

WASTE & RECYCLING SERVICES FINANCIAL MODEL OVERVIEW

EXECUTIVE SUMMARY

Waste & Recycling Services (WRS) currently has a financial model that includes a blend of property tax, grants and user fees to fund the various WRS programs and associated activities. While this financial model has historically served WRS' financial requirements, the evolution of services delivered by WRS requires a review to ensure reliable funding options are in place to provide long-term self-sufficiency in an environment with changing and evolving business drivers. In addition and as part of Action Plan 2015-2018, WRS committed to completion of a Financial Model Review to inform the 2019-2022 business plan and budgeting cycle.

The WRS Financial Model Review has three phases of work: best practice research on financial models; cost of service study to assess the rates and fees allocated to each customer group; and a recommendation and implementation plan for a financial model for the 2019-2022 business cycle.

Details of the first phase of the financial model review are provided in this report and include current state, related financial risks and a summary of the consultant's external scan of other municipal waste management financial models (Attachment 1). The consultant's report is included as Attachment 2.

The next phase of the Financial Model Review requires additional investigation and the creation of an integrated financial tool that will support cost of service and rate development. This tool will be used for scenario modeling, and evaluating the impacts of variable pricing alternatives and changes in funding source from property tax and grants to user fees.

WRS will also complete an assessment of the implications of changing to a Self-Sustaining Financial Model, specifically related to funding sources. To demonstrate the differences between the current model and the proposed model, WRS will evaluate the following two scenarios and compare them with the current funding model:

- 1) No reliance on property tax funding, continued reliance on gas tax funding; and
- 2) No reliance on property tax funding, no reliance on gas tax funding.

ADMINISTRATION RECOMMENDATION(S)

That the SPC on Utilities and Corporate Services receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

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

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. During this time WRS faced:

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- Increasing regulation and legislation requirements;
- Challenging 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 key financial elements in place and achieve several important financial goals. These included the introduction of the self-supported Blue Cart Recycling Fee and the Waste Management Charge for single-family households. Increased tipping fees also reflected funding required for increasing regulatory requirements and the associated capital. Tax support accounted for 60 per cent of WRS' total funding in the 2009-2011 business cycle. Tax support dropped to approximately 30 per cent in the 2012-2014 business cycle and averages 22 per cent in Action Plan 2015-2018 with the introduction of the Green Cart Program.

As part of Action Plan 2015-2018, WRS committed to a review of its current financial model. As such, WRS engaged a consultant to assist with the completion of this review. The objectives for this work include:

- Develop a current state assessment of the WRS financial model;
- Complete an external municipal scan and leading practices research;
- Evaluate financial model alternatives and propose a future model for WRS, and;
- Develop rates and fees which appropriately allocate operational and capital costs between customer classes.

Attachment 2 provides the consultants' summary of the current state, external scan and financial model alternatives.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

As part of the first phase of work, WRS developed four financial objectives that the future financial model should achieve in order to mitigate the current financial risks. These objectives include:

- To be financially and operationally sustainable;
- To support waste diversion;
- To be transparent; and
- To be equitable.

In order to identify financial model options, an external scan of municipal waste management organizations was completed by the consultant. The scan was structured to capture knowledge around financial trends in municipal government, financial management practices, operating and capital funding, implementation plans and lessons learned. Focusing on funding sources, a financial model continuum was developed to represent the extent to which each municipal organization relies on different sources of funding. The continuum was separated into three main types of financial models as outlined in Table 1.

