

Waste Services 2019-2022 Proposed Operating Budget

Recommendation

That Utility Committee recommend to City Council:

That the 2019-2022 Waste Services Operating Budget for the Waste Services Utility, as set out in Attachment 1 of the November 16, 2018, City Operations report CR_6138, be approved as follows:

1. 2019 Operating Budget with revenues of \$230,929,000 and expenditures of \$218,692,000.
2. 2020 Operating Budget with revenues of \$231,581,000 and expenditures of \$219,333,000.
3. 2021 Operating Budget with revenues of \$240,116,000 and expenditures of \$229,612,000.
4. 2022 Operating Budget with revenues of \$249,072,000 and expenditures of \$234,450,000.
5. That the Waste Services Utility rates and fees, as set out in Attachment 1 of the November 16, 2018, City Operations report CR_6138, be approved.

Executive Summary

Over the 2019-2022 budget cycle, Waste Services will deliver programs and services that will help move Edmonton toward City Council's goal of 90 percent residential waste diversion from landfill; identify opportunities for the recovery of valuable waste resources; partner with private and non-profit stakeholders to encourage the development and commercialization of new technologies; engage residents and stakeholders to define issues; consider solutions and identify priorities; and implement the necessary program and service changes to secure a sustainable future for Edmonton.

Programs will ensure fiscal accountability with stable rate increases, continuous

business improvements and a continued focus on safety, employees and customers. Significant changes to the waste management program will occur over the next four years including changes to the residential curbside collection of grass, leaf and yard waste and the implementation of a source separated organics program. Managing these changes will be achieved within the parameters set out in this proposed operating budget. Waste Services is examining and optimizing all areas of the business to maximize efficiencies, increase value for money, continually improve environmental performance, minimize risk and maintain the highest safety standards.

Report

This report presents the proposed 2019-2022 Operating Budget for Waste Services (see Attachment 1). The Operating Budget and the 2019 Utility Rate Filing have been prepared by reviewing historical annual performance, the 2018 Approved Operating Budget, and incorporating the strategic directions and initiatives from the 2019-2022 Business Plan. In addition, Waste Services utilized the findings from the 2017 Cost of Service Study Report in the development of the 2019 Utility Rate Filing. The 2019 Utility Rate Filing has been reviewed by the Utility Advisor and the report is provided in Attachment 2. For the Utility Rate Filing and all related information see Attachments 3 to 8.

The 2019 Utility Rate Filing and 2019-2022 Operating Budget reflect City Council's direction to Administration to use a four-year budget presentation and approval process. However, for utility rate setting purposes, only 2019 rates are approved by Council, while 2020, 2021 and 2022 rates are considered to be indicative.

Background

The Waste Services Utility has both regulated and non-regulated programs. The regulated programs are funded predominantly with revenue generated from utility rates. Non-regulated programs generate revenue that is intended to fund all non-regulated program costs and contribute toward offsetting regulated rates.

Regulated programs include, but are not limited to, residential curbside and multi-unit waste collection, processing and disposal. Non-regulated programs include, but are not limited to, Commercial Collections, Commercial Self-Haul, Construction and Demolition Recycling and Aggregate Recycling.

2019-2022 Operating Budget Highlights

The Waste Services Utility proposes to maintain stable, consistent rate increases, in alignment with the Waste Management Utility Fiscal Policy C558A, by limiting the 2019 proposed utility rate increase to 2.5 percent. In addition, the indicative rate increases for 2020 through 2022 are also 2.5 percent.

Within these rates, Waste Services is forecasting a positive net income of \$12.2 million in 2019. The net income forecasts remain positive in 2020 and beyond to meet Pay as You Go capital funding requirements and to mitigate risk exposures. All financial indicators, as defined in Waste Management Fiscal Policy C558A, are trending positively.

