



CITY POLICY

Policy Number: C304D

REFERENCE:

C304B Council Minutes 2006 06 20/21, Pg. 47
C125 Council Minutes 1984 07 10, Pg. 1049
C126 Council Minutes 1982 03 23, Pg. 542
C304 Council Minutes 1977 04 14, Pgs. 842-7
C304 City Council June 1, 2011

ADOPTED BY:

City Council
23 September 2014

SUPERCEDES:

C304C

PREPARED BY: Financial Services and Utilities

DATE: July 03, 2014

TITLE: **Drainage Services Utility Fiscal Policy**

Page 1 of 7

Policy Statement:

1. The Utility is to be operated in a manner that balances the best service at the lowest cost (public utility) while employing private sector approaches to rate setting.
2. The 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. The Local Access Fee will be up to 8% of Qualifying Revenues, as determined by City Council.
3. The Utility is exempt from Dividend payment to the City of Edmonton.
4. Similar to private utilities, each Utility will account for the cost of service under a full cost accounting approach.
5. Where government grants are not provided for the exclusive use of the Utility, access to government grants requires the completion of a business case that takes into account the overall needs of the community. The allocation of grant funding to the Utility will be based on prioritization of all City capital projects through the Capital Budget Process.
6. For Utility provision of non-regulated services and where such services require significant capital investment and/or have net operating costs, a business case is to be prepared to inform funding decisions to be made by City Council.
7. Each Utility is to contribute towards achieving the City's Strategic Plan.



CITY POLICY

Policy Number: C304D

Page 2 of 7

The purpose of this policy is to:

- 1.0** Ensure that the Drainage Services Utility is operated in a manner that reflects City Council's overall vision and philosophical objectives for the Utilities.
- 2.0** Ensure that there is a consistent approach year over year for the financial planning, budgeting, and rate setting for the City managed Utilities.
- 3.0** Ensure that the Utility is financially sustainable over the long term.



CITY POLICY

Policy Number: C304D

Page 3 of 7

1.0 Definitions

- 1.1 **Appropriated Retained Earnings** – earnings of the Utility that have been set aside for specific purposes.
- 1.2 **Cash Flow** – the ability of the Utility to meet its financial obligations as payments are due.
- 1.3 **Capital Assets** – assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.
- 1.4 **Capital Investment Agenda** – a 10-year forecast of capital required to ensure that appropriate infrastructure are in place to meet service needs, including the replacement of Contributed Assets.
- 1.5 **Capital Plan** – a 4-year plan for funding capital infrastructure approved by City Council.
- 1.6 **Contributed Assets** – capital assets of the Utility for which funding was provided from non-rate sources. Examples may include developer contributions, grants, etc.
- 1.7 **Debt to Net Assets Ratio** – is a measure of the extent to which the net book value of non-contributed assets is being financed by debt.
- 1.8 **Dividend** – an amount that is payable to the City of Edmonton from the actual net income of the Utility, payable in the following year.
- 1.9 **Financial Indicators** – a set of financial measures that provide signals on the financial health of the Utility.
- 1.10 **Financial Sustainability** – financial sustainability is achieved when all targets set for the Financial Indicators (as recommended by the Utility Committee and approved by City Council) are attained.
- 1.11 **Full Cost Accounting** – shall include cost allocation from services provided by the Corporation and may include administration costs, and other shared services such as Communication, Human Resources, Information Technology, Law, Materials Management, Customer Information System, Fleet Services, Financial Services, Building Maintenance, Custodial, Space Rent, and general Corporate Overhead.



