

Waste & Recycling Services Financial Plan 2019-2022

EXECUTIVE SUMMARY

Waste & Recycling Services' (WRS) financial model includes a blend of property tax, grants and fees that fund various WRS programs and associated activities. While this financial model has historically served WRS' financial requirements, the evolution of services delivered by WRS requires financial changes to ensure sustainable funding options that provide transparent and complete costs for each service in an equitable manner among customer classes.

As part of Action Plan 2015-2018, WRS completed a financial review to inform the 2019-2022 business plan and budgeting cycle. In 2016, Administration proposed to Council to transition to a more self-supported fee based model to achieve WRS' financial objectives. The financial changes proposed in this report will create a transparent cost structure for residential services, while reducing WRS' dependency on tax support for specific residential services.

This report describes WRS' proposed financial model for the 2019-2022 business cycle, outlines the transition plans considered and identifies Administration's recommendation to Standing Policy Committee on Utilities and Corporate Services.

ADMINISTRATION RECOMMENDATION:

That the Standing Policy Committee on Utilities and Corporate Services recommends that Council direct Administration to:

1. Return to the 2018 April 25 Strategic Session of Council, with indicative rates and fees for the 2019-2022 One Calgary service plans and budgets based on a one year transition plan for the Waste & Recycling Services' financial model; and
2. Include vacated tax support in the One Calgary service plans and budget discussions.

And further, that Report UCS2018-0150 be forwarded as an item of Urgent Business to the 2018 March 19 Combined Meeting of Council.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2016 February 24, WRS presented a report on the Financial Model Overview (UCS2016-0136) to Committee. Administration's report for information, included an intention to transition to a more self-sufficient fee based financial model to achieve WRS' financial objectives

On 2014 May 05, Council approved Report C2014-0102 (Waste & Recycling Services Indicative Rates and Fees), and directed Administration to incorporate a Cost of Service Study and an evaluation of financial policies for 2019-2022 in the 2015-2018 Action Plan.

BACKGROUND

As part of Action Plan 2015-2018, WRS completed a financial review to inform the 2019-2022 service plans and budgeting cycle. The review identified the need to address the following financial matters: some fees rates do not cover the full cost of services; funding sources are not aligned to service; waste tipping fees cannot reliably cover the cost of diversion; and improved customer understanding of services value and their funding sources is needed.

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For 2019-2022, WRS requires a financial model that is sustainable and supports waste diversion, while remaining transparent and equitable.

The 2015-2016 Financial Model Review found that a self-sustaining model provides the strongest support for achieving WRS' financial objectives.

In the 2015-2018 business plan and budget cycle, WRS sources of funding included a blend of property tax, grants and fees. Fee revenue is primarily comprised of landfill tipping fees, commercial collection fees, the self-supported Blue Cart Program charge, the Green Cart Program charge and the Waste Management Charge.

WRS' 2018 total annual budget of funding sources is \$165 million. This is used to fund operating, capital and net contributions to the WRS Sustainment Reserve and Landfill Liability Fund. The proposed changes to the financial model impact only a portion of WRS' funding sources. This report focuses specifically on the impact to tax support and fee revenue from the Green Cart Program charge and the Waste Management Charge.

In the first quarter of 2018, the staggered implementation of the Green Cart Program charge begins once the Fiscal Sustainability Reserve subsidy expires. An additional \$10.1 million in tax support subsidy for Green Cart Program is funded through savings from changing black cart to every-other-week collection.

The Waste Management Charge is not clear to customers. Many believe that this is a charge for single detached dwelling (residential) black cart service. However, black cart collection is funded through tax support and the cost of disposal has been cross-subsidized by landfill tipping fees and a portion of the Waste Management Charge. The remainder of the Waste Management Charge covers financial needs in both operating and capital budgets.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The objective of the proposed financial changes is to align costs with customer classes and their services, while reducing WRS' dependency on tax support for specific residential services. Overall, it is proposed to reduce WRS' tax support by approximately \$20 million per year. This proposed decrease in tax support would be offset by an increase to the Green Cart Program charge; the introduction of a residential Black Cart Program charge in place of the current Waste Management Charge and taxes; and fees for condominium customers who are currently tax supported. This financial plan creates a cost structure for residential services that is more transparent to the customer and is based upon cost of service principles, creating better equity among customer classes.

This report outlines two potential transition plans for the One Calgary 2019-2022 service plans and budget cycle. The approved transition plan will be used to determine Administration's indicative rates and fees submission to Council in 2018 April as part of One Calgary. The following changes are proposed to WRS' financial model for 2019-2022 cycle:

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Waste Management Charge

WRS proposes the removal of the Waste Management Charge that supports a portion of the Black Cart Program and covers financial needs in operating and capital budgets. This equates to a fee revenue reduction of approximately \$20 million annually. The removal of this charge will align with the introduction of a Black Cart Program charge.

Residential Black Cart Program charge

WRS proposes the introduction of a residential Black Cart Program charge that will reflect cost recovery, estimated at \$27 million.

