



CITY OF ST. ALBERT CITY COUNCIL POLICY

NUMBER	TITLE
C-FS-14	Utility Fiscal Policy
ORIGINAL APPROVAL DATE	DATE LAST REVISED
September 22, 2014	January 21, 2019

Purpose

To establish a policy for the City’s four utilities (water, wastewater, storm and solid waste) that minimizes utility rate fluctuations, provides transparency in rate setting, and addresses funding for future capital projects.

Policy Statement

The City of St. Albert recognizes the importance of a comprehensive Utility Fiscal Policy to govern the City’s utility services that is based on the Utility Guiding Principles (listed below).

Definitions

“ACRWC” means the Alberta Capital Region Wastewater Commission.

“Chief Administrative Officer” or “CAO” means the individual appointed by Council to the position of Chief Administrative Officer under section 205 of the *Municipal Government Act* and pursuant to the Chief Administrative Officer Bylaw.

“City” means the corporation of the City of St. Albert.

“Council” means the duly elected chief elected official and councilors of the City of St. Albert, as defined by the Alberta *Municipal Government Act*.

“Financially Sustainable” means that the ongoing full operating and capital costs of each utility business unit has a planned, adequate and dedicated source of funding through a utility rate structure.

“Growth” means capital initiatives that are required to meet future demand relating to facilities, equipment, technology, and infrastructure for the development of cultivating and strengthening the community

“RMR” means Repair, Maintain and Replace.

“Utility Capital Plan” means a projection of utility infrastructure costs for the future.

Responsibilities

1. Council shall review and approve all utility rates for water, wastewater, storm, solid waste, organics and recycling each year;
2. The CAO shall review, annually, the 10-year Utility Capital Plan and update the supplemental capital contribution.

Service Standards/ Expectations

1. Sustainable Entity

- a. The philosophy of St. Albert’s approach to utilities operation is that they shall be financially sustainable.
- b. The rate model outlined in Schedule 1 is designed to produce significant cost recovery for variable operating, fixed operating and capital costs for utility RMR and growth projects which are required to maintain service levels for existing customers.
- c. A portion of federal grants will be used to help offset future infrastructure costs.

2. Rate Setting

The setting of annual utility rates will be based on the Utility Rate Model – see Schedule 1.

- a. Effective 2015, proposed utility rates will be based on the fixed and variable rates from 2014.
- b. Subsequent years will use the previous year as the base rate.
- c. The incremental costs of goods/services purchased in water (EPCOR), wastewater (ACRWC) and solid waste (contractors) will be added to their respective variable rates. As consumption by each customer can vary, linking the quantity to variable rates minimizes variances.
- d. Direct and indirect costs, as defined in section 6, identified for each of the four utility business units, will be forecasted and the incremental cost versus the previous year will be added to the fixed rate on a pro-rated basis based on the number of customers forecasted for that year.

- e. A capital contribution to reserves that is produced in each of the four utilities (water, wastewater, storm water and solid waste utility business units) may be supplemented with available government grants (based on Council direction) and compared to their respective capital plans forecasted in the Council approved 10-year utility capital plans. If a capital deficit is identified over the cumulative 10-year capital period, a supplemental capital contribution fee would be recommended for that utility business unit as follows:
 - i. The supplemental capital contribution fee will be calculated based on the average 10-year projected capital surplus/deficit. This amount will then be divided by the number of customers in year one of the plan. If the result yields a capital funding deficit, a supplemental capital contribution in each of water, wastewater, stormwater and solid waste will be required.

3. Capital Planning

- a. Based on the direction laid out in the Utility Master Plan and the Asset Management Plan (RMR), the 10-year Utility Capital plan will be updated annually and will form the basis for calculation of any required supplemental capital contribution fee for that year.
- b. New area growth utility capital projects are not included in the rate model (with the exception of 25% of Offsite Levy water projects as defined in Council motion C390-2013) and will be funded through the off-site levy program as per Offsite Levy Bylaw 30/2013.

4. Costs of Goods

- a. To protect city interests with water sole source suppliers (EPCOR), the City will actively participate in the Regional Water Working Group that will hold the provincial water license for St. Albert and serve as a rate negotiation team.
- b. For wastewater, a member of Council will be appointed to the Board of the ACRWC and approve ACRWC operating and capital plans that balance an efficient wastewater service while minimizing future rate increases for municipalities.
- c. In addition, the appointed member of Council will advise Council and Administration of ACRWC future plans on a regular basis.
- d. For solid waste, Administration will utilize Council approved service levels and annual budgets to secure vendors within corporate purchasing policies.

