

Utility Financial Policy

Presented to Priorities Committee
June 18, 2019

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Strategic plan



Goal 2

Manage, invest and plan for sustainable municipal infrastructure

Long-term financial sustainability framework

Current strategies

- Utilities is financially self-sufficient through the use of a utility rate model:
 - Does not use municipal property taxes to support operational or capital requirements
 - Exceptions are recycling stations and the Enviroservice Station

Future strategies

- Future policy is to be developed to support components of this methodology

Background

Asset replacement

- Used historic book value costs from financial statements for costs and replacement timing
- Utilities will be refining estimates as more information becomes available

Forecast timeline

- Water, wastewater and stormwater assets require substantial capital investment
- A 100 year time horizon is used to show the full lifecycle of these utility assets

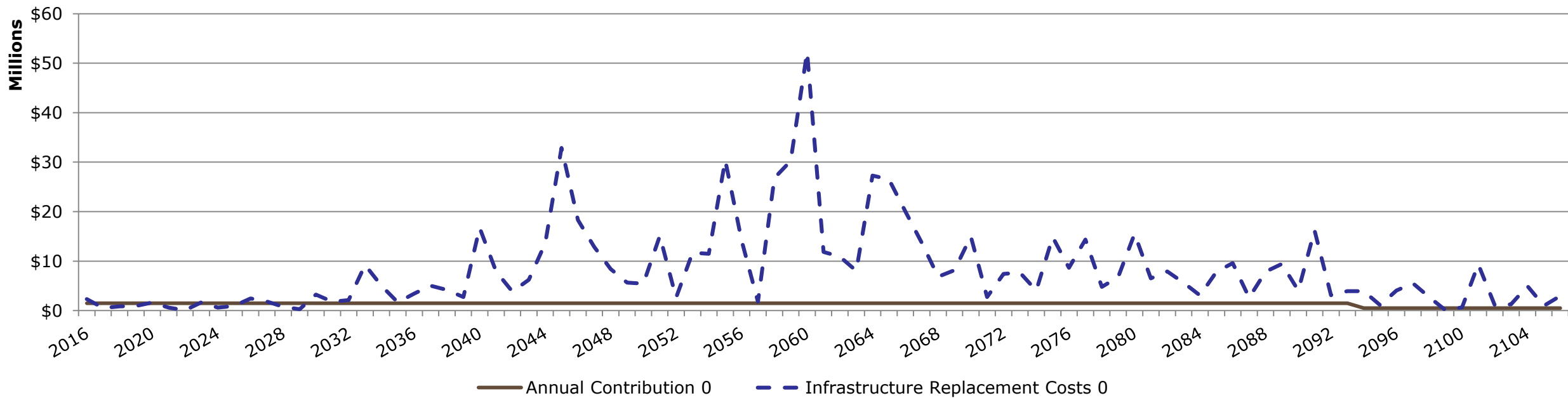
Capital funding – option 1

Current approach

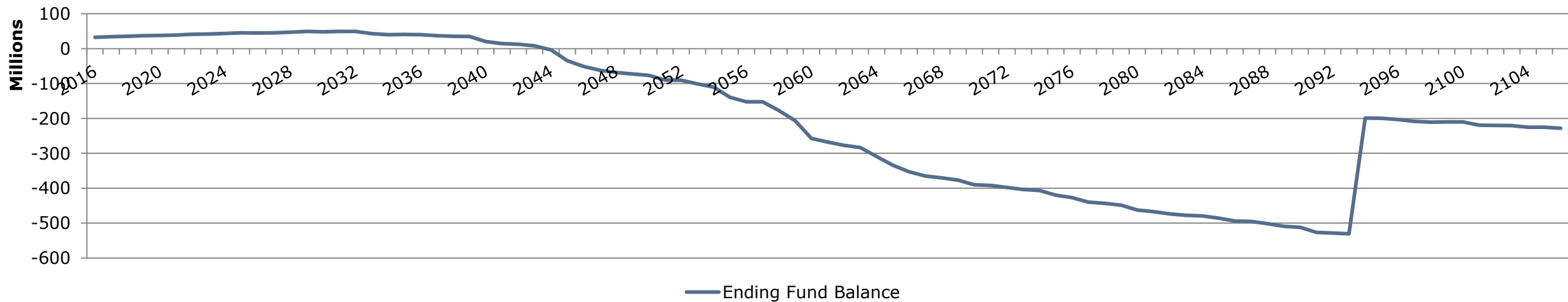
- Narrow-based funding sources (e.g. dedicated grants) used as available and applicable
 - Ideal use on targeted projects
- Reserves and current-year rate revenue used to mitigate some of the required replacements
 - Ideal to minimize rate impact in the short term
- Debt financing primarily used to fill funding gaps for required replacements and growth
 - Ideal to ensure residents using the infrastructure pay for it

