



Drainage Services Annual Report **2014**

Edmonton



One City, One Drainage

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MANAGER'S MESSAGE

Every year seems to bring its challenges and highlights to Drainage Services, and 2014 was no exception. After a previous year of branch reorganization, 2014 became a year of learning new roles, adapting to new processes and finding our equilibrium again. But as always, despite whatever is happening within the branch, our work and our services to citizens continue unabated.

Last year I was particularly proud of our front line foremen and supervisors who stepped up to take on more responsibility. The purpose of our transformation was to move away from a somewhat hierarchical, top down structure, and into a culture that allows front line staff to make more decisions on a project. I'm happy to say this new structure is beginning to reap rewards and employees with years of experience are being encouraged to speak up more and share their knowledge with others.

Several areas of Drainage Services won awards in 2014 which is always gratifying to our employees. In June our Groat Road End-of-Pipe Treatment Facility won a Charles Labatiuk Environmental Excellence award for reducing the amount of pollutants entering the North Saskatchewan River from stormwater runoff. We also made a strong showing in the Mayor and City Manager's Occupational Health and Safety Awards, winning in the Equipment Innovation category for a Tunnel Boring

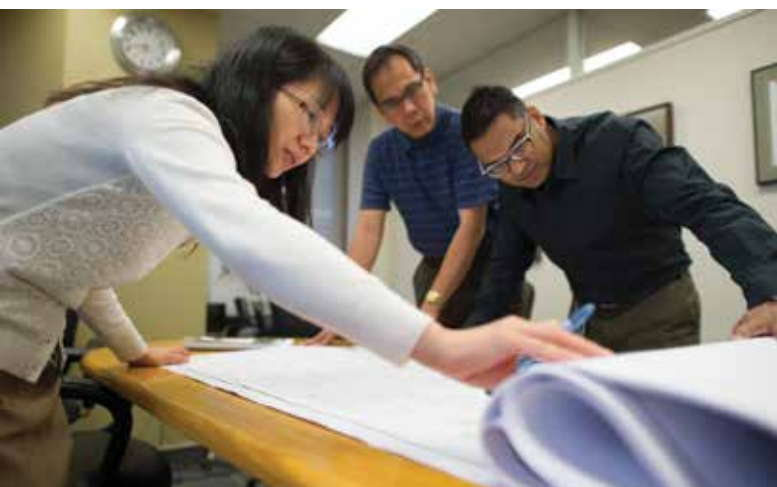
Machine (TBM) lifting device. We also won in the Process and Procedure category for our 2013 safety video. That video went on to win an International Association of Business Communicators (IABC) Capital Award in 2014. The City's wastewater Real Time Control Facility (RTC 4) won two awards from the Association des ingénieurs-conseils du Québec.

Our statistics for 2014 remain impressive:

- › 14.4% increase in new service connections
- › Replacement of 7 forcemains and refurbishment of 6 others
- › Completion of 821 home inspections in the Flood Proofing Program
- › 18,331 calls received by the Drainage Operations 24 hour control centre
- › Repairs or replacement of 6,000 manholes and catch basins

Drainage Services continues to meet the demands of a busy and growing city. As our work increases in the future, I have confidence that our employees will keep a One City, One Drainage attitude and will meet those demands with the care and professionalism they have always shown.

—Chris Ward
Branch Manager



STRATEGIC FRAMEWORK

Vision

Excellence and innovation in wastewater, stormwater and biosolids management through customer service, environmental stewardship and fiscal responsibility.





















Mission

We protect health and the environment by managing wastewater, stormwater and biosolids through environmentally and financially sustainable practices for the City of Edmonton, the North Saskatchewan River system and our regional partners.







Values

- › Environmental stewardship & Public Health
- › Sustainability
- › Excellent Service
- › Engaged and Inspired Employees
- › Collaboration

STRATEGIC DIRECTIONS

1. Maintain efficient & effective service	    
2. Build and renew drainage infrastructure	  
3. Improve environmental protection and maintain public health and safety	 
4. Support economic growth and development	  
5. Improve coordination and collaboration	   
6. Nurture innovation and creativity	  

Legend: The Ways

	Green
	Grow
	Live
	Finance
	Prosper
	Move



To learn more about The Ways, refer to the *City of Edmonton Strategic Plan The Way Ahead 2009-2018*

