

## Water Utility Rates – Revised for 2021 and 2022 and Financial Plan Update

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### RECOMMENDATION(S):

That the Priorities and Finance Committee recommends that Council:

1. Approve the 2021 and 2022 rate changes shown in Table 1 which are reductions from the One Calgary approved rate changes for Water, Wastewater and Stormwater;
2. Direct Administration to prepare amending bylaws reflecting the rate changes shown in Table 1, and that they be forwarded to the Special Council Meeting on Adjustments to the One Calgary Service Plans and Budgets;
3. Approve the revised financial plan policies, measures, and targets for the Water, Wastewater, and Stormwater lines of service shown in Attachment 2;
4. Direct Administration to examine potential corporate funding and financing sources to reduce the impact of Off-site Levy shortfalls on Water Utility rates and report back with the 2021 Off-site Levy bylaw review; and
5. Direct Administration to report back on rates and limits for Wastewater extra strength surcharge parameters by Q2 2022.

### HIGHLIGHTS

- The Water Utility presents the above recommendations based on the City of Calgary's (The City's) commitment to supporting Calgarians by providing essential services while maintaining current levels of service at affordable rates.
- What does this mean to Calgarians? Protecting public health by providing clean and safe drinking water at a reasonable and affordable cost continues to be The Water Utility's most important priority.
- Why does this matter? In the midst of an economic downturn and the impact of the Covid pandemic, the Water Utility is working to provide affordable and sustainable, high quality services, while meeting the cost pressures to meet regulations, support the needs of a growing population, and maintain critical assets and infrastructure.
- Revised land development forecasts and lower than anticipated urban development have also resulted in less off-site levy revenue than expected. In the absence of an alternate funding source, this lower revenue puts pressure on utility rates to meet obligations for growth related investments.
- The Water Utility has reviewed its financial policies and proposes a revised financial plan that includes:
  - eliminating the franchise fee policy in conjunction with updating the calculation for the return on equity (formerly referred to as dividend); and
  - revising the minimum associated with debt service coverage.
- Administration proposes a reduction to the One Calgary approved Water, Wastewater, and Stormwater rate increases of 0.3 per cent, 5.1 per cent, and 2.5 per cent to -1.0 per cent, 4.5 percent, and 0 per cent respectively for 2021 and 2022.
- Strategic Alignment to Council's Citizen Priorities: **A healthy and green city and A well-run city.**
- On 2019 November 29, Council directed Administration to report back with indicative rates for 2021 and 2022 prior to the November 2020 Mid-Cycle Adjustments (PFC2019-1402). Additional historical direction is provided in Attachment 1.

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### **DISCUSSION**

#### **Update Financial Plans**

The Water Utility's financial plan and policies were first established in 2011 to ensure financial capacity and sustainability to meet the challenges of maintaining service while meeting regulations and responding to growth.

Due to ongoing pressures on utility rates, continued focus on financial sustainability, a commitment to community support in the current economic conditions and aligning with utility industry best practice, Administration has reviewed the current policies, measures and targets with recommended changes outlined in Attachment 2. Removal of the franchise fee policy and updating the calculation for the return on equity (formerly referred to as dividend), as well as revising the minimum target for the debt service coverage are proposed. The rate changes were determined in consideration of these recommended changes.

#### **Revised Water Utility Rates for 2021 and 2022**

The Water Utility continues to advance operational efficiencies and capital program savings while maintaining the capital investment needed to support regulatory performance and the needs of a growing city. These efforts are reflected in each line of the water-related services, with each uniquely impacted by regulatory requirements, changes to financial policies, and the multi-year slowdown in urban development and the associated delay in off-site levy revenue. The ongoing global pandemic crisis has impacted the Calgary community, adding to the prolonged economic uncertainty and delays in land development.

Off-site levy revenues are intended to fund 100 per cent of the developers' share of utility costs attributable to new growth. Revenues vary based on hectares of land development as well as timing of capital investment to support growth. In periods where actual land development, or the projected pace of future land development, is lower than the growth assumption in the off-site levy rates, a temporary financial shortfall occurs. This means that The City does not have enough revenue from levies to cover principal and interest payments.

