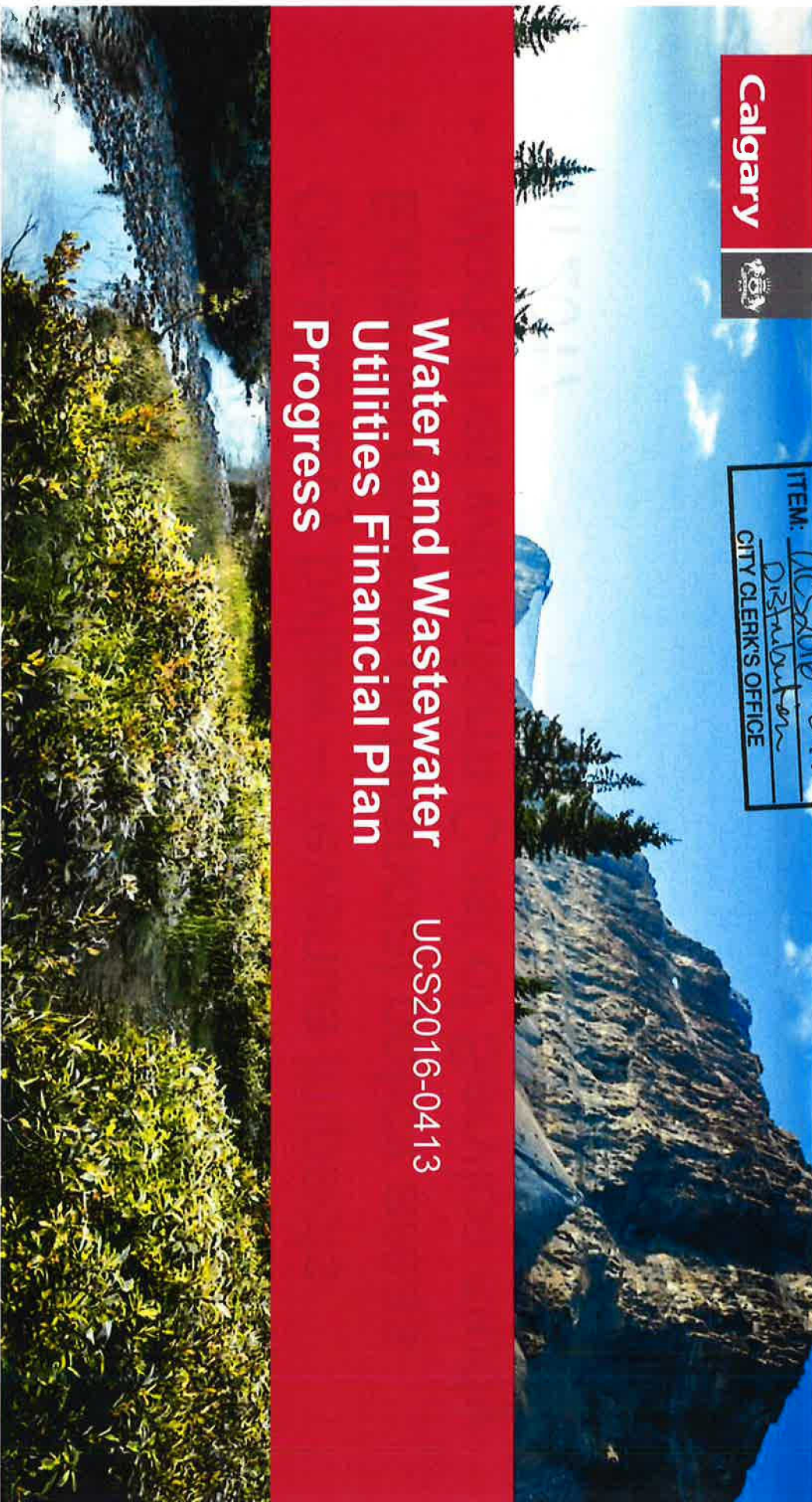




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# Water and Wastewater Utilities Financial Plan Progress