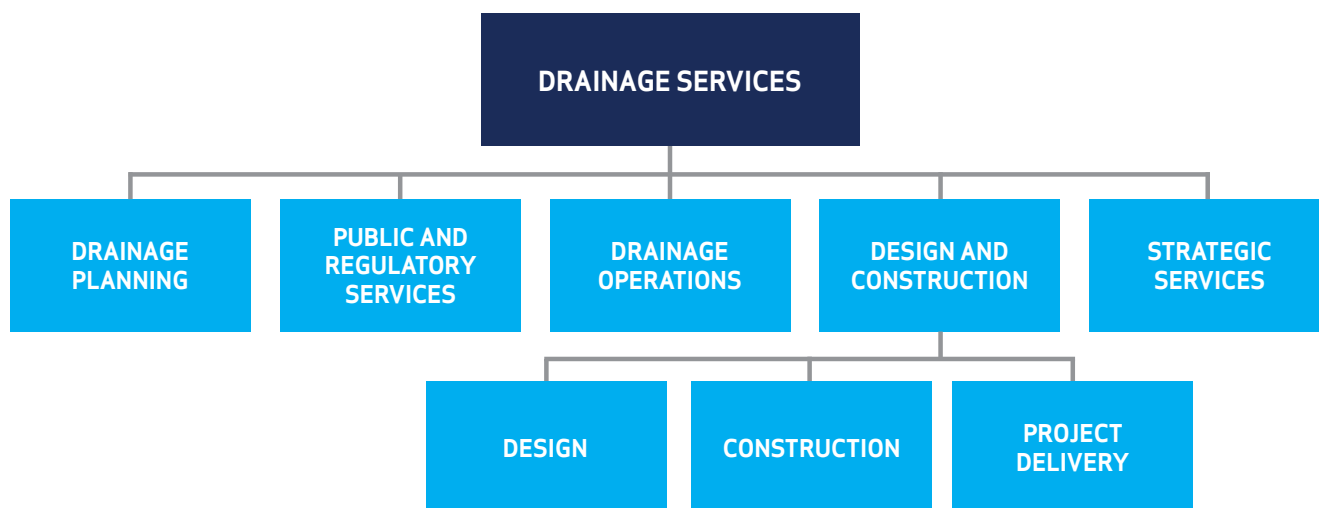
ORGANIZATIONAL STRUCTURE

Drainage Services is one of the branches in the Financial Services and Utilities department of the City of Edmonton. It operates the Sanitary Utility (collection and movement of wastewater) as well as the Stormwater Utility (collection and movement of stormwater). Both are operated as public utilities under a full cost recovery model without subsidy from property tax.

Drainage Services operates within the framework of the City Council approved 2004-2014 Drainage Master Plan, ISO 14001 and the 10 year Approval to Operate (2005-2015) issued and regulated by the Province of Alberta.

There are currently seven key sections in Drainage Services. Drainage Planning is responsible for the development of major strategies and programs to meet established departmental objectives. Drainage Operations maintains and operates the drainage systems. Public and Regulatory Services ensures that the system monitoring, regulatory, private development and public services functions are met. Strategic Services

is responsible for all aspects of business planning and performance including workforce development, public education, records and systems management, health and safety and facilities planning. Drainage Services Design and Construction provides underground sewer infrastructure design and construction services and carries out emergency sewer system repairs for the City.



2014 HIGHLIGHTS

Encouraging Innovation:

- › A new Sewer and Rainfall data website provides near real-time readings from rain gauges throughout the city and can monitor the severity of a storm in different parts of the city. This information will not only help Drainage Services monitor potential problem areas but will also be useful to other departments within the City of Edmonton.
- › Edmonton is the first city in Canada to develop its own climate model providing specific information for the region and to begin to take steps to protect citizens, provide service, and protect the environment.
- › The SAP Mobility Project uses the city's SAP system to allow off-site workers to log into work orders and time sheets and fill them out online rather than having to return regularly to the office and complete paper forms. The mobility project is slowly being rolled out to all sections of Drainage Operations and is being closely observed by other City of Edmonton departments wanting to implement the system.



Serving the public:

- › In 2014, employees of the Flood Proofing program addressed:
 - › 821 home inspections and visited 34 multifamily units
 - › handled 610 calls for root maintenance and the
 - › 24-hour a day call centre handled 18,331 calls for service from citizens
 - › addressed 6,000 manhole and catch basin concerns throughout the city
- › Closed circuit TV inspections were completed on the planned downtown rehabilitation work in 2014. All of these inspections were carried out at night to minimize traffic disruptions. Also, 51 manhole covers and frames were proactively replaced on the Yellowhead Trail to reduce the risk of failure of these items. New technology that can be used to access and inspect large diameter trunk sewers was explored and 18,000 catch basins were cleaned in 2014.
- › 2014 was a record breaking year for the number of lot grading inspections – 15,592. In addition, over 30,000 phone, counter and e-mail inquiries were handled and provided homeowners in Edmonton with \$345,040 in financial subsidies for backflow valve installation.