Residential Green Cart Program charge

WRS proposes to remove the \$10.1 million tax support subsidy from shifting to every-other-week black cart collection from the Green Cart Program. The removal of this subsidy will create a charge that reflects cost recovery.

Tax Support - Waste & Recycling Services

It is proposed that WRS continue with a financial model that includes some tax support. WRS would use taxes to fund Community Recycling Depots and other community-wide programs and strategic initiatives that were traditionally funded through other sources including the Waste Management Charge. Combined these programs and initiatives require approximately \$20 million in tax support per year.

Condominium customers – Tax Support

WRS proposes removing a \$3 million tax subsidy for the segment of condominium customers currently receiving tax supported garbage collection. It is proposed that the approximately 1,200 contracts, servicing 73,000 condominium dwellings, transition to commercial 'fee for service' contracts, removing all tax subsidy from WRS' commercial collection business.

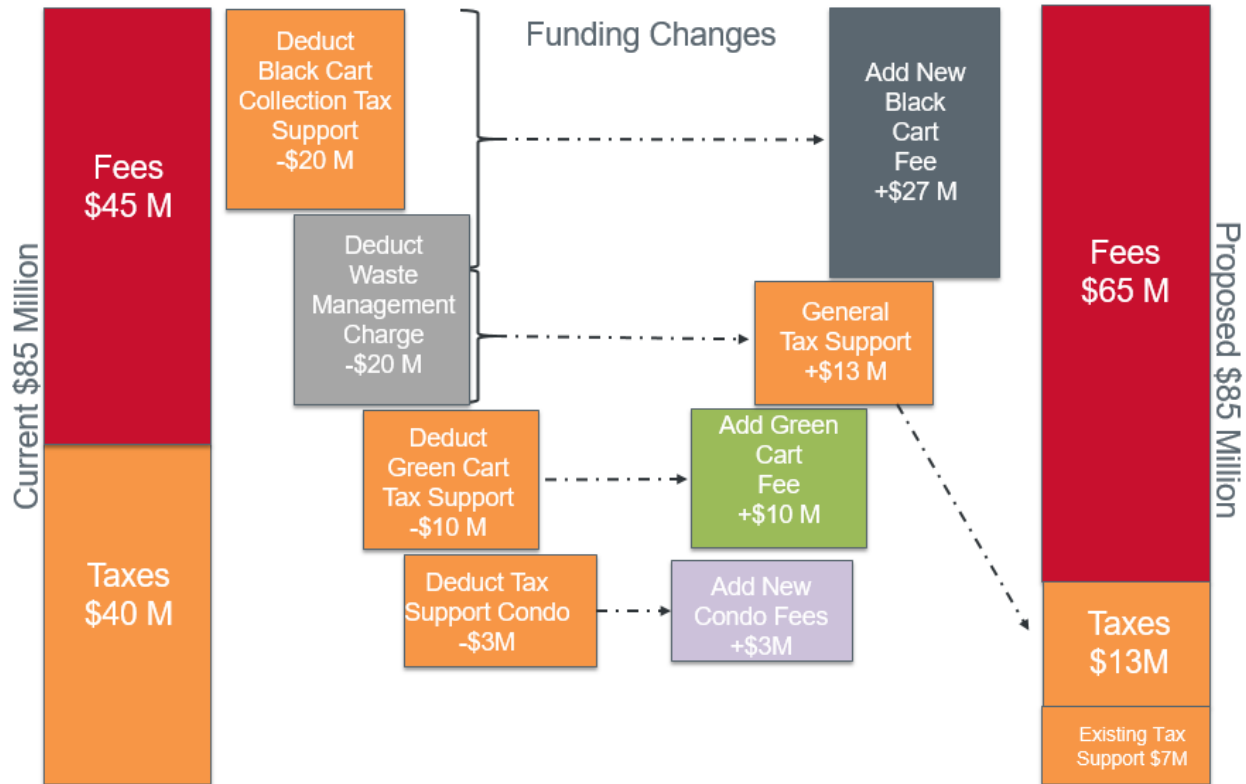
WRS Financial Impact

The outcome of the proposed changes is an increase in fee revenue of \$20 million balanced by a reduction in tax support of \$20 million annually. Overall, the total amount of annual funding does not change with this proposal. This is outlined in Figure 1: WRS Proposed Financial Model Changes.

From a 2018 budget perspective, impacts to the changes in funding source would on average be between \$4.00 to \$5.00 per household per month for residential customers and equivalent to fees for service of approximately \$3 million for condominium customers.

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Figure 1: WRS Proposed Financial Model Changes



WRS Financial Plan 2019-2022 - Transition Plan Timing Options

WRS developed transition plans that achieve the financial objectives over different time frames. The proposed changes can happen in 2019 (one year) or over the 2019-2022 four-year business cycle (one business cycle), as outlined in the table below.

