 million)
  - Heavy equipment contract (\$1.5 million)
- Energy Recovery Services: increased by \$2.6 million over 2024 budget (162%)
  - RNG operating contract (\$1.4 million)
  - RNG plant electricity usage (\$1.0 million)

### Capital/Reserve Transfer

Relates to transfers to reserves to the Operating Reserve fund, Equipment Replacement fund (ERF) and Capital Reserve fund. The 2025 transfer to reserve budget is \$5.4 million, which is a 38.5% increase over 2024. This increase includes a one-time supplementary increase in transfer to Capital Reserve fund to fund 2025 Capital Plan requirements.

### Debt Servicing

Current debt servicing costs relate to borrowing under Loan Authorization Bylaw No. 4515 for funding to complete the planned infrastructure and improvements in the 2023-2027 capital plan. The authorized \$11.7 million in borrowing was issued under two separate loan issues, which are all set to expire between April and October 2039. Annual interest and principal payments under this bylaw are \$1.23 million per year. The total 2025 budgeted debt servicing costs include the above-mentioned interest and principal payments, as well as an additional \$0.79 million of new debt servicing costs associated with Cell 5 Liner Construction and Cell 1, 2 and 3 Transition Liner projects. Details can be found in Appendix A – Operating Budget.

Operating budget revenues are budgeted to increase by a total of \$15.5 million, as follows:

- Diversion Services (\$2.7 million) – Blue Box revenue increase from Recycle BC
- Landfilling Services (\$4.2 million) – revenue from material stream diversion policy changes
- Energy Recovery Services (\$8.4 million) – revenue from new RNG facility, Q1 start-up

**Table 1: 2025 Year Over Year Budget Comparison**

Expenditure Type	2025 Financial Plan	2024 Financial Plan	Change	% Change
Operations	\$47,880,452	\$36,632,697	\$11,247,755	30.7%
Debt Servicing	\$2,026,178	\$1,229,666	\$796,512	64.7%
Transfers to Capital / Reserves	\$5,467,701	\$2,118,387	\$3,349,314	158.1%
<b>Total</b>	<b>\$55,374,331</b>	<b>\$39,980,750</b>	<b>\$15,393,581</b>	<b>38.5%</b>

### 2025 Capital Budget

#### Capital Plan

The Hartland Landfill five-year capital plan is made up of 30 projects totalling \$40 million. These projects can be grouped into five categories:

- **Sustaining Capital:** This group includes projects that are required to support ongoing daily operations. There are 15 projects that cover items such as computer and vehicle replacements, aggregate production, gas and leachate piping purchase and installation. It also includes projects required to maintain regular operations such as landfill gas capture, Operating Certificate renewal, access improvements and electrical infrastructure upgrades. The estimated cost for this group of projects for 2025 is \$3.5 million, with an estimated five-year total cost of \$12.1 million.

- **Progressive Closure of the Landfill:** There are three projects over five years totalling \$11.3 million (\$750,000 for 2025), which include projects such as final closure of external faces, interim closure of various internal faces and aggregate stockpile covers.
- **Cell 4, 5 and 6 Preparation and North End Commercial Access Improvements:** There are 9 projects over five years totalling \$12.7 million (\$9.7 million in 2025), which include design and installation of complete liner systems for Cells 4, 5 and 6, relocating the contractor mobile equipment maintenance shop, a truck wheel wash system and relining of the stormwater sedimentation pond.
- **Renewable Natural Gas:** There are two RNG projects over five years totalling \$2.8 million (\$1.8 million in 2025) to optimize and take advantage of excess biogas from the Residuals Treatment Facility, such that all gas captured at the landfill is processed and injected into the Fortis BC natural gas distribution system, while ensuring all environmental requirements are met.
- **Solid Waste Management Plan Diversion and Beneficial Use Targets:** There is one project in 2026 totalling \$1 million to acquire land/depot asset to further diversion initiatives in the region.

#### Capital Funding

There are two primary elements to the capital program funding, reserve funds and debt servicing. The reserve funds are established through annual contributions to allow accumulation of funds for future expenditure. Debt servicing costs (principal and interest payments) are associated with long-term capital infrastructure financing.

Debt: New financing under the \$36 million loan authorization was approved in 2022 for the purpose of financing the solid waste facility five-year capital plan. In summary, the future capital funding will be a combination of reserves and debt financing.

