
Waste Services Utility Design Options

Recommendation

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

1. That the Administration continue to develop a program to expand the Waste Services Utility to include variable-pricing options; and
2. That the Administration engage citizens and stakeholders on variable-pricing options based on the information presented in this report, and report back in the first quarter of 2018 with a proposed design and timeline for implementation for a utility model.

Topic and Purpose

The purpose of this report is to outline options for expanding the Waste Services Utility to include variable-pricing and the implications of each option.

Report Highlights

1. Expanding the Waste Services Utility would mean reducing property taxes and transferring the cost of some or all waste management services to a monthly bill.
2. A waste utility variable fee-for-service model based on cart size or collection frequency is more feasible and cost-effective than implementing and maintaining the infrastructure required to measure solid waste weight by household.
3. The utility will be designed using the approved community values and will be included within the process for developing the Waste Management Master Plan.
4. A variable-rate utility would provide additional incentive for people to reduce the amount of waste they put in their black garbage cart, allow the City to build a sustainable funding model, and extend the life of the Landfill. Affordability and responsiveness to citizen ability to pay is among the values established by City Council and will be considered in the design of any future waste utility.
5. Implementation of a utility fee can be timed to correspond with providing the actual service level options required to allow citizens to have control over their solid waste utility costs. Capital costs are estimated between \$2.5 and \$5.15 million depending on program selected. Operating funding of \$200,000 will be required to support the administration of the utility.
6. When strategies for enforcement, education, and provision of adequate service are in place, an increase in illegal dumping, as a result of variable pricing, has not been a significant issue in other municipalities.
7. A successful waste diversion program is critical to deferring the closure of the landfill. The costs to close the existing landfill and establish a new landfill are estimated at \$26 million and \$100 million respectively, in addition to increases in operational costs due to anticipated longer haul distances associated with a newly located landfill.

Strategic Goals

This report supports the Strategic Goal of Environmental Leadership including the four-year priority to promote and facilitate city-wide composting and recycling and the long-term strategy to eliminate the need for a new landfill. It also supports the Strategic Goal of Asset and Financial Sustainability by reducing reliance on residential property taxes and setting long-term sustainable rates.

Background

In January 2017, the Administration brought a report to the Standing Policy Committee on Environment, Utilities and Corporate Services highlighting the funding gap in the business model for civic waste services, and identifying barriers in meeting the performance targets for Environmental Leadership. Administration committed to developing a Waste Management Master Plan and a list of values (environmental, social, and financial) that would be used to assess potential future business models. Funding options (i.e. property taxes, utility charges, and user fees) are a significant component when considering alternative business models.

In May 2017, City Council received the Waste Diversion Opportunities report identifying various tools and approaches to improving waste diversion in Saskatoon. The report addressed the financial performance and stability of civic waste services including alternative options for financing such as a utility fee.

On June 26, 2017, a report entitled Expanding the Waste Services Utility – Key Considerations was presented to City Council on the benefits and implications of a waste utility showing how it aligned with City values. At that meeting, City Council resolved:

- “1. That the Administration investigate a new business model for waste services that includes a waste utility; and
2. That the Administration report in August 2017 on a potential design for expanding the Waste Services Utility in Saskatoon.”

Report

Design Options for an Expanded Utility for Waste Services

Major benefits of a waste utility include:

- Increased awareness of the full costs of managing waste;
- Increased sense of responsibility and stewardship for waste among citizens;
- Reward waste reduction and diversion;
- Extended life of the Landfill due to increased diversion; and
- Ability to create a sustainable funding model for waste management to ensure safe, responsible and efficient management.

Other centres that have implemented waste utilities utilize a variety of mechanisms to provide variability and control for citizens in waste costs and services. Attachment 1 provides an overview of these models.

Attachment 2 outlines several common options for introducing variable pricing in waste services along with some of the benefits, financial implications, and implementation considerations. Based on an analysis of the implications, the most feasible options for

households having curbside collections are to charge fees based on cart size or collection frequency. These options utilize existing trucks and containers, align with software systems utilized by the City for operations, and are compatible with the City's current utility billing system.

In the United States, it is common to charge by weight. Charging by weight would require on-board scales to be installed on all trucks. Weather and operational constraints would present challenges in achieving compliance with requirements under the Weights and Measures Act and Regulations governed by Measurement Canada. This option would require significant capital investment to purchase new trucks or retrofit existing equipment.