Transitioning to the new financial model in one year accelerates the customer benefits of a transparent cost structure for residential services and improved equity among customer classes. It also better facilitates future discussion about variable cart sizes and cart prices for residential customers. Variable pricing is a part of WRS’ overall waste diversion strategy. It supports customer choice and is expected to enhance diversion in the residential sector. As a result, WRS recommends adopting the new financial plan in 2019 (one year).

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Table: Proposed financial changes over a one year or one business cycle timeframe

Financial Change	One Year	One Business Cycle
Relinquish \$20 million in tax support	In 2019	Gradually. All relinquished by 2022.
Remove the Waste Management Charge	In 2019	In 2019
Create a new cost recovery Black Cart Program charge	In 2019	In 2019
Remove tax subsidy for the Green Cart Program, creating a cost recovery Green Cart Program charge	In 2019	Gradually. All relinquished by 2022.
Transition condominium customers from tax subsidy to fee for service contracts	In 2019	Gradually. All relinquished by 2022.
Tax funding to support strategic initiatives and programs that provide community-wide benefit	In 2019	Gradually. All relinquished by 2022.

Stakeholder Engagement, Research and Communication

WRS engaged the Finance Business Unit and Administrative Leadership Team on the proposed changes and their potential impacts.

Strategic Alignment

Sustainable funding for disposal and diversion programs will align with The City's waste diversion target of 70 per cent by 2025. The Leadership Strategic Plan includes commitments to strengthen The Corporation's financial position.

A focus on WRS' financial sustainability enables Utilities and Environmental Protection (UEP) to deliver its commitment on the Council Priority: A well-run city (Strategic Action W2 – Be as efficient and effective as possible, reducing costs and focusing on value-for-money and related Business Unit Action, and W2.1 – Continually improve on plans and practices to manage financial health).

Social, Environmental, Economic (External)

Social

The diversion of materials from landfill requires participation by Calgary residents, industry and businesses. This new financial model will create greater transparency and alignment in costs of service and, in the future, help identify ways customers can minimize their costs. With appropriate funding for programs and services, all Calgarians will have better access to waste diversion opportunities.

Environmental

The diversion of waste reduces greenhouse gas emissions, redirects natural resources back into the economy, reduces future contamination and environmental liability, and increases the life of landfills. A resilient financial model allows The City to achieve short and long-term waste

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diversion goals. Providing a long-term funding solution for The City will help to increase diversion rates and move Calgary towards the 70 per cent by 2025 waste diversion target.

Economic (External)

The continued implementation of waste management programs creates new business opportunities and new markets for recyclable materials in the local economy.

Financial Capacity

Current and Future Operating Budget:

WRS' proposed Financial Plan for 2019-2022 does not impact WRS' operating budget for Action Plan 2015-2018. Council approved recommendations from this report will impact the indicative rates WRS will propose as part of the One Calgary submission to Council in 2018 April.

Current and Future Capital Budget:

The WRS Financial Plan 2019-2022 does not impact WRS' capital budget for Action Plan 2015-2018.

Risk Assessment

Throughout 2018, WRS will continue to evolve services and levels of service to best meet the needs of our citizens. This will be the first full-year of the Green Cart Program and changes to the days and hours of operation at the waste management facilities. Setting rates without certainty of costs is a risk for WRS.

Proposing new fees, during challenging economic times can be a hardship for some residents. WRS will discuss the concept of variable cart sizes and variable pricing with the Council beginning in 2018 June.

The proposed financial model for 2019-2022 will address the following, existing financial risks:

Financial Model Complexity

The complexity of WRS' current financial model presents significant risk. Services are funded from multiple sources, making it challenging to manage and track funding to support informed business and financial decisions.

Mitigation: Single sources of funding for each service, where possible.

Funding Instability

As WRS experienced in the 2015-2018 business cycle, funding stability is a priority. Without stable long-term funding, WRS is challenged to operate facilities, run programs and implement prioritized capital projects which meet regulatory and legislated requirements.

Mitigation: Limit cross subsidization of tipping fee revenue to fund other services.

Reliance on Property Tax Funding

WRS' financial model relies on property taxes to fund approximately 22 per cent of the operating budget.

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Mitigation: Switching tax support to community-wide programs and strategic initiatives better supports the need to balance high citizen expectations with limited resources.

Cross-subsidization between Customer Classes

Some inequity between fee rates charged to various customer classes and the service provided have been identified, which results in cross-subsidization between programs and customers. For example, residential black cart collection is funded via property taxes, and the cost of disposal has been cross-subsidized by landfill tipping fees and a portion of the Waste Management Charge.

Mitigation: Greater use of fees, which are set using cost of service principles, as sources of funding.

REASON(S) FOR RECOMMENDATION(S):

The recommendation to adopt a one year transition plan accelerates the customer benefits of a transparent cost structure for residential services and improved equity among customer classes. It also facilitates future discussion about variable cart sizes and cart prices for residential customers. Variable pricing is a part of WRS' overall strategy to attain waste diversion targets.

Selection of a transition timeframe is required to guide the WRS Financial Plan for 2019-2022 and the indicative rates and fees for that business cycle.

ATTACHMENT

None.