

WASTE SERVICES FISCAL POLICY UPDATE

Recommendation

That Utility Committee recommend to City Council:

That revised Waste Services Fiscal Policy C558C, as set out in Attachment 1 of the June 24, 2024, City Operations report CO02410, be approved.

Requested Action	Council decision required		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Climate Resilience		
City Plan Values	LIVE. PRESERVE.		
City Plan Big City Move(s)	Greener as we grow	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> 25-year Waste Strategy City Policy C558B - Waste Services Fiscal Policy 		
Related Council Discussions	<ul style="list-style-type: none"> CR_7840, Waste Fiscal Policy, Utility Committee, December 4, 2020 CR_1625, Utility Fiscal Policy Update, Utility Committee, September 18, 2014 2010PW6343REV2, Waste Management Utility Fiscal Policy, Utility Committee, May 6, 2011 		

Executive Summary

- City Policy C558B - Waste Services Fiscal Policy sets standards for the financial sustainability, planning and budgeting processes of Waste Services.
- A scheduled review has led to recommended changes, primarily on how Waste Services measures financial sustainability of the Utility. Updates to the financial indicators would improve their alignment to the current economic and regulatory environment.

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- This fiscal policy update would assist Administration as the next Waste Services rate filing is prepared. The next scheduled policy review is four years from the date of approval.

REPORT

City Policy C558B - Waste Services Fiscal Policy guides the financial management of Waste Services. The Policy was first introduced in 2011 to balance both the financial and environmental sustainability of Waste Services. Long-term targets and indicators were identified to reflect the cost of providing services with stable and consistent utility rates. With some minor changes in language, two core principles have remain unchanged:

- Waste Services is to be financially sustainable and self-funded long-term.
- Waste Services is to have a consistent year-over-year approach for its financial planning, budgeting and rate setting.

To meet these principles, Waste Services is required to generate sufficient cash every year to cover its environmental liabilities, asset replacement/renewal and deliver services. City Policy C558B requires the utility to be sustainably funded by rate revenue, and not subsidize non-regulated services like commercial waste collection and disposal.

This policy update was initiated in response to the Corporate Policy Framework's requirement/recommendation to review policies every three years¹, and was informed by observations and learnings since 2020. City Policy C558C (Attachment 1) is the proposed update to City Policy C558B requiring Council approval.

Summary of Changes

The main recommendation in proposed City Policy C558C updates the policy's financial indicators to indicators that are more appropriate for the Waste Services Utility. Language changes have also been recommended to improve readability and understanding.

The proposed changes promote a more holistic approach to the financial management of Waste Services. The proposed City Policy C558C would allow Administration more flexibility to make appropriate business decisions while balancing ratepayer impact and maintaining long-term financial sustainability for the Utility. Attachment 2 provides a list of all proposed changes.

Debt Management

The Debt Service Coverage Ratio (DSCR) is a financial metric that measures the Utility's ability to generate enough cash to cover its debt service obligations. The proposed change to the DSCR would use an industry-standard calculation more closely aligned to the operating needs and debt requirements of similar utilities. The DSCR calculation would have a minimum target of 1.5, which would ensure that net operating income is sufficient to cover debt servicing costs on an annual basis. A DSCR of at least 1.5 to 2.0 is considered strong and shows that a utility or company can cover its debt servicing costs.

To further support debt financing decisions, the Debt to Net Assets Ratio (DNAR) financial indicator has been added, replacing the Debt to Equity Ratio. While the two ratios are relatively

¹ Corporate Policy Framework, City of Edmonton. 2021. [Corporate Policy Framework Report](#)

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similar in what they are aiming to measure, the DNAR is more relevant to Waste Services as the Utility is more focused on how much current debt has been issued to finance capital assets.

The proposed DNAR target would aim for a 50 to 70 per cent ratio. This would be similar to how debt financing is assessed in other City utilities. The Alberta Utilities Commission also recently approved² a deemed equity ratio (equity thickness) of 37 per cent for regulated utilities in Alberta, which translates to an approved debt financing percentage of 63 per cent. While not directly comparable, as Waste Services is a municipal utility, it does provide a baseline.