Another common option is to charge per bag as it is a relatively simple way to implement a variable fee in municipalities that have manual collection. Since waste collections are fully automated in Saskatoon, this would be an expensive and challenging change.

All utility model design options involve an investment in software, hardware and staffing to support billing, as well as capital investments including cart replacement and time required to implement operational changes. These capital implications are outlined in the attached Options and Considerations for Variable Pricing. As such, a complete variable pricing utility would take some time to implement and may need to be phased in.

Illegal Dumping and Enforcement Implications

As outlined in Attachment 3, the EPA has found that communities that have implemented variable pricing have less concerns than anticipated with illegal dumping. One study (see attached Illegal Dumping as a Result of Variable Pricing) found that 48% of cities and towns saw no change in illegal dumping, 6% felt it declined, and 19% saw an increase (27% had no information). Illegal dumping is a concern in all municipalities with or without variable pricing, including Saskatoon. The Water & Waste Stream division spends approximately \$175,000 per year on clean-up and enforcement. In addition, Roadways & Operations, Parks, and Saskatoon Fire all provide additional clean-up.

Strategies to minimize an increase in illegal dumping, based on experiences from other municipalities in the United States and Canada, are summarized in the attached Illegal Dumping as a Result of Variable Pricing. A report with options for reducing illegal dumping through changes to the Waste Bylaw will be presented to the Standing Policy Committee on Environment, Utilities and Corporate Services in late 2017.

Current Financial Reality Affecting Initial Waste Utility Rate Setting

The Waste Handling Service Line is projecting an estimated \$3 million deficit in 2017, which does not include projected deficits in contributions to the Landfill Replacement Reserve (LRR). The LRR is used, in part, to fund capital improvements at the existing landfill. A funding increase is needed in order to sustainably fund waste management, including appropriate transfers to the LRR, appropriate funding for landfill operating

equipment and garbage containers, addressing funding shortfalls in the green cart and compost programs, and providing operating funding for Recovery Park when it opens. Administration will present a Level of Service for waste report in September that will give City Council options for reducing this increase through service level changes.

Transition to a utility will result in a residential utility rate that will be higher than the amount currently paid by each household through property taxes. This is a result of removal of the subsidization of residential solid waste costs by the commercial sector in addition to the need to address the existing program funding gap. There would also be additional costs for the administration and communications associated with the new utility. An indicative rate which considers all of these factors is presented in Attachment 4. Note that these rates are for garbage only, and do not include recycling or organics program costs. As shown in the attached Utility Fee Considerations, the indicative rates are \$11.85 for homes with individual roll-out containers and \$9.50 for multi-unit dwellings.

Ability to Pay

Responsiveness to citizen ability to pay is among the values established for the design of any future waste utility. Ability to pay can be partially addressed through the design of a variable-priced model as property tax burden is shifted to a user fee that is controllable by the resident. When compared to other cities, the indicative flat rate of \$11.85 (see the attached Utility Fee Considerations) is in line with what other Canadians are paying for a similar level of service. In many municipalities, deep discounts are provided for choosing the smallest garbage cart size (see the attached Utility Charges for Waste Services in Other Municipalities) which helps respond to ability to pay.

Administration recognizes that this may not be adequate, especially given that properties having lower assessment values will see a larger increase than high value properties (see the attached Utility Fee Considerations for details). Additional options could be explored:

1. Expand the City's property tax deferral program to low income households (i.e. provide this program to all age group, not just seniors);
2. Provide discounts for garbage, recycling, or green carts for low income residents. Administration notes that this approach (especially if the discount is applied to the garbage cart) is counter to the goals of a waste utility (i.e. user control of costs to incentivize waste reduction).

A number of municipalities continue to fund a portion of the costs of waste services through property taxes. In many cases, this is to reflect the fact that some waste management has public-good benefit to the entire community. This approach does provide some mitigation to the financial impact to households, benefiting ability to pay. This approach also reduces the effectiveness of the user fee as an incentive for waste reduction and diversion.

Affordability concerns can also be addressed through federal and provincial transfers and tax credits. These affordability issues are addressed more broadly in Attachment 5.

Options to the Recommendation

Option 1 – Adopt a Flat Rate Utility Fee Beginning in 2018

Charge a flat fee starting January 2018 with no variable pricing options, moving the current \$8.9 million off the mill rate resulting in a reduction to property taxes. Rates will be similar to those suggested in the attached Utility Fee Considerations. There are numerous risks associated with this option which are outlined in Attachment 6. Variable pricing could be introduced at a later date.

