

Waste Utility Timing, Phase-In and Affordability Options

ISSUE

This report provides options and a recommendation on timing for implementation of a waste utility model for the curbside organics and curbside garbage programs.

BACKGROUND

History

At its August 30, 2021 meeting, City Council resolved:

“That the November 19, 2018 Council resolution *That the curbside organics program be funded by property tax* be rescinded; and

That the Administration proceed with the implementation of a waste utility funding model for curbside organics and black cart garbage programs, and that further direction about timing, phase-in options, and affordability options be provided at such time that the related reports are provided to the Governance and Priorities Committee.”

At its March 25, 2019 meeting, 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 0.80% of one percentage point of the property tax in 2022 and 2023 respectively.

At its November 19, 2018 meeting, City Council approved that curbside waste collection and curbside organics collections be funded by property taxes. At the same meeting, the consideration of the Ability-to-Pay Considerations for an Expanded Waste Utility report resulted in the following resolutions:

“1. That the guiding principles outlined in the September 10, 2018 report of the A/General Manager, Corporate Performance set the framework and future rates of the Unified Waste Utility; and

2. That the following collective benefit services remain funded by property taxes and not be funded by the new waste utility: Recovery Park, City-wide organics and recycling depots, Household Hazardous Waste programs, and administration, waste diversion planning, general education/enforcement, monitoring, and reporting that benefits all programs.”

At its October 22, 2018 meeting, City Council approved the establishment of a new waste management service level of bi-weekly year-round waste and organics collection for all curbside residential households.

Current Status

The City of Saskatoon (City) garbage collection and landfill crews collect and process garbage from approximately 72,000 curbside residential customers and approximately 1,100 multi-unit residential and Industrial, Commercial and Institutional properties. Collection and processing of garbage from all sources is currently funded through a combination of property taxes and user fees.

Organics are collected through the City's seasonal subscription-based curbside program which is currently funded through a combination of subscription fees and external funding. A citywide organics program will be implemented by Spring 2023.

Public Engagement

The *Saskatoon Talks Trash: Curbside* engagement ran from February 12–March 6, 2018. Engagement focused on the design of curbside organics and variable rate garbage utility programs. At that time, over 5,000 residents participated in a variety of engagement activities. A small majority (approximately 60%) of residents who participated in engagement activities demonstrated support for a variable garbage utility. A minority (about 30%) expressed strong opposition, while a third group were uncertain or had further questions. Participants were not asked about a fixed rate utility. The full engagement results are available in the [Changes to Waste Management in Saskatoon - Engagement Results](#) report.

Approaches in Other Jurisdictions

Curbside garbage services are funded through a utility model in several Western Canadian cities including Vancouver, Burnaby, and Calgary; all of which provide bi-weekly garbage collection. Vancouver and Burnaby garbage utility rates are based on variable cart sizes, while Calgary charges a flat fee.

Of the cities included in the jurisdictional scan, only Vancouver and Calgary charge a monthly utility rate for organics specifically. Calgary charges a fixed monthly rate for organics, while Vancouver charges a variable rate for organics based on cart size.

Other cities charge a combined monthly utility rate for all waste services, as opposed to separate utility charges for each program. Surrey and Red Deer charge a flat rate for all services while Edmonton charges a variable rate based on the garbage cart size. Additional details of approaches in other jurisdictions can be found in *Appendix 1*.

OPTIONS

This section of the report proposes two potential options for the timing and phase-in of the black cart garbage and curbside organics utilities. While the options have many similarities, with the most prominent being the transition to a fee-based approach, Option 2 implements a variable pricing approach for garbage collection and processing at the time of launch. For clarity, variable pricing utility charges are based on the amount of garbage a consumer sets out, whether through various cart sizes, bags, or collection frequency. Variable pricing sends an explicit price signal to consumers to

alter behaviour and seek alternatives to increase waste reduction and diversion. In turn, all things equal, this can provide customers the ability to control their waste costs.

