Council Policy
Waste Services Utility Fiscal Policy

Program Impacted	Financial Management The City of Edmonton’s resilient financial position enables both current and long-term service delivery and growth.
Number	C558B
Date of Approval	TBD
Approval History	September 23, 2014 (C558A) June 1, 2011 (C558)
Next Scheduled Review	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 capital projects through the City'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 the City Plan.

IV. Utility Rate Setting Principles:

A. Customer rates will be 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 forecast cost of providing service and will fairly apportion the cost of service among different customer classes.

D. Customer rates may be set either annually or for 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.

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

G. 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. 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 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.

C. Debt 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 requirements to support corporate priorities and strategic plans.

D. Debt will be utilized in an affordable manner where affordability is measured by the burden of debt servicing costs relative to revenues.

VI. Financial Indicators

A. Financial indicators are measures that 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) 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 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) 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 current borrowing rates, current and future cash 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 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

a) Debt service coverage measures the ability of the Utility to meet its debt servicing obligations using annual revenues and is calculated as follows:

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

b) The debt service coverage indicator is achieved when the Utility's Debt Service Coverage Ratio is not greater than 22%.

4. 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 4-year Business Plans, 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 available cash flow for debt servicing of interest and principal payments.

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

Debt to Equity Ratio - is a measure of the extent to which the Utility is financing its 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 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 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 wastes, construction and demolition wastes, and other services to the 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 - 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.

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 wastes at rates regulated by City Council, as well as other Non-Regulated 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 C203C
Public Sector Accounting Standard PS3150