Continual Improvement:

Drainage Services Master Plan 2015-2024:

The Drainage Services Master Plan Aspirational Plan was completed in 2014 and will serve as the guiding document for Drainage Services' business strategy.



The Plan has been designed to ensure alignment with the City of Edmonton's Strategic Plan, *The Way Ahead*. In particular the Drainage Master Plan speaks to the 10-year strategic goals of *Transform Edmonton's Urban Form* (The Way We Grow), *Improve Edmonton's Livability* (The Way We Live), and *Preserve and Sustain Edmonton's Environment* (The Way We Grow). The Aspirational Plan outlines the six goals Drainage Services has set for the next decade:

- › Healthy Living and Environmental Stewardship
- › Citizens Well Served
- › Supporting and Enhancing Growth and Development
- › Sustainable Infrastructure
- › Fiscal Responsibility
- › Organizational Excellence

Implementation of the 2015-2024 Drainage Services Master Plan commenced on January 1, 2015.

Tunnel Boring Machine Refurbishment:

In 2014, Equipment Services Trades and Shop

increased their staff and their expertise in the refurbishment of the City's Tunnel Boring Machines (TBM). Additionally, this group can now machine parts for the TBMs also saving money on buying replacement parts.

Regulatory Services:

Inspectors carried out 4,949 inspections and took samples from facilities working with fats, oils or grease to ensure they are complying with the Drainage Bylaw. Of those inspections, 483 notices to comply and seven violation tickets were issued in 2014.

DCIP – Drainage Capital Implementation Plan:

The Drainage Utility capital program is forecast to grow from approximately \$130 million annually in 2014 to \$200 million annually within the next 10 years. This is as a result of the need to undertake significant Flood Mitigation works and continue a growing asset rehabilitation program. To deliver this volume of annual capital works requires the need to address a number of challenges including schedule, competency and capacity, costs, and delivery.



As a result, the start of the development of the Drainage Capital Implementation Plan began in 2014. The project will validate capital and operation needs by determining our current ability (capacity, processes, and delivery approach) and will explore viable alternatives to ensure delivery of the committed work.

Focus will be on four capital programs:

- › Flood Mitigation
- › Neighbourhood Renewal
- › System Rehabilitation
- › Sanitary Servicing Strategy



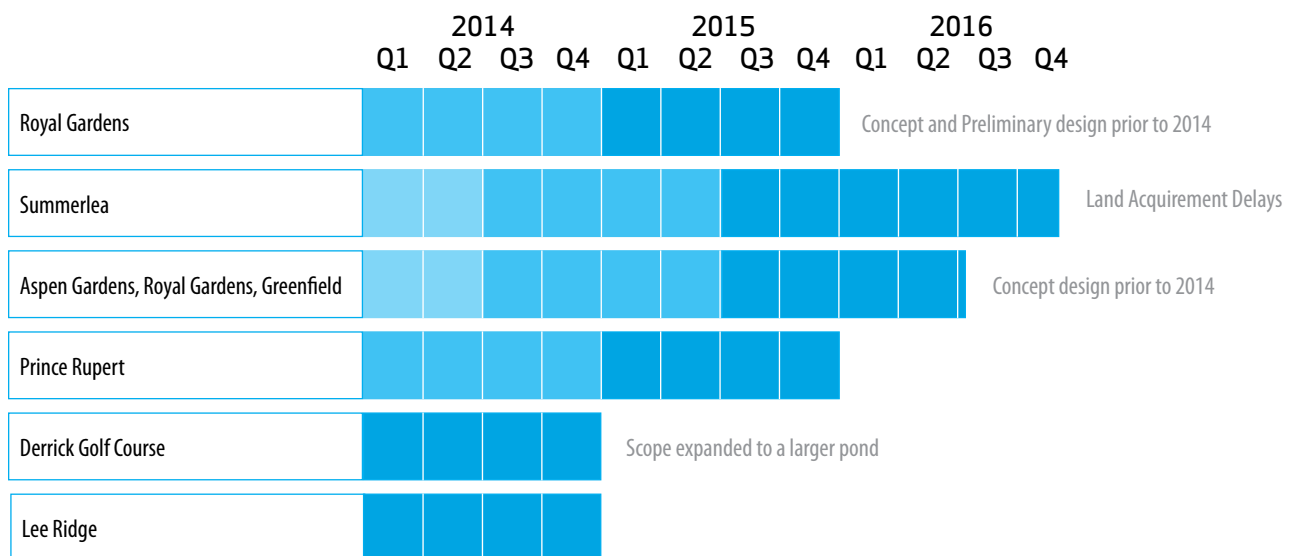
The sections within Drainage Services continue to promote better coordination to create a cohesive working environment and have adopted the

“One Drainage” philosophy



The Open Cut teams repaired sewers in 1,494 locations. The team achieved a **14.4 per cent increase** in new service connections.

