

Waste Fiscal Policy

Recommendation

That Utility Committee recommend to the December 9/11, 2020, City Council meeting:

That revised Waste Services Utility Fiscal Policy C558B, as set out in Attachment 1 of the December 4, 2020, City Operations report CR_7840, be approved.

Previous Council/Committee Action

At the December 6, 2019, Utility Committee meeting, the following motion was passed:

That Administration provide a report on the Waste Management Utility Fiscal Policy C558A, specifically referencing the net debt to assets ratio.

Executive Summary

This report sets out the proposed Waste Services Utility Fiscal Policy C558B (Attachment 1). In response to the Utilities Advisor's suggestion, a thorough review of the current fiscal policy was conducted and a detailed summary of the changes is included in Attachment 2. Waste Services also engaged a third party consultant to conduct a benchmarking study of similar utility fiscal policies as part of the review.

Report

In 2019, the Utilities Advisor issued a letter to Utility Committee suggesting that waste utility customers may be providing more zero cost equity than is appropriate and therefore a review of the Waste Management Fiscal Policy be initiated. In response, Waste Services conducted a thorough review of the current fiscal policy, engaged a third party consultant to conduct a benchmarking study of similar utility 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:

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

The Financial Indicator section of the updated Fiscal Policy has undergone significant changes because each of the indicators influence one another. Major changes to the Waste Services Fiscal Policy C558A are discussed below.

Debt to Net Assets Ratio

The benchmarking study found that the Debt to Net Asset Ratio (DNAR) used by Waste Services is not a common financial indicator for municipally 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. Therefore, the DNAR has been removed as a financial indicator of financial sustainability and replaced with the DSCR.

Debt Service Coverage Ratio

The DSCR has been adopted as a financial indicator of financial sustainability and the target has been set at a maximum of 22 percent, in alignment with the City's Debt Management Fiscal Policy C203C. This provides a clear target for the governance of the Utility. The change has no significant impact on customers' rates.

Debt to Equity Ratio

Financial leverage will be tracked via the debt to equity ratio, rather than the DNAR, as it is a more commonly used financial ratio to measure leverage. Using this measure will also allow a better comparison with other municipally or privately owned utilities.

Debt Management

As part of the policy review, language that placed restrictions around borrowing for capital assets was removed and similar language to the Debt Management Fiscal Policy was used to ensure the updated policy aligns with it.

Rate Setting Principles

This new section summarizes the principles to be followed in setting Utility rates and balances the needs of both the customer as well as the Utility.

Public Engagement

Public engagement was not undertaken for updating the Waste Fiscal Policy as this process followed the corporate policy guidelines.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has a resilient financial position.			
Outcome(s)	Measure(s)	Result(s) 2020 Budget	Target(s) 2021 Proposed
Edmonton's waste service rates and fees are fair, equitable and value-driven.	Annual Net Income (\$000s)	6,571	5,280
	Stable Rates	0.3%	0%

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial	Utility is not financially sustainable	2 - unlikely	3 - major	6 - low	Continuous monitoring and adjustment of capital and operating costs to ensure Utility remains financially sustainable.	Update financial model forecast as required.

Attachments

1. [Waste Services Utility Fiscal Policy C558B](#)
2. [Summary of Changes](#)
3. [Fiscal Policy Benchmarking Final Report](#)

Others Reviewing this Report

- M. Persson, Deputy City Manager and Chief Financial Officer, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor