

Multi-Unit Program Development Update

Recommendation

That the April 30, 2021, City Operations report CO00391, be received for information.

Executive Summary

This report presents a progress update on the development of a mandatory three-stream waste separation program in the multi-unit sector, as committed in Edmonton's 25-year Comprehensive Waste Management Strategy. It describes how the business case has been developed, what it will include when completed, and the anticipated next steps that would follow should it be approved.

The report also incorporates a summary of the current state of the sector, including a history and update on the regulated utility model in place to serve the entire residential sector in Edmonton. As a regulated utility, the costs to develop, operate and sustain the waste system are shared by all customers. There is no available option to opt-out of the City's regulated model for residential waste services.

This report also outlines the anticipated impacts of deregulating the multi-unit sector, provided as a response to questions raised during the February 5, 2021 Utility Committee consideration of a City Operations report CO00231 on the path to introduce three-stream sorting to the Industrial Commercial and Institutional sector. In particular, it outlines the challenges a deregulated model would pose for achieving the objectives of Edmonton's 25-year Waste Strategy, the stranded costs that would need to be addressed so as not to immediately and unfairly inflate rates for service to the single unit residential sector and the likely impacts of potential alternatives to the regulated utility model.

Report

Edmonton's 25-year Comprehensive Waste Management Strategy (the Waste Strategy), approved by City Council in September 2019, established several transformative strategic directions to chart Edmonton's path to a zero waste future. This includes a target of 90 percent waste diversion across all sectors to be achieved, in part, through the implementation of mandatory three-stream source separation of waste.

Research shows that municipalities achieve the most success in increasing waste diversion through source separation when expectations are clear and consistently enforced across all sectors. Consistent expectations for sorting food scraps and recyclable materials at home (regardless of dwelling type), work, school and in the community help to reinforce concepts communicated through educational programs and encourage the formation of responsible waste habits.

In Edmonton, collection of source separated food scraps from the single unit residential sector started in April 2021, and will be rolled out to all homes receiving curbside collection by the end of August 2021 as part of the Edmonton Cart Rollout.

A business case for mandatory source separation in homes receiving communal collection, which includes the majority of the multi-unit residential sector, will be presented to Utility Committee on June 25, 2021. Pending Council's consideration, the business case will be followed by an enacting bylaw in 2022 with implementation proposed to begin in spring 2023.

The February 5, 2021 City Operations Report CO00231 outlined the steps the City intends to take to achieve source separation in the Industrial, Commercial and Institutional (ICI) sector. The City Corporation Waste Transformation project, which will be completed in 2021, reflects the City's commitment to lead by example by introducing three-stream waste sorting to more than 240 City-owned and operated buildings, facilities, attractions and open spaces. The introduction of source separation requirements to the rest of the ICI sector is expected to advance on a similar timeline to the implementation of the proposed program for multi-unit buildings, pending engagement with the waste industry and ICI waste generators to begin late in 2021.

Current State of Service to the Multi-unit Sector

The City of Edmonton provides waste collection and processing services to the multi-unit residential sector under a municipal utility model. Currently, approximately 180,000 multi-unit households across roughly 3,300 sites (such as apartments and condos) receive communal collection for up to two streams of waste: garbage and recycling. Site participation in recycling is currently voluntary. Approximately 64 percent of communal collection sites, representing roughly 84 percent of bin collection customers, currently have access to on-site recycling disposal.

Regulated Utility Model

Waste Services has been a regulated utility since 2009. As outlined in Attachment 1, the utility model delivers specific benefits related to service equity, long-term planning and financing, and the design and implementation of consistent standards and incentives to support strategic policy objectives. These benefits are particularly relevant as the City implements the 25-year Waste Strategy, with new facilities and

programs coming online and the diversion forecast expected to trend sharply upward as part of the ongoing transformation of the waste management system.

Requests to Opt-Out

Recently, a number of stakeholders representing multi-unit waste collection customers have expressed a desire to opt out of the City's waste utility in order to capture the potential up-front cost savings of securing a private contractor for waste collection. When comparing a private sector quote for waste collection fees to a utility rate that captures historic liabilities, a comprehensive range of services and processing infrastructure, and long-term investments made for the benefit of all residential customers, there is an understandable misperception that a private service would translate to net cost savings for a given multi-unit site.