Neighbourhood Flood Mitigation Projects



Legend

Concept
Preliminary Design
Detailed Design
Construction





The Pumpwells group

dealt with seven force main failures in 2014. They installed new pumps at seven stations and rebuilt pumps at six others.

OUTCOMES & MEASURES

Strategic Directions	Measures	2012 Results	2013 Results	2014 Targets	2014 Results
1. Maintain Efficient and Effective Service	1. Blockages per 100km of mainline sewer per year	2.63	1.84	2.5	2.27
	2. Customers Satisfied with Response to System Interruption (%)	99%	99%	99%	100%
2. Build and Renew Drainage Infrastructure	1. Length of sewer renewed (km)	100	41	65	57.3 ¹
3. Improve Environmental Protection and Maintain Public Health and Safety	1. Generated Biosolids disposed (%)	88%	139%	96%	122%
	2. Number of new developments utilizing LID principles	4	2	5	5
	3. Number of Neighbourhoods completed as part of Flood Prevention Program	12	14	19	15 ²
4. Support Economic Growth and Development	1. Capital programs Implemented (non contributed) (%)	89%	78%	85%	89%
5. Improve Coordination and Collaboration	1. Collaborative management of biosolids through Waste Management	*reflected in item 3.1	*	*	*
6. Nurture Innovation and Creativity	1. Improved Employee Engagement Survey Score	66%	na	68%	66%

¹Shortage in external resources affected the progression of planned work.

² The completing of the Mill Woods double barrel replacement has been delayed as a result of unforeseen ground conditions that required redesign of tunneling work. This project is to benefit 4 neighbourhoods.

FINANCIAL SUMMARY

The 2014 Annual Report reflects the financial performance and significant accounting policies for Drainage Services. It includes the following unaudited financial statements:

- › Statement of Operations
- › Statement of Financial Position
- › Statement of Retained Earnings
- › Statement of Contributed Capital
- › Statement of Cash Flows
- › Schedule 1 – 2012-2014 Capital Statement
- › Schedule 2 – Financial Indicators

The following discussion is intended to be read alongside the unaudited Financial Statements.

Statement of Operations

The Statement of Operations summarizes the revenues and expenses, which in total explain the Utility's annual operating performance. Total 2014 Drainage Services' operations resulted in revenues of \$158.7 million (budget of \$157.6 million). Approximately \$150.1 million (95%) was derived from utility rates charged to residential and non-residential customers, with the remainder generated from non-rate revenue (e.g. revenue from the Alberta Capital Region Wastewater Commission, Regulatory Services, service connections, lot grading and investment earnings).

Expenses of \$108.3 million in 2014 were lower than budget by \$9.0 million (8%). Personnel costs were lower by \$1.9 million due to timing issues in hiring as a result of difficulties in filling skilled positions as quickly as anticipated. As well, less than anticipated borrowing due to deferred capital spending and lower capitalization of financed assets in prior years

resulted in lower interest costs of \$1.7 million and lower amortization costs of \$2.0 million respectively. Furthermore, there was lower spending of \$2.1 million than budgeted for external services due to delays in engaging consultants related to future systems studies and flood mitigation projects. These studies are anticipated to begin in 2015.

Also contributing to the variance was lower biosolids disposal costs of \$1.3 million primarily as a result of favourable tendering for disposal services. In addition, Drainage Services was able to achieve a generated biosolids disposal rate of 122% versus an anticipated rate of 96%. This resulted in a greater reduction to the biosolids levels in the Cloverbar lagoons in 2014 and lowers the associated environmental risk quicker than planned. This was a result of lower biosolids generation in the region as well as disposing more dry tonnage than anticipated.

The 2014 Drainage Services' operations resulted in net income of \$50.4 million (budget \$40.3 million). The additional net income will be factored into future strategic planning and used to help fund future operating and capital priorities within Drainage Services.

Refer to the Statement of Operations for a further breakdown of 2014 revenues and expenses compared to budget and prior year.

Statement of Financial Position

Assets

The Statement of Financial Position provides information on the Utility's ability to finance its activities and to meet its liabilities and commitments. It provides a summary of the Assets, Liabilities, and Equity. At the end of 2014, Drainage Services

had a Cash Balance of \$25.6 million (forecast \$43.6 million). The lower cash balance was primarily a result of higher capital spending in Q4 of 2014 than anticipated as well as a desire to minimize debenture borrowing if not anticipated to be required. This also resulted in a debt to net assets ratio of 51% (budget 62%). The variance will be addressed through earlier borrowing on projects in 2015 with ongoing future analysis to determine future debt requirements to compensate.