Lifecycle impact

Summary Infrastructure Replacement



Summary Ending Replacement Fund Balance



Impact on County

Timeline (years)	Annual Reserve Contribution (\$ Million)	Reserve Balance (\$ Million)	Debt Required (\$ Million)	Yearly Revenue Required (\$ Million)	Fixed Fee (\$ per month)	Historic Asset Replaced (\$ Million)
Current	\$1.5	\$37.6	N/A	N/A	N/A	\$0
1 – 10	\$1.5	\$45.1	\$0	\$0	\$0	\$10
11 – 20	\$1.5	\$0	\$51	\$3.5	\$11.28	\$125
20 – 40	\$1.5	\$0	\$301	\$21.1	\$67.69	\$331
40 – 60	\$1.5	\$0	\$151	\$10.6	\$33.97	\$181
60+	\$1.5	\$0	\$65	\$4.6	\$14.62	\$95

Result of option 1

- No change to the reserve transfer
- Major rate increases are delayed to 20+ years
- Unsustainable over the life of the assets
- Currently project to have rate increases for water and wastewater treatment in the 3 to 5% range (flow through)
- Also need some allowance for annual inflation

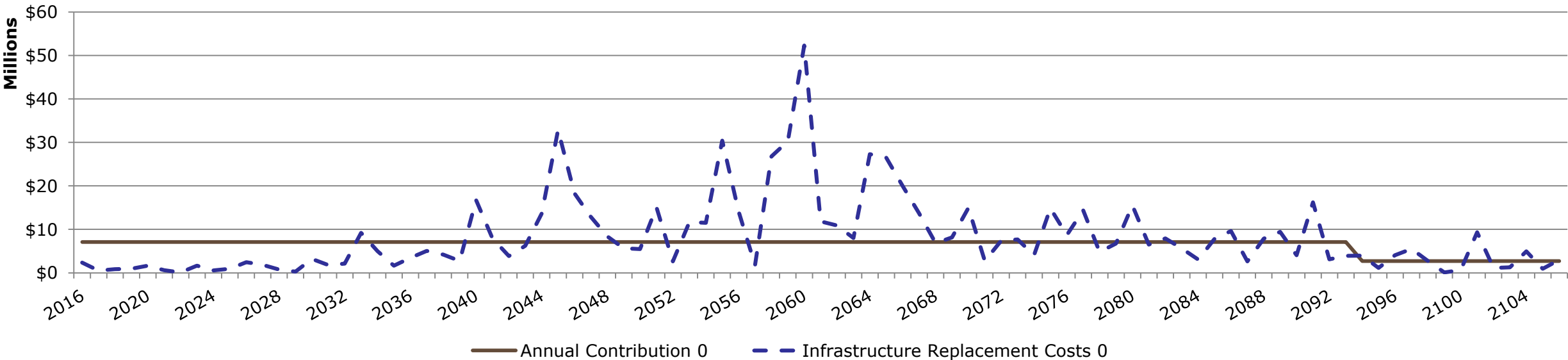
Capital funding – option 2

Recommended Approach

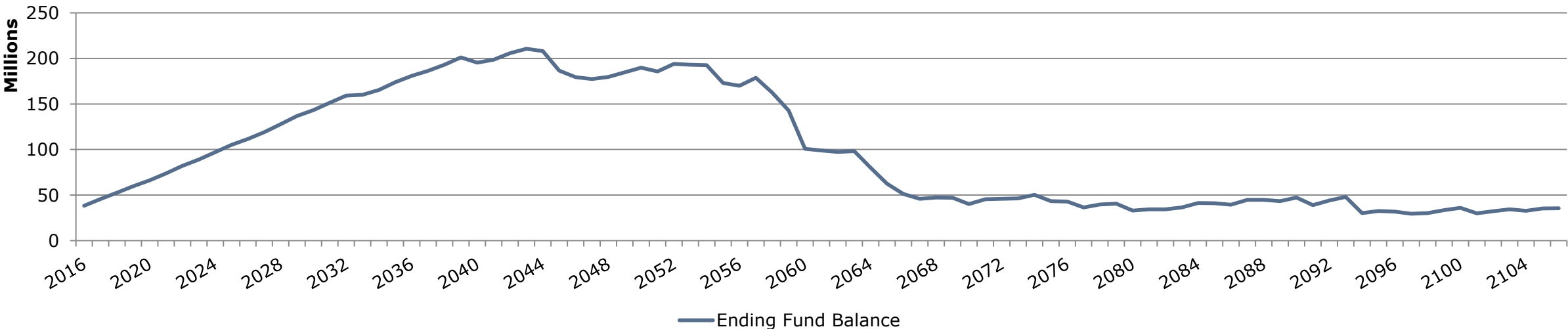
- Narrow-based funding sources (e.g. dedicated grants) used as available and applicable
 - Ideal use on targeted projects
