

December 18, 2017

To: His Worship the Mayor  
And Members of City Council

Re: 2018 Utility Operating and 2018-2022 Capital Budget

---

## RECOMMENDATION

1. That the 2018 fee-supported Utility Operating Budget, with total revenues of \$132,820,000 and total gross expenditures of \$76,119,300, a transfer to reserve of \$49,222,111 and debt repayments of \$7,478,589 be approved.
2. That the 2018-2022 Utility Capital Budget with total gross expenditures of \$56,288,000 in 2018, as summarized in the City of Regina 2018 Utility Budget, attached as Appendix A, be approved.
3. That the Utility Capital Budget for multi-year tax supported capital projects underway in 2018 with gross expenditures of \$15,600,000, be approved as follows:
  - a) 2018 - \$7,500,000
  - b) 2019 - \$8,100,000
4. That the 2018 water, wastewater, and storm drainage rates, reflecting an overall 2% rate increase effective January 1, 2018, as described in the City of Regina 2018 Utility Budget, attached as Appendix A, be approved.
5. That the City Solicitor be authorized to prepare all necessary bylaws to implement the above recommendations.

## CONCLUSION

An overall 2% rate increase effective January 1, 2018 is recommended that will fund operations, maintenance, and capital related to providing water, wastewater, and drainage services. Utility rates are the primary revenue source for the corporation's water, wastewater and drainage services, representing 88% of 2018's forecasted utility revenues. The additional 12% is made up of Drainage Fees. The 2018 Utility Budget projected revenue is \$132.8 million.

Expenses will total \$132.8 million. This includes an estimated \$76.1 million for the Utility Operating Costs; an increase of \$1.9 million from 2017. Funds of \$49.2 million will be transferred to the General Utility Reserve, which supports capital funding requirements as defined in the 25-year Utility Model. In addition, the Utility estimates a debt repayment of \$7.5 million in 2018.

In 2018, \$56.3 million will be invested in capital for infrastructure maintenance, renewal and growth in water, wastewater and drainage systems. The five-year Utility Capital plan totals \$313.5 million.

## BACKGROUND

Section 128(1) of *The Cities Act* states that “a council shall adopt an operating budget and a capital budget for each financial year”. The following report provides Council with a summary of the Administration’s recommendations for the 2018 Utility Fund Operating and 2018-2022 Capital Budgets. The detailed budget plans are included in the City of Regina 2018 Utility Budget attached as Appendix A to this report.

## DISCUSSION

The Utility rates support four service areas:

1. Water supply and distribution – the water system provides water for residential, institutional, commercial and industrial customers, as well as for fire protection.
2. Wastewater collection and treatment – the wastewater system collects wastewater from residential, institutional, commercial and industrial customers in the City and treats wastewater in accordance to Provincial and Federal government’s environmental regulations and industry standards.
3. Storm water collection and flood protection – the drainage system controls water runoff from rainfall and melting snow in and around the City.
4. Customer service including utility billing and collections functions in an efficient, accurate and timely manner. As well as the communication function of responding to customer inquiries and needs.

The Utility is structured on a full cost-recovery, user-pay basis. Utility billing, and drainage fees are used to maintain daily operations and maintenance requirements. The Utility is based on a long range financial model for water, wastewater and drainage services funding operating expenses, debt repayments and transfers to the reserve. Using the 25-year financial model, the City has been able to smooth the impact of significant capital projects without compromising asset management.

Funding transferred to the General Utility Reserve funds capital projects. At the recommended rate increase of 2% in 2018 and future regular and reasonable rate increases, the General Utility Reserve is projected to remain within the recommended range of \$33 million to \$80 million over the forecast period of the long range financial model. This ensures the needs of the present are met without compromising the ability to meet the needs of future generations.

The City’s current rate structure is easy to understand, and also currently supports the sustainability and affordability goals in the Official Community Plan. Detailed water, wastewater and storm drainage rates are provided in the City of Regina 2018 Utility Budget, attached as Appendix A. The proposed rates will be effective January 1, 2018.

### Utility Revenues

An overall Utility rate increase of 2% in 2018 is recommended and will result in an average increase in monthly billing of approximately \$2.70 for an average household. The rate increases will be effective January 1, 2018.

Revenues from Utility rates are estimated to total \$132.8 million, an increase of \$2.1 million over 2017.

Specific increases reflected in the 2018 Utility Budget include:

- \$1.6 million increase in utility billing due to the 2% fee increase. Fees and charges is primarily the sale of water and sewer service charges; and
- \$0.5 million increase in drainage fees. This is primarily storm drainage infrastructure levies and connection fees.

### Utility Operating Expenditures

The recommended Utility Operating Budget for 2018 totals \$76.1 million, an increase of \$1.9 million from 2017. Specific increases reflected in the 2018 Utility Budget include:

- An estimated increase of \$0.9 million to Salaries, Administration, and Professional Services. Professional services include costs such as contracted services, contract property management costs, education and training services and consulting services.
- A projected decrease in the amount of \$0.8 million to goods, materials, and other expenses.
- A projected \$1.7 million increase to intra-municipal expense which is largely determined by 2017 Utility revenue as well as inflation. Intra-municipal expenses are the costs of indirect services charged to the Utility Fund. These would include costs such as fleet costs, fuel costs, as well as information technology and human resources. This amount also includes the Access fee, which is transferred to the City's General Operating Fund. Any organization or utility operating in a municipality would be required to pay either property taxes or an access fee for the rights to use or access civic assets.