Drainage Services' capital assets are constructed or purchased to provide on-going service delivery to our rate payers and support the collection and transmission of wastewater and stormwater services from home owners, commercial, and industrial customers. These assets have economic lives that extend beyond one year and are not for sale in the ordinary course of operations. Capital assets total \$2.6 billion of which \$0.8 billion are non-contributed assets. Refer to the Equity discussion below for more details on capital assets.

2014 represents the third and final year of a 3-year Capital Budget approved by Council in December 2011. The 2014 capital spend was \$137.6 million (forecast of \$126.4 million; budget including carry forwards of \$204.3 million). This represents Drainage Services largest capital spend since 2008 when the Utility delivered \$157.7 million in utility infrastructure.

During 2014, \$27 million was invested in the City's Drainage Neighborhood Renewal Program, \$27 million in the rehabilitation of drainage infrastructure, \$16.9 million in the Drainage System Expansion Program, and \$11.8 in the Flood Prevention Program. Capital investments in these four areas totaled \$82.7 million and 60% of Drainage Services capital spend. The increased investment is reflective of Council's direction to address and improve the asset condition of the City's underground infrastructure. Refer to Schedule 1 for more details.

Liabilities

At the end of 2014, Drainage Services had outstanding Long Term Debt of \$447.4 million. The Utility issued \$40.5 million in new debt and made principal repayment of \$ 17.9 million on existing debt.

Equity

Contributed capital relates to assets that are funded by external parties, such as developers. At the end of 2014, the net book value of Capital Assets was \$2.6 billion, of which \$1.8 billion was contributed. Funding the maintenance and replacement of these assets is the responsibility of Drainage Services.

Refer to the Statement of Financial Position for a further breakdown.

Statement of Retained Earnings

The Statement of Retained Earnings outlines the change in equity as a result of net income and other transfers throughout the year. Retained Earnings increased in 2014 primarily due to net income earned of \$50.4 million.

Refer to the Statement of Retained Earnings for a further breakdown.

Statement of Contributed Capital

This statement reflects capital assets constructed by developers and contributed to Drainage Services. The change from 2013 to 2014 is primarily due to the increase in developer contributions totaling \$108.6 million.

Refer to the Statement of Contributed Capital for a further breakdown.

Statement of Cash Flows

The Statement of Cash Flows summarizes the sources and use of cash for the year into three activities – operating, capital, and financing.

During the year, cash provided by operating activities was \$72.0 million. This increase is primarily due to net income of \$50.4 million. Positive cash flow from operating activities is an indication of Drainage Services' financial health as a result of day-to-day activities.

Cash applied to capital activities was \$116.9 million. These activities relate primarily to the acquisition of capital assets, capital contributions from developers, and transfers from other City of Edmonton departments.

Cash provided by financing activities was \$22.5 million. This increase is due to debenture borrowings of \$40.4 million partially offset by principal repayments of \$17.9 million.

Refer to the Statement of Cash Flows for more details.

Financial Indicators

For details on how Drainage Services performed relative to the budgeted financial targets, please see Schedule 2.



FINANCIAL STATEMENTS

DRAINAGE SERVICES

Statement of Operations (Unaudited)

For the Year Ended December 31, 2014

(in thousands of dollars)

	Budget 2014	Actual 2014	Actual 2013
Revenues			
Rate revenue	148,783	150,073	133,061
Non-rate revenue	8,784	8,627	8,422
Total Revenues	157,567	158,700	141,483
Expenses (Note 5)			
Personnel	31,779	29,920	29,030
Materials, goods & supplies	3,950	4,146	3,797
External services	6,845	4,740	5,898
Biosolids disposal	12,278	11,022	13,903
Shared services	7,730	7,676	7,238
Fleet services	2,294	2,265	2,280
Other intra-municipal services/ (recoveries)	(3,302)	(3,056)	(2,938)
Interest and amortization	38,100	34,375	30,869
Local access fee	8,206	8,340	7,836
Customer billing	5,420	5,191	5,660
Utilities & other charges	2,688	2,357	1,981
Transfers to Sanitary Servicing Strategy Fund	1,300	1,300	1,300
Total Expenses	117,288	108,276	106,854
Net Income	40,279	50,424	34,629

See accompanying notes to financial statements.