- Reserves and current-year rate revenue as available and applicable
 - Ideal use for reinvestment in existing assets
- Debt financing primarily for growth, while monitoring future-year impacts on debt capacity and annual debt service burdens
 - Ideal use for expanding capacity or servicing new customers

Lifecycle impact

Summary Infrastructure Replacement



Summary Ending Replacement Fund Balance



Impact on County

Timeline (years)	Annual Reserve Contribution (\$ Million)	Reserve Balance (\$ Million)	Debt Required (\$ Million)	Yearly Revenue Required (\$ Million)	Fixed Fee (\$ per month)	Historic Asset Replaced (\$ Million)
Current	\$1.5	\$37.6	N/A	N/A	N/A	\$0
1 - 10	\$7.1	\$105.1	\$0	\$5.6	\$17.95	\$10
11 - 20	\$7.1	\$179.4	\$0	\$0	\$0	\$125
20 - 40	\$7.1	\$51.2	\$0	\$0	\$0	\$331
40 - 60	\$7.1	\$39.5	\$0	\$0	\$0	\$181
60+	\$7.1	\$35.1	\$0	\$0	\$0	\$95

Result of option 2

- Need an extra \$5.6M per year
- Equates to the equivalent of a 14% rate increase
- Currently project to have rate increases for water and wastewater treatment in the 3 to 5% range (flow through)
- Also need some allowance for annual inflation