The Water Utility is experiencing an off-site levy shortfall for the fifth consecutive year, totalling \$77 million since 2016. Based on the revised 2020 October land forecast, the off-site levy shortfall will persist, totalling \$118 million by the end of 2022. In the absence of an alternate funding source, this lower revenue puts pressure on utility rates to meet obligations for growth related investments. Work is underway to revise the off-site levy bylaw, which could assist in mitigating this financial challenge.

Lower rate increases in 2021 and 2022 put pressure on future rate increases. In presenting the revised rate adjustments for 2021 and 2022, The Water Utility aims to maintain rate stability and predictability within this budget cycle and into the 2023 to 2026 cycle.

More details are provided in Attachments 3, 4 and 5.

#### **Water Treatment and Supply**

Safe and reliable drinking water provides the foundation to a healthy and green city. With a finite supply of water and climate change impacts, consideration must be given to future water supply and demand. Due to water conservation measures embraced by Calgarians, this line of service

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has been able to safely delay investments in treatment capacity and defer costly plant upgrades, while being able to provide for a growing population.

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 Utility has identified effective cost reducing methods for this line of service by proactively relinquishing and deferring capital investments, continuous innovation, and efficiency opportunities. These actions have resulted in the ability to keep rates low and continue to keep water safe and reliable for customers.

### 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's population grows and wastewater strength increases, the need for sufficient and effective treatment processes will continue to increase. The Wastewater line of service is focused on finding efficiencies and process improvements, to offset the additional operational and maintenance costs that a growing infrastructure base requires. The Wastewater line of service must continue to deliver on capital spending commitments in anticipation of an economic recovery and population growth.

The Wastewater rate increase will allow alignment with The City's 2020 Sustainability Direction, which ensures sufficient funding to support a growing city and maintain river health.

### Stormwater Management

A healthy, resilient watershed provides clean, reliable water resources, and is vital to support the protection of property from flooding and the health of rivers. 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 and a changing climate. The timing of capital projects to improve community drainage in older communities was adjusted in response to the Province's early termination of the Alberta Community Resilience Program and to ensure river flood mitigation work will continue to progress.

**Table 1: 2021 and 2022 Water Utility rate changes**

Line of Service	One Calgary Approved 2021 & 2022	Proposed Change	Recommended Revised 2021 & 2022 Rates
Water Treatment and Supply	+0.3%	-1.3%	-1.0%
Wastewater Collection and Treatment	+5.1%	-0.6%	+4.5%
Stormwater Management	+2.5%	-2.5%	0.0%

### Impact to Customer Classes

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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 2, a typical residential metered customer will see an overall decrease of \$3.58 to their monthly bill by 2022 when compared to 2020. This is based on 19m<sup>3</sup> water consumption per month.

**Table 2: Approximate Impact on typical residential monthly utility bill based on 19m<sup>3</sup>/month water consumption**

Line of Service	2020 monthly bill	2021 incremental change	2021 monthly bill	2022 incremental change	2022 monthly bill
Water Treatment and Supply	\$44.07	(\$1.65)	\$42.42	(\$1.34)	\$41.08
Wastewater Collection and Treatment	\$55.73	(\$0.94)	\$54.79	\$0.35	\$55.14
Stormwater Management	\$15.63	\$0.00	\$15.63	\$0.00	\$15.63
<b>Total</b>	<b>\$115.43</b>	<b>(\$2.59)</b>	<b>\$112.84</b>	<b>(\$0.99)</b>	<b>\$111.85</b>

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 by 2022 compared to 2020 will be 2.6 per cent, 2.9 per cent, and 4.3 per cent for multi-family customers using around 600 m<sup>3</sup>/month (based on 30 units), general service regular customers using around 400 m<sup>3</sup>/month, and general service large customers using around 10,500 m<sup>3</sup>/month.

**Table 3: Approximate Impact on typical monthly total utility bill**

Customer Class	2020 monthly bill	2021 incremental change	2021 monthly bill	2022 incremental change	2022 monthly bill
Multi Family Metered	\$2,113.49	\$12.24	\$2,125.73	\$42.63	\$2,168.36
Per Multi Family unit	\$70.45	\$0.41	\$70.86	\$1.42	\$72.28
General Service Regular	\$1,328.58	\$9.66	\$1,338.24	\$28.40	\$1,366.64
General Service Large	\$32,031.67	\$455.07	\$32,486.74	\$915.99	\$33,402.73

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### **Wastewater Extra Strength Customers and Parameters**

The Water Utility continues to work with customers that discharge extra strength wastewater. Six surcharge pollutants are defined in the Wastewater Bylaw, with concentration limits set for each pollutant. Industrial, commercial and institutional customers are assessed a surcharge fee for wastewater that exceeds these concentration limits, based on the extra cost to treat extra strength wastewater. Two of these pollutants – Total Kjeldahl Nitrogen (TKN) and Total Phosphorous (TP) – have discharge concentration limits in the Wastewater Bylaw, but do not factor into the surcharge calculation. A significant effort is underway to confirm the extra strength parameters and the methodology for the calculation of the surcharge fee.

In 2018, Council directed Administration to report back on rates and limits for Wastewater extra strength surcharge parameters no later than 2020 November (Attachment 1). The wastewater surcharge parameters, rates and limits will remain unchanged through the current budget cycle. The Water Utility will continue to engage extra strength wastewater customers to (1) understand the impacts of surcharge fees, (2) explore innovative options to treat extra strength wastewater, and (3) investigate alternative surcharge formula. Customers impacted by this initiative will be engaged through the development of a new surcharge framework prior to this being brought before Council in 2022.

### **STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)**

Public Communication or Engagement was not required

The Water Utility is committed to delivering quality water, wastewater, and stormwater services for customers. In revising the 2021 and 2022 utility rates, The Water Utility considered the current economic climate and identified efficiencies to minimize impact on customers' monthly bills.

Each year, The City communicates changes to customers' rates through various communications platforms including updates to 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.

### **IMPLICATIONS**

#### **Social, Environmental, and Economic Implications**

With the proposed reduction in rate increases for 2021 and 2022, The Water Utility continues to ensure The City's social, environmental, and economic goals are delivered under sound and sustainable financial policies, while maintaining safe, affordable services and reducing the magnitude of bill increases for Calgarians.

#### **Service and Financial Implications**

The net zero budget adjustments that will be presented to Council in 2020 November will include an overall reduction in rate revenue and off-site levy revenue (\$43 million in 2021 and \$73 million in 2022) offset by operating expenditure reductions. Operating expenditures include capital charges such as principal, interest and depreciation. To ensure the overall capital budget

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is maintained within the approved rates, The Water Utility will relinquish \$23 million in 2021 and defer \$103 million from 2021 and 2022 to the next budget cycle across the three lines of service. The recommended Water Utility rates support financial sustainability and compliance with the revised financial plans recommendations.

### **RISK**

Forecasted off-site levy revenue is uncertain due to current economic conditions. The off-site levy revenue shortfall The Water Utility is experiencing is considered temporary until urban development occurs and levies are paid. The proposed rates incorporate the projected shortfall and thus mitigate some risk of off-site levy revenue not materializing. The off-site levy bylaw is currently being reviewed and that outcome may also have an impact on off-site levy revenue. Additionally, Water Utility rate change driven by off-site levy shortfalls may be mitigated if work is undertaken to examine potential corporate funding and financing sources and back with the 2021 Off-site Levy bylaw review.

Timely delivery of the systems and required capacity is needed to accommodate population growth and development, as well as meet regulatory requirements.

Rate changes, especially in the wastewater line of service, are needed to achieve compliance with the financial plan including the debt service coverage ratio and building the sustainment reserve balance.

### **ATTACHMENT(S)**

1. Attach 1 – Previous Council Direction, Background – PFC2020-1140
2. Attach 2 – Updates to Financial Policies and Targets – PFC2020-1140
3. Attach 3 – Water Line of Service – PFC2020-1140
4. Attach 4 – Wastewater Line of Service – PFC2020-1140
5. Attach 5 – Stormwater Line of Service – PFC2020-1140

### Department Circulation

General Manager	Department	Approve/Consult/Inform
Dan Limacher	Utilities and Environmental Protection	Approve
Carla Male	Chief Financial Officer	Consult
Stuart Dalgleish	Planning and Development	Consult
Jill Floen	City Solicitor	Consult