5. Government Grants

- a. Utility capital plans will utilize qualifying utility specific grants that become available as well as an annual allocation of federal grants.
- b. Use of the provincial Municipal Sustainability Initiative (MSI) annual capital grant to the City of St. Albert will be phased out of the rate model by the year 2020.

6. Administrative Overhead

- a. Direct and indirect costs will be allocated to each of the four utility business units.
 - i. Direct costs include those identified as specific to the business unit and utility billings and collections. Indirect costs are a prorated allocation to each of the four utility business units of overall administrative costs.
- b. Any new business cases will need to be reflected in the costs as well. All estimates and allocations shall be based on the premise of full cost recovery

7. Debt Financing

Based on Policy C-FS-03 Debt Management, Long-term debt may be considered for utility projects related to RMR and Growth utility projects as approved by Council. Funding sources for any required debt servicing could come from utility rates, municipal contributions and/or off-site levy recoveries.

8. 10-Year Forecasting

Building a 10-year forecast depends upon reliable input on future costs for cost of goods/services, administrative costs and capital construction costs. Accurate data may only be available for 1-3 years. The methodology to forecast costs will be based upon:

- a. Existing contracts with vendors.
- b. Council approved budgets.
- c. A historical trend of cost increases as the basis to forecast future years beyond data available in (a) and (b) above.
- d. 10-year Utility Capital Plan updated annually.

The actual customer count will be used for Year 1 and future years will be based on estimated population growth.

9. Return on Investment

The intent of the utility model is that the finances are balanced to average zero on a rolling 10-year basis so that the business units do not produce a cumulative surplus/deficit.

10. Reporting

The CAO will annually report the utility rates to Council and provide reconciliation to the 10-year Utility Capital Plan.

11. Policy Review

This policy will be reviewed annually by Administration with any changes being recommended to Council for approval.

Cross References

Council Policy C-CG-02, Council’s Strategic Outcomes, Goals and Priorities;
Council Policy C-FS-03, Debt Management
Council Policy C-FS-05 Budget and Taxation Guiding Principles
Council Policy C-P&E-08 Off-Site Levy Framework
Council Policy C-P&E-09 Off-Site Levy Front-Ending Prioritization Criteria

Attachments

- 1. Schedule 1 Utility Rate Model

DATE REVIEWED	NEXT REVIEW DATE	REVISIONS
2018 – Finance and Assessment	2019 – Finance and Assessment	November 7, 2016 – POL-16-010 January 21, 2019 – AR-19-003

Schedule 1

Utility Rate Model

Assumptions

The initial Utility Rate Model uses the current 2014 rates which cover cost of goods, administration and a contribution to capital. Future annual rate increases will be calculated using the prior year as the base for comparison.

Water Rate Model

1. Flat Rate: Annual Increase equals:
The increase in water administrative costs \div # Customers
2. Variable Rate: Annual Increase equals:
The increase in the cost of water
3. Supplemental Capital Contribution: Annual Fee equals:
The 10-year water capital deficit \div 10 years \div # Customers

Wastewater Rate Model

1. Flat Rate: Annual increase equals:
The increase in wastewater administrative costs \div # Customers
2. Wastewater – Residential 80%, Wastewater – Non-residential 100%: Annual increase equals:
The increase in the cost of wastewater treatment
3. Supplemental Capital Contribution: Annual Fee equals:
10-year wastewater capital deficit 10 years \div # Customers

Stormwater Rate Model

1. Single family (SF), Condo (C), Non-residential (NR) Flat Rates: Annual Rate Increase equals:
Increase in stormwater administrative costs \times
% stormwater revenue by client group (SF,C,NR) \div
customers in client group
2. Supplemental Capital Contribution: Annual Fee equals:
10-year stormwater capital deficit \div 10 years \div # Customers

Solid Waste Rate Model

1. Solid Waste Flat Rate: Annual Rate Increase equals:
Increase in solid waste administrative costs ÷ # Customers
2. Recycling and Organics Flat Rates: Annual Rate Increase equals:
Increase in annual contract for recycling and organics ÷
Customers
3. Cart Solid Waste (60L/120L/240L): Annual Rate Increase equals:
Increase in landfill costs ÷ # Customers
4. Supplemental Capital Contribution: Annual Fee equals:
10-year solid waste capital deficit ÷ 10 years ÷ # Customers