

DRAINAGE FINANCIAL PLAN 2015-2018

EXECUTIVE SUMMARY

This report concludes the series of reports in the overall Riverbasin and Watershed Management Workplan. The objective of the workplan was to develop a Drainage financial plan that in conjunction with the cost of service study that is underway would inform the Utilities 2015-2018 business plan and budget. Drainage is a self funded activity within the Utilities and all expenses, including capital, are recovered through user fees, levies, and sources other than the municipal tax base.

In 2013, Council approved Drainage financial policies to strengthen the operational management of Drainage and to secure its long term financial outlook. A Drainage Financial Plan that integrates financial targets with the approved Drainage financial policies has been developed. The establishment of financial targets will allow Water Resources and Water Services to monitor progress towards long term goals and provide the flexibility to respond to changing circumstances.

The development of the Drainage Financial Plan included an analysis of the long term capital and operating pressures facing the Drainage line of service. From the analysis, both capital and operating budget needs were identified under programs for water quality improvements, community drainage improvements, flood protection and lifecycle infrastructure and maintenance. The results have been summarized in a service level matrix. The matrix will be used to evaluate the investment requirements for the various service level options.

The next step will be to evaluate the fee impacts of different timeline scenarios for compliance to the financial policies and targets in the context of the service level options.

ADMINISTRATION RECOMMENDATION(S)

That the SPC on Utilities and Corporate Services:

1. Receive this report for information;
2. Refer this report to the 2014 March 17 Special Strategic Planning Meeting of Council and;
3. Direct Administration to report back to Council at the 2014 March 17 Special Strategic Planning Meeting with the Drainage fee impacts of the different timeline scenarios for compliance to the financial policies and targets in the context of the service level options presented in Attachment 2, Figure 3.

RECOMMENDATION OF THE SPC ON UTILITIES AND CORPORATE SERVICES, DATED 2014 FEBRUARY 26:

That Council receive Corrected Report UCS2014-0022 for information.

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Excerpt from the Minutes of the Regular Meeting of the SPC on Utilities and Corporate Services, Dated 2014 February 26:

"CLERICAL CORRECTION

At the request of Administration, a clerical correction was noted to Report UCS2014-0022, on page 4 of 6, in the Table, *Target* column, by adding the word "maintenance", following the words "100% cash financing of capital".

PREVIOUS COUNCIL DIRECTION / POLICY

At its 2011 June 28 meeting, Council adopted Report C2011-66 (Utilities Financial Plan and Indicative Rates), which included direction for Administration to incorporate a cost of service study for Drainage and preparation of a long term financial plan and policies for Drainage in the 2012-2014 business plan.

On 2012 June 27, the SPC on Utilities and Corporate Services received the Riverbasin and Watershed Management Workplan for information (UCS2012-0229).

On 2012 September 19, the SPC on Utilities and Corporate Services received the Drainage Financial Plan - Challenges and Opportunities report for information (UCS2012-0470).

On 2013 April 22, Council adopted Report UCS2013-0044 (Drainage Financial Plan), which included financial policies specific to the Drainage line of service.

On 2013 July 24, the SPC on Utilities and Corporate Services received the Drainage Operation and Maintenance (UCS2013-0070), Community Drainage Improvements Priorities (UCS2013-0047), and the Riparian Strategy (UCS2013-0048) reports for information.

BACKGROUND

The Utilities & Environmental Protection 2012-2014 Business Plan and Budget includes strategies and actions to protect the watershed and advance stormwater management. This report concludes a series of reports in the Riverbasin and Watershed Management Workplan (Attachment 1) and results in a Drainage Financial Plan (Attachment 2).

The Drainage Financial Plan in combination with the Water Infrastructure Investment Plan and the Cost of Services Studies that are underway will inform the Utilities' business plan and budget for 2015 to 2018.

Drainage services have been delivered as a self funded activity by The City of Calgary since 2004. All operating and capital expenditures are recovered through user fees, levies, and sources other than the municipal tax base. In 2006, a single flat rate drainage fee was introduced for all customer classes to fund both capital and operating budget needs. As part of the current Cost of Service Study underway for Drainage, a review of customer classes and the fee structure for the next budget cycle will be reviewed.

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Annually, the Drainage line of service generates \$39.8 million of revenue from the current flat rate fee. Of this, \$23.5 million is directed toward operating expenditures. The remaining drainage fee revenue of \$16.3 million supports a \$30 million capital program through a combination of cash and debt financing.

In addition to the fee revenue, Drainage also collects acreage assessments to cover the full capital costs of growth projects. The acreage assessments are collected and used to pay for growth projects in the next year.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Capital and Operating Pressures

The demand for new drainage services is growing in response to population growth, environmental objectives and the recent June 2013 flood event. As part of the development of an overarching Drainage Financial Plan, an analysis was undertaken of the long term capital and operating pressures facing the Drainage line of service. The pressures facing the Drainage line of service are summarized in Attachment 2. The review of the capital and operating budgets needs for the Drainage line of service have been incorporated into a service level matrix (Attachment 2, Figure 3). The service level matrix evaluates current operational and capital needs, the needs identified for the next budget cycle and defines an enhanced level of service.

