

# Drainage Design and Construction

## Introduction

Drainage Design and Construction provides sanitary and stormwater drainage system design, construction and project management services through the use of open cut and tunneling construction methods and is the contractor of choice for the Drainage Services Utility.

Drainage Design and Construction's competitive advantage is its 100 years of tunnelling experience, specifically in hand tunnelling and tunnel boring machine operations.

**Vision:** becoming Western Canada's recognized leader in underground infrastructure design and construction.

**Mission:** help build great communities by providing safe, sustainable underground infrastructure.



Historically, Drainage Design and Construction has been treated as a part of Sanitary Drainage and its financial results incorporated into the Sanitary Rate Model. However, in 2010 City Council approved the financial separation of Drainage Design and Construction from the Drainage Services Utility because the Section's activities are non-regulated and carry significant fluctuations in volume, business risks and net income depending on the local economy. At that time, a three-year phase out program was approved and the 2012 Budget marks the first year of full separation from the Drainage Sanitary Utility Budget. 2012 is also the first year that Drainage Design and Construction will pay the full cost of its Shared Services and corporate charges.

# Drainage Design and Construction

## Opportunities and Challenges

In order to become financially sustainable, Drainage Design and Construction will seek to secure more work from external clients, as well as become the provider of choice for all City departments.

To accomplish this Drainage Design and Construction must increase awareness and recognition of its specialized tunnelling equipment and expertise through developing relationships in the private sector.

Increasing market penetration will require the Section to grow its reputation as a quality supplier providing well-designed, well-managed, and well-constructed tunnelling projects. In transitioning from a predominantly internal-focused to a business-focused operation, Drainage Design and Construction will develop systems for managing customer communications to enhance customer care and ensure project risks and liabilities are mitigated.

Drainage Design and Construction will work with the Project Management Office to develop a framework, processes and tools that will ensure that projects are delivered in a consistent and accountable manner that meets its customer's requirements. The Section will also develop service level agreements including reporting procedures for both internal stakeholders and external customers for implementation in 2012.

Protecting the Section's competitive advantage is also critical to Drainage Design and Construction's sustainability. Currently, the Section has a virtual monopoly in some of its product categories; however, new techniques and equipment are available to new entrants to the industry. As a result, the Section must continue to secure and master new trenchless technologies that improve project time and cost efficiency.

## Service and Budget Review

The 2012 Budget reflects the start of an annual dividend payment to the City of Edmonton. The dividend is based upon an amount equal to 25% of actual Net Income Before Dividends and Transfers, payable in the first quarter of the following year.

The appropriateness of the dividend level will need to be confirmed as part of the development of the Financial Plan for the operations, expected during 2012.

Drainage Design and Construction will engage in dialogue with City Council during 2012 to develop a financial plan that will enable the Section to invest strategically in research and development of new construction technologies, capital needs, and intellectual assets to protect its competitive advantage and expand its market position with acceptable risks.

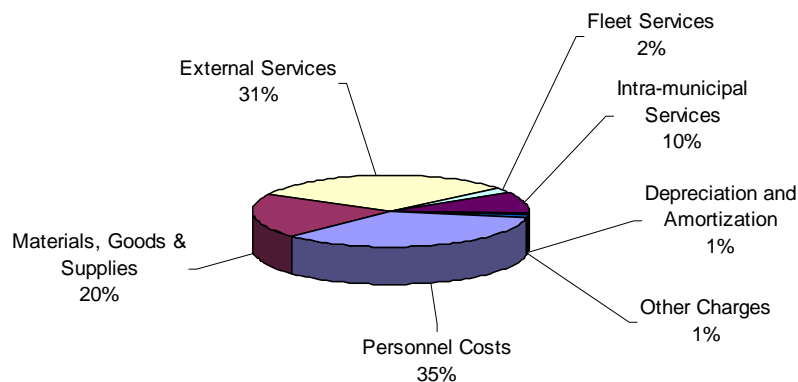


# Drainage Design and Construction

## 2012 Budget (\$000)

	2010 Actual	2011 Budget	\$ Change '11-'12	2012 Budget	% Change '11-'12
<b>Revenues</b>					
<b>Total Revenues</b>	<b>122,153</b>	<b>147,049</b>	<b>(36,390)</b>	<b>110,659</b>	<b>(24.7)</b>
<b>Expenses</b>					
Personnel Costs	29,842	37,278	(506)	36,772	(1.4)
Materials, Goods & Supplies	19,609	34,987	(14,007)	20,980	(40.0)
External Services	39,963	48,477	(15,489)	32,988	(32.0)
Fleet Services	2,188	2,415	(219)	2,196	(9.1)
Intra-municipal Services	21,767	12,880	(2,787)	10,093	(21.6)
Depreciation and Amortization	1,270	808	192	1,000	23.8
Other Charges	1,202	1,202	(131)	1,071	(10.9)
<b>Total Expenses</b>	<b>115,841</b>	<b>138,047</b>	<b>(32,947)</b>	<b>105,100</b>	<b>(23.9)</b>
<b>Net Income Before Other</b>	<b>6,312</b>	<b>9,002</b>	<b>(3,443)</b>	<b>5,559</b>	<b>(38.2)</b>
<b>Other</b>					
Provision for Capital Reserve	3,840	3,840	-	3,840	-
<b>Net Income before dividends and transfers</b>	<b>2,472</b>	<b>5,162</b>	<b>(3,443)</b>	<b>1,719</b>	<b>(66.7)</b>
<b>Dividends and Transfers</b>					
Transfer to the Sanitary Utility	1,500	1,250	(1,250)	-	(100.0)
Dividend to City of Edmonton	-	-	430	430	-
<b>Total Dividends and Transfers</b>	<b>1,500</b>	<b>1,250</b>	<b>(820)</b>	<b>430</b>	<b>(100.0)</b>
<b>Net Income</b>	<b>972</b>	<b>3,912</b>	<b>(2,623)</b>	<b>1,289</b>	<b>(67.1)</b>
<b>Full-time Equivalents</b>	<b>339.0</b>	<b>360.0</b>	<b>5.0</b>	<b>365.0</b>	

