
2023 Waste Reserve Structure and Curbside Organics Program Transition Funding Strategy

ISSUE

The Curbside Organics Program will be implemented in May 2023. This report proposes amendments to the Waste Minimization Reserve and the establishment of a Waste Utilities Stabilization Reserve to support the new organics and garbage utilities. Administration is also seeking confirmation on whether or not Committee and City Council support the proposed funding plan to transition from capital funded program development to utility funded operations as the Curbside Organics Program is launched in early 2023.

RECOMMENDATION

That the Standing Policy Committee on Environment, Utilities and Corporate Services recommend to City Council:

1. That the City Clerk's Office update Policy C03-003 Reserves for Future Expenditures, as identified in this report; and
2. That the transition funding strategy, as outlined in this report, be included in the 2023 Business Plan and Budget Deliberations submission.

BACKGROUND

During its 2022/2023 Preliminary Business Plan and Budget Meeting, in November 2021, City Council approved \$5,886,700 in expenditures and \$5,886,700 in revenues for the Curbside Organics Program.

At its October 25, 2021, meeting, City Council resolved:

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.

DISCUSSION/ANALYSIS

Establishment of the *Waste Utilities Stabilization Reserve*

With the implementation of a curbside organics utility in 2023, and a black cart garbage utility in 2024, amendments to City Council Policy C03-003 – Reserve for Future Expenditures (Policy) are required. The major changes proposed are as follows:

- That the Curbside Recycling Stabilization Reserve be renamed as the Waste Utilities Stabilization Reserve;
- That the newly established Waste Utilities Reserve be used to offset unanticipated utility operating deficits or surpluses in the curbside recycling, multi-unit recycling, organics, and future garbage utilities; and
- That the balance of the Waste Utilities Stabilization Reserve be capped at 10% of budgeted waste utility revenues and any funds more than this amount be transferred to the Waste Minimization Reserve.

The City of Saskatoon (City) utilizes fiscal reserves to manage many areas of its finances. Appropriate use of reserves offset unanticipated deficits within the programs and helps to stabilize the programs. Reserve balances are reported to City Council annually, and City Council has the ability to adjust reserve contributions or allocations over set caps as they see fit.

As part of this reserve-based approach, the City currently maintains a Curbside Recycling Stabilization Reserve for the Recycling Utility to offset any unanticipated utility operating deficits or surpluses. As this is the only reserve associated with waste utilities, Administration recommends combining all waste services utilities under a single reserve to be renamed as the Waste Utilities Stabilization Reserve. This reserve would be used to offset unanticipated operating deficits or surpluses in all three waste utilities. The draft amendments to the Policy to account for this change are included within Appendix 1.

Given the interdependencies of the waste utility programs, having a combined reserve for recycling, organics, and garbage is aligned with the principles of waste diversion and reduction as program participation in one waste service and its utility will have impact on the others. For example, increased diversion of recyclable materials could result in decreased tonnages of garbage. There are also several shared costs such as vehicles and equipment, as well as operational and administrative staff. Public education and communications for waste initiatives are often inclusive of all three streams as they all share common goals of waste diversion and reduction. A combined reserve approach has been successfully utilized by the City for the Water and Wastewater Utilities Stabilization Reserve.

Administration is recommending that the reserve balance limitation of the Waste Utilities Stabilization Reserve be set at 10% of budgeted waste utility revenues. In 2023, the allowable balance would be approximately \$1.77M. When determining what the acceptable reserve balance limitation should be, Administration considered what factors pose significant risks to the utilities' operations. While the customer base is relatively stable, there are risks associated to estimates made for costs of contracted services and customer behaviour. Over the next two years, there will be significant changes to the waste service levels in Saskatoon including the new organics and garbage utilities as well as the switch to bi-weekly garbage collection year-round. While Administration is conducting research and critically assessing all assumptions included in rate modelling, it can be difficult to predict resident behaviour once the services are operational. The Administration believes that a cap balance of 10% is appropriate to address the program risks.

There is currently a balance of \$1.73M in the Curbside Recycling Stabilization Reserve. The allowable balance per current Policy is 5% of budgeted revenues, which is \$321,800 in 2022. The balance in the reserve is due to favourable variances realized in the single-family recycling utility program over recent years. Favourable expense variances in 2020 and 2021, were primarily attributed to savings in communications and education as a result of event modifications and cancellations during the pandemic. Favourable revenue variances were also noted due to growth in the number of households in recent years exceeding the amount estimated. The current Policy does not provide guidance on where excess funds are to be allocated; therefore, when this

overage was identified, Administration determined to correct it with both an amendment to Policy as outlined in this report and formalize and strengthen existing processes to perform annual checks and ensure that reserves remain in accordance with Policy. Council approved the Administration's recommendation to not increase rates for 2022 and 2023 in order to curb this surplus situation.

The Policy identifies where funds are typically allocated should the cap be exceeded. As shown in Appendix 1, the Administration is recommending that any funds in excess of the allowable balance in the Waste Utilities Stabilization Reserve be transferred to the Waste Minimization Reserve (WMR). As with all other reserves, these transfers are reported at year-end and City Council has the ability to re-allocate as they see fit.

The purpose of the WMR is to accumulate funds for the purpose of funding waste minimization initiatives in the Environmental Health Business Line such as pilot projects and program development to refine and improve the waste utilities. As with all reserves, any projects funded by this reserve would require City Council approval prior to any draw from this reserve.