Reserves: There are currently three reserve funds established for this service (2024 estimated year-end balances):

- **Operating Reserve (\$8.6 million):** This fund was established by Bylaw No. 3867 for mitigating fluctuations in tipping fee revenue and for covering operational expenditures, as required, including debt servicing. The plan is for the reserve balance to be reduced to its \$5 million target balance and then maintained.
- **Equipment Replacement Reserve (\$2.1 million):** This fund was established by Bylaw No. 945 to fund replacement of computer equipment and for Priority Equipment Replacement equipment that lasts less than 15 years. The 2025 equipment replacement reserve fund contributions are set at \$204,000.
- **Capital Reserve (\$23.5 million):** This fund was established by Bylaw No. 2164 to fund major equipment and infrastructure replacement that has a service life of 5 to 25 years or more, such as landfill facilities, roads and improvements at the Hartland Landfill site, construction of remote transfer stations, composting facilities, watershed management, closure of Phase 2 and post closure maintenance, and all related ancillary works and equipment necessary for landfill and operations. The 2025 capital reserve fund will be used to fund \$4.2 million of the 2025 capital plan.

2025 Budget Context

The following tables summarize the total 2025 ERM expenditures and revenues. The totals are also summarized in Appendix A, along with the 2024 year-end estimated actuals and the 2026-2029 future projections.

**Table 2: 2025 Budgeted Expenses**

<b>Budget Component</b>	<b>2025 Budget</b>	<b>% of Total</b>
Consultant and Contract for Services	\$21,242,140	38.4%
Internal Allocations	\$11,595,894	20.9%
Program Expenses	\$4,533,283	8.2%
Salaries and Wages	\$4,424,768	8.0%
Capital/Reserve Transfers	\$5,467,700	9.9%
Repairs and Maintenance Costs	\$2,523,000	4.6%
Debt Servicing	\$2,026,178	3.7%
Operating Cost - Other	\$1,896,100	3.4%
Utilities Costs	\$1,087,898	1.9%
Third Party Payments	\$290,000	0.5%
Operating Supplies	\$212,600	0.4%
Insurance Cost	\$74,770	0.1%
<b>Total</b>	<b>\$55,374,331</b>	<b>100%</b>

**Table 3: 2025 Budgeted Revenue**

<b>Budget Component</b>	<b>2025 Budget</b>	<b>% of Total</b>
Hartland Tipping Fees	\$28,209,000	50.9%
Recovery - Other	\$9,786,519	17.7%
Sale of Goods and Services	\$9,114,250	16.5%
Reserve Transfers	\$4,444,562	8.0%
Hartland Tipping Fees - Recycling	\$2,020,000	3.6%
Compost Tipping Fees	\$1,800,000	3.3%
<b>Total</b>	<b>\$55,374,331</b>	<b>100%</b>

**ALTERNATIVES**

*Alternative 1*

The Environmental Services Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

That Appendix A, 2025 Operating and Capital Budget – Environmental Resource Management be approved as presented and form the basis of the Provisional 2025-2029 Financial Plan.

*Alternative 2*

The Environmental Services Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

That Appendix A, 2025 Operating and Capital Budget – Environmental Resource Management be approved as amended and form the basis of the Final 2025-2029 Financial Plan.

**IMPLICATIONS**

If the proposed budget is amended, the implications will vary depending on how the amendment impacts specific initiatives, ongoing operations, or the capital work program.

**CONCLUSION**

The draft 2025 Environmental Resource Management budget has been prepared for consideration by the Environmental Services Committee, with a primary focus on implementing the new Solid Waste Management Plan, with a goal of diverting waste and extending the life of Hartland Landfill. While the budget was prepared considering the Capital Regional District Board's 2025 service planning and financial expectations, the 2025 budget proposes significant operating and capital budget increases, with no requisition requirement, that will assist the community in achieving the goals set out in the new Solid Waste Management Plan.

**RECOMMENDATION**

The Environmental Services Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

That Appendix A, 2025 Operating and Capital Budget – Environmental Resource Management be approved as presented and form the basis of the Provisional 2025-2029 Financial Plan.

Submitted by:	Russ Smith, Senior Manager, Environmental Resource Management
Concurrence:	Luisa Jones, MBA, General Manager, Parks, Recreation & Environmental Services
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer, GM Finance & IT
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**ATTACHMENT**

Appendix A: 2025 Environmental Resource Management Budget