Conversely, solid waste variable pricing models can be complex and involve the coordination of various operational and technological systems and processes. The Administration has determined that development of a variable pricing model that can accurately bill customers for their consumption would not be feasible until 2024. As such, under Option 1, the black cart garbage utility would start with a fixed rate fee and variable pricing could be implemented as part of the Solid Waste Reduction and Diversion Plan as a long term (2026+) action.

With those caveats in mind, policy choices and design involves various trade-offs as the potential options may be stronger in some areas and weaker in others. To that end, the Administration evaluated the advantages and disadvantages of each option by applying the following widely accepted public policy criteria to the options proposed in this section of the report, including:

- Efficiency;
- Fairness (equity);
- Accountability & Transparency; and
- Ease of Implementation/Administration.

Efficiency: A primary reason for imposing correctly designed charges or fees on the beneficiaries (individuals or businesses) of public services is to provide incentives for using resources in the most efficient manner possible. For solid waste, user fees in the form of a specific charge per bag or container are preferred on efficiency grounds for both collection and disposal of solid waste. Users can be identified, and per-unit costs calculated. Ideally, a charge that includes the full marginal social costs of collection and disposal provides strong incentives for discouraging waste and resource overuse.

Fairness (equity): Under the benefits received model of public finance, fairness is achieved when those who use public services pay for them. Because solid waste generates negative social costs to society, the price charged for solid waste should be distributed equally among all those generating waste. In this sense, fairness is enhanced by charging for the amount of waste that a person/household generates. Clearly, this may lead to concerns about the burden on low-income individuals, but these concerns are best handled by broader low-income support programs.

Accountability & Transparency: Accountability improves when the purpose of user fee is clear to taxpayers. The closer the link between the beneficiaries of a service and payment for that service, the greater the degree of accountability. When user fees are directly matched to beneficiaries, they can determine whether the benefit from the last unit consumed is worth the price or tax paid for its consumption. Transparency is strengthened when residents have access to information and decision-making forums so that they are familiar with the way in which user fees are set. Variable pricing models promote accountability and transparency.

Ease of Implementation/Administration: The implementation of any program, revenue instrument, or expenditure should be achieved in the most economical way possible and be simple for users to understand and comply with. In other words, the resources allocated to administering the tax or fee should be minimized. The transition from a tax-funded program to fee-based utility program generates some up-front implementation and administration challenges. For example, billing accuracy is a primary requirement under a utility model. The City's billing system requires a unique identifier for each type of utility charged to a customer. This is needed to ensure a customer's utility bill is accurate. This is especially relevant as during implementation, the current black cart database, and the new organics cart database, would require significant levels of verification prior to the launch of a utility. Thus, options that provide sufficient time for development, testing, and deployment of the system change will score higher from an information technology perspective. Options that offer a concurrent launch of curbside garbage and curbside organics and provide sufficient time for communications and staffing will score higher from a program administration perspective. Variable pricing models are the most complex and thus require more time and resources for implementation.

Option 1: Fixed monthly rates for both utilities with January 2023 implementation of both black cart garbage utility and curbside organics utility.

Under this option, the costs of curbside garbage collections and disposal will be funded through property taxes in 2022. In 2023, the full cost of both the black cart garbage and curbside organics programs will be funded through utility revenues using a fixed monthly rate for both.

Pros:

- Program fairness is achieved earlier under this option as property owners who do not receive curbside garbage services are not funding 2023 program costs through property taxes.
- Simultaneous launches of both the curbside organics and curbside garbage utilities provide communications efficiencies. Efficiencies are also noted from a customer service perspective as concurrent launches decrease the volume of inquiries and allow for inquiries to be handled more efficiently.

Cons:

- This option involves the launch of both utilities at the same time, which could create a larger, immediate financial burden on curbside residents, as opposed to other options which would phase in the two utilities at separate times.
- For most curbside residents, costs will increase in 2023, but accountability and transparency do not increase as users are given no additional control over their costs.
- Efficiency of the curbside garbage program is limited after implementation, as a fixed rate utility model provides no incentives to discourage waste and resource overuse.