DRAINAGE SERVICES

Statement of Financial Position (Unaudited)

As at December 31, 2014

(in thousands of dollars)

	Actual 2014	Actual 2013
Assets		
Cash	\$ 25,566	\$ 47,971
Other current assets	23,260	24,065
Capital assets (Note 3)	2,638,703	2,435,625
Total Assets	\$ 2,687,529	\$ 2,507,661
Liabilities		
Current liabilities	\$ 14,876	\$ 10,404
Current portion of long term debt (Note 4)	18,943	17,935
Long term debt (Note 4)	428,431	406,921
Total Liabilities	\$ 462,250	\$ 435,260
Equity (Note 6)		
Contributed capital	\$ 1,800,000	\$ 1,679,277
Retained earnings	425,279	393,124
Total Equity	\$ 2,225,279	\$ 2,072,401
Total Liabilities and Equity	\$ 2,687,529	\$ 2,507,661

See accompanying notes to financial statements.

DRAINAGE SERVICES

Statement of Contributed Capital (Unaudited)

For the Year Ended December 31, 2014

(in thousands of dollars)

	Actual 2014	Actual 2013
Contributed capital, beginning of year	1,679,277	1,594,614
Customer contributions	108,640	118,758
Amortization of contributions	(27,314)	(26,506)
Internal transfers	16,529	2,859
(Excess)/shortage of debt over applied capital financing	22,868	(10,448)
Contributed Capital, end of year	1,800,000	1,679,277

See accompanying notes to financial statements.

DRAINAGE SERVICES

Statement of Retained Earnings (Unaudited)

For the Year Ended December 31, 2014

(in thousands of dollars)

	Actual 2014	Actual 2013
Retained earnings, beginning of year	393,124	352,743
Net income	50,424	34,629
Advances for construction	7,042	1,376
Internal transfers	(2,443)	(6,072)
Excess/(shortage) of debt over applied capital financing	(22,868)	10,448
Retained earnings, end of year	425,279	393,124

See accompanying notes to financial statements.

DRAINAGE SERVICES

Statement of Cash Flows (Unaudited) For the Year Ended December 31, 2014 (in thousands of dollars)

	Actual 2014	Actual 2013
Cash provided by (applied to):		
Operating Activities		
Net income	\$ 50,424	\$ 34,629
Add (deduct) items not affecting cash:		
Amortization of tangible capital assets	43,615	40,815
Amortization of contributed tangible capital assets	(27,314)	(26,506)
Net changes in non-cash working capital	5,276	13,047
Cash provided by operating	\$ 72,001	\$ 61,985
Capital Activities		
Acquisition of capital assets	\$ (246,693)	\$ (212,639)
Capital contributions	108,641	118,757
Advances for construction	7,042	1,376
Internal transfers	14,085	(3,214)
Cash applied to capital	\$ (116,925)	\$ (95,720)
Financing Activities		
Debenture and loan borrowings	\$ 40,454	\$ 63,828
Repayment of long term debt	(17,935)	(16,109)
Cash provided by financing	\$ 22,519	\$ 47,719
(Decrease) increase in cash position	\$ (22,405)	\$ 13,984
Cash, beginning of year	47,971	33,987
Cash, end of year	\$ 25,566	\$ 47,971
Cash, end of year balance is comprised of:		
Cash	\$ 2	\$ 2
Due from the City of Edmonton	25,564	47,969
	\$ 25,566	\$ 47,971

See accompanying notes to financial statements.

DRAINAGE SERVICES
Notes to Financial Statements
For the Year Ended December 31, 2014
(in thousands of dollars)

Unaudited

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are accounted for in the period in which the transactions or events occurred that gave rise to the revenues. Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified. Expenses are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due.

b) Capital Assets

Capital assets, excluding those donated to the Utilities, are recorded at original cost. This includes materials, labour, contract work and other appropriately allocated costs. Capital assets donated to the Utilities are recorded at their estimated fair value on the date of contribution.

The cost of routine maintenance and repairs and the replacement of minor parts are charged to expense as incurred. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and depreciated over the estimated benefit period of such expenditures.

Assets under construction are capitalized at cost and are not amortized. These amounts are transferred to the appropriate asset category when construction is complete and the asset is in service. The project life-cycle from preliminary design to construction completion may exceed one year. Therefore, it is not uncommon to carry forward assets under construction at the fiscal year-end.

c) Amortization

In accordance with utility accounting practices, plant and infrastructure assets follow group accounting methods. Similar assets are grouped and amortized over their estimated useful lives on a straight line basis. Upon retirement of an asset from the group, the cost of the asset is cleared and offset with accumulated amortization. As a result, no gain or loss is recognized upon disposal.

Amortization rates for group accounting assets are as follows:

Asset Category	Useful Life	Rate
Collection and Transmission Infrastructure	75 years	1.33%
Pump/ Lift Stations	44 years	2.27%
Clover Bar & Transfer Stations	44 years	2.27%

These estimates are subject to revision in future periods based on new or additional information.

