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MAY 25 2016

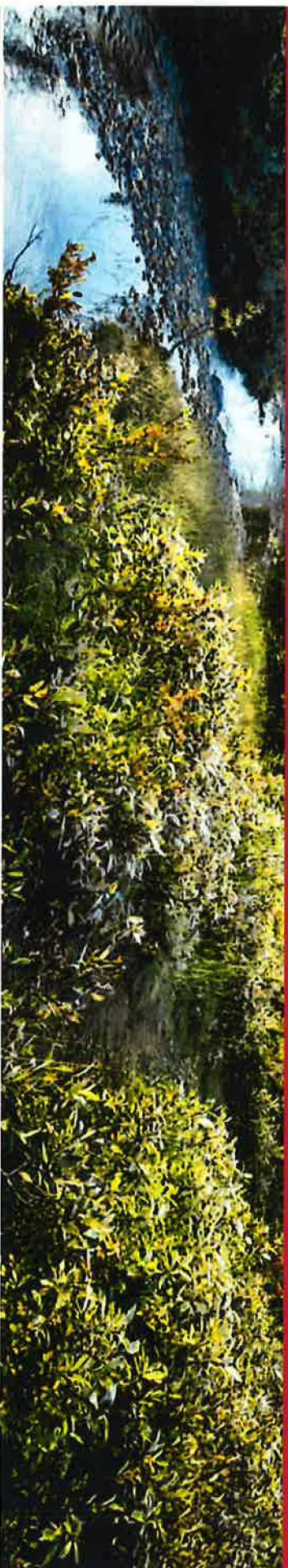
ITEM: UCS2016-0414
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Calgary



Drainage Financial Plan Progress

UCS2016-0414



UCS2016-0414

Drainage Financial Plan Progress Report

Why a progress report

- Status relative to financial plan targets
- Off-site levy bylaw – impacts
- External review of financial policy areas
- Work that will inform Cost of Service study in 2017
- Update on feasibility of impervious billing
- Community Drainage Improvement projects

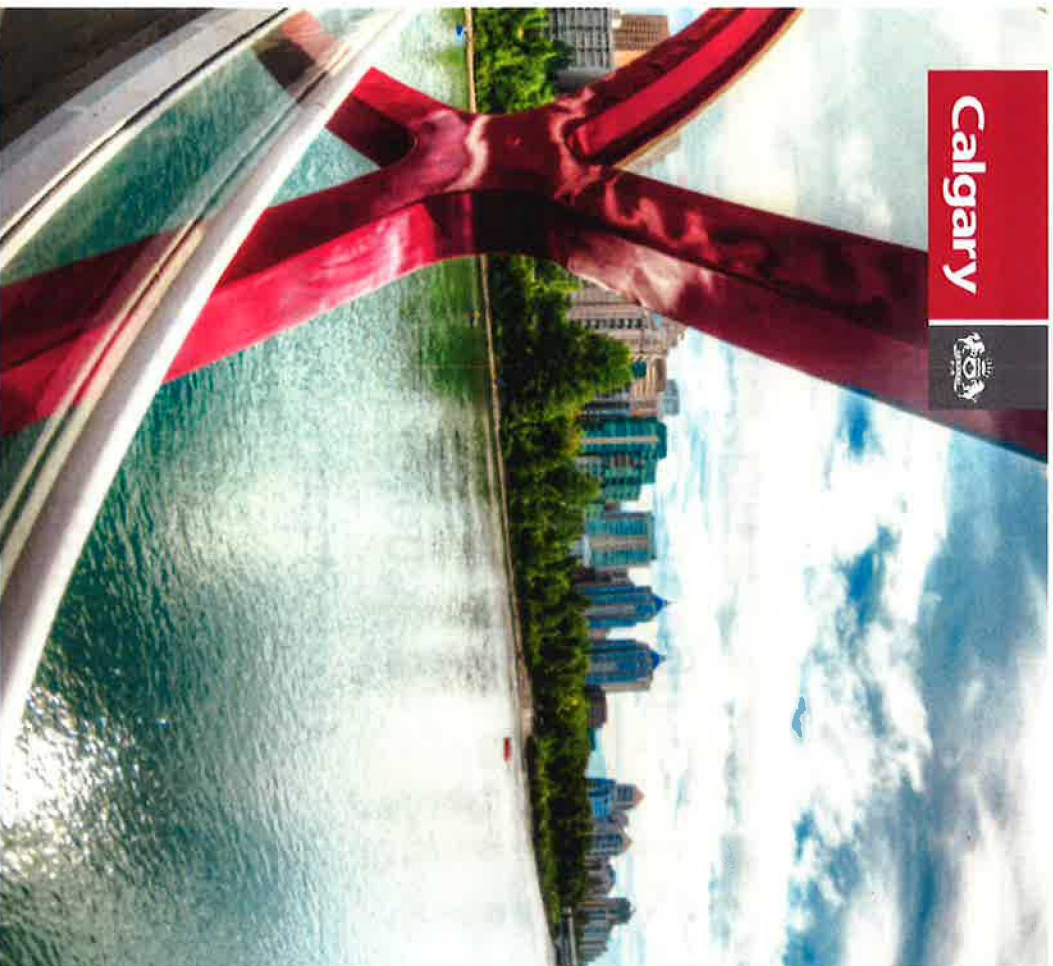
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IN ENGINEERING LEVITATIONS ROOM