### Reserves & Debt

In 2018, \$49.2 million will be transferred to the General Utility Reserve to set aside funds for future capital and to fund current capital projects. The reserve balance at the end of 2018 is projected to be \$79.3 million. The reserve balance at year-end 2022 will be an estimated \$37.7 million to fund the five-year capital plan.

In 2018, debt repayment is estimated at \$7.5 million. Over the five year forecast period, debt repayment is estimated at \$40 million, averaging about \$8 million per year.

### 2018-2022 Utility Capital Budget

The recommended comprehensive 2018-2022 Utility Capital Plan in the attached 2018 Utility Budget report, includes a total expenditure of \$313.5 million. The proposed 2018 Utility Capital Budget totals \$56.3 million.

<b>Utility Capital 2018-2022</b>	
<b>(\$000's)</b>	
2018	56,288
2019	59,257
2020	56,737
2021	55,970
2022	85,230
Total	<u><u>\$313,482</u></u>

The utility capital primarily utilizes two funding sources to support infrastructure. The Utility Reserve supports the majority of the infrastructure costs (93%). This ensures that the infrastructure is maintained over the long-term through a full-cost recovery, user-pay model. The other major funding source to support assets within the Utility is service agreement fees which provide approximately 5% of the total utility capital funding. The remaining 2% is from external sources.

The Utility renewal plan will make significant capital investments including \$11.9 million in water infrastructure renewal, \$7.6 million in wastewater infrastructure renewal and \$2.8 million in large diameter pipe assessment and rehabilitation.

Two projects of significance in the 2018 Utility Budget include the next phase of the Trunk Relief Initiative (\$10 million in 2018) and the design and construction initiation of the St. Anne's Park drainage project (\$3 million in 2018).

Additionally, in the 2018 Budget, the capital budget includes a request for a two-year capital commitment with an additional \$8.1 million for wastewater infrastructure renewal in 2019.

<b>General Fund Multi-Year Capital</b>			
<b>(\$000's)</b>			
<b>Project Name</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Wastewater Infrastructure Renewal	7,500	8,100	<b>15,600</b>
	<b>7,500</b>	<b>8,100</b>	<b>15,600</b>

The Wastewater Infrastructure Renewal program is a multi-year program that rehabilitates the existing wastewater infrastructure. Wastewater pipes are inspected to determine the condition of the pipes. If the pipe needs to be fixed, it can be relined or replaced. The multi-year approval is requested to issue a multi-year relining contract. This will allow the City to attract highly qualified contractors and potentially secure a reduced unit cost to rehabilitate the existing pipeline. Issuing a multi-year contract will also reduce the administrative costs and contract/project management costs.

### Utility Rate Increase

The recommended 2018 Utility Budget includes an overall Utility rate increase of 2%, effective January 1, 2018. This increase supports the necessary operations and capital expenditure requirements for the 2018 Budget as defined in the 25 Year Utility Model. Regular, reasonable rate increase will be required in the future to support the 25 Year Utility Model.

There are risks associated with the current financial projections. These include:

- Changing regulatory and environmental standards
- Climate change which may lead to more severe weather events
- Uncontrollable failure in the water, wastewater and drainage systems

Administration is confident that the recommended rate increase is sufficient to meet our current needs. Impacts that may result from the risks will be managed as they arise.

## RECOMMENDATION IMPLICATIONS

### Financial Implications

The rate increase is reasonable, with the average homeowner paying an additional \$2.70/month.

Over the five-year forecast, the reserve balance is reduced from \$79.3 million in 2018 to \$37.7 million in 2022. This is a significant change and may impact the Utility's ability to react to unanticipated operational or capital needs.

It is noted that, at the recommended rates, the General Utility Reserve is projected to remain within the recommended range of \$33 million to \$80 million over the forecast period of the long range utility model.

### Environmental Implications

The work done by the Utility complies with environmental and regulatory requirements.

### Policy and/or Strategic Implications

The recommendations in this report, and the resulting 2018 Utility Budget, support the Official Community Plan, specifically adhering to the benefits model based on a user pay system. They also support the objectives in the City of Regina's Strategic Plan, namely delivering reliable service and improving service financial sustainability.

### Other Implications

None specifically related to this report.

### Accessibility Implications

None specifically related to this report.

## COMMUNICATIONS

The objectives of communication activities related to the recommended 2018 Utility Budget are to help residents better understand the challenge of balancing service expectations with fiscal realities, to share information about the utility's financial condition and to encourage interested stakeholders to provide feedback. While it is important to make residents aware and allow them to provide comment, the proposed 2% rate increase also presents an opportunity to educate residents on the Utility. It runs on a user pay, full cost recovery model and is in a strong, stable financial position.

From December 1 to December 17, the City will actively communicate the proposed rate increase and provide detailed information on how the Utility works. This will ensure that residents and business owners have an opportunity to provide comment on the proposal and can plan ahead for the increased expense. Overall, for the average household, the increase in cost to the Utility Bill will be \$2.70/month.

DELEGATED AUTHORITY

The recommendations in this report require City Council approval.

Respectfully submitted,

Respectfully submitted,

June Schultz, Director, Finance  
Corporate Services

Barry Lacey, Executive Director  
Financial & Corporate Services

Report prepared by:  
Trevor Black, Manager, Budget & Financial Services