Updates to Waste Minimization Reserve

Administration is recommending amendments to the Policy to ensure the WMR is reflective of current practices and is strategically aligned with the upcoming changes to waste services in Saskatoon.

Presently, the Policy states that the WMR is to be funded by proceeds from the sale of recyclable materials, this includes any proceeds received by the City from the sale of waste newspapers under the agreement with Cosmopolitan Industries Ltd. Also included are any proceeds received from the sale of metal, wood chips, cans, plastic and bottles. This is no longer reflective of the City's agreements as the City does not presently market recyclable materials. Administration recommends removing this section of the Policy.

The Policy similarly needs to be updated to reflect the present agreement with Multi Material Stewardship Western (MMSW). The City's present agreement with MMSW provides funding of approximately \$4.5M per year. Historically, any funds received from MMSW have been allocated to operating programs and capital projects through budget deliberations, and where appropriate, surplus funds have been returned to the WMR. Administration recommends that the Policy be amended to include funding received for the purposes of waste reduction and diversion.

There is currently a balance of \$1M in the WMR. The balance is primarily attributed to surpluses recognized in the subscription Leaves and Grass program from 2020-2021. Popularity of the program and the rate increase in 2020, resulted in large transfers of MMSW funds back to the WMR. The Policy currently caps the Waste Minimization Reserve at \$100,000. Within the body of the report to City Council during 2019 Budget Deliberations on the [Multi-Material Stewardship Western Funding Update and Recommendations](#), a recommendation was included to increase the WMR cap to \$2M; however, there was no formal resolution made at that time so the Policy was not updated. The recommendations included within this report will now formalize the \$2M cap. This is anticipated to provide the necessary amount of funding to investigate and

develop projects that further waste minimization initiatives. Increasing the cap on the WMR would allow the City to accumulate financial resources over several years to fund larger scale projects.

There is also an opportunity to make the application of funding clearer. Administration recommends identifying waste capital projects such as feasibility work, research, studies, pilot projects, and commissioning costs as eligible for funding from the WMR.

2023 Curbside Organics Transition Funding Strategy

The development of the Curbside Organics Program was funded through capital funds, with City Council direction, to launch the organics utility fee in January 2023. Under a utility model, program revenues generated are intended to support the provision of a specific service or benefit received. As the Curbside Organics Program will not be launched until May 2023, there is not a direct correlation between service provided and benefit received by residents for the period of January 2023 to April 2023. Therefore, the utility fee will be introduced at the same time as the launch of the program in May 2023.

While the framework for the curbside organics program has been developed, costs to implement and prepare for the launch will continue to be incurred between January and April 2023. In addition, there are fixed costs that are independent of direct utility activities and are incurred prior to the utility start date. Therefore, a transition funding strategy is required to fund expenditures that are required to complete the implementation of the program.

The estimated reduction in the 2023 planned revenue of \$1.96M offset by a reduction in planned expenditures of \$1.32M result in a shortfall that will be incurred from January to April 2023, to transition from capital funded program development to the utility of \$643,100. As such, Administration is recommending a one-time transfer from the newly created Waste Utilities Stabilization Reserve in 2023, to support this shortfall.

Proposed Curbside Organics Program Utility Rate

Alternately, the Administration considered increasing the utility rate in the first year of the program to cover the transition costs that will be incurred between January and April 2023. When developing utility rates, Administration recognizes problems customers may have with short term price fluctuations and attempts to mitigate this with rate smoothing. Rate smoothing is the practice of gradual, phased-in changes to rates each year instead of sharp increases or decreases between years. Using a transfer from the newly established stabilization reserve will allow for rate smoothing and will have no direct mill rate impact. Therefore, a higher rate for 2023 is not recommended.

Based on the approved budget for 2023, and an estimate of the expenditures to be incurred between May and December 2023, the Administration developed a monthly user fee per household of \$6.73. The monthly rate was developed using estimated costs for a full year of operations to ensure rates did not vary significantly after the initial year of program implementation. This rate also assumed 72,900 households would be included in the program. Table 1 provides details on what is included in this rate.

Table 1 – Curbside Organics Utility Rate Structure

Cost Category	Cost per Household per Month
Collection and Container Management Costs	\$3.41
Processing Costs	\$1.92
Program Management	\$0.68
Capital and Reserve Contributions	\$0.54
Bylaw Enforcement, Education and Communications	\$0.18
Total Cost per Household per Month	\$6.73

The utility rate for the Curbside Organics Program will be submitted to City Council during the 2023 Business Plan and Budget Deliberations for approval.

FINANCIAL IMPLICATIONS

The one-time transfer from the newly created Waste Utilities Stabilization Reserve to support the transition costs for implementation of the Curbside Organics Program results in no direct mill rate impact. As well, no operating impacts are anticipated with the proposed amendments to the reserves.

POLICY IMPLICATIONS

If the recommendations in this report are approved, Council Policy C03-003 will be amended as noted in Appendix 1.

OTHER IMPLICATIONS

There are no privacy, legal, or social implications identified.

NEXT STEPS

Administration will bring forward the proposed curbside organics utility rate and adjustments to the utilities budget as part of 2023 Business Plan and Budget Deliberations in November 2022 for City Council's consideration.

Administration will report further to City Council to request approval for projects that require funding from the Waste Minimization Reserve.

APPENDICES

1. Draft Amendments to Council Policy C03-003 Reserve for Future Expenditures

Report Approval

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