Administration is working to improve the awareness and understanding of the true cost differential between the City's waste utility rates and private waste collection, along with the likely impacts of partial or complete deregulation of communal waste collection (i.e. the bin-based collection service provided to the majority of multi-unit residences).

In addition to misunderstandings about the actual costs captured by a utility rate, and as outlined by Edmonton's Utility Advisor at the February 5, 2021 Utility Committee meeting, comparisons between regulated utility fees and the costs for private sector services can be subject to a number of distortions:

- Quotes are often lower than the actual cost of providing service in an effort to attract customers away from a regulated service with a promise of short term savings.
- Service offerings are often targeted at sites that are most lucrative to serve, risking that the average cost of service for regulated customers rises dramatically (in a partially regulated model, where the City is left to serve sites that find private sector offerings cost prohibitive) or that parts of the sector have difficulty securing an affordable service or any service at all (in a fully deregulated model, where the City does not provide collection services to the multi-unit sector).
- Either taxpayers or the remaining utility ratepayers who do not opt out of the utility would be left to pay for existing amortized capital costs of the waste infrastructure, landfill liability costs and other sunk costs that cannot be reduced merely because some group of utility users for whom the infrastructure was built leave the utility. Forcing unavoidable costs from previous investments onto a smaller pool of ratepayers through higher rates would promote an acceleration of opting out and thereby even higher costs over time.

Although these distortions are generically outlined based on an understanding of common regulatory issues, and without investigation of any specific private sector services available in Edmonton, it is reasonable to expect that they apply in some measure to the perceptions of available cost-savings raised by stakeholders making specific requests to opt out of Edmonton's waste utility.

Administration has prepared a preliminary analysis of the potential to deregulate the multi-unit sector, including the anticipated service and strategic impacts of deregulation, in Attachment 1. As outlined in the Next Steps section of this report, any direction to further analyse the potential to deregulate waste services to the multi-unit sector will impact the commitments made in the 25-year Waste Strategy.

Business Case for Mandatory Waste Sorting

A business case for the implementation of mandatory source separation in the multi-unit sector is currently under development and is scheduled to be presented to Utility Committee on June 25, 2021.

Scope of Work

The business case will outline options for implementing three-stream source separation for all multi-unit residences that receive communal collection (i.e. excluding those who receive cart-based curbside collection as part of the Edmonton Cart Rollout). The business case will address the long-term impacts of possible program options with an expectation that any new program be adaptable as technology evolves and the city grows and changes. A discussion will also be included regarding intentions for an excess waste program and a variable rate program, to align with the new curbside collection program and leverage volume limits and financial incentives to support more effective waste diversion and waste reduction.

The business case will also include recommendations for new projects related to managing illegal dumping and improving bin aesthetics, in response to stakeholder concerns identified through the engagement conducted to inform the business case.

The information provided in the business case will include a summary of anticipated program costs and a forecast funding approach, along with a high level implementation plan and timeline. It will not discuss any modifications to the current utility model, nor will it cover details related to the percentage of collection performed by City crews versus contractors, as this is regularly reviewed and adjusted as necessary by Administration, to ensure the most cost effective provision of the City's regulated utility service and ongoing value for money for utility ratepayers.

Work To Date

The process of developing the business case began in November 2019, with a research phase that examined over 160 sources. Desktop research (including

websites, reports and bylaws) and phone interviews with government and industry representatives covered jurisdictions in Canada, the United States, Europe and Australia. A summary of this research report will be presented along with the business case in June.

Following the initial research phase, options were identified and screened at a high level to eliminate those not suitable for Edmonton. The screened-in options were further analyzed through focus groups with multi-unit residents and formed the basis of the first stage of engagement which included virtual workshops, one-on-one interviews, and public and stakeholder interactions facilitated by a series of Engaged Edmonton sites. The results of this engagement fed into a second stage of analysis, where more detailed evaluation of options was conducted. Options that performed well in the second round of analysis were included in a second stage of engagement featuring surveys for two distinct audiences: residents and stakeholders (including property managers, condo boards, developers and service providers). The survey results fed into the final stage of analysis, which examines the specific options presented in the business case.