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Drainage – context

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

Revenue

Drainage Charge Revenue

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

Off-Site Levy Revenue





- Recover debt servicing for growth related investment

2M2016 Off-Site Levy bylaw

- New forecast of infrastructure requirements
- Recognition of Off-Site Levies will be as revenue and will be consistent with accounting standards
- Collections from developers will be according to payment schedule

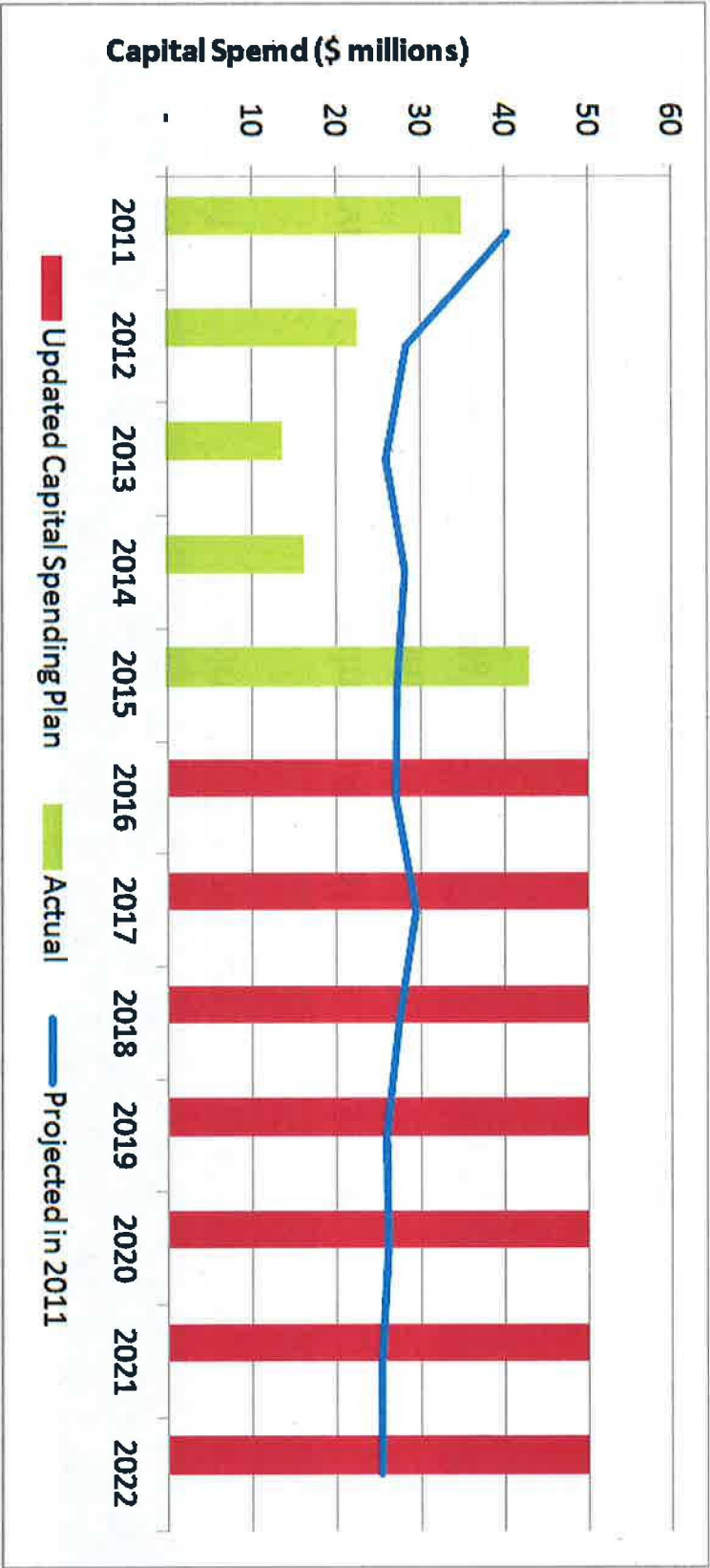
Risk: there is uncertainty in OSL revenue if forecasted growth does not materialize due to economic conditions

