Council Policy

Waste Services Utility Fiscal Policy Summary of Changes

Program Impacted	Financial Sustainability~~Management~~ The City of Edmonton's resilient financial position enables both current and long-term service delivery and growth.
Number	C558C~~B~~
Date of Approval	TBC~~December 9, 2020~~
Approval History	December 9, 2020 (C558B) September 23, 2014 (C558A) June 1, 2011 (C558)
Next Scheduled Review	TBC~~December 2023~~

Statement

I. The purpose of this policy is to:

A. Ensure that the Utility is financially sustainable over the long term and remains a self-funded enterprise.

B. Ensure that there is a consistent approach year-over-year for the financial planning, budgeting~~,~~ and rate setting for the City of Edmonton managed Utility.

II. Guiding Principles

A. The Utility is to be operated in a manner that balances the best possible service at the lowest cost (public utility) while incorporating utility rate setting principles in establishing customer rates.

III. Operating Principles

A. The Utility is exempt from a Local Access Fee as the Utility does not have exclusive rights to the waste collection and disposal market, nor does it have exclusive use of the roadways.

B. The Utility is exempt from Dividend payment to the City of Edmonton.

C. Similar to private utilities, the Utility will account for the cost of service under a full cost accounting approach.

D. Where government grants are not provided for the exclusive use of the Utility, access to government grants requires the completion of a business case that takes into account the overall needs of the community. The allocation of grant funding to the Utility will be based on prioritization of all City of Edmonton capital projects through the City of Edmonton's Capital Budget Process.

E. For Utility provision of non-regulated services and where such services require significant capital investment and/or have net operating costs, a business case is to be prepared to inform funding decisions to be made by City Council.

F. The Utility is to contribute towards achieving the goals of ~~t~~The City Plan.

IV. Utility Rate Setting Principles:

A. Customer rates will be set based on both the short-term and long-term needs of the Utility to ensure they are as stable and predictable year-over-year as possible~~stable and predictable year over year~~.

B. Customer rates will be understandable, practical and cost-effective to implement.

C. Customer rates will be based on the forecasted cost of providing Utility services and will fairly apportion the cost of service among different customer classes.

D. Customer rates may be set either annually or for a period of up to four years at a time.

~~**E.** Assessment of the forecast cost of providing service will take into account the longer-term nature of utility infrastructure being used to service customers by incorporating necessary short-term and long-term funding required to maintain and renew assets while maximizing asset value and longevity.~~

E. Customer rates will promote the efficient use of resources and be set to achieve broader social, economic~~,~~ and environmental goals.

F. Cost for services received from or provided to related parties will be accounted for under the full cost accounting approach.

V. Debt Financing Principles:

A. Debt financing is only permitted for capital expenditures. Debt will not be utilized to finance operating expenditures.~~The Utility will not utilize Debt to finance operating expenditures.~~

B. The Utility will follow the City of Edmonton's process for debt issuance in accordance with Debt Management Fiscal Policy C203D~~C~~, including the term of debt and will be consolidated with City of Edmonton debt in determining the City of Edmonton's position relative to the ~~legislated~~ debt servicing limits within the policy and debt limitations arising from legislation.

C. Debt financing will be considered for Capital Expenditures in:

1. projects with long-term benefits~~ extending over one year~~;
2. major rehabilitation or upgrade of existing assets; and

3. emerging capital requirements to support Utility ~~corporate~~ priorities and strategic plans.

D. Debt financing will be utilized in an appropriate~~affordable~~ manner to balance long-term financial sustainability and intergenerational equity for Utility customers~~where affordability is measured by the burden of debt servicing costs relative to revenues~~.

