

WASTE & RECYCLING SERVICES FINANCIAL PLAN 2015-2018

EXECUTIVE SUMMARY

In 2008, Council committed to improving the financial sustainability of Waste & Recycling Services (WRS). In the years since, WRS has made great progress toward self-sustaining funding to support both operating and capital programs. The WRS funding model continues to work toward cost of service principles, such that recipients of a service pay the full cost for that service. With sustainable funding, WRS is proceeding with a strategic, long range capital plan that underpins the delivery of critical waste and recycling services. Continued sustainable funding is needed to maintain assets, meet increasingly stringent regulatory requirements, provide reliable and high quality waste and recycling services, and keep pace with growth.

The WRS financial plan for 2015 - 2018 (Attachment) includes the following elements:

- Continued tax support for residential garbage collection and community recycling depots;
- Continued self-sustaining funding for landfill operations through the residential waste management charge and landfill tipping fees;
- Approved program funding for the green cart residential organics composting program;
- Fully funded landfill liability;
- A 10-year capital plan in accordance with the WRS Infrastructure Investment Plan (WRIIP);
- Self-supported debt matched to asset life;
- A completed Cost of Service Study to determine appropriate funding model for 2019-2022; and
- Delivery on the outcomes of the Collection Services Review.

Significant progress has been made towards WRS' financial realignment since the 2009-2011 business planning and budget cycle. Going forward, a sound financial plan is critical to meeting the strategic waste diversion targets included in the 80/20 by 2020 waste diversion strategy. Subsequently, WRS has developed a financial plan that will guide preparation of the 2015-2018 business plan and budget.

ADMINISTRATION RECOMMENDATION(S)

That the Standing Policy Committee on Utilities and Corporate Services receive this report for information and forwards it to the 2014 March 17 Strategic Session of Council along with a report on the anticipated impact on rates and fees.

RECOMMENDATION OF THE SPC ON UTILITIES AND CORPORATE SERVICES, DATED 2014 FEBRUARY 26:

That Council receive Report UCS2014-0024 for information.

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PREVIOUS COUNCIL DIRECTION / POLICY

At the 2008 May 12 combined meeting of Council, Alderman Lowe's Notice of Motion (NM2008-21) was approved, directing Administration to:

- Engage an independent consultant to review the financial sustainability of Waste & Recycling Services, and evaluate the operating and capital funding required to meet Waste & Recycling Services' legislated, environmental and operational needs; and
- Report to Council no later than 2008 November, through SPC on Utilities and Environment, with recommendations for organizational capacity and a funding model that will meet the regulatory, policy and operational requirements for Waste & Recycling Services.

At the 2008 November 17 Special Meeting of Council, Council approved:

- Waste & Recycling rates for 2009-2011, including Landfill Tipping Fees the Residential Recycling Rate and Residential Waste Management Charge; and,
- An allocation from the Federal Gas Tax funding of \$14 million in 2009, \$16.8 million in each of 2010 and 2011 in conjunction with the appropriate use of self-supported debt to deliver future capital programs required to meet environmental, regulatory, and permit needs as well as needed landfill infrastructure programs.

On 2013 April 15 Council adopted report C2013-0246 (Organics and Biosolids Composting Program) and directed Administration to report back to Council in 2014 with alternative funding options including indicative rates and fees, for the WRS 2015-2018 Operating Budget, to accommodate an anticipated net increase to WRS' annual operating costs of approximately \$26 million due to the implementation of the green cart residential organics composting program starting in 2017.

BACKGROUND

Prior to 2009, WRS had two main sources of operating funding; taxes and landfill tipping fees. Capital requirements were increasing and reserve levels were being depleted.

WRS faced:

- Increasing regulation and legislation requirements;
- Challenging 80/20 by 2020 diversion targets; and
- Increasing growth and inflationary pressures.

To resolve these issues Council gave direction to develop a new financial model for the 2009-2011 business plan and budget. With this model, WRS was able to put in place key financial elements and achieve several important financial goals including:

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- Introduction of the first user charge, the Waste Management Charge. This was critical to managing the landfill capital and operating demands facing WRS.
- Introduction of a new service with a self-supporting charge. The Blue Cart Recycling Rate was the first full-cost recovery charge for service billed through the utility bill.
- Increase in tipping fees. The new fees reflected funding required for increasing regulatory requirements, and required capital programs to meet those requirements. The current rate structure delivers an economic incentive that encourages private sector diversion.
- Decreased dependency on taxes. Taxes were 60 per cent of WRS total funding in BPBC2 (2009-2011) and less than 30 per cent in BPBC3 (2012-2014).
- Creation of a 10-year consolidated capital forecast.
- Ensure adequate funding of long-term closure and post-closure landfill liability.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Significant progress has been made towards WRS' financial realignment since the 2009-2011 business planning and budget cycle, with the introduction of the self-supported blue cart recycling program and the landfill waste management charge for single-family residences. In order to continue to make progress towards 80/20 by 2020, implementing the green cart program and changing the service levels for residential garbage collection is required.

