

## **Summary of Changes to Waste Services Fiscal Policy C558A by Section**

### *Overview*

In 2019, the Edmonton Utility Committee's Utility Adviser issued a letter to Utility Committee suggesting a review of the Waste Services Fiscal Policy be initiated. In response, Waste Services initiated a review of the fiscal policy, engaged a third party consultant to conduct a benchmarking study of similar Utility's fiscal policies and has proposed an updated Fiscal Policy. The proposed changes align Waste Services Fiscal Policy C558B with other City Policies, provide clear principles with regards to utility rate setting, and present the policy in a more readable fashion. Highlights of the proposed changes include:

- Addition of a new financial indicator, the Debt Service Coverage Ratio
- Removal the Debt to Net Assets financial indicator
- Addition of rate setting principles

Major changes to Waste Services Fiscal Policy C558A are discussed below.

*Purpose Section*

The previous purpose statement consisted of three statements. This has been reduced to two with the removal of the first statement as it was redundant given that, as per the Policy Statement, the Utility is contributing towards achieving the City’s Plan. The second statement was amended to make it clear Waste Services is a utility and not tax supported, and, by extension, the policy only applies to regulated activities.

*Table 1. Changes to the Purpose section of the current Fiscal Policy*

Current Fiscal Policy	Updated Fiscal Policy	Justification
Ensure that the Waste Management Utility is operated in a manner that reflects City Council’s overall vision and philosophical objectives for the Utility.	<i>Removed</i>	Redundant as the guiding principles stipulate that the Utility is to contribute towards achieving the City Plan.
Ensure that the Utility is financially sustainable over the long term.	<i>Ensure the Utility is financially sustainable over the long term and remains a self-funded enterprise.</i>	To highlight that Waste Services is a public utility and its operations are funded by revenues generated through utility rates and user fees as opposed to being tax-supported

## Guiding Principles Section

The policy statements from the previous Fiscal Policy were grouped together into the Guiding Principles and Operating Principles sections of the new Fiscal Policy. The initial statement in the previous Fiscal Policy provides the overall intent of the policy, and is presented in the Guiding Principles section.

The statement was revised to remove the reference to employing private sector approaches to rate setting and replaced with a statement that the Utility uses rate setting principles to establish customer rates. This reduces the likelihood of misinterpretation on the part of the reader with regards to the meaning of private sector approaches to rate setting. Rate setting principles are provided in a subsequent section.

Table 2. Changes to the Initial Statement of Policy Statements

Current Fiscal Policy	Updated Fiscal Policy	Justification
The Utility is to be operated in a manner that balances that best possible service at the lowest cost (public utility) <b>while employing private sector approaches to rate setting.</b>	The Utility is to be operated in a manner that balances the best possible service at the lowest cost (public utility) <b>while incorporating utility rate setting principles in establishing customer rates.</b>	“While employing private sector approaches to rate setting” is not clearly defined in the Current Fiscal Policy. The updated language is more accurate and is clearly defined in the Utility Rate Setting Principles section.

## Operating Principles Section

The remaining policy statements from the previous Fiscal Policy were grouped together into the Operating Principles section in the new Fiscal Policy. These statements were left largely unchanged.

## Utility Rate Setting Principles

This new section summarizes the utility rate setting principles in alignment with the Guiding Principles as well as similar principles used in the utility industry. The current policy contains only two references to rate setting. These being “stable consistent rate increases” and “private sector approaches to rate setting”.

Three additional principles were added to the commonly used utility industry principles. A principle to provide Administration with flexibility with regards to timing for setting of rates has been added. A principle that ensures Administration has available resources to manage capital assets prudently has been added. Finally, a principle that ensures that rates reflect the fact that Waste Services is not subsidizing and is not being subsidized by related parties within the Corporation has been added.

*Table 3. Utility Rate Setting Principles*

Utility Rate Setting Principles	Justification
Customer rates will be stable and predictable year over year.	Consistent with common utility industry rate setting principles.
Customer rates will be understandable, practical and cost-effective to implement.	Consistent with common utility industry rate setting principles.
Customer rates will be based on the forecast cost of providing service and will fairly apportion the cost of service among different customer classes.	Consistent with common utility industry rate setting principles.
Customer rates may be set either annually or for up to four years at a time.	Provides Administration with the flexibility to propose and seek approval for a multi-year rate filing to establish its budget and customer rates as compared to an annual rate filing.
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	Facilitates asset management best practices by considering the necessary short and long term funding required to perform proactive maintenance, repair or rehabilitation based on asset condition assessment, safety, security, environmental and other regulatory

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and longevity.	requirements. Ensures long-term asset value and longevity.
Customer rates will promote the efficient use of resources and be set to achieve broader social, economic, and environmental goals.	Consistent with common utility industry rate setting principles.
Cost for services received from or provided to related parties will be accounted for under the full cost accounting approach.	Ensures that Waste Services is not subsidizing and is not being subsidized by another entity within the Corporation.

### *Debt Financing Section*

The Debt Financing of Capital section of the current Fiscal Policy has been replaced by the Debt Financing section, which aligns with the City’s Debt Management Fiscal Policy C203C.

The following table highlights the changes made to the Debt Financing Section.