Stable Consistent Rate Increases

The financial indicator Stable Consistent Rate Increases currently requires Waste Services to keep rate increases to within two per cent of the Consumer Price Index (CPI) in the Edmonton metropolitan region as assessed by Statistics Canada³. However, Administration has set utility rate increases below the two per cent range of that year's CPI, and did not increase utility rates at all in 2021 and 2022⁴, as larger rate increases were not needed to cover the cost of service. The CPI value also reflects the Edmonton metropolitan region and not the specific geographical area served by Waste Services.

This direct target does not allow flexibility for Waste Services to minimize rate increases if not needed to keep the Utility financially sustainable. The commitment to setting stable and consistent utility rates is already included in the current policy as a rate setting principle and would continue in City Policy C558C. CPI will continue to be considered in the rate filing process, and Administration has the flexibility to set rate increases above or below the CPI as necessary in the future.

Corporate Process Alignment

Adjustments have been proposed throughout City Policy C558B to encourage Waste Services to align its four-year budgeting and planning processes with the corporation. The short and long-term needs of Waste Services are to be incorporated into these four-year financial planning cycles, along with any utility rates set during those times.

Other Language Changes

The names of the Net Income and Cash Position financial indicators have been edited to remove "Positive" and clarify their purpose to reflect the specific financial needs of Waste Services. Definitions no longer used in City Policy C558B have been removed. Improvements have also been suggested to make the policy more readable, using plain language and aligning with the corporate style.

Budget/Financial Implications

The proposed City Policy C558C would be used for financial planning and budgeting purposes moving forward, including the upcoming rate filing. The updated financial indicators would allow

² Alberta Utilities Commission Decision 27084-D02-2023 (Determination of the Cost-of-Capital Parameters in 2024 and Beyond; October 9, 2023)

³ Statistics Canada table 18-10-0004-01: [Consumer Price Index, monthly, not seasonally adjusted](#)

⁴ The CPI in 2021 and 2022 for the Edmonton metropolitan region was 2.97% and 6.31% respectively.

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Administration to incorporate the updated financial indicators into its short-term and long-term planning and forecasting.

Community Insight

The City explains how waste utility rates are calculated and how it funds waste services on its website⁵. The utility funding model for Waste Services is different from many other Canadian municipalities, and fiscal policies are only required for rate-regulated utilities. The regular review process for City policies helps Administration remain accountable to ratepayers and assess how its financial management processes can be refined and improved.

GBA+

City Policy C558B requires that utility rates be fairly and equitably set to reflect the cost of providing waste services to either curbside or apartment and condo collection. However, City Policy C558B also allows Waste Services to set rates to achieve broader social, economic and environmental goals. The variable garbage cart size program for curbside collection allows households producing less or more waste to pay rates relative to the amount of waste set out for collection. This program accommodates a range of household types, from small one-person households to larger multi-generational families while balancing the impact to all ratepayers.

Environment And Climate Review

The Waste Services Utility, as a branch of the City of Edmonton, has the mandate to help Edmontonians avoid waste at its source, improve diversion rates from landfills, and reuse and recover resources. The branch supports Edmontonians' transition to a low-carbon future by enabling waste minimization processes that lower the potential to generate greenhouse gasses such as methane. Methane from landfills contributes up to 23 per cent of methane emissions in Canada.⁶ Lowering methane emissions from landfilling waste is one way of supporting individual Edmontonians, organizations and businesses to achieve climate resilience.

Principles outlined in City Policy C558B - Waste Services Fiscal Policy identify that the operation of the utility and delivery of services in a balanced manner considers the City's environment goals and the goals of The City Plan. The proposed City Policy C558C is consistent with these principles, and incorporation of these principles provides direction that supports the City's strategic goal of climate resilience.

Attachments

1. Council Policy - Waste Services Utility Fiscal Policy C558C
2. Council Policy - Waste Services Utility Fiscal Policy C558C Summary of Changes

⁵ edmonton.ca/WasteRates

⁶ Government of Canada (2022). Reducing methane emissions from Canada's municipal solid waste landfills: Discussion paper.