

MULTI-UNIT STRATEGY - ALTERNATIVE BUSINESS MODEL

RECOMMENDATION

That Utility Committee recommend to City Council:

1. That Waste Services provide mandatory three-stream communal collection, with mandatory co-location for disposal of each waste stream as outlined in the March 25, 2022, City Operations report CO00581 rev.
2. That the Communal Collection Diversion Rate Calculation Methodology as set out in Attachment 2 of the March 25, 2022, City Operations report CO00581 rev, be approved.
3. That capital profile 23-81-2054, Three-stream Communal Collection, as set out in Attachment 3 of the March 25, 2022, City Operations report CO00581 rev, be approved.

Report Purpose

Council decision required

Council is being asked to approve a transition to mandatory three-stream communal collection, a communal collection diversion rate calculation methodology and the Three-stream Communal Collection capital profile.

Previous Council/Committee Action

At the June 25, 2021, Utility Committee meeting, the following motion passed:

That the Business Case and cost of service study for Residential Communal Collection be referred back to Administration to provide an alternative business model for consideration, which allows for a fully privately operated service within the regulated utility model along with a robust data sharing and accountability framework to ensure that diversion targets contained within the 25 year waste strategy are met.

Executive Summary

- Edmonton's 25-year Comprehensive Waste Management Strategy (Waste Strategy) defines a path of ambitious, transformational change toward a zero waste future, with a target of 90 per cent waste diversion across all sectors.

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- Approximately 167,000 homes receive the City's communal collection services across almost 3,400 properties. The introduction of three-stream source separation (organics, recycling and garbage) for residents receiving communal collection is one of the next steps in the Waste Strategy and is necessary to ensure the entire residential sector has equal access to source-separated waste collection.
- In June 2021, Administration presented a business case for a mandatory three-stream source separation program for communal collection. Administration was directed to prepare an updated business case that includes "an alternative business model for consideration, which allows for a fully privately operated service within the regulated utility model."
- Offering choice and price competition through private services under a regulated utility is not contemplated under the *Municipal Government Act* (MGA). Privatizing services would limit the City's ability to regulate the service. Franchising could be an option to provide regulatory oversight but this approach would not be consistent with "privatization" and market freedom.
- Administration developed options that assume the City could provide regulatory oversight in a number of areas, including managing rates; source separation requirements and appropriate disposal of waste streams; container provision; and defining parameters that would impact contracts between service providers and customers.
- The recommended option is Alternative 5 (City Managed Services) because it has the highest total score in the business case analysis, presents the lowest risk and has an acceptable Net Present Value (NPV).
- By diverting waste from landfill and expanding three-stream source separation to the remaining residences in Edmonton, the recommended Alternative supports the City Plan's Big City Move to be Greener as We Grow and contributes to Council's strategic goal of Climate Resilience.

REPORT

Edmonton's Waste Strategy defines a path of ambitious, transformational change toward a zero waste future. A critical element of that path is a target of 90 per cent waste diversion across all sectors in Edmonton, with clear recognition that reaching that target will require the implementation of three-stream source separation in every sector.

Approximately 167,000 homes receive the City's communal collection service, through which residents of almost 3,400 multi-unit properties, like apartments and condominiums, dispose of waste in shared waste containers. The introduction of three-stream source separation for residents receiving communal collection, who are expected to represent a growing proportion of the City's overall population, is the next step in the path outlined by the Waste Strategy. This approach will also ensure the entire residential sector has equal access to source-separated waste collection services.

Business Case for Three-Stream Communal Waste Collection

In June 2021, Administration presented a business case for a mandatory three-stream source separation program for multi-unit residential properties that receive communal collection (June 25, 2021, City Operations report CO00581, Multi-Unit Strategy). This business case recommended

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a program alternative that was assessed as the most appropriate option to meet the needs of residents and property managers, as well as the objectives of the Waste Strategy.

In response to the business case, a number of stakeholders representing individual multi-unit properties and the multi-unit property management industry, reiterated a desire to opt out of the City's Waste Utility. They asserted that the regulated utility model was preventing some multi-unit properties from achieving cost savings by restricting their ability to secure a private contractor for waste services. Leveraging a previous report on the matter (April 30, 2021, City Operations report CO00391, Multi-Unit Program Development Update), and with advice and guidance from the independent Utility Advisor, Utility Committee clarified that there is no effective mechanism for properties to opt out of the utility; the only mechanism to enable some multi-unit properties to opt out of City waste services is to deregulate the entire communal collection service.