- The timelines of this option interfere with necessary upgrades and research to the City's customer information system (CIS). This work is necessary given corporate dependency on a properly functioning CIS. For example, CIS allows for accurate billing of property taxes and utilities, and delays may reduce customer service delivery and introduce risks for revenue collection.

Financial Implications:

- In 2022, it is estimated that this option will reduce the mill rate by 0.91% which represents the removal of the previously approved 0.87% phase-in, and its related adjustments.
- In 2023, it is estimated that this option will reduce the mill rate by 4.18% which represents the full costs of curbside garbage and curbside organics programs and includes removal of all previously approved mill rate phase-ins that were allocated to garbage collections and landfill operations.

Environmental Implications:

- Apart from waste and greenhouse gas (GHG) reductions achieved through the launch of the curbside organics program, no additional waste diversion improvements or GHG reductions are anticipated with the implementation of this option.

Option 2: Fixed monthly rate for the curbside organics utility with January 2023 implementation, and variable rates for the black cart garbage utility with implementation in 2024.

In January 2023, the full cost of curbside organics will be utility funded using a fixed monthly rate. Under this option, the costs of the curbside garbage program will be funded through property taxes until 2024. In 2024, the curbside garbage program will be funded as a variable rate utility, which will reduce the 2024 mill rate. The implementation date of a variable rate curbside garbage utility is dependent on several factors, namely the type of variable pricing model chosen. An implementation date as early as January 2024 is possible; however, given the unknown variables at this time, mid-year implementation in 2024 is also a possibility.

Pros:

- Accountability improves under a variable pricing model. Upon launch of the curbside garbage utility, residents will be able to clearly identify the relationship between their consumption and their utility fees and be given the opportunity to control their costs. Transparency is also improved under this option as residents are given additional information that helps to distinguish how consumption impacts user fees.
- Efficiency of the curbside garbage program improves under this option. The financial incentives of a variable pricing model encourage waste minimization and diversion which in turn reduces the resources required to collect and dispose of garbage.

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- Verification of the black cart database is made more efficient under this option as verification can be completed in conjunction with the deployment of curbside organics carts.
- This option can use information gathered from the launch of curbside organics in 2023 to improve the initial implementation of the curbside garbage utility in 2024.
- Phasing in each utility separately lessens the immediate financial burden on curbside residents.
- Communications efficiencies will be realized by implementing the curbside garbage utility and variable rates model at the same time.
- Deferring the implementation of the curbside garbage utility until 2024 provides sufficient time to complete necessary upgrades and research for CIS.

Cons:

- Delaying implementation of the curbside garbage utility limits program transparency in 2022 and 2023 as the program will continue to be mill rate funded in those years, and costs of the program are not explicit.
- Program fairness is not achieved until 2024. Under this option, property owners who do not receive curbside garbage services continue funding the program through property taxes until 2023.
- From a customer service perspective, this option includes separate launches of the two utilities which may result in duplication of calls to the customer service department.
- As noted in the description of the option above, the start date of the curbside garbage utility is dependent on integration of the approved variable pricing model with the City's billing system. Variable pricing models increase complexity, which in turn impact time needed for implementation. This creates some financial risk as the 2024 mill rate will be approved during budget deliberations in 2023. If unforeseen issues result in delayed implementation of utility billing, causing a difference with the date used for the program start date as part of setting the 2024 mill rate, either revenues could be lost for unbilled months, or adjustment of rates to compensate could be required.

Financial Implications:

- In 2022, it is estimated that this option will reduce the mill rate by 0.91% which represents the removal of the previously approved 0.87% phase-in, and its related adjustments.

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- In 2023, it is estimated that this option will reduce the mill rate by 1.63% which represents the removal of the previously approved 0.80% phase-in, as well as related reductions from tonnes diverted from the landfill by curbside organics.
- This option would provide a significant favourable mill rate impact in 2024 by transitioning curbside garbage from the mill rate and onto a utility. Until a variable pricing model is approved, and the 2024 base mill rate is established, this mill rate impact cannot be calculated precisely.