Non-core assets follow a traditional item accounting basis. These assets are generally amortized individually on a straight-line basis over their useful lives. A gain or loss on disposal will be realized if the disposed asset is not fully amortized and proceeds from disposal do not equal current book value.

Amortization rates for non-core assets are as follows:

Asset Category	Useful Life	Rate
Office Buildings	44 years	2.27%
Laboratories/ R&D Centres	44 years	2.27%
Warehouses	10 years	10.00%
Office Furniture and Equipment	6.67 years	15.00%
Computers	5 years	20.00%
GBIS/ SCADA/ DC Equipment	10 years	10.00%
Machinery and Equipment	5 years	20.00% or usage based

These estimates are subject to revision in future periods based on new or additional information.

The half year rule is applied for capitalization and disposal of assets. Specifically, all assets are treated as if they were placed in service at the midpoint of the year. Amortization expense is consistently set at 6 months in the year of acquisition, regardless of actual acquisition date.

Amortization for donated assets is offset by an equal amortization of contributed capital. Therefore, only amortization for self-funded assets impacts the net income and rate base calculation.

d) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management has used estimates to determine employee benefit obligations, accrued liabilities, capital asset useful lives as well as provisions made for allowances for amount receivable. Actual results could differ from those estimates.

2. UTILITY FISCAL POLICY (Policy Number C304C)

Effective May 06, 2011, Utility Fiscal Policy C304C was adopted by City Council. Policy C304C has set out the following guidelines for the Sanitary and Stormwater utilities:

1. The Utilities are to be operated in a manner that balances the desire to provide the best service at the lowest cost (public utility) while employing private sector approaches to encourage innovation and using a cost structure that sends the proper price signal to the customers (private utility).
2. The Sanitary Utility will be subject to Local Access Fee, similar to private utilities for the use of public right of ways and in lieu of property taxes.
3. The Utilities are exempt from Dividend payment to the City of Edmonton in 2013 and beyond.
4. Similar to private utilities, the Utilities will account for the cost of service under a full cost accounting approach.
5. Where government transfers are not provided for the exclusive use of the Utilities, access to government transfers is dependent upon the completion of a business case that take into account the overall needs of the community.
6. Where the Utilities are contemplating the provision of non-regulated services and such services require significant capital investment and/or net operating costs, a business case is to be prepared such that the Utility Committee may make recommendations to City Council regarding the initial and/or ongoing funding of such activities from sources other than Rate Revenue.
7. The Utilities are to contribute towards achieving the City's Strategic Plan.

3. CAPITAL ASSETS

Capital assets listed by category are as follows:

Asset Category	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Collection and Transmission Infrastructure	\$ 2,900,266	\$ (628,352)	\$ 2,271,914	\$ 2,165,271
Pump/ Lift Stations	61,759	(16,054)	45,705	47,109
Wastewater Treatment Infrastructure	5,691	(2,889)	2,802	2,931
Office Buildings	2,278	(377)	1,901	1,953
Laboratories/ R&D Centres	1,780	(517)	1,263	1,303
Warehouses	18,885	(11,533)	7,352	8,874
Office Furniture and Equipment	175	(141)	34	49
Computer Equipment	13,503	(12,205)	1,298	2,636
Vehicles	6,027	(1,842)	4,185	3,746
Machinery and Equipment	10,753	(6,952)	3,801	4,550
Land	85,040	-	85,040	65,803
	3,106,157	(680,862)	2,425,295	2,304,225
Assets under construction	213,408	-	213,408	131,400
Total	\$ 3,319,565	\$ (680,862)	\$ 2,638,703	\$ 2,435,625

4. LONG-TERM DEBT

Drainage Services utilizes debt to finance capital expenditures under principals and limits established within the Utility Fiscal Policy. The policy is intended to support Drainage Services' long-term capital plans and strategies, while maintaining long-term financial affordability, flexibility and sustainability. Debt is administered by Alberta Capital Finance Authority (ACFA), utilizing the strong debt rating of the Government of Alberta and combined borrowing volumes across Alberta. Interest rates are established at the time of borrowing and remain constant throughout the term of the debenture, thus eliminating the risk associated with fluctuating interest rates.

