

# Solid Waste Program Funding Models: Implications and Considerations for Change

## ISSUE

The City of Saskatoon (City) is facing budgetary pressures due to stagnant revenue growth and rising expenditures. A substantial increase in municipal property taxes may be required to balance the City's operating budget under a status quo scenario. One way to avoid persistent large property tax increases is to explore a fiscal restructuring by moving solid waste programs from a property tax funded model to a user fee, or waste utility model, a common approach used in many cities.

## BACKGROUND

At its June 21, 2021 meeting, the Governance and Priorities Committee resolved: *That the Administration Report back as soon as possible regarding the implications for the funding and operations of waste programs, including the organics program, if funding for the organics program moved to a utility model.*

At its December 2018 meeting, City Council made various decisions related to the funding of the City's solid waste handling programs. City Council rejected an integrated waste utility model, funded largely by user fees, and opted to maintain the property tax funding approach.

In March 2019, City Council made the service level decision for the organics program, by electing to phase-in the costs of the new organics collection program by dedicating an almost one percentage point property tax increase over the next four years. These preliminary increases were revised during the 2020/2021 budget process, equalling 0.87% and 0.8% of one percentage point of the property tax in 2022 and 2023 respectively.

## CURRENT STATUS

The City of Saskatoon manages or delivers several solid waste programs. These programs range from single family curbside residential garbage collection (black cart) to single family curbside recycling collection (blue cart). In 2023, the City is expanding its solid waste services by adding a single-family curbside organics program as previously directed by City Council.

Currently, the City uses a blended model of property taxes and user charges. Property tax funded programs are estimated to cost \$14.7 Million in 2022 and \$17.1 Million in 2023. Appendix 1 offers details on the net costs of City-operated solid waste programs.

## DISCUSSION/ANALYSIS

The assumptions used to calculate the potential user charges for this report are based on current approved service levels. Should any of the current tax funded programs be moved to a waste utility, the proposed options presented in previous City Council

reports could be implemented in the future, such as variable cart sizes and collection frequency. With that in mind, this section of the report offers potential scenarios and their financial implications for consideration.

### **2023 Proposed Budget – Status Quo**

The indicative budget for 2022/2023 includes a blended model of property taxes and user charges to fund the City's waste programs. In 2023, the average cost per month for waste programs for the average single family household is \$6.32/month as part of a total average monthly property tax bill of \$311/month. In addition, the average single family utility bill for recycling only would be \$7.47/month. Combining the two, the total monthly cost for waste programs for the average single family home is \$13.79.

### **Curbside Organics Utility Budget Implications**

If only curbside organics program were to move to be utility funded, in 2023, the average cost per month for the remaining property tax funded waste programs for the average single family household is \$4.13/month as part of a total average monthly property tax bill of \$309/month. The average single family household utility cost for organics would be \$6.77 per month (\$14.24/month total with recycling and organics). Combining the single family garbage (black bin) funded by property tax and the curbside organics and recycling funded by a utility fee, the total monthly cost for waste programs for the average single family household in this scenario is \$18.36.

### **Single Family Garbage (Black Bin) Utility Budget Implications**

If only the single family black bin garbage program were to move to be utility funded, in 2023, the average monthly cost per month for the remaining waste programs funded by property tax for the average single family household is \$3.32 per month as part of a total average monthly property tax bill of \$308 per month. The cost for the single family black bin program as a utility is \$8.68 per month (\$16.15 total with garbage and recycling) for a single family household. Combining the curbside organics funded by property tax and the black bin and recycling funded by a utility fee, the total monthly cost for waste programs for the average single family household in this scenario is \$19.47.

The calculation of the rates in this scenario was performed by bundling the single family black bin garbage and supporting landfill programs as being utility funded. The single family black bin program is the landfill's largest source of waste and bundling the two results in the landfill no longer requiring mill rate funding directly. Bundled together, the transfer of these two programs to a utility model results in a 2.96% reduction to the indicative rate increase.

### **Curbside Organics and Single Family Garbage Utility Budget Implications**

The total average monthly waste utility fee for the average single family home would be \$22.92/month for both the curbside organics and the black bin programs, as well as the existing recycling program utility fee. The resulting reduction to the indicative rate in 2023 for having organics (2.16%) and waste (2.96%) as a utility is 5.11%. The average monthly cost for the remaining property tax funded waste programs for the average

single family household is \$1.13 /month as part of a total average monthly property tax bill of \$306/month. The total average monthly cost for the three waste programs funded as a utility and the remaining auxiliary programs funded by the property tax is \$24.05 per single family household.

Table 1 is a summary of the impact to the indicative rate increase and average utility bill for a single-family household in 2023. Appendix 1 has more details of the services and impacts to the indicative rate increase.