As part of the debate about the potential outcomes of deregulating communal collection services, members of Utility Committee, the stakeholders advocating for private waste services and a number of private waste service operators all confirmed a belief that any alternative model for waste services to the multi-unit sector should continue to align with the ambitious waste diversion targets defined by the Waste Strategy.

Recognizing this shared commitment to the objectives of the Waste Strategy, but aiming to fully analyze the other potential impacts of options for privatizing some services, Utility Committee directed Administration to update the business case to include "an alternative business model for consideration, which allows for a fully privately operated service within the regulated utility model." The resulting business case is presented as Attachment 1.

Administration sought to clarify the intent of the motion through meetings with members of Utility Committee. For absolute clarity, Administration identified the outcomes to be achieved through the development of an updated business case, and developed a series of definitions (outlined in Section 3.1 of Attachment 1) to establish a clear interpretation of the motion. A notable constraint to the work conducted in response to the motion stems from the lack of a legal mechanism to regulate privatized services under a utility model, despite the motion specifying that the management of waste from properties receiving communal collection should remain within the Waste Utility (a contradiction that is addressed in more detail in Section 5.1 of Attachment 1).

As per the motion passed by Utility Committee, and although not contemplated by the *Municipal Government Act* (MGA), this business case assumed that it would be possible to regulate fully private services at a level equivalent to those currently in place through the Waste Utility, and assumed that, if services were to be fully privatized, the Waste Utility would be able to direct aspects such as:

- The number of waste streams collected and separately disposed of;
- Service levels (e.g. collection frequency, volume limits and collection of items dumped illegally beside bins);
- Program requirements, such as co-location of collection containers; and

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- Service rates charged to customers.

Building from these assumptions, Administration developed a range of options defining a variety of ways the Waste Utility could manage rates, govern material flow and container provision, and define parameters for contracts between service providers, customers and the City. Options were developed for four categories of service provided to communal collection customers: collection; container provision; processing; and education and outreach.

Options Analysis

The options analysis used a two-stage approach, as outlined in detail in Section 7 of the business case. In the first stage, a list of detailed options were evaluated across a range of criteria, with the status quo for each service category scoring higher than any of the privatization options.

In the second stage of analysis, a condensed range of options were evaluated in terms of their cost and risk. This condensed range of options was then further consolidated into complete “packages” built to define logical solutions for delivering the full suite of waste services to communal collection customers. Following the elimination of packages that were logically inconsistent (e.g. City-provided collection and processing with privately operated education and outreach), the five remaining packages were identified as viable alternatives. These viable alternatives were evaluated in terms of their cost and risk, for the purposes of making a program recommendation. Those five viable alternatives are described in the table below.

Alternative	Alternative Description
1. Full Privatization	All services privatized.
2. Privatization with City Processing	Processing and disposal managed by the City, all other services privatized.
3. Privatization with City Education	Education and outreach is managed by the City, all other services privatized.
4. Private Collection and Containers	Processing, disposal and education and outreach are managed by the City. Collections and container provision is privatized.
5. City Managed Services (Status Quo)	All services are managed by the City (Equivalent to the recommendation in the June 2021 Business Case for Residential Communal Collection).

Cost Analysis

Based on a lack of available information about the potential costs for privatized services, only the Capital and Operating savings and costs for the City were evaluated for the alternatives, including the stranded costs that would need to be managed with privatization. This means that the cost of replacing services that are no longer provided by the City, for each alternative, are unknown and unaccounted for in this analysis (and that any alternatives with a lower cost will only represent a

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true savings to residents if the private cost of replacing lost service is less expensive than the incremental reduction in City costs).

The table below outlines the difference in Net Present Value (NPV) per unit per month between Alternatives 1 through 4 and Alternative 5, as well as the services provided by the City for each alternative (and therefore the gaps in service that must be replaced by multi-unit properties). The values represent the increase or decrease in the utility cost for ratepayers compared to Alternative 5. As noted, privatized services would need to be secured at an unknown cost.