UCS2016-0413



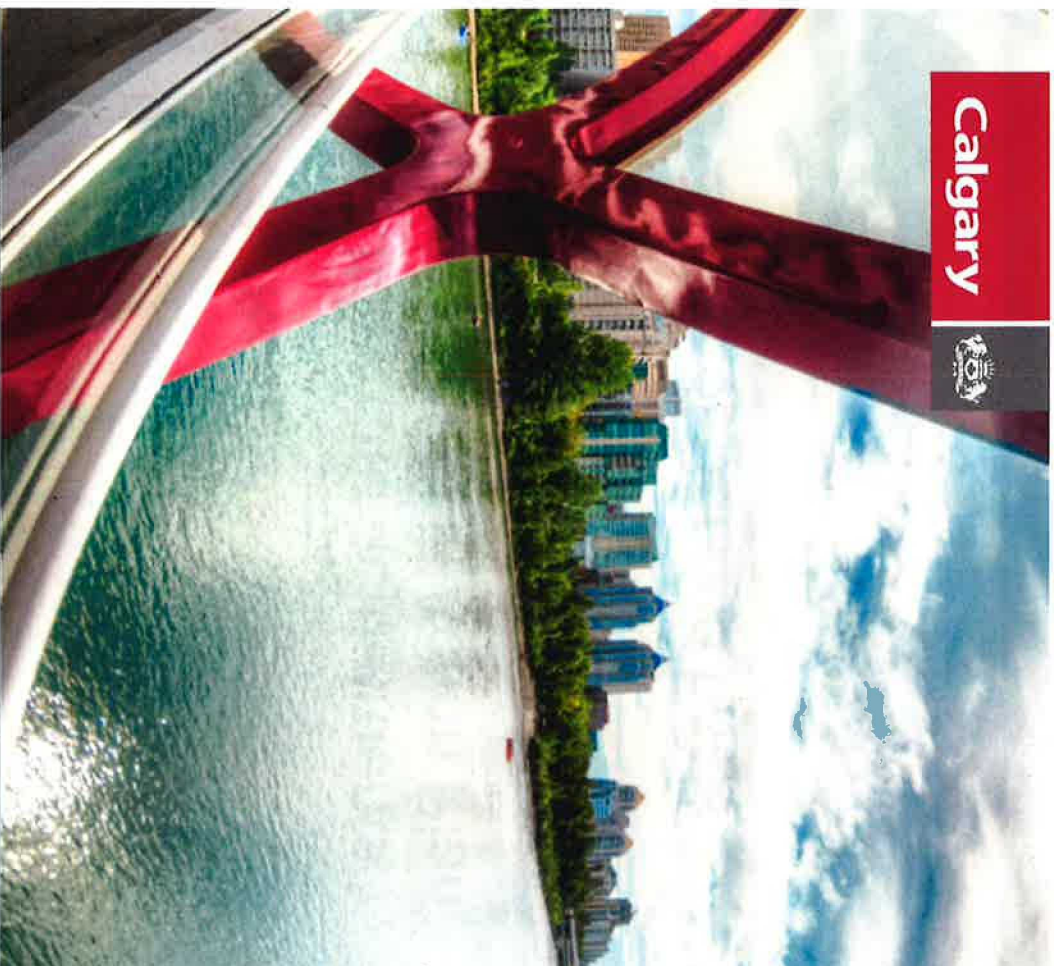


## Why a progress report

- Status relative to financial plan targets
- Off-site levy bylaw – revenue impacts
- External review of financial policy areas
- Work that will inform Cost of Service study in 2017







## **Utilities – context**

- Self supported
- Capital intensive
- Financial policies
- Rates for 2015-2018 approved through Action Plan

## Revenue

### Rate Revenue

- Utility rate adjustments presented in Action Plan
- Utility rates by customer class
- Cost of Service basis

### Off-Site Levy Revenue

- Greenfield and redevelopment
- Recover debt servicing for growth related investment

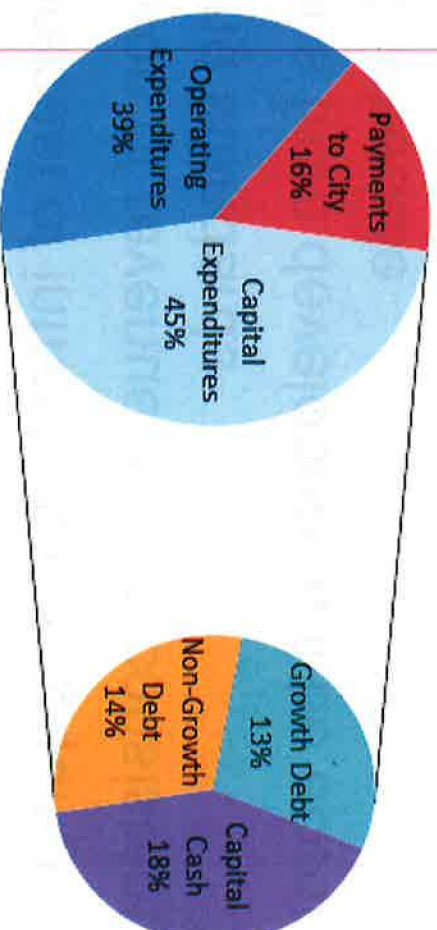
## **2M2016 Off-Site Levy bylaw**

- 100% recovery for growth related investments and a new forecast of infrastructure requirements
- Recognition of revenue will be consistent with accounting standards
- Collections from developers will be according to payment schedule