A detailed What We Heard Report as well as details of the options analysis process and results will also be presented with the business case in June.

Next Steps

Should City Council approve the recommendations presented in June, Administration will begin working on an update to the Waste Services Bylaw to reflect mandatory separation for communal collection customers in the multi-unit sector, to be presented to Council for approval in the first quarter of 2022. At the same time, developer standards will be created to ensure all future developments are able to adequately incorporate the new mandatory three stream separation programs for both curbside and communal services in a manner that ensures the ability to achieve the outcomes of the 25-year Waste Strategy as we build the city envisioned by Edmonton's City Plan. At the same time, a project team will be formed to begin the implementation planning for the new program. Planning will begin in the fourth quarter of 2021 to ensure a successful rollout starting in the second quarter of 2023.

In addition to the transformational work underway as defined by the Waste Strategy, Waste Services is committed to continuously improving the service experience and value for money delivered by the Waste Utility. Ongoing efforts to enhance the customer experience, streamline operations, improve efficiency and maximize the recovered value of utility assets are underway and will continue to be prioritized in order to further enhance the value of waste utility rates. The actual revenue and expenses of Waste Services are also strictly scrutinized by an independent Utility Advisor and the City's Utility Committee to ensure that the utility's revenue and expenses are reasonable, fairly apportioned, and appropriately managed to achieve

the commitment to consistent and stable rates outlined in the City's Waste Services Utility Fiscal Policy. Following the full implementation of the Edmonton Cart Rollout in 2021, Waste Services will conduct a new cost of service study to assess progress in addressing the recommendations of the last cost of service study and ensure that the utility's expenses are fairly apportioned following the wind-down of the City's commercial collection services and the introduction of a new service model for curbside collection customers.

If directed to further investigate the deregulation of the multi-unit sector, work on the business case would pause. The existing project team would change focus to thoroughly analyze the impacts of deregulation on the City, the private industry and multi-unit residents. Additional research and analysis would be required, supported by engagement with multiple groups of stakeholders including City staff, residents and managers, as well as with surrounding municipalities who may impact and be impacted by efforts to achieve a deregulated approach to implementing source separation in the multi-unit sector in Edmonton. A cost of service study would continue to be required but would be redesigned to fully capture the cost impacts of deregulation to inform a transition plan to sustain the utility for the benefit of single unit customers and continue to achieve the outcomes of the 25-year Waste Strategy.

Budget/Financial

The ongoing operation of Edmonton's waste management system is fully funded by the Waste Services Utility. Following years of effort to evolve the waste management system to support achieving the City's waste diversion targets and stabilize utility rates, utility ratepayers now benefit from low and stable rate increases that are forecast to continue even as implementation of the 25-year Waste Strategy proceeds. In 2018 and 2019, annual rate increases aligned closely to inflation as measured by the Edmonton Census Metropolitan Area Consumer Price Index (CPI). Following a supplementary operating budget adjustment in April 2020, the 2020 rate increase was reduced well below the CPI to 0.3 percent, followed by a zero percent rate increase in 2021 that is forecast to stay the same in 2022.

Approximately \$185 million in outstanding debt and amortization costs are currently attributed to the roughly 180,000 multi-unit customers who receive communal collection, with an average remaining asset life of nine years. Any move to deregulate waste services to the multi-unit sector would require a mechanism to address these stranded costs. Although a specific approach to deregulation may enable the City to sell off some assets (like waste bins or collection vehicles), this cannot be expected to eliminate the stranded costs associated with surplus assets. Notwithstanding good faith efforts the City would make to fairly control and attribute these costs, there is also no mechanism to simply sell off the underused portion of facilities built for the shared benefit of the entire residential waste sector.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is an environmentally sustainable and resilient city			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Edmonton is an environmentally sustainable and resilient city	Waste sectors with source separated organics (SSO) programs in place	0/3 (2020)	Edmonton Cart Rollout: 1/3 (2021) SSO expansion to Multi-unit and ICI Sectors: 3/3 (2023 target to commence staged implementation)

Attachments

1. History of Utility Regulation and Preliminary Deregulation Analysis

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
- K. Fallis-Howell, Acting City Solicitor