**Table 1: Reduction to Indicative Rate Increase for Moving Waste Programs to a Utility in 2023**

<b>Scenario</b>	<b>Average Single Family Monthly Property Tax to Waste</b>	<b>Single Family Monthly Waste Utility Bill</b>	<b>Total monthly cost for waste for the average single family household</b>	<b>Reduction To Indicative Rate Increase</b>
<b>2023 Indicative Budget Status Quo</b>	\$6.32	\$7.47	\$13.79	0.00%
<b>Move Curbside Organics to Utility Fee</b>	\$4.13	\$14.24	\$18.36	2.16%
<b>Move Single Family Garbage to Utility Fee</b>	\$3.32	\$16.15	\$19.47	2.96%
<b>Move Curbside Organics &amp; Single Family Garbage to Utility Fee</b>	\$1.13	\$22.92	\$24.05	5.11%

**FINANCIAL IMPLICATIONS**

Transferring the new curbside organics program to the utility funding model would reduce the property tax increase by 2.16% in 2023. The property tax increase could be lowered by 5.11% by also removing the black bin from the property tax in 2023. For comparative purposes, all costs are shown for 2023, as the new curbside organics program adds additional costs in 2023. If City Council is interested in pursuing a utility funding model for any of the current property tax supported waste programs, the Administration can provide further reporting to show the detailed 2022 financial implications and options to phase into the utility funded model.

**OTHER IMPLICATIONS**

Given the analysis in the preceding sections of this report, what additional implications and considerations emerge if the City elected to modify or reform this funding approach and shift all (or the larger programs) to a fee based solid waste utility?

The policy merits of placing an explicit price on residential solid waste disposal and collection are strong and have been substantiated by empirical research. While this report does not go into detail on them, the main arguments center on incentivizing behaviours to improve waste diversion, achieving benefits equity from the perspective of

those who use the service pay for it, and increasing cost transparency. The research concludes that solid waste programs funded by a property tax model does a poor job in these areas.<sup>1</sup>

To touch on these points, solid waste is a negative externality in that it is a by-product of general consumption that generates negative effects (pollution) on society. Placing an explicit price signal on solid waste attempts to incentivize the consumer to seek alternatives to reduce waste costs not only to them, but also on society. An explicit price also increases the transparency of the services because the charge is clearly visible on a utility bill rather than being embedded in a general property tax statement.

Solid waste funding can also address equity concerns in that those benefitting from the service pay for it. Because some solid waste collection programs, namely single family black cart waste collection, are funded by the property tax model, some property owners pay for the service but do not receive it. This means that some properties subsidize the costs for delivering the program. Specifically, commercial/industrial property owners and multi-unit residential properties pay for solid waste collection through property taxes, but also need to pay separately to contract alternative service delivery. In other words, they pay twice. This subsidization also hides and lowers the solid waste collection and disposal costs for single family residential homeowners.

A second subsidy exists within the residential property tax class. Because property taxes are distributed on a property's assessed value, higher valued properties subsidize the solid waste costs for lower valued properties. In essence, this suggests that the price per tonne for solid waste collection and disposal is larger for higher value homes, regardless of the amount of waste that is generated. That is, the price for solid waste has no connection to waste generation.

As a result of the inter and intra property class subsidization, and as explained in the previous section of this report, solid waste costs are distributed unevenly to existing property owners and are lower than they otherwise would be if an explicit price was charged. Thus, moving waste programs to a utility funding model would remove the cost of the programs from the property taxes and only charge the users of the utility to fund the program. This results in a lower property tax on all properties and replaces it with a monthly (or annual) charge for residential units to cover the costs of the program. The monthly cost for single family residential properties with an average assessed value are estimated to increase by \$10.04/month if all programs were shifted to a utility model. Properties with lower-than-average assessed values would see their average monthly costs increase by more than this amount.

One potential way to minimize the fiscal impact to lower income single family residential homeowners, in the short term, is for the City to offer a transition grant that aims to reduce some financial impact to eligible property owners. For example, the City could

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<sup>1</sup> See for example, <https://ecofiscal.ca/reports/cutting-waste-save-money-improving-solid-waste-systems/> and [https://ruor.uottawa.ca/bitstream/10393/37894/1/Chaisson\\_Christina\\_The\\_Price\\_of\\_Garbage\\_Analysis\\_of\\_the\\_effect\\_of\\_user\\_pay\\_programs\\_on\\_waste\\_diversion\\_in\\_Ontario\\_municipalities.pdf](https://ruor.uottawa.ca/bitstream/10393/37894/1/Chaisson_Christina_The_Price_of_Garbage_Analysis_of_the_effect_of_user_pay_programs_on_waste_diversion_in_Ontario_municipalities.pdf)

offer eligible homeowners annual grants on a sliding scale of 50% in year one, and 25% in year two. The grant would not cover the full cost of transition but would offset 75% of the transition costs in the first two years. After the year two years conclude, the transition grant would be eliminated. By that time, the City may be able to offer variable pricing or a pay as you throw system so that homeowners can reduce waste costs by selecting smaller cart sizes as an example. If directed, the Administration could report back with more details on the design and fiscal implications of this concept.

Another implication or consideration that emerges is the implementation of any potential change to a waste utility. The Administration estimates that a significant amount of planning and system configuration is required to move waste programs to a utility within the current billing software. For the purposes of this report, a fully operational utility is assumed to begin in 2023. That said, if City Council is interested in realizing a reduction in the indicative budget in 2022 prior to a fully operational utility in 2023, the Administration can prepare a report with options for phasing in the implementation of the utility for consideration.

### **NEXT STEPS**

Unless otherwise directed by Committee and/or City Council, the Administration is planning to proceed with the operation and implementation of solid waste programs under a status quo scenario.

### **APPENDICES**

1. Appendix 1 – Solid Waste Program Funding

### **REPORT APPROVAL**

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