### Where the Budget will be spent





# Drainage Design and Construction

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## Budget Changes for 2012

### Revenues - Changes

#### Revenues (\$36,390)

The decrease reflects the general expectation of a slower economic market in 2012. It also reflects the projects included in the Proposed 2012 Drainage Services Utility Capital Budgets.

### Expenses - Changes

#### Personnel Costs (\$506)

The decrease reflects lower project volume.

#### Materials, Goods & Supplies (\$14,007)

The decrease reflects lower project volume.

#### External Services (\$15,489)

The decrease reflects lower project volume.

#### Fleet Services (\$219)

The decrease in fleet services is due to Drainage Design and Construction moving towards a new fleet strategy whereby new vehicles will be purchased internally as leased vehicles are replaced or new vehicles are needed. The previous strategy involved leasing vehicles through the City of Edmonton's Fleet Services.

#### Intra-municipal Services (\$2,787)

The decrease reflects lower project volume.

#### Depreciation and Amortization \$192

2011 Budget did not include depreciation for purchased equipment.

#### Other Charges (\$131)

The decrease reflects lower project volume.

#### Transfer to Sanitary Utility (\$1,250)

2011 is the final year in which Council directed the transfer of Net Income to offset Sanitary Drainage's revenue requirement.

#### Dividend to City of Edmonton \$430

The Proposed 2012 Budget includes a 25% dividend payment calculated based upon budgeted net income before dividends and transfer. The actual dividend is proposed to be calculated using actual net income, subject to Council review of the financial policy in 2012.

### Full-time Equivalents - Changes

The 2012 FTE change reflects previously funded positions being converted from temporary to permanent in order to retain staff. This results in a total of 5.0 permanent FTE's.

# Drainage Design and Construction

## Pro-Forma Statements (\$000)

	2009 Actual	2010 Actual	2011 Budget	2012 Budget	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
<b>Revenues</b>								
<b>Total Revenues</b>	<b>138,840</b>	<b>122,153</b>	<b>147,049</b>	<b>110,659</b>	<b>110,791</b>	<b>107,215</b>	<b>127,373</b>	<b>114,470</b>
<b>Expenses</b>								
Personnel Costs	27,995	29,842	37,278	36,772	37,507	38,257	39,022	39,803
Materials, Goods & Supplies	36,012	19,609	34,987	20,980	21,820	21,069	25,697	22,826
External Services	54,006	39,963	48,477	32,988	34,147	32,976	39,678	35,401
Fleet Services	2,560	2,188	2,415	2,196	2,240	2,284	2,330	2,377
Intra-municipal Services	11,358	21,767	12,880	10,093	8,519	6,075	13,829	7,316
Depreciation and Amortization	854	1,270	808	1,000	1,014	1,028	1,043	1,058
Other Charges	828	1,202	1,202	1,071	1,097	1,098	1,185	1,153
<b>Total Expenses</b>	<b>133,613</b>	<b>115,841</b>	<b>138,047</b>	<b>105,100</b>	<b>106,344</b>	<b>102,787</b>	<b>122,784</b>	<b>109,934</b>
<b>Net Income before other</b>	<b>5,227</b>	<b>6,312</b>	<b>9,002</b>	<b>5,559</b>	<b>4,447</b>	<b>4,428</b>	<b>4,589</b>	<b>4,536</b>
<b>Other</b>								
Provision for Capital Reserve	-	3,840	3,840	3,840	2,500	2,500	2,500	2,500
<b>Net Income before dividends and transfers</b>	<b>5,227</b>	<b>2,472</b>	<b>5,162</b>	<b>1,719</b>	<b>1,947</b>	<b>1,928</b>	<b>2,089</b>	<b>2,036</b>
<b>Dividends and Transfers</b>								
Transfer to the Sanitary Utility	3,000	1,500	1,250	-	-	-	-	-
Dividend to City of Edmonton <sup>1</sup>	-	-	-	430	487	482	522	509
<b>Total Dividends and Transfers</b>	<b>3,000</b>	<b>1,500</b>	<b>1,250</b>	<b>430</b>	<b>487</b>	<b>482</b>	<b>522</b>	<b>509</b>
<b>Net Income</b>	<b>2,227</b>	<b>972</b>	<b>3,912</b>	<b>1,289</b>	<b>1,460</b>	<b>1,446</b>	<b>1,567</b>	<b>1,527</b>

<sup>1</sup> Based on 25% of Net Income pending the development of the Fiscal Policy.