	Alternative 1 Full Privatization	Alternative 2 Privatization with City Processing	Alternative 3 Privatization with City Education	Alternative 4 Private Collection and Containers	Alternative 5 City Managed Services
Utility Cost Increase/ Decrease Compared to Alternative 5	\$0.29 /unit/month more than Alternative 5	\$2.41 /unit/month less than Alternative 5	\$0.56 /unit/month more than Alternative 5	\$2.14 /unit/month less than Alternative 5	-
Privatized Serviced (Services that Properties Would Need to Secure)	<ul style="list-style-type: none"> •Collections •Processing •Container Provision •Education and Outreach 	<ul style="list-style-type: none"> •Collections •Container Provision •Education and Outreach 	<ul style="list-style-type: none"> •Collections •Processing •Container Provision 	<ul style="list-style-type: none"> •Collections •Container Provision 	None
Utility Services Included	None	<ul style="list-style-type: none"> •Processing 	<ul style="list-style-type: none"> •Education and Outreach 	<ul style="list-style-type: none"> •Processing •Education and Outreach 	<ul style="list-style-type: none"> •Collections •Processing •Container Provision •Education and Outreach

Based on the analysis completed, properties receiving communal collection services would need to secure waste collection services and waste containers, for less than \$2.14/unit/month (Alternative 4), or collection, containers, and education and outreach for less than \$2.41/unit/month (Alternative 2) in order to realize a savings over the alternative where the full range of services is provided by the City through the existing regulated utility model (Alternative 5). Alternatives 1 and 3 would actually result in an increased cost to the Utility and its ratepayers, although the services provided would be reduced. This is due to the stranded costs associated with the City's assets that would need to be retained so that the Utility can continue to serve its curbside collection customers. Examples of these assets and costs include vehicles, buildings, containers, human resources and capital loan repayment fees.

Assets that solely support the communal collection properties may not be retained, but as there is no established market identified, these assets are also considered a cost to the rest of the Utility as a result of privatization. Should privatization occur, recuperation of these costs will

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require future resolution. For the privatization options, properties currently receiving communal collection services would still need to source these services from the private sector at an additional cost borne directly by them.

Risk Analysis

A comprehensive risk register was developed to assess the risks for each viable alternative and can be found in Appendix I of the business case. A Risk Score, reflecting the total risk avoided by an alternative relative to a common baseline of potential risk, demonstrates the relative risk potential of each alternative. A higher score indicates that more risk is avoided.

	Alternative 1 Full Privatization	Alternative 2 Privatization with City Processing	Alternative 3 Privatization with City Education	Alternative 4 Private Collection and Containers	Alternative 5 City Managed Services
Total Risk Avoided	889	958	1,005	1,074	1,248
Total Possible Risk	1,625				
Risk Score	55%	59%	62%	66%	77%

Recommended Alternative

The preferred alternative is Alternative 5 (City Managed Services) because it has the highest total score in the first stage of analysis, presents the lowest risk and has an acceptable NPV.

Alternative 5 avoids risks related to:

- Achieving the waste reduction and diversion targets of the Waste Strategy;
- The City's inability to effectively or affordably regulate rates, service outcomes, and waste processing and disposal; and
- Inequitable service outcomes for some multi-unit properties and residents.

Alternative 5 is the only alternative for which a diversion rate can be estimated since there is currently insufficient private processing capacity to manage all of the recycling and organics generated by communal collection customers. Alternative 5 also combines the options which would provide the City with the highest chance of achieving the objectives outlined in the 25-year Waste Strategy and be in alignment with Council's strategic goal of Climate Resilience.

Although Alternative 5 does not have the lowest Net Present Value (NPV), these values only assess the revenue requirement for the Waste Utility. Recognizing that the cost reduction on the utility rate (calculated on a per-unit per-month basis) for Alternatives 2 and 4 are marginal, it is clear that not all properties receiving communal collection can be expected to realize cost savings from service privatization. For example, small and mid-sized properties, and/or properties with limited capacity and bargaining power to secure private contract(s), and/or those that are difficult

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or inconvenient to serve, may face increased costs if the utility stops providing those services, leading to potential inequity for residents in the multi-unit sector.

Given the significant risks and indeterminate benefits of privatization, it is particularly important to note that privatization cannot be reversed in a short timeframe and without significant future investment and impact to ratepayers. If waste services to communal collection customers are privatized, it will not be viable to re-establish a utility model in the foreseeable future for communal waste customers, if the anticipated outcomes of privatization are not realized.

In addition, Administration expects that if some or all of the services are privatized, elements that are key to the success of the program, as highlighted in the business case, would change, resulting in an overall change in the program and its results.

Addressing the Concerns of Stakeholders in Support of Privatization

The City continues to make progress on a number of the concerns that stakeholders have raised.