Current diversion programs will need to be maintained, including community recycling depots, which will be evaluated with the implementation of the multi-family strategy in 2015-2018. WRS has developed a financial plan for 2015-2018 (Attachment) with the following elements:

- Continued tax support for residential garbage collection and community recycling depots;
- Continued self-sustaining funding through the residential waste management charge and landfill tipping fees requiring annual inflationary increases through 2015-2018;
- A funding plan for the residential green cart organics composting program;
- Fully funding the landfill liability, through landfill tipping fees and the waste management charge. This liability was adjusted in 2012 and 2013 and adequate funding will be included as part of future budgets.
- Self funding to support a 10-year capital plan aligned to the 80/20 by 2020 goals, through appropriate cash (fee revenue and Gas Tax funding) and debt financing based on the life of capital assets;
- Self-supported debt matched to asset life
- A complete Cost of Service Study to determine appropriate funding model for 2019-2022 and
- Delivery on the outcomes of the Collection Services Review

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Stakeholder Engagement, Research and Communication

WRS created a financial review team that regularly reported back to a steering committee made up of operational, financial, and strategic staff.

This team developed a financial plan based on their analysis of the findings. The plan considered the funding requirements of liability, reserve, capital and future programs, and builds on the two previous business planning cycles. It will put WRS on solid financial footing, while delivering the services needed to support WRS' goal to reach 80/20 by 2020.

Citizen satisfaction with waste and recycling services remains very high. In 2013, 95 per cent of citizens were satisfied with residential garbage collection, and 89 per cent of citizens were satisfied with City operated recycling programs. In addition, support for the green cart program is also strong with 89 per cent of pilot residents saying they are satisfied with the program while 91 per cent support a city-wide program (Ipsos Reid survey, December 2012).

Strategic Alignment

A sound financial plan is critical to meeting the strategic waste diversion targets included in the 80/20 by 2020 waste diversion strategy, the Municipal Development Plan, and imagineCALGARY. The recommendations will contribute to the strategic alignment of WRS' financial future to The City's long-term vision and planning documents by ensuring sufficient and flexible funding is available for the continued collection, landfill disposal and treatment, and the associated liability as well as the future diversion programs required to meet 80/20 by 2020.

Social, Environmental, Economic (External)

Social

Diverting materials from landfill requires changes in behaviour by Calgary residents, industry and businesses. Implementation of the 80/20 by 2020 strategy will improve access to diversion opportunities. With appropriate funding for new programs, all Calgarians will have better access to waste diversion.

Environmental

Diverting waste reduces greenhouse emissions, redirects natural resources back into the economy and reduces future contamination and environmental liability. A resilient financial model allows WRS to achieve short and long-term waste diversion goals.

Providing a long-term funding solution for WRS will help to increase diversion rates and move Calgary towards the 80/20 by 2020 goal. This will increase the life of the landfills; reduce the production of greenhouse gas emissions and reduce the potential for future environmental issues.

Economic (External)

Implementing sound landfill management programs and the 80/20 by 2020 strategy will create new business opportunities and new markets for recyclable materials.

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Financial Capacity

Current and Future Operating Budget:

WRS' future operating budget and the proposed fees necessary to support business requirements for the 2015-2018 business plan and budget cycle are outlined in the financial plan (Attachment). As identified in C2013-0246 (Organics and Biosolids Composting Program), a net increase of approximately \$26 million to WRS' annual operating budget will be required to implement the green cart program starting in 2017.

Commercial tipping fees were increased in 2008, in response to Calgary's construction and demolition waste strategy and action plan (UE2007-36). The current rate structure achieves the economic incentive required to create private sector diversion opportunities.

Current and Future Capital Budget:

WRS has developed a 10-year capital plan (WRIP) to address 80/20 by 2020 facility requirements, landfill regulatory requirements and the operational facilities required to support ongoing operational needs. The proposed fees with ongoing federal Gas Tax funding and appropriate cash and debt financing, support WRS' future capital spending plan.

Risk Assessment

The highest risks associated with this issue are:

- There is a strategic risk that WRS will not meet the 80/20 by 2020 diversion goal if funds are not appropriately allocated in the 2015-2018 business plan and budget cycle to support the operating and capital plan.
- There is an operational risk for residential garbage collection if WRS does not receive tax support aligned with inflationary increases.

REASON(S) FOR RECOMMENDATION(S):

The proposed recommendations for the financial plan will allow WRS to continue to make the required steps towards achieving the goal of 80 per cent diversion of waste from landfill by 2020. They will also enable WRS to fund the green cart program, while maintaining service levels for residential garbage collection and existing diversion programs and meeting the ongoing regulatory, capital and operational requirements of Calgary's three landfills.

As such, it is recommended that Council receive this report for information and forward it to the 2014 March 17 Special Strategic Planning Meeting of Council for consideration during discussion of the anticipated impact on rates and fees.

ATTACHMENT(S)

Waste & Recycling Services Financial Plan 2015-2018