The Debt to Net Assets Ratio is projected to decline to 75.4 percent in 2019 and then remain near 73 percent for the balance of the four-year cycle. The Debt to Net Assets ratio will remain above the upper limit of 70 percent until 2025 as the Utility will be investing capital funds over the next four years in the Edmonton Composting Facility, the Materials Recovery Facility and to implement significant strategic program changes. The target cash balance is realized in each year of the forecast to address funding requirements for Waste Services' capital investment plan (as presented in CR_6139 Waste Services 2019-2022 Proposed Capital Budget).

Positive results in Waste Services' financial indicators are the outcome of a thorough assessment of operating and capital budgets. This assessment resulted in the following actions:

- Reduction of operational expenditures on contract services of \$2 million
- Maintaining personnel counts at 2018 levels throughout the next four years as a result of operational efficiencies and continuous improvement efforts
- Realignment of the projected 2019 capital budget to align with historical spend rates combined with a reset of capital priorities focusing on safety, environment and key operational improvements including the Edmonton Composting Facility and Materials Recovery Facility

The changes to operating budgets and ultimately utility rates are part of ongoing efforts to assess and manage revenues and expenditures which form the basis of the 2019 Utility Rate Filing. This due diligence has allowed the Waste Services Utility to deliver stable consistent rate increases while positively improving all financial indicators as defined in Waste Management Fiscal Policy C558A.

Utility Rates

The proposed rate increase of 2.5 percent for residential customers will result in a monthly increase of \$1.15 for single unit residential customers and a monthly increase of \$0.75 for multi-unit customers. The resulting monthly single and multi-unit residential rates are proposed as \$47.08 and \$30.60, respectively.

Utility rates are amended under Waste Management Bylaw 17555 (City Operations report CR_6468) to reflect the new rates for the operation of Waste Services. The

Utility bylaw amendment is scheduled for the December 11, 2018, City Council meeting for approval of rates and waste fees that are effective as of January 1, 2019.

Non-Regulated Activities

The Utility is mandated to provide collection and sustainable waste processing services to residential (regulated) customers and to provide optional collections and sustainable waste processing services for non-residential (non-regulated) customers within the City of Edmonton. Regulated services are funded by utility rates while non-regulated programs generate revenue that is intended to fund all non-regulated program costs and contribute toward offsetting regulated rates.

To address non-regulated program losses, the Waste Services Utility was given authorization through the 2015 Operating Budget process to draw on a \$7.4 million short-term loan from the City of Edmonton Financial Stabilization Reserve (FSR) over four years beginning in 2015. The loan ensured that the residential customers did not subsidize temporary financial shortfalls associated with non-regulated activities. At the end of 2017, the outstanding loan balance was \$3.23 million with an additional draw of \$0.83 million forecast in 2018, bringing the total to \$4.06 million.

The 2019 Utility Rate Filing projects a negative net position for the non-regulated program of \$1.3 million. The non-regulated program is currently being assessed to evaluate its effectiveness and efficiency. After completing the review, a revised strategy for the non-regulated program will be developed and implemented in 2019.

Edmonton Composting Facility Deferred Costs

At the time of the 2018 rate filing, a deferral account was established to cover the financial impacts related to the Edmonton Composting Facility closure. This is because the financial and operational impacts of the closure, structural repairs and risk mitigation options could not be fully determined or quantified. Now that the costs have been quantified, a regulatory asset has been established to allow the utility to recover the incurred expenses related to the Edmonton Composting Facility. Costs will be recovered through customer rates over the next 12 years to prevent rate shock and allow Waste Services to maintain stable and consistent rate increases.

Cost of Service Summary

In May 2018, the City of Edmonton retained a consulting firm to perform a Cost of Service Study for the Waste Services Utility. The study used the 2017 operational and financial results to:

- Perform a cost allocation analysis - allocating costs to programs, functions and customer class using agreed upon allocation methodologies

- Perform a cost recovery analysis - comparing the revenues received for each customer class to their allocated costs and determining the implications of the cost recovery results

To meet these objectives, a standard cost of service methodology was followed (see Attachment 9 for the Executive Summary).

