

**Utilities & Environmental Protection Report to
Priorities and Finance Committee
2019 November 05**

**ISC: UNRESTRICTED
As Corrected PFC2019-1402**

Water Utility Indicative Rates – Revised for 2020

EXECUTIVE SUMMARY

This report presents Administration's analysis and recommendations for revising the 2020 indicative rates for Calgary's Water Treatment and Supply (Water), Wastewater Collection and Treatment (Wastewater), and Stormwater Management (Stormwater) lines of service, collectively known as the Water Utility. In response to the challenging economic conditions in the Calgary community, Administration recommends reducing One Calgary approved 2020 utility rate increases for Water and Stormwater. However, due to the off-site levy shortfall, an increase is recommended for Wastewater.

Calgary is in a slower growth period, with active urban development in 2019 lower than anticipated. As less revenue is being collected, the Water Utility is experiencing an off-site levy shortfall for the fourth consecutive year. This shortfall is temporary until urban development occurs. However, if urban development does not occur, there will be a permanent subsidy of growth by utility rate payers and future rates will be impacted. Based on the revised 2019 October land forecast, the off-site levy shortfall will persist.

The following table summarizes the indicative rates being proposed for 2020. At this time, Administration recommends revising 2020 rates only. The proposed indicative rates will leverage efficiencies, capital savings, and service reductions, while maintaining the capital investment required to support the needs of a growing city. They also incorporate the projected shortfall and thus mitigate some risk of off-site levy revenue not materializing.

Table 1: Indicative rates for the Water, Wastewater, and Stormwater lines of service

Line of Service	One Calgary 2020 Approved Rates	Proposed Change	Recommended 2020 Rates
Water Treatment and Supply	+0.3%	-0.8%	-0.5%
Wastewater Collection and Treatment	+5.1%	+1.6%	+6.7%
Stormwater Management	+2.5%	-1.2%	+1.3%

Based on the cost of service recommendations, not all customers will see the same increase or decrease in rates. A typical residential metered customer will see a slight decrease to the overall monthly bill compared to 2019. However, because the impact for each customer class does vary, multi-family and business customer bills will see a moderate increase to the overall monthly bill. These impacts are detailed in the report.

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ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommends that Council:

1. Approve the 2020 indicative rates for Water, Wastewater, and Stormwater lines of service shown in Table 2;
2. Direct Administration to prepare related amending bylaws reflecting the indicative rates shown in Table 2, and that they be forwarded to the November budget adjustments; and
3. Direct Administration to report back to Priorities and Finance Committee with indicative rates for 2021 and 2022 prior to the November 2020 Mid Cycle Adjustments.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2019 NOVEMBER 5:

That Council:

1. Approve the 2020 indicative rates for Water, Wastewater, and Stormwater lines of service shown in Table 2; and
2. **Direct Administration to report back to Priorities and Finance Committee with indicative rates for 2021 and 2022 prior to the November 2020 Mid Cycle Adjustments.**

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 November 24, Council Approved (C2018-1158) Attachment 3, the specific indicative rate increases of 0.3 per cent, 5.1 per cent, and 2.5 per cent for Water, Wastewater, and Stormwater, respectively. Additional, historical direction is provided in Attachment 1.

BACKGROUND

Under One Calgary, The City of Calgary (The City) is committed to Calgary's economic recovery through effective and efficient service delivery, while continuing to look for efficiencies to streamline the cost of municipal government. With increasing capital investment required to maintain highly reliable water and wastewater systems, meet regulatory requirements, and be resilient to environmental and economic changes, it is vital the Water Utility focus on continuous improvements and implementation of the zero-based review recommendations to keep rates low for customers.

The Water Utility delivers services through a public utility model, where all revenue requirements are recovered through user rates, levies, and other utility fees. In the development of the 2019-2022 indicative rates, the Water Utility considered drivers and priorities related to operating and capital expenditures, customer expectations, and requirements to meet financial plan compliance to improve financial sustainability. The Water Utility continues to experience pressure on the rates to meet increasingly stringent regulations, provide high quality service, support the needs of a growing city, and maintain critical assets and infrastructure. Revised land

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development forecasts and lower than anticipated urban development have also resulted in greater off-site levy revenue shortfalls. These shortfalls place an upward pressure on utility rates.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In response to Calgary's current economic conditions, Administration has undertaken a review of options in each line of service to reduce annual rate increases for 2020. Each line of service is uniquely impacted by the current economic environment and challenges in meeting land development forecasts. A more detailed summary is included as Attachment 2.