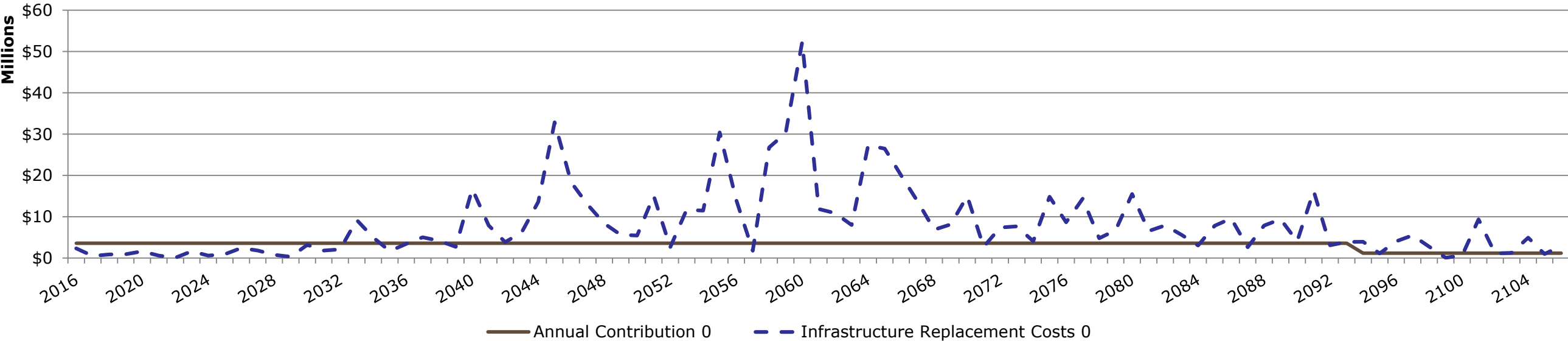
Capital funding – option 3

Hybrid Approach

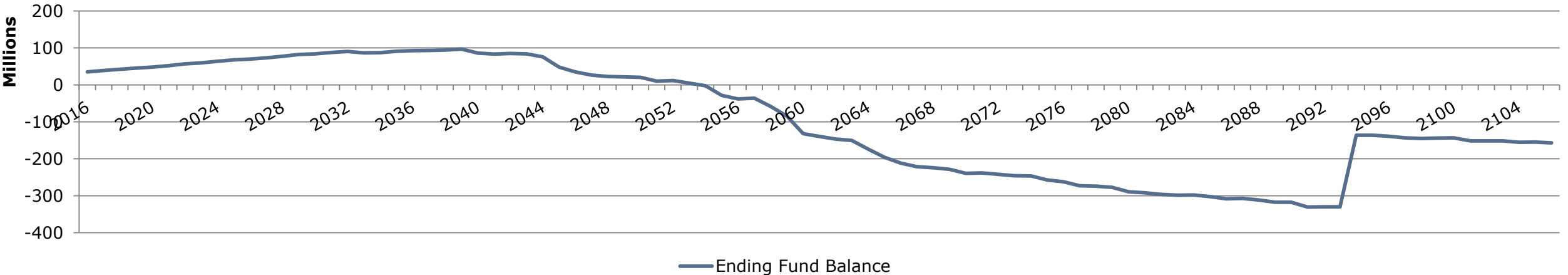
- Narrow-based funding sources (e.g. dedicated grants) used as available and applicable
 - Ideal use on targeted projects
- Reserves and current-year rate revenue used to mitigate some of the required replacements
 - Rate impact split more evenly between present and future
- Debt financing primarily used to fill funding gaps for required replacements and growth
 - Ensure residents using the infrastructure pay for it while balancing financial sustainability of the utility

Lifecycle impact

Summary Infrastructure Replacement



Summary Ending Replacement Fund Balance



Impact on County

Timeline (years)	Annual Reserve Contribution (\$ Million)	Reserve Balance (\$ Million)	Debt Required (\$ Million)	Yearly Revenue Required (\$ Million)	Fixed Fee (\$ per month)	Historic Asset Replaced (\$ Million)
Current	\$1.5	\$37.6	N/A	N/A	N/A	\$0
1 - 10	\$3.6	\$66.9	\$0	\$2.1	\$6.73	\$10
11 - 20	\$3.6	\$32.7	\$0	\$0	\$0	\$125
20 - 40	\$3.6	\$0	\$212	\$14.9	\$47.69	\$331
40 - 60	\$3.6	\$0	\$109	\$7.6	\$24.49	\$181
60+	\$3.6	\$0	\$23	\$1.6	\$5.13	\$95

Result of option 3

- Need an extra \$2.1M per year
- Major rate increases are delayed to 20+ years
- Sustainability will be challenging for the utility
- Currently project to have rate increases for water and wastewater treatment in the 3 to 5% range (flow through)
- Also need some allowance for annual inflation