Option 2 – Hybrid

This option would involve a portion of waste services being funded through the mill rate, and a portion through a utility charge. For example, a waste management fee of \$5 per month could start being charged on monthly utility bills. Another example of a hybrid approach is to phase-in the utility charge, funding all services through property taxes for the first half (or longer) of 2018, and charging a full flat utility fee in the latter part of the year. Variable pricing could be introduced at a later date. The risks and benefits of this approach are outlined in the attached Options to the Recommendation.

Option 3 – Status Quo

The City could stay with a mill-rate funded solid waste program. This would not incentivize solid waste diversion and the current program funding shortfalls would need to be addressed through mill rate increases.

Public and/or Stakeholder Involvement

If City Council directs Administration to proceed with the recommendation, residents will be engaged on the potential models (i.e. variable pricing based on cart size, frequency, or other options) to include in the final designed utility and rate structure. In addition, waste as a utility will be linked to the engagement on the larger Waste Diversion Plan. The Administration is currently developing an Engagement Strategy and Framework to guide implementation and to ensure interactions with the community are meaningful, consistent, relevant, and effective. A report outlining details of the proposed Strategy and Framework will be presented to the Standing Policy Committee on Environment, Utilities and Corporate Services in September.

A Recycling Awareness Survey is completed biannually as part of the recycling program (most recently July 2017). Questions on implementing a waste utility were asked and the results are available in Attachment 7.

In 2010/2011, the Let's Talk Recycling Engagement included surveys and open houses. No specific questions were asked about waste as a utility, however, there were several comments asking the City to consider it.

Communication Plan

A detailed communications plan will be developed in advance of any changes to explain how waste management is funded. The communication goals are to ensure stakeholders are not surprised by any proposed changes, that they understand how funding for waste services will change, and that they know the benefits of a waste utility.

Tactics could include developing Frequently Asked Questions, utility bill inserts, webpage updates, social media outreach, and other advertising opportunities.

In the meantime, Administration is implementing a Waste Diversion Communications Campaign that includes social and traditional media campaigns and a waste challenge to provide the community with information on the importance of waste diversion. This Waste Diversion Communications campaign will coincide with and support an engagement plan for waste diversion and the waste utility.

Policy Implications

A bylaw to establish the waste management utility is recommended. *The Cities Act* provides that the City may establish waste management as a utility. *The Cities Act* does not require that the utility be established by bylaw; however, establishment by bylaw is recommended. This will provide transparency and clarity for citizens in the outlining of the program. Other City of Saskatoon utilities are established by bylaw.

Financial Implications of the Recommendation

The financial implications of options for variable priced utility models are included, where possible, in the attached Options and Considerations for Variable Pricing. Once a design is determined, through resident and City Council feedback, more details on potential rate structures will be brought forward. A capital request for development of a variable-priced model will be brought to budget if the recommendation is approved.

The setting of rates can be completed once a design option is selected and the level of waste services offered has been confirmed. A report discussing level of service associated with garbage collection will be presented to the Standing Policy Committee on Environment, Utilities and Corporate Services in September. Changes to waste diversion services are the subject of a variety of reports tabled with Committee this fall.

Engagement on the proposed models will cost \$30,000. Funding is available in the Waste Characterization Capital Project.

Environmental Implications

Research conducted by the US Environmental Protection Agency (2013) of waste programs in Canada and the United States found that waste utility models may improve waste diversion rates by between 6% and 40% (depending on the recovery rate for recyclables in the community prior to implementing the pricing model). In addition, communities reported a reduction in the amount of waste disposed of between 8% and 38%.

Other Considerations/Implications

There are no privacy or CPTED implications or considerations.

Due Date for Follow-up and/or Project Completion

If the recommendation is approved, the Administration will report to the Standing Policy Committee on Environment, Utilities and Corporate Services in early 2018 on the results of an engagement and recommend options for a variable rate waste utility and business

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model that will be incorporated into the Waste Management Master Plan development process.

If Options 1 or 2 are approved, the Administration will report back to the 2018 Business Plan and Budget deliberations on a proposed flat monthly fee for single family and multi-family households to be implemented in January 2018.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Utility Charges for Waste Services in Other Municipalities
2. Options and Considerations for Variable Pricing
3. Illegal Dumping as a Result of Variable Pricing
4. Utility Fee Considerations
5. Solid Waste Pricing and Affordability
6. Options to the Recommendation
7. Waste Utility Survey Results

Report Approval

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