CITY POLICY

Policy Number: C558A

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C558 - City Council June 1, 2011

ADOPTED BY:
City Council
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SUPERCEDES:
C558

PREPARED BY: Financial Services and Utilities

DATE: July 03, 2014

TITLE: WASTE MANAGEMENT UTILITY FISCAL POLICY

Policy Statement:

1. The Utility is to be operated in a manner that balances the best possible service at the lowest cost (public utility) while employing private sector approaches to rate setting.
2. The Utility is exempt from a Local Access Fee as the Utility does not have exclusive rights to the waste collection and disposal market, nor does it have exclusive use of the roadways.
3. The Utility is exempt from Dividend payment to the City of Edmonton.
4. Similar to private utilities, the Utility will account for the cost of service under a full cost accounting approach.
5. Where government grants are not provided for the exclusive use of the Utility, access to government grants requires the completion of a business case that takes into account the overall needs of the community. The allocation of grant funding to the Utility will be based on prioritization of all City capital projects through the Capital Budget Process.
6. For Utility provision of non-regulated services and where such services require significant capital investment and/or have net operating costs, a business case is to be prepared to inform funding decisions to be made by City Council.
7. The Utility is to contribute towards achieving the City's Strategic Plan.

The purpose of this policy is to:

1.0 Ensure that the Waste Management Utility is operated in a manner that reflects City Council's overall vision and philosophical objectives for the Utility.

2.0 Ensure that there is a consistent approach year over year for the financial planning, budgeting, and rate setting for the City managed Utility.

3.0 Ensure that the Utility is financially sustainable over the long term.

1.0 Definitions

1.1 Appropriated Retained Earnings – earnings of the Utility that have been set aside for specific purposes.

1.2 Cash Flow – the ability of the Utility to meet its financial obligations as payments are due.

1.3 Capital Assets – assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.

1.4 Capital Investment Agenda – a 10-year forecast of capital required to ensure that appropriate infrastructure are in place to meet service needs, including the replacement of Contributed Assets.

1.5 Capital Plan – a 4-year plan for funding capital infrastructure approved by City Council.

1.6 Contributed Assets – capital assets of the Utility for which funding was provided from non-rate sources. Examples may include partnership funding, grants, etc.

1.7 Debt to Net Assets Ratio – is a measure of the extent to which the net book value of non-contributed assets is being financed by debt.

1.8 Dividend – an amount that is payable to the City of Edmonton from the actual net income of the Utility, payable in the following year.

1.9 Financial Indicators – a set of financial measures that provide signals on the financial health of the Utility.

1.10 Financial Sustainability – financial sustainability is achieved when all targets set for the Financial Indicators (as recommended by the Utility Committee and approved by City Council) are attained.

1.11 Full Cost Accounting – shall include cost allocation from services provided by the Corporation and may include administration costs, and other shared services such as Communication, Human Resources, Information Technology, Law, Materials Management, Customer Information System, Fleet Services, Financial Services, Building Maintenance, Custodial, Space Rent, and general Corporate Overhead.

1.12 ***Investment in Utility Financed Assets*** – Net Book Value of Utility Financed Assets minus associated outstanding debt used to pay for the assets.

1.13 ***Net Book Value*** – acquisition costs or original costs of capital assets minus their accumulated depreciation.

1.14 ***Non-regulated Activities*** – are activities that are not essential to the provision of core services by the Utility. Examples may include commercial waste collection, disposal of commercial wastes, construction and demolition wastes, etc.

1.15 ***Pay As You Go*** – the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.

1.16 ***Rate Revenue*** – revenues generated through monthly customer rates.

1.17 ***Regulated Activities*** – are activities that are core to the services provided by the Utility. Residential curbside collection and the disposal of residential wastes (including ECO Stations, Big Bins, etc.) are regulated activities of the Utility.

1.18 ***Unappropriated Retained Earnings*** – retained earnings of the Utility that is available for other uses.

1.19 ***Utility*** – refers to the Waste Management Services Utility, a self-funded operation that provides collection and disposal of residential wastes at rates regulated by City Council, as well as other Non-Regulated Activities.

1.20 ***Utility Financed Assets –*** assets of the Utility for which funding has been provided from rates either through debt or Pay As You Go funding.

Following are financial indicators and additional general policy statements to guide the financial management of the Utility.

2.0 *Financial Indicators*

Financial indicators are measures that provide financial information about the sustainability of the Utility. Taken collectively, these indicators allow for periodic assessment on whether the Utility is moving towards or away from financial sustainability.

2.1 Rate Sufficient to Meet Expenditures and Cash Flow

a. At a minimum, the projected total revenue generated will be equal to the projected expenses for the year, including sufficient cash to meet the cash flow requirements of the Utility.

b. A portion of Unappropriated Retained Earnings is maintained for the purpose of meeting unforeseen and therefore unbudgeted net expenditures. For the Waste Management Utility, there are a number of risks to forecast revenues and expenditures.

   Revenue risks are predominantly tied to activities other than customer rate revenues such as the global commodity prices of the recyclable markets.

   Expenditure risks are predominantly tied to the uncertainty in actual operating costs associated with waste diversion facilities utilizing new technology as well as the volume of waste generation, particularly yard wastes during the summer months.

   The risk exposures to be mitigated may be based upon the 4-year average of the pricing from the recyclable markets, 4-year average of residential waste volume generation, and a declining 3-year contingency for new facilities upon commissioning where new technology is deployed.

c. The management of the Utility's cash position is the responsibility of Administration, taking into consideration current borrowing rates, current and future cash requirements, including the provision of sufficient Pay As You Go financing of the capital plan.

d. Where the Utility's cash position is insufficient to meet cash flow requirements, the Utility will borrow from the City of Edmonton on a short term basis, with interest being paid by the Utility at an interest rate that compensates the City of Edmonton reflecting the Fund Balance where the cash was drawn.

Indicator Targets:

a. Positive Net Income

b. The target combined Cash Position of the Utility is the Pay as You Go required as identified in the Capital Plan plus an amount derived to mitigate the risk exposures as identified in 2.1 b of this policy.

c. Stable consistent rate increases.

2.2 Debt Financing of Capital

a. The Utility will not utilize Debt to finance current operating expenditures.

b. Debt will be considered for Capital Expenditures in:

   i. projects with benefits that extend 10 years or longer;

   ii. major rehabilitation or upgrade of existing assets; and

   iii. emerging requirements to support corporate priorities and strategic plans.

c. The Utility will follow the City of Edmonton's process for debt issuance, including the term of the debt and will be consolidated with City debt in determining the City's position relative to the legislated debt limits.

Indicator Target:

The Debt to Net Assets Ratio is a measure of the extent that capital investment is financed through debt, presented on a combined basis and calculated as follows:

  Total Long Term Debt
÷ Net book value of Non-Contributed Assets
= Debt to Net Assets Ratio

The target for the Debt to Net Assets Ratio may vary between 50% and 70%, taking into consideration borrowing rates.

3.0 *Financial Planning*

Budget and financial planning follow the general principles of budget, long range planning, and management of capital assets as established by the City of Edmonton and in accordance with Generally Accepted Accounting Principles defined by the Public Sector Accounting Board.

The Utility will prepare 4-year Business Plans, to be presented annually to the Utility Committee prior to the preparation of the annual operating budget and 4-year Capital Program.

The Utility Committee shall recommend annually to City Council the customer rates for the upcoming year, based on a 10-year planning horizon with budgets that are prepared based upon current year forecast, business plan implementation, and financial sustainability.