The level of service proposed for the next budget cycle includes additional investments in the community drainage improvements (CDI) program, riparian areas, flood protection and control, and operation and maintenance. The additional investments allow for the CDI program to be delivered over a 16 year horizon compared to the current outlook of 25 years. Additional investments in riparian areas will allow for the implementation of the riparian strategy and ongoing condition assessments. The increase in operation and maintenance budget will allow for one pond cleaning per year, operating budget to address the accumulated sediment and research to inform and refine operational and maintenance practices.

The enhanced level of service considers the budget needs to accelerate the delivery of specific programs such as CDI, riparian strategy implementation, pond cleanings and the new condition assessment and main replacement programs. Recommendations from the River Flood Mitigation Panel expected this spring will be considered through the level of service matrix.

Financial Targets:

Financial targets and policies are needed to strengthen the operational management of Drainage and secure its long term financial outlook.

The capital and operating needs over the next ten years were considered in developing the financial targets in Attachment 2. The targets for Drainage align with those for the water and wastewater Utilities and were established in context of The City of Calgary's Long Range Financial Plan (2011).

Financial targets have been established under the following financial policies:

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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

The financial targets paired with the financial policies already in place will allow Water Resources to measure progress towards the long-term financial goals of the Drainage line of service.

Timelines for implementation of financial targets:

The financial policies previously approved focused on several aspects of finance: capital financing and debt management, revenue stability and sufficiency, and the management of expenditures.

Three different timeline scenarios for compliance with the new financial targets are being evaluated. A review of the fee impacts of different timeline scenarios for compliance to the financial policies and targets will be undertaken in the context of the service level options presented in the service level matrix (Attachment 2, Figure 3). Scenarios for compliance of all financial policies and targets in four years (one budget cycle) and eight years (two budget cycles) will be considered. A third scenario that considers a combination of four and eight year compliance for the financial policies and targets will also be considered.

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.

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

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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 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:

To develop the Drainage Financial Plan a review of the long term pressures facing the Drainage operating budget was undertaken. The results of the review have been incorporated into the service level matrix presented in Attachment 2, Figure 3. Additional operating budget needs for the next budget cycle have been identified under each of the programs listed. The most significant operating budget needs have been identified under the infrastructure lifecycle operation and maintenance program to address the accumulating sediment in over 120 storm ponds, and to establish new condition assessment and ongoing rehabilitation programs. Additional operating budget needs have also been identified under the maintaining assets program to address the research gaps and projected increase in Drainage assets.

The fee impacts of these additional budget needs will be evaluated with the different timeline scenarios being considered for compliance to the financial targets. The timeline for compliance to the financial targets and the service level selected will guide the development of the indicative Drainage charges for the 2015-2018 operating budget.

Current and Future Capital Budget:

To develop the Drainage Financial Plan a review of the long term pressures facing the Drainage capital budget was undertaken. The results of the review have been incorporated into the service level matrix presented in Attachment 2, Figure 3. Additional capital budget needs for the next budget cycle have been identified under each of the programs listed. The most significant capital budget needs have been identified under the community drainage improvement to accelerate the delivery of the projects currently identified. Additional capital has been identified to acquire land to store and handle the accumulated sediment being removed from storm ponds.

The drainage fee impacts of these additional budget needs will be evaluated with the different timeline scenarios being considered for compliance to the financial targets. The timeline for

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compliance to the financial targets and the service level selected will guide the development of the indicative Drainage charges for the 2015-2018 capital budget.

Risk Assessment

The long term ability of the Drainage line of service to remain a self funded activity is dependent on sound management of debt, revenues and expenditures. Implementation of the financial policies and targets for Drainage will provide the Utilities with improved financial capacity to meet the challenges of maintaining service and responding to growth and regulatory compliance. The strengthened financial management of the Drainage line of service supports strategies, goals and targets within the Corporate Long Range Financial Plan.

The evaluation of an appropriate timeframe for compliance to the new financial targets must be made in the context of the service level options presented in Attachment 2, Figure 3 and the associated risks. Differing level of service and timelines to meet financial targets will have various impacts on the indicative drainage charge.

REASON(S) FOR RECOMMENDATION(S):

The Drainage Financial Plan includes the establishment of financial targets. These targets will allow Water Resources and Water Services to monitor progress towards the long term financial goals. The review of the fee impacts of the three scenarios being considered for timelines to achieve compliance with the financial targets will inform the indicative drainage charge in the 2015-2018 budget cycle.

ATTACHMENT(S)

1. Riverbasin and Watershed Management Workplan
2. Drainage Financial Plan