CITY POLICY

Policy Number: C304D

Page 4 of 7

- 1.12 **Investment in Utility Financed Assets** – Net Book Value of Utility Financed Assets minus associated outstanding debt used to pay for the assets.
- 1.13 **Local Access Fee** - an amount recommended by the Utility Committee and approved by City Council as compensation for the exclusive rights afforded the Utility including rights of way.
- 1.14 **Net Book Value** – acquisition costs or original costs of capital assets minus their accumulated depreciation.
- 1.15 **Non-regulated Activities** – are activities that are not essential to the provision of core services by the Utility.
- 1.16 **Pay As You Go** – the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.
- 1.17 **Qualifying Revenue** – includes rate revenue and other revenues from regulated activities.
- 1.18 **Rate Revenue** – revenues generated through monthly customer rates.
- 1.19 **Regulated Activities** – are activities that are core to the services provided by the Utility. Examples include activities that are provided under Rate Revenue, service connections, lot grading, etc. Currently, virtually all services provided by Drainage Services are regulated activities.
- 1.20 **Unappropriated Retained Earnings** – retained earnings of the Utility that is available for other uses.
- 1.21 **Utility** – refers to Drainage Services Utility, a self-funded operation that provides collection and transmission of stormwater services to customers on a fee for service basis at rates regulated by City Council.
- 1.22 **Utility Financed Assets** – assets of the Utility for which funding has been provided from rates either through debt or Pay As You Go funding.

Following are financial indicators and additional general policy statements to guide the financial management of the Utility.



CITY POLICY

Policy Number: C304D

Page 5 of 7

2.0 *Financial Indicators*

Financial indicators are measures that provide financial information about the sustainability of the Utility. Taken collectively, these indicators allow for periodic assessment on whether the Utility is moving towards or away from financial sustainability.

2.1 *Rate Sufficient to Meet Expenditures and Cash Flow*

- a. At a minimum, the projected total revenue generated will be equal to the projected expenses for the year, and will provide sufficient cash to meet the cash flow requirements of the Utility.
- b. A portion of Unappropriated Retained Earnings is maintained for the purpose of meeting unforeseen and therefore unbudgeted expenditures. For the Drainage Services Utility, the risk of expenditures arising in excess of budget is predominantly related to the Capital Plan due to the use of capital cost estimates and the potential for unidentified capital requirements.

The risk exposure to be mitigated relates to the Pay As You Go funding of the Capital Plan. The targeted balance for risk mitigation is to be based on the 4-year average of the identified potential variances in the capital project estimates of the Capital Plan.

- c. The management of the Utility's cash position is the responsibility of Administration, taking into consideration current borrowing rates, current and future cash requirements, and to provide sufficient Pay As You Go financing of the capital plan.
- d. Where the Utility's cash position is insufficient to meet cash flow requirements, the Utility will borrow from the City of Edmonton on a short term basis, with interest being paid by the Utility at an interest rate that compensates the City of Edmonton reflecting the Fund Balance where the cash was drawn.



CITY POLICY

Policy Number: C304D

Page 6 of 7

Indicator Targets:

- a. Positive Net Income
- b. The target combined Cash Position of the Utility is the Pay as You Go required as identified in the Capital Plan plus an amount representing the projected 4-year average of identified potential capital project estimate variances.
- c. Stable consistent rate increases.

2.2 Debt Financing of Capital

- a. The Utilities will not utilize Debt to finance current operating expenditures.
- b. Debt will be considered for Capital Expenditures in:
 - i. projects with benefits that extend 10 years or longer;
 - ii. major rehabilitation or upgrade of existing assets; and
 - iii. emerging requirements to support corporate priorities and strategic plans.
- c. The Utility will follow the City of Edmonton's process for debt issuance, including the term of the debt and will be consolidated with City debt in determining the City's position relative to the legislated debt limits.

Indicator Target:

The Debt to Net Assets Ratio is a measure of the extent that capital investment is financed through debt, presented on a combined basis and calculated as follows:

$$\begin{aligned} & \text{Total Long Term Debt} \\ \div & \text{Net book value of Non-Contributed Assets} \\ = & \text{Debt to Net Assets Ratio} \end{aligned}$$

The target for the Debt to Net Assets Ratio may vary between 50% and 70% taking into consideration borrowing rates.



CITY POLICY

Policy Number: C304D

Page 7 of 7

3.0 *Financial Planning*

Budget and financial planning follow the general principles of budget, long range planning, and management of capital assets as established by the City of Edmonton and in accordance with Generally Accepted Accounting Principles defined by the Public Sector Accounting Board.

The Utility will prepare 4-year Business Plans, to be presented annually to the Utility Committee prior to the preparation of the annual operating budget and 4-year Capital Program.

The Utility Committee shall recommend annually to City Council the customer rates for the upcoming year, based on a 10-year planning horizon with budgets that are prepared based upon current year forecast, business plan implementation, and financial sustainability.