*Table 3. Changes to the Debt Financing section*

Current Fiscal Policy Wording	Updated Fiscal Policy Wording	Justification
The Utility will follow the City of Edmonton’s process for debt issuance, including the term of the debt and will be consolidated with City debt in determining the City’s position relative to the legislated debt limits.	The Utility will follow the City of Edmonton’s process for debt issuance in accordance with Debt Management Fiscal Policy C203C, including the term of debt and will be consolidated with City debt in determining the City’s position relative to the legislated debt limits.	Brings policy into alignment with Debt Management Fiscal Policy
Debt will considered for Capital Expenditures in: projects with benefits that	Debt will be considered for Capital Expenditures in: projects with long-term benefits extending over	Removes any unnecessary restriction with regards to the length of benefit while allowing the Utility flexibility

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extend 10 years or longer;	one year;	in reducing its reliance on cash (Pay As You Go funded) capital requirement, which has a direct and negative impact on maintaining stable, consistent rate increases.
<i>New</i>	Debt will be utilized in an affordable manner where affordability is measure by the burden of debt servicing costs relative to revenues	Ensures that borrowing to fund capital assets will be affordable, as indicated by the Debt Service Coverage Ratio

## *Financial Indicators Section*

The Financial Indicators have been updated, in accordance with the third party benchmarking research report, to align with City of Edmonton Policies and appropriate comparable benchmarks. The benchmarking study found that the Debt to Net Asset Ratio (DNAR) is not a common financial indicator for municipality owned utilities. Out of the six benchmarked utilities, none tracked the DNAR. Cash flow based indicators were found to be a more common measure for municipally owned utilities, with the Debt Service Coverage Ratio (DSCR) being the most common. With that, the DNAR has been removed as a financial indicator of financial sustainability and replaced with the DSCR, and the target has been set at 22%, in alignment with the Debt Management Fiscal Policy C203C.

Waste Services will continue to report financial leverage in its Financial Planning documents. Financial leverage will be tracked via the debt to equity ratio, rather than the DNAR, going forward, as the debt to equity ratio is a more common measure used by the utilities.

The remainder of the Financial Indicators section has undergone some minor changes. The risks mitigated under the Positive Cash Position Financial Indicator has been refreshed. The target range for the Stable Consistent Rate Increase Financial Indicator has been clarified to include a reference to the amount the rates can deviate from the Consumer Price Index (CPI) for all items for the Edmonton metropolitan area as per Statistics Canada. The rates are considered to be stable and consistent if they fluctuate no more than  $\pm 2\%$  of CPI.

## Financial Planning Section

This section has been updated to include industry best practices for budgeting, long range planning, and the management of capital assets, as well as adding flexibility with regards to timelines.

Table 4. Changes to the Financial Planning

Current Fiscal Policy	Updated Fiscal Policy	Justification
Budget and financial planning 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 <b>Generally Accepted Accounting Principles defined by the Public Sector Accounting Board.</b>	Budget and financial planning <b>will incorporate industry best practices</b> 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 <b>Standards.</b>	To ensure that industry best practices are used for budgeting, long range planning, and management of capital assets.
The Utility will prepare 4-year Business Plans, to be presented <b>annually</b> to the Utility Committee prior to the preparation of <b>the annual operating budget and 4-year Capital Program.</b>	The Utility will prepare 4-year Business Plans, to be presented to the Utility Committee, prior to the preparation of <b>forecasts for establishing rates.</b>	To provide Administration with flexibility with regards to the timing of reports.
The Utility Committee shall recommend to City Council the customer rates for the upcoming year, based on a 10-year planning horizon with budgets that are prepared based on current year forecast, business plan implementation, and financial sustainability.	The Utility Committee shall recommend to City Council the customer rates for the upcoming year( <b>s</b> ), based on a 10-year planning horizon with budgets that are prepared based on current year forecast, business plan implementation, and financial sustainability.	To provide Administration with flexibility with regards to rate setting.

*Definitions Section*

With the adoption of the Debt Service Coverage Ratio and its inclusion in the policy, the removal of the Debt to Net Assets Ratio from the policy, bringing the Fiscal Policy in line with other City policies, and updates to other sections within the policy, a small refresh of the Definitions section of the Fiscal Policy is required.

The following table highlights the changes to the Definitions section of the current Fiscal Policy.

*Table 5. Changes to the Definition section of the current Fiscal Policy*

Definition	Change/No Change	Current Fiscal Policy	Updated Fiscal Policy
Debt Service Coverage Ratio	Add		Debt Service Coverage Ratio - is a measure of the available cash flow for debt servicing of interest and principal payments.
Debt Servicing	Add		Debt Servicing - annual required debt repayments including interest and principal.
Debt to Equity Ratio	Add		Debt to Equity Ratio - is a measure of the extent to which the Utility is financing its operations through debt versus accumulated surplus.
Debt to Net Assets Ratio	Removed	Debt to Net Assets Ratio - is a measure of the extent to which the new book value of non-contributed assets is financed by debt.	
Full Cost Accounting	Change	shall include cost allocation from services provided by the Corporation and may	shall include cost allocation for services provided by the Corporation and may

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		include administration costs, and other shared services such as Communication, Human Resources, Information Technology, Law, Materials Management, Customer Information System, Fleet Services, Financial Services, Building Maintenance, Custodial, Space Rent, and general Corporate Overhead.	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.
Regulated Activities	Change	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 Bins, etc.) are regulated activities of the Utility.	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	Add		All 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.