

Utility Committee Facilitated Session on Fiscal Policy

February 18, 2011



Approach

- Utility Fiscal Policies will direct financial planning, budgeting and rate setting
- Proposed Policies were reviewed by TPW, but deferred
- Council has raised questions
- Administration needs direction on major policy elements before re-drafting/re-introducing Proposed Policy
- Today – Facilitated Session
- April 5th – Re-drafted Proposed Policies

Considerations for Committee

1. Which Utilities, if any, should be charged a **local access fee**?
2. Should **dividends** be charged?
3. Should the Utilities be eligible for **grant funding**?
4. Should Utility rates pay for the achievement of higher standards or goals as set out in the **City Vision**?
5. Should **full cost allocation** be fully implemented?
6. Should Utility rates pay for investment in **non-regulated** business opportunities?

Local Access Fee

Purpose: use of municipal right of ways/exclusive rights

- Private versus public utilities
- No universal approach among municipalities
- Sanitary Drainage – 8% of rate revenue
- Impacts on customer rates:
 - Local Access Fee increases customer rate requirements
 - Currently generates \$10M to general tax revenues from Sanitary Drainage
 - Represents 7.8% of Sanitary total expenses, or \$2 on the average monthly bill; 1% to property tax rates

Dividends

Purpose: provides a return to shareholder/owner

- Reasonable expectation of investors
- Edmonton's historical practice from its subsidiaries: dividend payments varying from 30%-60%
- Sanitary Drainage currently pays 30% of Net Income
- Shifts payments between customers and taxpayers
- Impacts on customer rates:
 - Dividend increases customer rate requirements
 - 2011 budget of \$2.6M to general tax revenues

Access to Grant Funding

Purpose: provides a financing source for capital requirements

- Utility infrastructure projects are typically grant eligible
- Utilities have historically accessed significant grants prior to 2008
- Council direction in 2008 to fund Utilities' capital requirement from customer rates and developers only
- Impacts on customer rates:
 - Significantly increase customer rates if current capital is to be maintained
 - Has had impacts on the utilities' debt load

City Council's Initiatives

Purpose: advances the City Vision

- Minimum standards set by legislation (environmental, occupational health & safety, etc.)
- Increasing social responsibilities in privately and publicly owned entities
- Reasonable costs allowable by AUC
- Impacts on customer rates:
 - Increases customer rates if incremental costs or capital investments are significant

Full Cost Allocation

Purpose: full costing of utility services

- Utilities are self-sustaining – no subsidy from the Tax Levy
- Shared Services and Central Management Charges are normal cost of business
- The degree of allocation varies between municipalities
- Cost allocation must be reasonable and defensible
- Impacts on customer rates:
 - Increases customer rates when compared with no cost allocation approach

Non-Regulated Activities

Purpose: full costing of utility services

- Not part of the Utility's regulated (core) services
- Ensure that customer rates are not used to subsidize non-regulated services
- Need to consider risks and business start-up costs
- Impacts on customer rates:
 - Successful non-regulated services will reduce overall rate requirements

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