Costs

After years of change and unstable rates, ratepayers now benefit from stable and consistent utility rates that are forecast to continue. In 2018 and 2019, annual rate increases aligned closely to inflation, as measured by the Edmonton Census Metropolitan Area Consumer Price Index (CPI). The 2020 utility rate was reduced well below the CPI to 0.3 per cent, followed by a zero per cent utility rate increase in both 2021 and 2022.

In 2023, Administration will conduct a new cost of service study to assess progress in addressing the recommendations of the 2017 cost of service study and ensure that the utility's expenses are fairly apportioned following the wind-down of the City's commercial collection services and the introduction of a new service model for curbside collection customers.

System Performance

Although facility issues, including the early closure of the Edmonton Composting Facility in spring 2019, have limited the City's ability to meet waste diversion targets, the City has addressed many deficiencies and waste diversion rates have improved in recent years. In 2022, additional work to upgrade the City's Materials Recovery Facility and to market Refuse Derived Fuel to a more diverse range of partners will help divert even more waste as early as 2023.

Service Flexibility

Although the utility model is less able to address the unique service needs of individual properties receiving communal collection, the City remains committed to exploring service innovation to best meet the needs of new developments while upholding commitments to safety, service efficiency, waste reduction and diversion.

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The City's current service model, which includes significant private sector participation through competitively awarded service contracts, is a strong base upon which to introduce more flexible servicing options in collaboration with the private sector, as doing so becomes feasible.

Communal Collection Diversion Rate Calculation Methodology

Administration has developed a Communal Collection Diversion Rate Calculation (Attachment 2) which is based on the previously approved methodology for the curbside program (June 8, 2018, City Operations report CR_5824). The curbside methodology is based on the Residential GAP - Manual on Generally Accepted Principles for Calculating Municipal Solid Waste System Flow (2003). Beginning in 2023, Administration will use this calculation to report the communal collection diversion rate.

Next Steps

Section 13.1 of the business case outlines an implementation approach for the recommended alternative. Preparation would begin in 2022 to ensure that three-stream collection can be delivered, in phases, beginning in late 2023 or early 2024.

If City Council directs Administration to pursue privatizing or franchising of some or all of the waste services provided to communal collection customers, City Council direction is required to indicate:

- Whether the implementation of the three-stream source-separated program should be paused until a final decision regarding privatization is made; and
- Whether a fully private model with a newly developed, limited regulatory framework or a franchise model that establishes a new, parallel waste utility is preferred. Under a franchise model, a new waste utility would operate alongside, but separate from, the current Waste Utility.

Pending the direction from City Council, Administration would then prepare further analysis as described in Section 13.2 of Attachment 1 and present recommendations in the future.

Budget/Financial Implications

Administration is requesting funding for the residential waste collection program under capital profile 23-81-2054 (Attachment 3) reflecting Alternative 5 (City Managed Services) to commence procurement of vehicles, containers and other equipment required to start program implementation in 2023. Due to global supply chain challenges, procurement requires longer lead times and therefore funding approval is requested in advance of the 2023 to 2026 budget to ensure that orders can be placed in 2022 to meet 2023 implementation requirements. The recommendation will require capital expenditures of \$10.4 million between 2023 and 2025 for the purchase of organics and recycling containers to be used for source separating waste, fleet vehicles and other related expenditures. Over the complete 24-year life cycle of the program, a total of \$29.0 million in capital funding and \$93.5 million in operating and maintenance costs are required. These costs are to implement the program changes recommended in the business case.

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The rate impact of a new program will be presented in the 2023 Utility Rate Filing, pending a program decision by City Council. Any capital and operating impact is expected to be mitigated or entirely addressed within the utility rate increases previously forecast in the 2022 Utility Rate Filing. A summary of the net staffing impact, reflecting an effort to realign existing resources based on an assessment of the systems impact of an approved program change, would be presented at the same time.

If City Council directs Administration to pursue the privatizing or franchising of some or all services, significant additional work will be required to develop accurate cost estimates, a transition plan to minimize stranded costs, and funding mechanisms to address changes to the remaining Utility's revenue requirements (e.g. an exit fee or tax subsidization). Once this additional analysis is completed (along with the analysis of other non-financial considerations outlined in Section 13.2 of the business case), a final decision could be made and an implementation approach could be developed.

Legal Implications

If City Council directs Administration to pursue the privatizing or franchising of some or all services, further research would be required to evaluate the extent to which an accountability and enforcement framework could be implemented for the selected model. This information will enable City Council to more accurately assess and mitigate the risks of non-compliance that are expected from the privatized or franchised model before a transition is approved and initiated.