Key observations from the 2017 Cost of Service Study include the following:

- After accounting for normalization adjustments, Waste Services recovered approximately \$6.4 million in excess of its costs. However, in the absence of the normalization adjustment for the Post Closure Liability of \$5.6 million, the resulting excess would be only \$0.8 million. The Utility requires positive net income to cover future year's capital expenditures and to improve the overall debt to net asset position.
- The combined cost recovery for the regulated portion of Waste Services' business that provides service to residential customers is 105.3 percent:
 - Single unit cost recovery is 103.5 percent
 - Multi-unit cost recovery is 109.7 percent
- Cost recovery for the non-regulated portion of Waste Services' business (which provides service to non-residential customers) is 86.4 percent, using an incremental cost approach. While there continues to be a revenue requirement deficiency for the non-residential customer class, this recovery has improved from 69.4% in 2010. To address non-regulated program losses, the Waste Services Utility was given authorization through the 2015 Operating Budget process to draw on a short-term loan from the City of Edmonton Financial Stabilization Reserve (FSR) over four years beginning in 2015. This ensured there was no impact to ratepayers.

Waste Services will use these observations to improve the accuracy of tracking and billing of single and multi-unit customers, consider determining single and multi-unit rates independently, and consider further analysis to improve the cost recovery of non-regulated programs. A strategic review of non-regulated business lines is now underway.

Public Engagement

Although public engagement was not undertaken for the budget process, Waste Services is currently conducting extensive public engagement efforts with residents and a variety of stakeholders impacting regulated and non-regulated business activities. The input provided will inform the proposed program and service changes and help shape a new waste strategy for Edmonton. Comments made during

engagement that are relevant to rate and other operational elements will be collected and will inform ongoing program improvements.

The Operating Budget is standard operational practice for the Waste Services Utility as per Waste Management Policy C527, Waste Management Utility Fiscal Policy C558A and the City of Edmonton four-year budget cycle. The public has the opportunity to ask questions about the budget through the yegcity.ca budget website and to provide input when the budget is presented at Utility Committee.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position					
Outcome(s)	Measure(s)	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed
Edmonton's waste service rates and fees are fair, equitable and value-driven.	Annual Net Income (\$000s)	12,237	12,248	10,504	14,622
	Cash Position (\$000s)	64,134	64,206	61,403	63,072
	Stable Consistent Rate Increases	2.5%	2.5%	2.5%	2.5%
	Debt to Net Assets Ratio	75.4%	73.6%	73.3%	73.7%

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Customers / Citizens	Changing citizen expectations; increased demand for services	3 - possible	2 - moderate	6 - low	<ul style="list-style-type: none"> Public Engagement Communications Social Marketing 	Engage with citizens to get feedback on proposed programs; establish comprehensive communications program to support implementation.

Environmental	Contamination of waste streams; reduced diversion	3 - possible	3 - major	9 - medium	<ul style="list-style-type: none"> • Education • Communications 	Establish comprehensive education and communications programs to support implementation and to show value to citizens.
Public Perception	Perception of poor service by the City; poor public perception of the City affects its ability to achieve objectives (i.e. diversion target)	3 - possible	3 - major	9 - medium	<ul style="list-style-type: none"> • Education • Communications • Social Marketing 	Establish comprehensive education and communications programs to support implementation and to show value to citizens.

Attachments

1. Branch - Waste Services 2019-2022 Operating Budget
2. Utility Advisor Response to the Edmonton Waste Management 2019 Rate Submissions - October 25, 2018
3. City of Edmonton Waste Services Utility - 2019 Utility Rate Filing - October 12, 2018
4. Waste Services Facilities and Infrastructure Composite Upgrade/Renewal - Capital Funding Request
5. Waste Services IIS Infrastructure Planning and Design Composite - Capital Funding Request
6. Waste Services IIS Infrastructure Delivery Composite - Capital Funding Request
7. Waste Services Containers - Business Case
8. Waste Services Vehicles and Equipment - Business Case
9. City of Edmonton - Waste Services - 2017 Cost of Service Study - Executive Summary - October 19, 2018

Others Reviewing this Report

- T. Burge, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement