

## 2015-2018 INDICATIVE DRAINAGE CHARGE

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### EXECUTIVE SUMMARY

*Most of the material presented in this report and attachments was already presented at the 2014 March 17 Special Meeting of Council. It is repeated here for completeness, to provide background and rationale for the recommendations in this report.*

As part of the development of the 2015-2018 Action Plan, the Utilities have developed the recommended 2015-2018 indicative Drainage charge. The recommended indicative Drainage charge will allow the Utilities to address the new pressures facing the Drainage line of service with a financially sustainable approach.

Administration developed two indicative Drainage charge scenarios for consideration. Scenario 1 is based on the following recommended levels of service: Accelerated Delivery for financial policy and target compliance and the Meets Requirements and Standards level of service for the four remaining program elements: regulatory and environmental protection, maintaining assets, community drainage improvements, and flood recovery and resiliency. In response to Council direction at the 2014 March 17 Strategic Meeting, Scenario 2 includes the addition of accelerated programs under the regulatory and environmental protection and the maintaining assets program elements.

### ADMINISTRATION RECOMMENDATION(S)

That Council:

1. Direct Administration to prepare the 2015-2018 Action Plan based on:
  - a. The recommended indicative Drainage charge in Attachment 2, Table 1
  - b. The inclusion of the accelerated scenario and the incremental increase which results in the indicative Drainage charge shown in Attachment 2, Table 2.
  - c. An implementation plan for the results of the cost of service study
2. Direct Administration to incorporate a cost of service study and a review of the Drainage Financial Plan, including program areas for potential acceleration in 2019-2022, into the 2015-2018 Action Plan;
3. Direct Administration to report back no later than 2016 June with an update on the Drainage Financial Plan progress; and
4. Direct that this report is kept confidential until rise and report; and that the in camera presentations and discussions remain confidential under Sections 23(1)(b), 24(1)(a) and (b) of the *Freedom of Information and Protection of Privacy Act* or until directed otherwise.

### PREVIOUS COUNCIL DIRECTION / POLICY

At its 2014 February 26 meeting, SPC on UCS received the Drainage Financial Plan 2015-2018 (UCS2014-0022) for information and forwarded it to the 2014 March 17 Strategic Session of Council.

At the 2014 March 17 Strategic Session, Council adopted Report C2014-0229 (2015-2018 Drainage Fee Scenarios) and directed Administration to:

1. Develop Drainage indicative charges for the 2015-2018 Action Plan based on the recommended financial targets (accelerated delivery) and level of service (meets requirements & standards) for each of the following program elements:

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- a. Regulatory and Environmental Protection;
  - b. Maintaining Assets;
  - c. Community Drainage Improvements; and
  - d. Flood Recovery and Resiliency; and;
2. Provide scenarios for acceleration for some urgent activities based on capacity.

### BACKGROUND

In 2014 February, the Utilities developed the Drainage Financial Plan to set targets and increase the financial sustainability of the Drainage line of service and ensure its ability to remain a self funded operation.

At the 2014 March 17 Strategic Session of Council, Administration was directed to develop the indicative Drainage charges for the 2015-2018 Action Plan based on the following financial targets that were outlined in the Drainage Financial Plan:

Table1: Financial Targets:

Policy Area	Target
Debt vs. Cash Financing	100% cash financing of capital maintenance
Debt Limit	\$300 million
Debt Servicing Limit	40% of revenues
Sustainment Reserve	10% of revenues

Stormwater management services provided by the Drainage line of service have evolved significantly over the last two decades. There is better understanding of the impacts of both the volume and quality of stormwater runoff on receiving streams and rivers and new technologies and techniques have been developed to mitigate these impacts. Regulations and standards have also changed to reflect both the improved knowledge and new technologies.

Demand for new Drainage services is growing in response to population growth, increased environmental objectives and the recent 2013 flood event. As a result, the capital and operating pressures facing the Drainage line of service have been reviewed. The capital and operating budget requirements to address these pressures were summarized in a service level matrix (Attachment 1, Figure 1).

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### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Based on the direction received from Council at the 2014 March 17 Strategic Session, Administration has developed two scenarios for the 2015-2018 indicative Drainage charge for consideration. The selected service levels and the associated fee impacts are shown in Attachment 1, Figure 2.

Scenario 1 is based on the Accelerated Delivery for the financial policy and target compliance and the Meets Requirements and Standards level of service for the four remaining program elements. For Scenario 2, Administration has identified a Revised Accelerated level of service that includes the acceleration of specific programs under the regulatory and environmental protection and the maintaining assets program areas. The Revised Accelerated level of service includes additional research focused on low impact development (LID), source control features, and lifecycle costing practices, increased riparian area maintenance, education and outreach, and the installation of additional sediment capture devices.