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Table 1: Financial Model Types

Financial Model Type	Description
Tax and Grant Funded Model	<ul style="list-style-type: none">• Primarily relies on taxes for operational funding• General grants for capital infrastructure investment
Self-Sustaining Model	<ul style="list-style-type: none">• Various types of user fees where rates have been developed to include all applicable costs• No reliance on general infrastructure grants for capital investment• No dividend or payment back to the municipality
For-Profit Model	<ul style="list-style-type: none">• Various types of user fees where rates have been developed to include all applicable costs• No reliance on general infrastructure grants for capital investments• Dividend payments back to the municipality• An independent board generally provides oversight• The entity is often encouraged to pursue revenue-generating business opportunities

Building on the knowledge gained from the external scan, the consultants evaluated each financial model type to determine how well it met WRS' financial model objectives. The evaluation gave a ranking from weak to strong to show the level of support for achieving each objective.

The evaluation found that a Self-Sustaining Model provides the strongest support for achieving WRS' future financial model objectives. The consultant proposes that WRS transition to a self-sustaining financial model for the 2019-2022 business cycle.

Stakeholder Engagement, Research and Communication

WRS created a Financial Model Review project team that regularly reported back to a steering committee made up of operational, financial and strategic staff. The steering committee was engaged at various checkpoints throughout the first phase of work, and was involved with the approval of work plans, financial model objectives and project next steps.

The consultant completed a comprehensive external scan of municipal waste management organizations. The scan was structured to capture knowledge around financial trends in municipal government with respect to solid waste and recycling services, financial management practices, operating and capital funding, implementation plans and lessons learned. Organizations were selected to ensure a full spectrum of financial models was represented. Other elements of the external scan will be utilized in future phases of the Financial Model Review in 2016 and 2017.

Strategic Alignment

Ensuring sustainable funding is available for continued collection, disposal (and associated landfill liability), processing and diversion programs aligns with WRS' waste diversion target of

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70 per cent by 2025. The Leadership Strategic Plan includes commitments to strengthen The Corporation's financial position. Action Plan 2015-2018 includes Strategic Action W2 – Be as efficient and effective as possible, reducing costs and focusing on value-for-money and related Business Unit Action W2.1 – Continually improve on plans and practices to manage financial health.

Social, Environmental, Economic (External)

Social

Diverting materials from landfill requires changes in behaviour by Calgary residents, industry and businesses. With appropriate funding for new programs, all Calgarians will have better access to waste diversion opportunities.

Environmental

Diverting 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 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 70 per cent by 2025 waste diversion target.

Economic (External)

Implementing sound landfill management programs will create new business opportunities and new markets for recyclable materials.

Financial Capacity

Current and Future Operating Budget:

The Financial Model Review does not impact WRS' operating budget for Action Plan 2015-2018. Operating impacts of a new financial model on the 2019-2022 business planning and budgeting cycle will be assessed in the next phases of work.

The approved Action Plan 2015-2018 operating budget includes the residential Green Cart Program costs and associated rate revenues, starting mid-year 2017. WRS will present indicative rates for the Green Cart Program for 2017 and 2018 during Council's review of mid-cycle adjustments. The Green Cart Rate will be included in an updated Waste Bylaw 20M2001 as part of Action Plan mid-cycle adjustments in November 2016.

Current and Future Capital Budget:

The Financial Model Review does not impact WRS' capital budget for Action Plan 2015-2018. Capital impacts of a new financial model on the 2019-2022 business planning and budgeting cycle are still to be determined.

The approved Action Plan 2015-2018 capital budget includes the residential Green Cart Program infrastructure costs.

Risk Assessment

A risk assessment was completed to ensure that existing financial risks to WRS are addressed in the development of the new financial model. The identified financial risks are: complexity of

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WRS' current financial model; stability of funding; reliance on property taxes; application of cost of service principles; and cross subsidization between customer classes. Refer to Attachment 1 for the full discussion of risks.

REASON(S) FOR RECOMMENDATION(S):

The recommendation for the Financial Model Overview allows Waste & Recycling Services to continue to investigate and understand the impact of potentially transitioning to a Self-Sustaining Financial Model and create an integrated financial tool that will support cost of service and rate development.

ATTACHMENTS

1. Waste & Recycling Services Financial Model Overview Summary
2. Stack'd Consulting Report