VI. Financial Indicators

A. Financial indicators are general measures that will need to be interpreted collectively to appropriately assess the Utility's long-term financial sustainability. As such, it may be desirable to have higher or lower results on a short-term basis to balance rate setting principles and long-term financial sustainability.~~provide financial information about the sustainability of the Utility. Taken collectively, these indicators allow for periodic assessment of whether the Utility is moving towards or away from financial sustainability.~~

1. ~~Positive~~ Net Income
   - **a)** The Utility is to generate sufficient revenue to cover annual operating costs, including debt repayment, generally resulting in a positive net income to support sufficient retained earnings and long-term financial sustainability, including capital growth and renewal needs.
   - ~~**a)** At a minimum, the projected total revenue generated will be equal to the projected expenses for the year. The Utility is to generate positive net income and sufficient cash flow to cover current year expenses, working capital requirements, and to facilitate the funding for renewal and replacement of its capital assets.~~

2. ~~Positive~~ Cash Position
   - **a)** The minimum cash position required will need to be sufficient to cover:~~The target combined Cash Position of the Utility is the Pay As You Go required as identified in the Capital Plan plus an amount derived to mitigate risk. For the Waste Services utility, there are a number of revenue and expenditure risks to forecast such as:~~
     - **(1)** Pay As You Go funding for forecasted capital expenditures as identified in the Capital Plan.
     - **(2)** Long-term environmental liability requirements.
     - **(3)** Working capital requirements with an allowance for operating risk.

~~(1) Revenue risks predominantly tied to activities other than customer rate revenues such as but not limited to downward pressure on the global commodity prices of the recyclable markets, revenue uncertainty as a result of an economic downturn, global pandemic, etc.~~

~~(2) Expenditure risks predominantly tied to the uncertainty in forecasting operating costs associated with extraordinary and uncontrollable events such as but not limited to effects of a global pandemic, shortage of labour, unexpected processing equipment failures, etc.~~

b) The management of the Utility's cash position is the responsibility of Administration, taking into consideration many variables including, but not limited to, current borrowing rates, current and future cash requirements, and the planned capital financing structure (including Pay As You Go funding requirements)~~including the provision of sufficient Pay As You Go financing of the capital plan~~.

c) Where the Utility's cash position is insufficient to meet cash flow requirements, the Utility may~~will~~ borrow from the City of Edmonton on a short-term basis, with interest being paid by the Utility at an interest rate that compensates the City of Edmonton reflecting the Fund Balance where the cash was drawn.

3. Debt Service Coverage Ratio

a) The Debt S~~s~~ervice C~~c~~overage R~~r~~atio measures the ability of the Utility to meet its debt servicing obligations using annual revenues and is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Annual Net Operating Income (Net Income excluding interest expense \& Depreciation/Non-Cash Items)}}{\text{Annual Total Debt Servicing (Principal + Interest)}}$$

~~Debt Service Coverage Ratio = Debt Service (Principal + Interest Payments) ÷ Revenue~~

b) The minimum baseline target is recommended to be 1.5. Meeting the baseline will ensure that the Utility is earning enough to cover annual debt servicing costs. ~~The debt service coverage indicator is achieved when the Utility's Debt Service Coverage Ratio is not greater than 22%.~~

4. Debt to Net Assets Ratio

a) The Debt to Net Assets Ratio measures the extent that the Utility is debt leveraged and is calculated as follows:

$$\text{Debt to Net Assets Ratio (Non-Contributed)} = \frac{\text{Total Long-Term Debt for Non-Contributed Capital Assets}}{\text{Net Book Value of Capital Assets (Non-Contributed)}}$$

b) The Utility will aim to maintain a Debt to Net Assets Ratio between 50 and 70 percent by balancing long-term financial sustainability with intergenerational equity.

~~Stable Consistent Rate Increases~~

~~**a)** Rates are considered to be stable and consistent when the year over year change in rates is within ± 2% of the Consumer Price Index for the Edmonton metropolitan region as measured and reported by Statistics Canada table 18-10-0004-01 (formerly CANSIM 326-0020).~~

~~**B.** In addition to the four financial indicators used to measure financial sustainability, the Utility will report its leverage using the Debt to Equity Ratio, as part of the Financial Planning process. Debt to Equity Ratio is calculated as follows:~~

~~Debt to Equity Ratio = Total Debt (Short Term + Long Term Debt) ÷ Equity~~

VII. Financial Planning

A. Budget and financial planning will incorporate industry best practices and will follow the general principles of budget, long~~-~~range planning~~,~~ and management of capital assets as established by the City of Edmonton, and in accordance with Public Sector Accounting Standards.