Four Investment Drivers (WIIP)

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

Outcome Focused

Drainage Capital Spending Plan



Update on Financial Targets

Policy Area	Financial Plan Target	2015 Actual
Debt limit	Maximum \$300 million	\$169 million
Debt service	Maximum 40% of revenues	31.3%
Cash financing of capital maintenance	100%	100%
Sustainment reserve	10% of revenues	17.5%

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

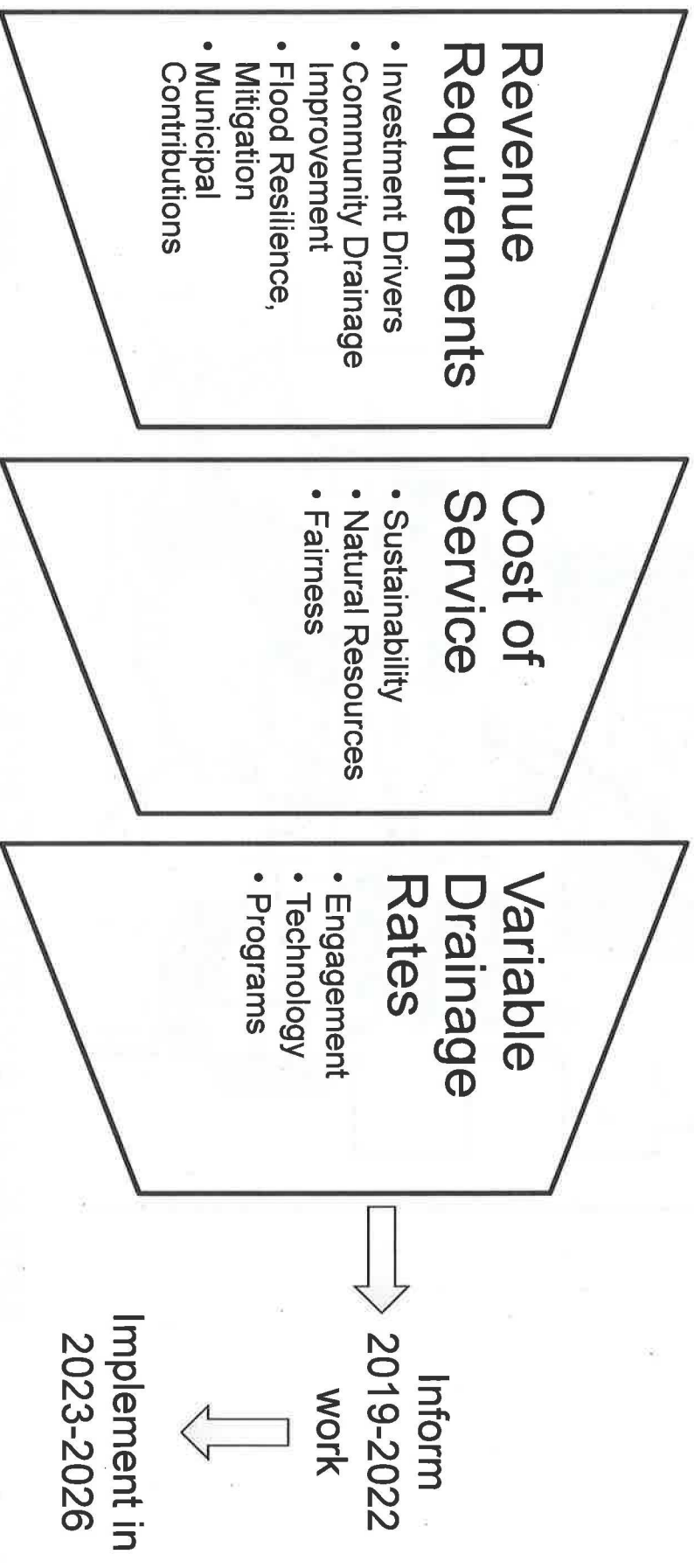
Assessment

- Drainage's level of financial risk is moderate or better
- Financial policy revisions could be considered for Drainage (2019-2022) within the framework of Corporate policies and limits

Financial policy review outcomes

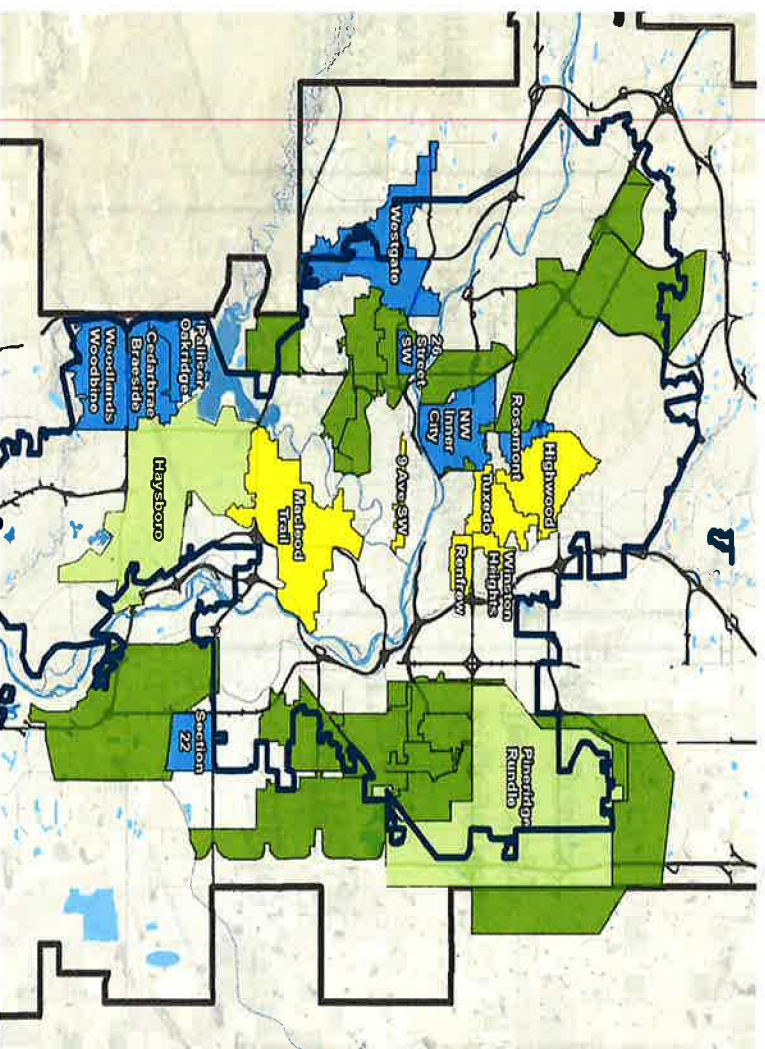
Policy Area	Financial Plan Target (2015-2018)	Consultant Recommendation	Utilities' Preliminary Response
Debt limit	Maximum \$300 million	Remove and replace with debt service coverage ratio	Agree – further analysis and policy engagement is required
Debt service	Maximum 40% of total revenues		
Cash financing of maintenance	100%	Agree	Agree – align size of capital maintenance program to WIIP drivers
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

Variable Drainage Rates – impervious billing





Community Drainage Initiative Priorities



Next Steps

- Any required revisions to the financial policies and reporting back in Q1 2017 ahead of the next Cost of Service Study.
- A re-cast of the 2016-2018 capital budget for Drainage.
- Revenue requirements based on defined service levels and priorities as part of the Cost of Service study that will inform 2019-2022 rates; and
- 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.