The proposed indicative Drainage charge for 2015-2018 will allow the Utilities to bring the Drainage line of service up to the minimum requirements and provide a phased in approach of industry standards and best practices. The accelerated timeline to achieve financial compliance will ensure that the Drainage line of service can remain a self-funded activity as it continues to evolve.

The Utilities are undertaking a cost of service study for Drainage in parallel with the cost of service study for the Water and Wastewater Utilities. One of the outcomes of the study is a review of customer classes and the equitable allocation of costs. For Drainage, there is currently only one customer class because the same flat rate fee applies to all customers. The study will look at the potential of moving towards rate structures based on lot/parcel size or impervious surface area.

The current cost of service study may result in recommendations to change the single customer class and rate structure. A new study in 2015-2018 may include the development of a phased-in approach to implement any recommended changes to the customer classes and the rate structure through 2019-2022. Administration recommends that a new cost of service study and a review of progress made in each of the five program elements, including the identification of any program areas that should be further accelerated in 2019-2022, be incorporated into the 2015-2018 Action Plan.

### **Stakeholder Engagement, Research and Communication**

Water Resources has established a policy review team that reports regularly to a steering committee of operational, financial and strategic staff. The team accesses expertise across business units, as well as independent financial consultants.

Benchmarking data was also reviewed to compare how other municipalities across Canada charge for Drainage services.

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Internal stakeholders were engaged in the review of capital and operating needs and in the preparation of the Drainage financial targets. Finance is a vital partner in the financial operations of the Drainage line of service.

### Strategic Alignment

The establishment of the Drainage Financial Plan is a key step in realizing the MDP objective of “ensuring that [The City] has the long-term financial capability to support the city being created” (MDP, p. 2-7). The Riverbasin and Watershed Management Workplan aligns with Council's long range strategic policies such as the draft Calgary Metropolitan Plan, the Municipal Development Plan (MDP) and the Calgary Transportation Plan. These plans address the need for watershed stewardship and regional collaboration.

Utilities & Environmental Protection's 2012-2014 business plan and budget outlines actions to implement a plan to ensure the financial sustainability of the lines of service provided by the Utilities. Financial policies paired with targets are required to frame and guide this financial plan.

The Drainage Financial Plan and the targets established provide the foundation to align the finances of Drainage with the financial strategies, goals and strategic areas defined in The City of Calgary Long Range Financial Plan (2011).

### Social, Environmental, Economic (External)

The Drainage activities provide fundamental services to the community and the larger watershed. The Drainage financial policies and targets will ensure that the social, environmental and economic goals of Drainage are delivered under sound and sustainable financial practices.

### Financial Capacity

#### Current and Future Operating Budget:

The drainage fee impacts of the operating requirements for each of the program elements have been incorporated into the two indicative Drainage charge scenarios.

#### Current and Future Capital Budget:

The drainage fee impacts of the capital requirements for each of the program elements have been incorporated into the two indicative Drainage charge scenarios.

### Risk Assessment

The recommended indicative Drainage charge will allow the Utilities to continue to comply with regulations, bring the Drainage asset management practices in line with industry standards and to align with the water and wastewater Utilities while achieving financial compliance over one budget cycle. In addition, the recommended scenario allows the Utilities to accelerate important research that will help to inform and adjust long range investment and maintenance plans.

The City's Wastewater Approval to Operate is up for renewal in 2018. There is a risk that the total sediment loadings target could become more stringent. To address this risk, the

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recommended level of service is based on the current stormwater management strategy and includes a combination of major and local stormwater quality projects.

With recommendations from the River Flood Mitigation Panel expected in June, it is likely that the recommendations will impact the Drainage budgets. The Utilities will be working closely with the Panel and the Province to explore other funding options.

As the new levels of service are implemented for each of the program elements, there is a risk that the Utilities will not be able to deliver on the increased programs immediately in 2015. To mitigate this risk, the Utilities have assessed their ability to deliver the proposed WIIP which includes Drainage and has developed a strategy to address the factors that impact the delivery of a capital program. In addition, the Utilities are working to develop a phased in approach for each of the program elements and will review resource needs.

As the Drainage asset management practices evolve, the Utilities will increase their knowledge of the asset conditions. There is a risk that the actual condition of the Drainage assets may require more aggressive replacement or rehabilitation programs than currently planned.

The Utilities will also review the progress made in each of the five program elements and will recommend adjustments as required. This includes identifying any program areas that should be further accelerated for the 2019-2022 budget cycle.

### **REASON(S) FOR RECOMMENDATION(S):**

The Drainage Financial Plan includes the establishment of financial targets and identifies new capital and operating budget requirements. The Utilities have reviewed the drainage fee impacts of those capital and operating budget requirements. The proposed indicative Drainage charge will allow the Utilities to address the new pressures facing the Drainage line of service with a financially sustainable approach.

### **ATTACHMENT(S)**

1. 2015-2018 Indicative Drainage Charge
2. Proposed 2015-2018 Indicative Drainage Charge