B. The Utility will prepare four~~4~~-year business plans aligned with the Corporate budgeting and planning process, which will be used to support the Utility's rate filings~~, to be presented to the Utility Committee, prior to the preparation of forecasts for establishing rates~~.

C. The Utility Committee shall recommend to City Council the customer rates for the upcoming year(s), based on a 10-year planning horizon with budgets that are prepared based on current year forecast, business plan implementation~~,~~ and financial sustainability.

VIII. Definitions

~~**Appropriated Retained Earnings** - earnings of the Utility that have been set aside for specific purposes.~~

Cash Flow - the ability of the Utility to meet its financial obligations as payments are due.

Capital Assets - assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.

~~**Capital Investment Outlook** - a 10-year forecast of capital required to ensure the appropriate infrastructure is in place to meet services needs, including the replacement of Contributed Assets.~~

Capital Plan - a four-year plan for funding capital infrastructure approved by City Council.

~~**Contributed Assets** - capital assets of the Utility for which funding was provided from non-rate sources. Examples may include partnership funding, grants, etc.~~

Debt Service Coverage Ratio - ~~is~~ a measure of the annual available cash flow for debt servicing of interest and principal payments.

Debt Servicing - annual required debt repayments including interest and principal.

Debt to Net Assets~~Equity~~ Ratio - ~~is~~ a measure of the extent to which the Utility is financing its net assets through debt ~~versus accumulated surplus~~.

Dividend - an amount that is payable to the City of Edmonton from the actual net income of the Utility, payable in the following year.

Financial Indicators - a set of financial measures that provide signals on the financial health of the Utility.

Financial Sustainability - financial sustainability is achieved when all targets set for the Financial Indicators (as recommended by ~~the~~ Utility Committee and approved by City Council) are attained.

Full Cost Accounting - shall include cost allocation for services provided by the City of Edmonton~~Corporation~~ and may include administration costs, and other shared services such as communications, human resources, information technology, legal, procurement, customer support, fleet, financial services, facility maintenance, custodial services, real estate~~,~~ and general corporate overhead.

~~**Investment in Utility Financed Assets** - Net Book Value of Utility Financed Assets minus associated outstanding debt used to pay for the assets.~~

Net Assets - net book value of the Utility's non-contributed capital assets**.**

Net Book Value - acquisition costs or original cost of capital assets minus their accumulated depreciation.

Non-regulated Activities - ~~are~~ activities that are not essential to the provision of core services by the Utility. Examples may include commercial waste collection, disposal of commercial waste~~s~~, construction and demolition waste~~s~~, and other services to the City of Edmonton~~corporation~~.

Pay As You Go - the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.

Rate Revenue - revenues generated through monthly customer rates.

Regulated Activities - ~~are~~ activities that are core to the services provided by the Utility. Residential curbside collection and the disposal of residential wastes (including Eco Stations, Big Bin Events, etc.) are regulated activities of the Utility.

Related Parties - a~~A~~ll departments, branches and enterprises of the City of Edmonton that are subject to common control, joint control or significant influence by City Council or management.

Retained Earnings - accumulated net operating surpluses of the Utility used to support long-term financial sustainability of the Utility, including managing operating risks, long-term liabilities, and capital growth and renewal needs.

~~**Unappropriated Retained Earnings** - retained earnings of the Utility that are not restricted for specific purposes and available for use.~~

Utility - refers to the Waste Services Utility, a self-funded operation that provides collection and disposal of residential waste~~s~~ at rates regulated by City Council, as well as other Non-r~~R~~egulated Activities.

~~**Utility Financed Assets** - assets of the Utility for which funding has been provided from rates either through debt or Pay As You Go funding.~~

IX. References

Debt Management Fiscal Policy C203D~~C~~
Public Sector Accounting Standard PS3150