Existing long-term debt matures in 2039. Debenture interest is payable at rates ranging from 3.1% to 8.0%. The average interest rate is 4.3% for 2014 (2013 - 4.4%) with terms of 10 and 25 years. Payments are made annually or semi-annually. The long-term debt and principal repayment schedules as of December 31, 2014 are as follows:

a) Long-term debt is comprised of:

	2014	2013
Long-term debt	\$ 447,374	\$ 424,856
Less current portion	(18,943)	(17,935)
	\$ 428,431	\$ 406,921

b) Long-term Debt Repayment Schedule

	2015	2016	2017	2018	2019	2020-2039
Long-term debt	\$ 447,374	\$ 428,431	\$ 409,360	\$ 390,481	\$ 371,670	\$ 353,438
Principal repayments	(18,943)	(19,072)	(18,880)	(18,811)	(18,232)	(353,438)
Ending balance	\$ 428,431	\$ 409,359	\$ 390,480	\$ 371,670	\$ 353,438	\$ -

5. EXPENSES BY PROGRAM AREA

	2014	2013
Planning	14,880	20,548
Development Services	11,476	8,836
Operations	24,504	23,760
Other expenses	57,417	53,710
	\$ 108,277	\$ 106,854

6. EQUITY

	2014	2013
Equity is comprised of:		
Contributed Capital	\$ 1,800,000	\$ 1,679,277
Unappropriated Retained Earnings	\$ 261,774	\$ 331,895
Appropriated Retained Earnings	163,505	61,228
Total Retained Earnings	\$ 425,279	\$ 393,123
TOTAL EQUITY	\$ 2,225,279	\$ 2,072,400

Unappropriated Retained Earnings represents funds that are available to invest in general utility operating or capital operations.

Appropriated Retained Earnings consist of advances for construction and excess/shortage of debt over applied for capital financing. These amounts are allocated specifically to finance future capital projects.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

DRAINAGE SERVICES

Schedule 1 - 2012-2014 Capital Statement (Unaudited)

For the Year Ended December 31, 2014

(in thousands of dollars)

Major Project Class	Total Budget 2012-2014	Actual 2014	Forecast 2014	Budget 2014 (Note 1)
Drainage Neighbourhood Renewal	\$ 86,269	\$ 26,984	\$ 21,679	\$ 29,771
Drainage System Rehabilitation	61,769	26,968	22,410	19,121
Drainage System Expansion	54,427	16,896	15,939	33,650
Flood Prevention	46,892	11,776	9,232	32,304
Environmental Quality Enhancement	23,012	17,526	17,333	19,284
Combined Sewer Overflow Strategy	37,721	12,435	10,524	18,017
Sanitary Servicing Strategy	106,975	22,143	26,240	43,340
Drainage Facilities Upgrading	13,528	2,870	3,049	8,802
Total Capital Expenditures	\$ 430,593	\$ 137,598	\$ 126,406	\$ 204,289

Capital Expenditures by Financing

Utility Financed

Self Liquidating Debentures	\$ 234,155	\$ 63,323	\$ 80,552	\$ 130,182
Retained Earnings	76,788	58,054	3,533	5,710
Subtotal - Utility Financed	\$ 310,943	\$ 121,377	\$ 84,085	\$ 135,892
Contributed	119,650	16,221	42,321	68,397
Total Capital Expenditures	\$ 430,593	\$ 137,598	\$ 126,406	\$ 204,289

Note 1: The 2014 budget includes approved carry forward amounts from 2013 of \$79.5 million.

Drainage Services
Schedule 2 - Financial Indicators (Unaudited)
For the Year Ended December 31, 2014
(in thousands of dollars)

	2013 Actual	2014 Actual	2014 Budget	2015 Budget
1 Typical Residential Monthly Billing Increase	\$ 1.72	\$ 2.25	\$ 2.25	\$ 1.00
Impact of Customer Rate	6.4%	7.8%	7.8%	3.2%
<i>Target: Stable, consistent rate increases</i>				
2 Rates Sufficient to Meet Expenses				
Net Income	\$ 34,629	\$ 50,424	\$ 40,279	\$ 39,735
<i>Target: Positive Net Income</i>				
3 Cash Balance				
Uncommitted Cash Balance	\$ 47,971	\$ 25,566	\$ 76,126	\$ 57,834
Next Year's Capital Financed by Retained Earnings	\$ 33,237	\$ 43,550	\$ 31,789	\$ 51,183
<i>Target: Cash position ≥ Next Year's Requirement</i>				
4 Financing of Capital Investments				
Debt to Net Assets Ratio	54%	51%	62%	56%
<i>Target: Between 50%-70%; balancing cash availability, construction inflation, and interest rates</i>				

Note: The 2015 Budget reflects the budget approved by City Council on December 4, 2014.
2014 Actuals will be factored into future planning for utility operations.

“Drainage Services continues to meet the demands of a busy and growing city.”

—Chris Ward
Branch Manager

Visit our website:

www.edmonton.ca/drainage

Inquiries may also be directed to:

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The logo for the City of Edmonton, featuring the word "Edmonton" in a white, sans-serif font. The letter "E" is stylized with a circular cutout. The logo is positioned on a dark blue rectangular background.