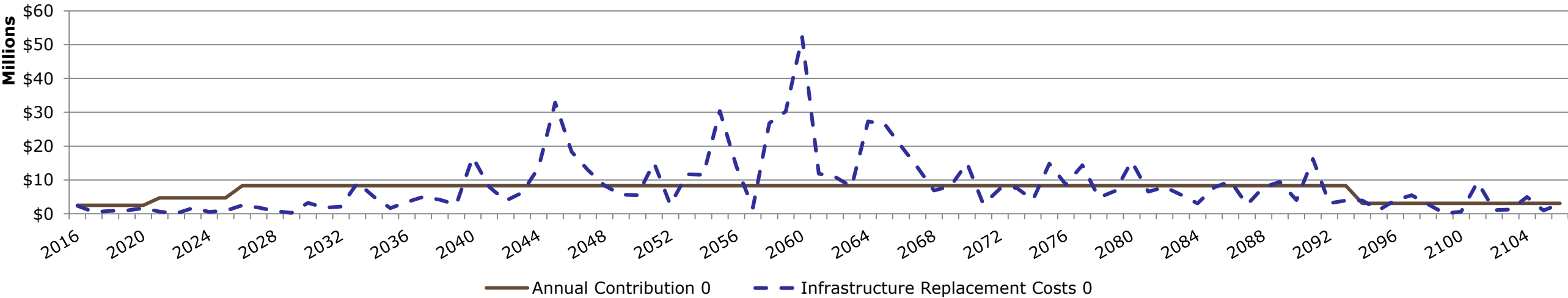
Capital funding – option 4

Incremental Approach

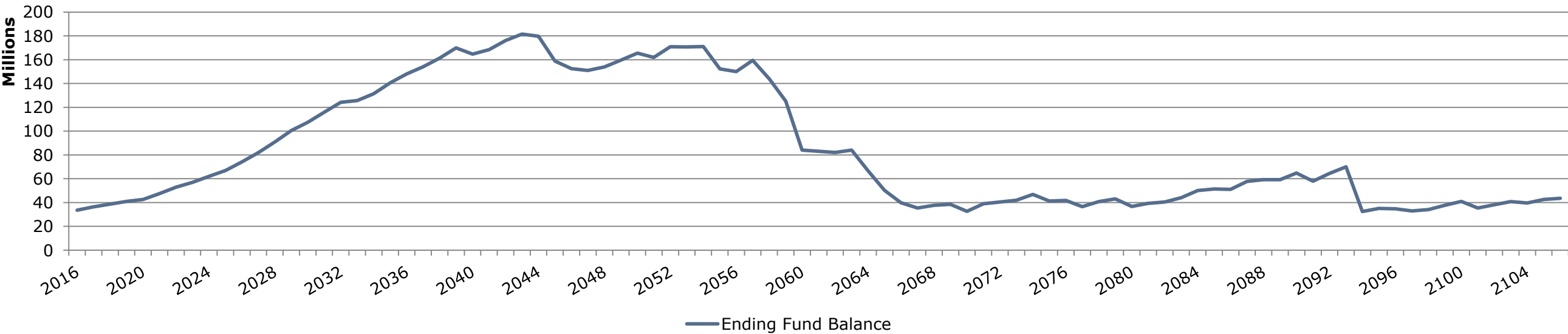
- Narrow-based funding sources (e.g. dedicated grants) used as available and applicable
 - Ideal use on targeted projects
- Reserves and current-year rate revenue used to mitigate some of the required replacements
 - Rate impact is larger but spread over longer time frame
- Debt financing primarily for growth, while monitoring future-year impacts on debt capacity and annual debt service burdens
 - Ideal use for expanding capacity or servicing new customers

Lifecycle impact

Summary Infrastructure Replacement



Summary Ending Replacement Fund Balance



Impact on County

Timeline (years)	Annual Reserve Contribution (\$ Million)	Reserve Balance (\$ Million)	Debt Required (\$ Million)	Yearly Revenue Required (\$ Million)	Fixed Fee (\$ per month)	Historic Asset Replaced (\$ Million)
Current	\$1.5	\$37.6	N/A	N/A	N/A	\$0
1 – 5	\$2.5	\$46.0	\$0	\$1.0	\$4.81	\$0
6 – 10	\$4.7	\$66.9	\$0	\$2.2	\$7.05	\$10
11 – 20	\$8.3	\$152.4	\$0	\$3.6	\$11.54	\$125
20 – 40	\$8.3	\$39.8	\$0	\$0	\$0	\$331
40 – 60	\$8.3	\$51.1	\$0	\$0	\$0	\$181
60+	\$8.3	\$43.5	\$0	\$0	\$0	\$95

Result of option 4

- Need an extra \$1.0M per year for the first five years, \$2.2 million per year from years six to ten and \$3.6 million per year for the next 50+ years
- Major rate increases are delayed to five + years
- It will cost more over the life of the asset
- Currently project to have rate increases for water and wastewater treatment in the 3 to 5% range (flow through)
- Also need some allowance for annual inflation

Mitigation

- Asset management has the potential to modify the infrastructure replacement curve to fall more in line with:
 - Community tolerance for rate changes
 - Citizen tolerance for large reserve balances
 - Available funding
 - Available debt capacity

Summary

- Option 1: Status Quo
 - Rate impact delayed 20+ years, unsustainable over life of assets
- Option 2: Immediate utility rate funding of asset replacements
 - 14% rate increase, asset replacement funded
- Option 3: 50% utility rate funding of asset replacements
 - Rate impact delayed 20+ years, will impact funding for other priorities
- Option 4: Staggered utility rate funding of asset replacement
 - Major rate impact delayed five + years, asset replacement funded

Feedback

- Which options do Council support for more discussion?
- Are there any other options the Priorities Committee would like to see added to the Council discussion?
- Should administration provide anymore information to support the Council discussion?