Environmental Implications:

- The variable rate utility for garbage is projected to increase waste diversion and reduce GHG emissions. The exact environment benefits will depend on program design and user participation. Projections from the Solid Waste Reduction and Diversion Plan estimate that relative to the status quo:
 - Waste diversion of 5,000–16,000 tonnes per year, improving the waste diversion rate by 5 - 17%; and
 - GHG emission reductions between 3,000 – 10,000 tonnes CO₂e per year.

Assessment of Alternative Options

The Administration considered implementation of the curbside garbage utility using a fixed monthly rate as early as January 2022, followed by a January 2023 implementation of the curbside organics utility. This option was not deemed feasible as it did not provide sufficient time for verification of the black cart database, nor integration and testing with the City's billing system.

A secondary option of fixed monthly rates for both utilities with July 2022 implementation of black cart garbage utility and January 2023 implementation of curbside organics utility was also investigated and deemed not feasible for reasons similar to the January 2022 consideration.

The City's billing system is over twenty years old, highly complex and existing staff resources with the specialized skills required to execute a change of this magnitude are not readily available. Given the complexities of the system, there are also several unknown variables that cannot be predicted at this time that may impact implementation. Allocating sufficient time for troubleshooting is the only mitigation against the risks posed by unknown variables.

Given an initial estimate of 12 to 18 months of work for billing system improvements required for the Waste & Organics Utility, it has been determined that January 2023 would be the earliest possible implementation date.

To achieve a January 2023 start date, the Administration is still determining what technological work needs to be accomplished and what additional technical resources will be required in 2022 and 2023 to execute the change. If a variable pricing model is desired, it will need to be developed and integrated with the City's billing system and is not possible until 2024.

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Mid-year implementation of a curbside garbage utility also creates financial risks. Any delays in the start date for billing would result in lost revenues for months unbilled, or adjustment of rates to compensate.

Due to the heightened risks of billing inaccuracy, system failure, and financial instability, the Administration does not recommend any options with implementation of a curbside garbage utility in 2022.

Summary of Financial Implications for each Option

The mill rate implications of each option are outlined in the above discussion and summarized in Table 1 below.

Option 2 provides additional reduction to the mill rate in 2024, but cannot be determined until a variable pricing model is approved and the base mill rate for 2024 is established.

Table 1: Estimated Yearly Reduction to the Mill Rate by Option

	Option 1 Jan 2023 Curbside Garbage Utility Jan 2023 Curbside Organics Utility	Option 2 Jan 2023 Curbside Organics Utility 2024 Curbside Garbage Utility
2022	0.91%	0.91%
2023	4.18%	1.63%
2024	N/A	TBD

Table 2 displays how the reduction in mill rate and estimated additional utility charges would affect curbside residents. The utility rates and property tax impacts included in Table 2 are estimates that are subject to change. Final property tax impacts and utility rates will be presented for approval during the 2022–2023 Multi Year Budget Deliberations.

As noted in Table 2, the 2024 impact to property tax percentage cannot be determined at this point in time. However, it should be noted that Option 2 would result in the final phase-in of utility costs in 2024 for curbside residents as well as a reduction to the mill rate. The net impact to residents in 2024 will be the reduction in the mill rate (removal of black cart program costs) offset by an increase in utility fees paid.

Both options within this report will have implications for property owners that are not part of the curbside garbage and curbside organics programs, including commercial and multi-unit residential property owners. These implications are outlined in *Appendix 2 – Curbside Organics & Garbage Utility Funding Options*. The impact to residents renting properties was not included in the scope of analysis for this report as the proportions of property tax and utilities charged to tenants vary based on rental agreements.

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Table 2: 2022 and 2023 Estimated Financial Implications for the Median Single Family Residential Property¹

	Option 1 Jan 2023 Curbside Organics Utility Jan 2023 Curbside Garbage Utility	Option 2 Jan 2023 Curbside Organics Utility 2024 Curbside Garbage Utility (variable rate)
2022 Annual Garbage Utility Fees	\$0.00	\$0.00
2022 Reduction of Property Tax from Transition to Utility	\$(24.13)	\$(24.13)
2022 Net (Decrease) in Costs	\$(24.13)	\$(24.13)
2023 Annual Garbage Utility Fees	\$102.00	\$0.00
2023 Annual Organics Utility Fees	\$80.75	\$80.75
2023 Reduction of Property Tax from Transition to Utility	\$(114.22)	\$(62.66)
2023 Net Increase in Costs	\$68.53	\$18.09
2024 Impact on Property Tax from Transition to Utility	N/A	TBD
Net Increase/(Decrease) in Costs over 2022-2023	\$44.40	\$(6.04)

¹ This table is calculated based on the 2021 median single family residential property with an assessed value of \$344,000.