Stakeholder Engagement, Research and Communication

Water Treatment and Supply

Reliable water service provides the foundation to a healthy and green city. As Calgary's population continues to grow, so does the demand on the rivers. With a finite supply of water, the Water line of service must operate wisely, considering future water supply and demand. Due to water conservation measures embraced by Calgarians, the line of service has been able to delay investments in treatment capacity and defer costly plant upgrades. The Water line of service continues to face short term revenue pressures as a result of conservation efforts and lower per capita residential consumption. In response, the Water line of service has identified effective cost reducing methods through proactively relinquishing and deferring capital investments, continuous innovation, and efficiency opportunities. These actions have resulted in the ability to keep rates low for customers.

The Water line of service is in a good financial position with lower requirements for capital expenditures and a favourable variance to the operating budget due to efficiencies and fleet optimization. Debt is declining and the capital program is moderating, resulting in decreasing interest expenses. The Water line of service can absorb inflationary pressures and adverse fluctuations in off-site levies for growth related costs. For these reasons, the Water line of service can accommodate the recommended 0.5 per cent reduction in rates for 2020, a 0.8 per cent reduction to the One Calgary approved 2020 rate. Furthermore, this reduction does not impact service levels. A reduction in the Water line of service will result in a \$1.68 savings per month to the water portion of the residential customers' typical monthly utility bill compared to 2019. This will help to offset the increases realized in the other two lines of services.

Wastewater Collection and Treatment

Calgary is a large, growing city located on two small rivers. To maintain the health of the rivers, ongoing investment is required to meet regulatory requirements. As the city grows, the demand for treatment processes will continue to increase. The Wastewater line of service is focused on finding efficiencies and process improvements within the plants, to offset the additional operational and maintenance costs that a growing infrastructure base requires.

Despite the off-site levy revenue shortfall, the Wastewater line of service must continue to deliver on capital spending commitments in anticipation of an economic recovery and natural population growth. Over the next few years, a continued priority for this line of service is the

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significant upgrades at Bonnybrook Wastewater Treatment Plant to address wastewater demands and regulations that will serve future generations of Calgarians. As a result of these financial pressures, the Wastewater line of service cannot maintain the One Calgary approved service line rate increase of 5.1 per cent in 2020. To maintain wastewater rates at affordable levels, the Wastewater line of service has implemented reductions in several areas including capital maintenance, salary and wage, consulting, and research. These reductions result in increased risk of sanitary sewer backups in homes and businesses, and will be monitored closely by Administration. Persistent shortfalls in levies for growth related costs leave the Wastewater line of service requiring a 6.7 per cent rate increase, 1.6 per cent higher than what was approved in One Calgary. This will result in a \$1.30 increase on a typical residential metered customer's monthly bill compared to 2019.

Stormwater Management

A healthy, resilient watershed provides clean, reliable water resources, and is vital to ensure that property is protected from flooding and rivers remain healthy. Efforts to improve flood resiliency and reduce local stormwater flooding are ongoing through a variety of infrastructure programs to address the pressure on Calgary's rivers from growth.

Climate change will alter how and when Calgary's watershed receives precipitation, affecting both water quantity and quality. To balance the social, environmental, and economic pressures, this line of service continues to support delivery of the Community Drainage Improvements program to increase flood resiliency in targeted communities and focus on the Council-approved Flood Resilience Plan (PFC2017-0462). With the recent changes to the provincial Alberta Community Resilience Program (ACRP), the ability of the Stormwater line of service to deliver the current capital investment plan will be significantly impacted. An additional review and reprioritization of the capital investment plan is required to determine a response to the reduced funding. Despite these pressures and lower than anticipated urban development in benefiting areas, a reduced rate increase is recommended for the Stormwater line of service. Due to realized efficiencies and less requirement for capital expenditures, Administration is recommending a 1.3 per cent increase to the Stormwater rate. The proposed 2020 rate is 1.2 per cent lower than the One Calgary approved rate, and will result in an approximate \$0.20 increase compared to 2019 on all monthly bills.

Table 2: 2020 indicative rates for the Water, Wastewater, and Stormwater lines of service

Line of Service	Recommended Revised 2020 Rates
Water Treatment and Supply	-0.5%
Wastewater Collection and Treatment	+6.7%

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Stormwater Management	+1.3%
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Impact on Customer Classes

Based on cost of service study recommendations, Council directed Administration to close the gap for each customer class to varying degrees, with 100 per cent cost of service recovery for multi-family customers. As a result, customer classes will be impacted differently and not all customer classes will see the same decrease or increase in utility rates. Overall the utility rate revenue will change according to the revised recommended rates indicated above. As shown in Table 3, a typical residential metered customer will see an overall decrease of \$0.18 to the monthly bill compared to 2019. This is based on 19m3/month water consumption per month.