***Risk: there is uncertainty in OSL revenue if forecasted growth does not materialize due to economic conditions.***

## Expenditures

### Utilities - Expenditure Breakdown 2015 Actuals



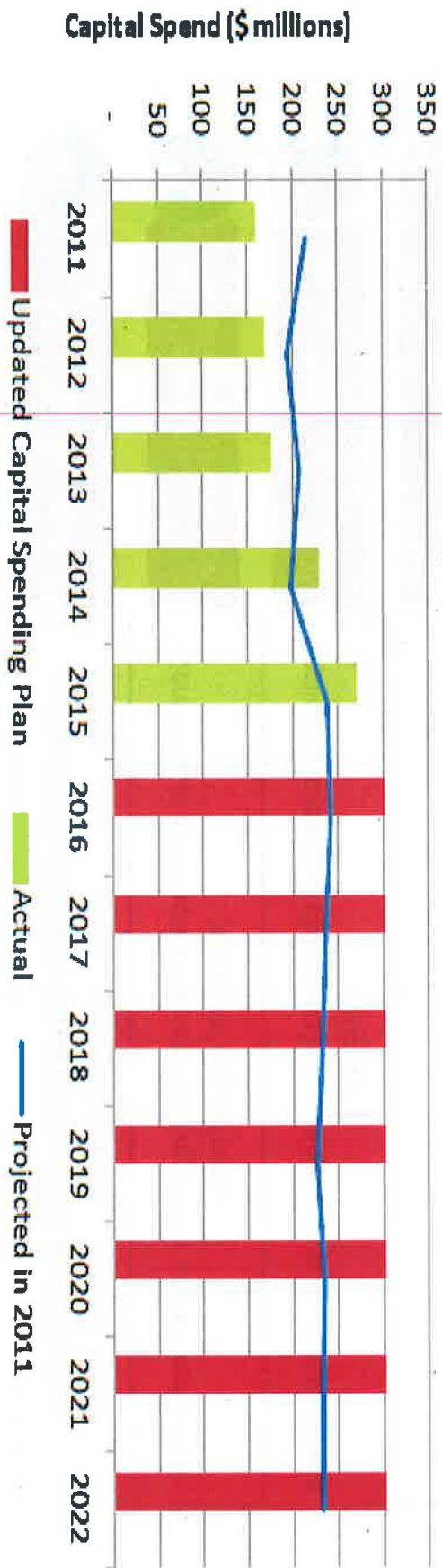
# Four Investment Drivers

	Maintain Assets	Maintaining, protecting and extending the life of infrastructure investments.
	Regulatory and Environmental Protection	Continuing to meet increasingly stringent regulatory and environmental protection requirements.
	Service	Continuing to provide reliable and high quality services to meet the needs of citizens.
	Growth	Providing infrastructure to meet the needs of a growing Calgary.

Outcome Focused



# Utilities Planned Capital Spending





# Progress on Financial Targets

Policy Area	Financial Plan Target	2015 Actual
Debt limit	Maximum \$2.0 billion	\$1.64 billion
Debt service	Maximum 40% of revenues	26.5%
Cash financing of capital maintenance	100%	100%
Sustainment reserve	10% of revenues	1.2%
Debt to equity ratio	60/40	66/34

## **External consultant review**

### **Scope**

- Assess current and projected level of financial risk as a standalone entity
- Make recommendations regarding mitigations through changes to financial policy

### **Assessment**

- Utilities' level of financial risk is moderate or better
- Financial policy revisions for consideration by Utilities in 2019-2022, within the framework of Corporate policies and limits

## Financial policy review outcomes

Policy Area	Financial Plan Target (2012-2018)	Consultant Recommendation	Utilities' Preliminary Response
Debt limit	Maximum \$2.0 billion	Remove and replace with debt service coverage ratio	Agree - Further analysis and policy engagement is required
Debt service	Maximum 40% of total revenues		
Cash financing of maintenance	100%	Agree	Agree Current measure needs refinement
Debt to equity ratio	60/40	Agree	Agree
Sustainment reserve	10% of total revenues	Change policy to equal 120 days of annual O&M expenditures	Agree
Capital reserve	None currently	Establish a capital reserve	Further analysis and policy engagement is required



## Next steps

- Present any required revisions to the financial policies including the return on equity policy in 2017 Q1 to provide input for the 2019-2022 indicative rates
- A re-cast of the 2016-2018 capital budget for Water and Wastewater
- ZBR implementation
  - Aligning financial policy areas with Water Resources ZBR and
  - Leveraging financial benefits from the Water Services ZBR.





# TIMELINE

## Activities Informing Future Utilities/Drainage Rates

2015-2018

2019-2022

2015 2016 2017 2018 2019 2020 2021 2022

### Drainage

Flood Resiliency and Mitigation

Total Loadings Management Plan objectives for 2018 Wastewater approval to operate

Review Stormwater Strategy

Updated Watershed Stormwater Targets

Stormwater volume and release rate targets for new development

Design Stormwater Rates and supporting tools and programs

Stormwater Infrastructure Long Range Plan

Drainage Service Level Matrix and Defining Customer Outcomes

### Water/ Wastewater

Total Loadings Management Plan objectives for 2018 Wastewater approval to operate

Integrated Watershed Management Planning

### Engagement

Stakeholder Engagement – Drainage levels of service, target setting, rate programs  
Utilities levels of service

### Cost of Service Cycle

2015-2018 Cost of Service Rates Phase-in

2019-2022 Cost of Service Rates Phase-in

Financial Policies

Cost of Service Study and Rate Design

Indicative rates

Build Drainage Revenue Requirements

Cost of Service Study and Rate Design

Indicative rates

Report/Decision

Operational Activity

## **ADMINISTRATION RECOMMENDATION**

That the SPC on Utilities and Corporate Services recommends that Council receive this report for information.