COMMUNITY INSIGHT

Public engagement to inform the original business case for a mandatory three-stream communal waste collection program was conducted in two phases in 2020 and 2021, with input from property managers, developers, haulers, processors, condo board members and residents. What We Heard Reports for this engagement were provided as attachments to the June 25, 2021, City Operations report CO00581, Multi-Unit Strategy.

Although it was not feasible to conduct broad public engagement during the development of this revised business case, the City contacted various private waste collection and processing companies in the region to solicit information to help inform the analysis of options for privatizing services. Very few haulers and processors responded to the provided questionnaire and, of the responses received, many were incomplete and did not provide the level of detail required to complete the analysis in a comprehensive manner.

Additional engagement to address the shortcomings of the voluntary questionnaire and to engage other service stakeholders, including the residents who rely on the service, would be essential to adequately consider the potential impacts of any options for privatization.

Should City Council direct additional work to consider some form of privatization, Administration would also aim to compile community insights relevant to:

- Curbside collection customers and property owners who may be impacted by required efforts to address the financial impacts of privatization; and

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- Regional and non-residential waste stakeholders who may be impacted by increased competition for waste collection services and waste processing capacity.

If a privatized model for communal collection services is pursued, significant additional engagement should also be considered to assess if and how the City can continue to achieve the desired outcomes associated with the additional implementation steps described in Section 13.3 of the business case.

GBA+

The recommended alternative to implement a mandatory three-stream communal waste collection program has been developed with consideration for equity of service between the residential sectors, between different properties receiving communal collection and between residents with different identity factors such as level of environmental awareness, household size and whether residents own or rent the property.

If a privatized model for communal collection is implemented, there is no clear mechanism to ensure that a GBA+ framework will be similarly applied. If Council chooses to further investigate such an alternative model, additional work would be required to better understand and attempt to mitigate the expected outcomes for particular sites and residents.

RISK ASSESSMENT

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
If recommendation is approved						
Infrastructure & Assets	Increased source separation results in a requirement for additional waste processing capacity.	5 - almost certain	3 - major	15 - high	Continuously update the models projecting changes to incoming waste streams to assess when additional capacity may be required.	Plan for, fund and secure additional system processing capacity through future business cases and rate filings, as required.
Infrastructure & Assets	Procurement of containers, vehicles, and other assets are delayed or significantly more difficult or expensive due to supply disruptions.	4 - likely	4 - severe	16 - high	Work with contractors and suppliers to enter into contracts and plan procurements ahead of time.	Plan to implement over a longer period of time and stagger the procurement of assets.
If recommendation is not approved						
Governance	The City of Edmonton is unable to privatize and regulate under the utility framework without franchising.	5 - almost certain	5 - worst case	25 - extreme	City Council to decide on whether a fully private model or a franchise model is preferred.	Depending on a decision from City Council, further risk analysis and mitigation development is necessary.

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Public Sphere	Different standards across the residential sector create inequity and compromise the momentum of the Waste Strategy.	5 - almost certain	3 - major	15 - high	Develop a strong regulatory approach to achieve consistent standards across all sectors.	Accept the reality that different standards will exist and focus on the curbside customer base by finding ways to maintain high momentum.
Public Sphere	The desired outcomes of privatizing services are not met but privatization cannot be reversed.	3 - possible	5 - worst case	15 - high	City Council and Administration to consider all possible solutions before privatizing services.	City Council to consider franchising before privatizing services.
Governance	Outcomes expected from privatizing services are not clear.	5 - almost certain	3 - major	15 - high	Make assumptions and provide high level analysis in the business case.	City Council to provide a clear objective and purpose (cost, diversion, etc.) for privatizing services.
Information Systems & Technology	Key program metrics such as participation, diversion, etc. cannot be measured.	4 - likely	4 - severe	16 - high	Have strong regulations for haulers operating within the City and accept risk for processors operating outside City boundaries.	City Council to advocate to the Provincial government for a landfill ban of organic and recyclable material. Develop bylaw(s) to enforce an accountability framework under a completely deregulated service.

ATTACHMENTS

1. Three-stream Communal Collection: Business Case for Service Privatization Options Within a Regulated Utility
2. Communal Collection Diversion Rate Calculation Methodology
3. Capital Profile 23-81-2054 - Three-stream Communal Collection