RECOMMENDATION

That the Governance and Priorities Committee recommend to City Council that the City of Saskatoon proceed with Option 2: A fixed monthly rate for the curbside organics utility with a January 2023 implementation, and a variable rate for black cart garbage utility with implementation in 2024.

RATIONALE

Implementing a user fee funded utility model, whether by fixed rate or variable pricing, offers additional transparency and accountability to customers through a fair and justifiable rate, relative to a tax funded mode. In addition, variable pricing whether by cart sizes, bags, or collection frequency better achieves efficiency and equity criteria. Efficiency is enhanced because the negative external costs are captured in the variable price, and program users have the incentive to seek waste diversion alternatives, thereby reducing potential program costs. Fairness (or benefits equity) is improved as those who benefit from the service pay for it and in the case of variable pricing, are charged by how much they dispose.

The introduction of a variable pricing model for curbside garbage at launch is beneficial as it is easier and more cost effective to get customer attention on waste utility and variable pricing at the same time as opposed to multiple instances. There are also

efficiencies from a communications and cart deployment and verification perspective by doing only one launch of the curbside garbage utility.

Conversely, the exclusion of a variable pricing model for curbside garbage at launch may pose a risk of change aversion and status quo bias. Under Option 1, for example, there is risk that customers will become accustomed to a monthly fixed utility charge for curbside garbage, and the financial incentives of future variable pricing models may not be as appealing. This could negatively impact the waste diversion potential of future variable pricing models.

Option 2 also enables Administration to leverage technological and operations experience gathered from the launch of the curbside organics utility in 2023 when implementing the curbside garbage utility in 2024. In addition, Option 2 does not interfere with the necessary CIS upgrades and research which ensures that there is no reduction in customer service delivery for existing programs and mitigates additional revenue collection risk.

ADDITIONAL IMPLICATIONS/CONSIDERATIONS

Affordability

At its August 30, 2021 meeting, City Council requested that affordability options be provided. *Appendix 1 - Affordability Considerations*, provides a summary of work completed as part of the design of an expanded waste utility in 2018, and provides an updated jurisdiction scan and summary of affordability programs available to Saskatoon residents. The appendix also highlights relevant developments since 2018 that could inform the development of a waste utility affordability program, including Triple Bottom Line considerations, energy poverty mapping of Saskatoon, and the Equity Tool Kit.

The affordability options presented in the appendix are largely unchanged from 2018 reporting. Additional time and resources are required to fully identify all options, carry out stakeholder engagement, and prepare a recommendation for City Council's consideration. The Administration is estimating that approximately \$80,000 would be required for staff time and stakeholder engagement. If directed by City Council, funding for program development and design is available in the Curbside Organics capital project (P.02599). If implemented, annual operating funds for the affordability program would be recovered through waste utility rates.

COMMUNICATION ACTIVITIES

Decisions made from this report will be communicated through the appropriate City channels; including but not limited to a news release, the City of Saskatoon website, and social media. A comprehensive communications plan will be developed as part of the implementation of the chosen option.

NEXT STEPS

With direction from City Council, the Administration will finalize curbside organics and garbage program utility rates for approval during the 2022/2023 Business Plan and Budget deliberations. Planning work will continue to prepare for the launch of the

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organics program in 2023, which may require City Council approval throughout 2022 on certain aspects of the program. Further reporting on affordability options will occur in Q3 2022 if directed by Council.

APPENDICES

1. Appendix 1 - Affordability Considerations
2. Appendix 2 – Curbside Organics & Garbage Utility Funding Options

Report Approval

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