Table 3: Approximate Impact on typical residential monthly utility bill based on 19m3/month water consumption

Line of Service	2019 Monthly Bill	2020 Incremental Change	2020 Monthly Bill
Water Treatment and Supply	\$45.75	-\$1.68	\$44.07
Wastewater Collection and Treatment	\$54.43	\$1.30	\$55.73
Stormwater Management	\$15.43	\$0.20	\$15.63
Total	\$115.61	-\$0.18	\$115.43

As the impact for each customer class varies, multi-family and business customers will see an overall increase to bills, based on a representative amount of consumption per month. Specifically, the overall increases will be 2.6 per cent, 2.7 per cent, and 3.5 per cent for multi-family customers using around 600 m3/month, general service regular customers using around 400 m3/month, and general service large customers using around 10,500 m3/ month, respectively.

Stakeholder Engagement, Research and Communication

The Water Utility is committed to delivering quality water, wastewater and stormwater services for customers. In revising the 2020 rates, the Water Utility considered the current economic climate and identified efficiencies to minimize impact on customers' monthly bills. Based on the 2018 Citizen's Perspective Survey 94 per cent of citizens are satisfied with the quality of water and 91 per cent of citizens are satisfied with the reliability of service. Each year, the Water Utility communicates changes to customers' rates. Various tactics are used, including updating calgary.ca, providing information on the bill, and responding to customers questions when they contact The City or our contracted customer care and billing provider.

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Strategic Alignment

The Water Utility is committed to One Calgary's effort to support Calgary's economic recovery. The proposed utility rates align with the commitment to provide affordable services, while maintaining the financial capacity to deliver on Council Priorities. Furthermore, the proposed utility rates align with The City's 2020 Sustainability Direction, which ensures sufficient funding to support a growing city and maintain river health.

Social, Environmental, Economic (External)

Current economic challenges have affected the Calgary community. With reduced rate increases for 2020 in Water and Stormwater, the Water Utility can still ensure The City's social, environmental, and economic goals are delivered under sound and sustainable financial policies, while maintaining affordable services and reducing the magnitude of bill increases for Calgarians.

Financial Capacity

Current and Future Operating and Capital Budget:

The net zero budget adjustments to be presented to Council in 2019 November will include an overall reduction of \$29.1 million in rate and off-site levy revenue offset by operating expenditure reductions. Operating includes capital charges such as principal, interest, and depreciation. To ensure the overall capital budget is maintained within the approved rates, the Water Utility relinquished \$12.6 million and \$20.6 million in 2019 and 2020, respectively, across the three lines of service. The proposed indicative rates support financial sustainability and compliance with the Council approved 2019-2022 financial plans for the Water, Wastewater, and Stormwater lines of service.

Risk Assessment

Forecasted off-site levy revenue is uncertain due to current economic conditions. With lower than anticipated urban development in 2019, off-site levy shortfalls are increasing. Off-site levy revenues are intended to fund 100 per cent of the developers' share of utility costs attributable to new growth. The off-site levy revenue shortfall the Water Utility is experiencing is temporary until urban development occurs. However, if urban development does not occur, there will be a permanent subsidy of growth by utility rate payers and future rates will be impacted. The proposed indicative rates incorporate the projected shortfall and thus mitigate some risk of off-site levy revenue not materializing.

The recent reduction to the 2020-2024 ACRP funding puts significant risk on the Stormwater line of service. Specifically, the ability to fully deliver on the Council-Approved Flood Resilience Plan. Early information has identified a potential shortfall of \$81 million in capital funding. To address the change in capital funding, this shortfall must be absorbed by utility rate increases, capital budget reductions or through exploration of other funding options. Administration's recommendations at Mid-Cycle Adjustments will incorporate the impacts of the provincial funding changes.

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REASON(S) FOR RECOMMENDATION(S):

In response to the challenging economic conditions felt by the Calgary community, Administration has investigated options to reduce the One Calgary approved 2020 utility rate increases. The proposed indicative rates will leverage efficiencies, capital savings, and service reductions, while maintaining the capital investment required to support the needs of a growing city. Each line of service is uniquely impacted by the multi-year slowdown in urban development and the associated off-site levy revenue shortfall. Reductions to utility rate increases were identified for Water and Stormwater. The need for a continued large capital program to position the Wastewater line of service for the future, requires a further increase to the Wastewater utility rate in 2020. As the proposed rate adjustments refer to 2020 only, Administration will report back with 2021 and 2022 rates at Mid Cycle Adjustments.

ATTACHMENT(S)

1. Attachment 1 – Previous Council Direction for Revised 2020 Water Utility Indicative Rates
2. Attachment 2 – Revised Indicative Rates for 2020: Water, Wastewater, and Stormwater Lines of Service