



# COUNCIL REPORT

## Preparation and Evaluation of Financial Statements for the County’s Water, Wastewater, and Storm Drainage Utilities

Electoral Division: All

File: N/A

Date:	January 7, 2024
Presenters:	Ethan Forrest, Financial Analyst Jennifer Tang, Partner – Accounting and Reporting Advisory, Deloitte Renee Pichard, Partner – Accounting and Reporting Advisory, Deloitte
Department:	Financial Services

### REPORT SUMMARY

On September 24, 2024, Council awarded RFP 24-011, “Preparation and Evaluation of Financial Statements for the County’s Water, Wastewater, and Storm Drainage Utilities,” to Deloitte LLP.

This exercise intends to establish the full cost of operating Rocky View County’s water, wastewater, and stormwater drainage utilities using the audited financial statements as of December 31, 2023, as the baseline. The result is the compilation of the income statement and partial balance sheet for the six County-owned utility systems with a focus on tangible capital asset and debt.

Although the initial RFP identified stormwater drainage as a utility for evaluation, and although the stormwater costs have been compiled, stormwater has been excluded from the presentation material as this service is required to operate roads in the County and has no rate paying customers attached.

This exercise has identified the 2023 financial performance of the water and wastewater utilities with an operating deficit of \$3.0M. The 2023 County budget for the water and wastewater utility department projected a \$2.1M budgeted deficit, with an actual deficit of \$1.3M at year end. The difference between the year end deficit of \$1.3M and the identified \$3.0M deficit is detailed in the analysis section of this report.

Deloitte LLP is present and available to discuss the water and wastewater utilities' overall performance, the performance of individual utility systems, debt and tangible capital assets related to utility systems, and any other topics of concern. To discuss specific details or methodologies applied by Deloitte in arriving at a full cost recovery for the County’s water and wastewater utilities, Council may choose to move to a closed session under the following sections of the *Freedom of Information and Protection of Privacy Act*:

Section 24 – Advice from officials

Section 25 – Disclosure harmful to economic and other interests of a public body

### ADMINISTRATION’S RECOMMENDATION

THAT Council receives the compiled income statement and partial balance sheet of Rocky View County’s water, wastewater, and stormwater drainage utilities for information.



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### BACKGROUND

June 25, 2024, following a presentation on the Utility Financial Model and Rate Strategy, Council directed the Administration to complete the following:

- Pause any further work on the establishment of Rocky View County’s utility rates for water, wastewater, and stormwater until an independent financial analysis can be completed as recommended by Jonathan Huggett;
- Retain the services of Jonathan Huggett Company Corp. to complete a Request for Proposal for the hiring of an accounting consultant to prepare financial statements of the County’s water, wastewater, and stormwater utility systems; and
- Report back to Council in Q3 2024 with a recommendation for selecting an accounting consultant.

Jonathan Huggett Company Corp., in collaboration with Administration, worked to complete the RFP process.

On September 24, 2024, Council awarded RFP 24-011, “Preparation and Evaluation of Financial Statements for the County’s Water, Wastewater, and Storm Drainage Utilities,” to Deloitte LLP.

This exercise has identified the 2023 financial performance of the water and wastewater utilities, which have an operating deficit of \$3.0M.

### ANALYSIS

Rocky View County’s 2023 water and wastewater utilities budget included a projected deficit of \$2.1M. At year end, the County’s financials indicated a \$1.3M deficit, resulting in an \$800K positive variance between budget and actuals. This variance is primarily due to unanticipated revenue from the East Rockyview System.

<b>Budget to Report Reconciliation</b>	
2023 Rocky View County Audited Actuals – Water and Wastewater Utilities	(\$1.3M)
ADD Levy Revenues transferred to reserve to fund utility debt	\$573K
LESS Admin Costs deemed unrelated to the in-scope utilities	(\$65K)
<b>Direct Costs Per Deloitte Report</b>	<b>(\$792K)</b>
ADD Enabling Areas costs	(\$2.2M)
<b>Total Utilities Costs per Deloitte report</b>	<b>(\$3.0M)</b>

Deloitte’s analysis outlined the net direct costs of the water and wastewater system as \$792K. The \$508K variance between the County’s financials and Deloitte’s report is due to the full-cost models, including revenues transferred to reserve for utility system debt repayment, and excluding certain administrative costs unrelated to water and wastewater. These adjustments were made to reflect the true costs of operating the water and wastewater systems more accurately and to align the statements with accounting standards. Currently, the County’s practice is to prioritize debt repayment using the offsite levy as a funding source, therefore transferring offsite levy revenue from the income statement to the

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reserve accounts on the balance sheet for debt servicing. This evaluation exercise reflects the offsite revenue as an income statement amount.

In addition to the \$792K of direct costs outlined above, the report has allocated \$2.2M in net indirect overhead costs to the water and wastewater utilities. Deloitte made this allocation in consultation with department managers to determine the cost of services provided to the utilities based on what was established as “enabling areas.” When possible, costs were linked to the utility systems based on an identified cost driver. If cost drivers were unavailable, estimates were used to allocate the cost to the water and wastewater utilities.

This allocation, combined with the direct costs, results in a \$3.0M deficit for water and wastewater services, which gives a more accurate picture of the yearly costs associated with providing these utilities.

### COMMUNICATIONS / ENGAGEMENT

No communication or engagement is required.

### IMPLICATIONS

#### Utilities

Council may use the information available to make informed decisions on a utility financial model and rate strategy for the County by integrating full costs into Utility Services water and wastewater budgets. This could lead to potential changes in the utility rates currently in the Master Rates Bylaw C-8515-2024 to reflect the direct and indirect costs associated with purchasing and operating the utility systems at Rocky View County.

### STRATEGIC ALIGNMENT

Key Performance Indicators		Strategic Alignment	
Effective Service Delivery	SD2: Services are resourced and delivered to specific groups as intended, and citizens are satisfied with the outcomes	SD2.3: Services achieving defined service level targets	Full cost recovery would ensure consistent funding for utilities maintenance and replacement over time, decreasing the likelihood of catastrophic service interruptions.
Effective Service Delivery	SD4: Services are continually assessed for improvements in cost efficiency, effectiveness, and customer experience	SD4.1: Services that are assessed annually for innovation opportunities and have demonstrable efficiency improvements	Preparation of the County’s utility system financial statements will support a future recommended rate strategy to achieve full cost recovery and ensure consistent utility maintenance and replacement over time.
Financial Prosperity	FP2: Ensuring County remains financially sustainable for future generations	Choose an item.	Establishing a full/partial cost recovery utility model in the County ensures the financial sustainability (including utility asset management) of the County’s utility systems, and

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Key Performance Indicators		Strategic Alignment
		maintains compliance with User Fee Policy C-224.

**ALTERNATE DIRECTION**

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Administration does not have an alternate direction for Council's consideration.

**ATTACHMENTS**

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Attachment A: Deloitte LLP Utility Financial Statement Presentation

**APPROVALS**

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Manager/Supervisor:	Brenda Bateman, Supervisor of Reporting, Budgeting and Payroll
Executive Director/Director:	Issy Agbonkhese, Acting Executive Director, Financial Services
Chief Administrative Officer:	Byron Riemann, Acting Chief Administrative officer

