

## Note to Reader

The County requested a council-directed full-cost recovery for the provision of water, wastewater and storm drainage services.

In June 2024, Council directed administration to complete an RFP for the hiring of an accounting consultant. The accounting consultant and RVC staff worked collaboratively to prepare statements for the County's water, wastewater and storm drainage\* utility systems.

The revised objective of the work was to better understand the financial performance of the County's water and wastewater utility systems. Results may be used to inform rate-making decisions for the County.

The following procedures (or the "**Services**") were completed from October 2024 to November 2024:

- Obtained GL data for the year ended December 31, 2023, from the Great Plains accounting system. Agreed total balances to the audited December 31, 2023 financial statements.
- Mapped trial balance accounts to the County's financial statement line items for the income statement and balance sheet.
- Interviewed various managers across the County to understand Tangible Capital Assets, Long-term Debt, Direct and Overhead costs supporting the water, wastewater and stormwater utility systems. We also sought to understand appropriate cost drivers in developing a cost allocation model to arrive at full-cost accounting.
- Prepared income statements and partial balance sheets (the "**Carve-out Statements**") for the six owned utilities within water, wastewater and storm utilities (collectively, the "six owned Utilities") based on the above procedures.

**Today, we will present to council on:**

- The results of the compilation of the income statement and partial balance sheets for the six owned Utilities.

*\*During the performance of the Services, Administration requested Storm drainage results to be removed from the scope of the Services as the County's focus is on water and wastewater. As such, Stormwater results will not be featured in this presentation.*

# Disclaimer

## Limitations:

- The County's objective for engaging the accounting consultant, Deloitte, to perform the Services is to supplement the County's own technical accounting resources in performing accounting analysis and assisting with the preparation of the Carve-out Statements. This does not include obtaining an opinion from Deloitte as to the application of accounting principles.
- Performance of the Services does not constitute an engagement to provide audit, compilation, review or attest services in accordance with professional standards issued by the Chartered Professional Accountants of Canada and, therefore, an opinion or any other form of assurance was not expressed with respect to any matters (including, without limitation, compliance with Public Sector Accounting Standards).
- The Carve-out Statements for the County's Water, Wastewater and Storm Drainage Utilities have not been audited. We have agreed the County's baseline data as per the trial balance to the audited financial statements for the period ended and as at December 31, 2023, to ensure accuracy of the starting point. As specified in the RFP 20-011 Q&A 2024-08-12, we took a risk-based approach in preparing the Carve-out Statements. We have relied, without independent verification, on the facts, information, data and assumptions provided by the County.
- The Carve-out Statements assumes the same basis of accounting and accounting policies are applied as stated in the County's annual financial statements for the year ended December 31, 2023. Refer to the audited annual financial statements for the summary of accounting policies applied.
- As the Utilities have not historically reported results at the regional and department level, information has not been historically tracked at such a disaggregated level. As such, percentage of direct costs were applied in allocating overhead costs. Subject to the County's preference on level of granularity and degree of accuracy required, allocation methods can be refined in subsequent periods to increase accuracy while balancing cost of application.
- All County decisions and final conclusions reached in connection with this engagement are the responsibility of the County.
- The County is solely responsible for all decisions regarding the accounting treatment of any item or transaction and acknowledges that the Services do not include the recording of any amounts in the County's books or records. All amounts derived from the performance of the Services have been reviewed and approved by, and are the responsibility of, the County.
- We relied, without independent verification, on the facts, information, data and assumptions provided by the County or others. Deloitte makes no representation nor provides any assurance with respect to the adequacy of the Services for the County's purposes. Furthermore, Deloitte has no responsibility to advise the County of other procedures that might be performed.
- The County is solely responsible for providing accurate and complete data and information requested by Deloitte. Deloitte has no responsibility for the accuracy or completeness of the information provided by or on behalf of the County.
- Any observations, advice or any other oral or written work product prepared under this engagement is solely for the information and use of the Council and Administration and is not intended to be and should not be used by anyone other than these specified parties. This engagement does not create a relationship between Deloitte and any person or party other than the County. This engagement is not intended for the express or implied benefit of any third party.
- Procedures and performance of services cannot be relied on to disclose internal control deficiencies, errors, or fraud should they exist. Deloitte has no responsibility for updating the Services performed or for performing any additional services, except as agreed to in writing with the County.
- Deloitte has no responsibility related to the County's accounting or disclosure conclusions, whether or not such conclusions of the County are related to the Services and Deloitte has no responsibility for any disagreements between the County and its independent auditor related to the County's accounting.

## Restrictions on use:

- Administration was responsible for the approval of the cost allocation model and the results of the Carve-out Statements for the County's Water, Wastewater and Storm Drainage Utilities.
- The report was prepared at the request of the County and is not intended for use by any other person or entity.
- No other person or entity should rely, in any manner, or for any purpose, on this report.
- This report cannot be circulated, published, or reproduced, including originating publicity, news releases, public statements or announcements, without Deloitte's written permission. Deloitte is not responsible for any losses from unauthorized use.
- No item in the report shall be changed by anyone other than Deloitte and Deloitte shall have no responsibility for unauthorized changes.

## Note to Reader

### Current State

#### Overview of the Utilities

- Rocky View County has various utilities, such as (but limited to):
  - Water
  - Wastewater
  - Storm Drainage (“**Storm**”)
  - Curbside
  - Solid Waste
- However, financial statements have never been prepared to date for these utilities.
- Administration and Council were specifically interested in the results of each of the six owned utilities for Water and Wastewater (the “**Utilities**”).

#### What information is currently available:

- Consolidated financial statements for Rocky View County as a whole, for the year ending and as at December 31, 2023 (i.e., no financial statements for the Utilities)
- Utility Services Summary for costs of operating and costs of owning, broken down by revenue and expenses.



ROCKY VIEW  
COUNTY



Rocky View County

2023 Carve-out Statements for the County's Water, Wastewater Utilities

*Council Presentation*

January 7, 2025

# Agenda

- ✓ Objective & Scope
- ✓ Executive Summary
- ✓ Summary of Financial Results
- ✓ Cost Allocation Methodology
- ✓ Next Steps



## Engagement Objective & Scope

### Objective

Produce Carve-out Statements for the fiscal year ending December 31, 2023 to provide Council and Administration with a better understanding of the financial position and performance of certain County Utilities.

### Scope

The following were prepared for the County's six (6) owned utilities, and for Water and Wastewater operations (collectively, referred to as the "Utilities") (see *Figure 1*) for the 2023 year:

- Income Statements on a **full cost** basis, and
- Partial balance sheets: specifying **Tangible Capital Assets** and **Debt**.

*Collectively referred to as the "Carve-out Statements"*

Scope is solely focused on the compilation of results for the County's Water ("W") and Wastewater ("WW") Utilities.

Scope excludes an assessment of current or future utility rates, appropriateness of rate structures (e.g., independent regional rates vs. combined Countywide flat rate) and does not evaluate the appropriateness of the capital structure or the asset management framework.

Figure 1 – Scope of Six Owned Utilities

	Water	Wastewater
Bragg Creek	x	x
East Rocky View	x	x
Blazer	x	x
Cochrane Lakes	x	x
Knee Hill	x	
Elbow Valley		x

NOTE: **Storm** results are excluded from results presented in this report.

When Storm costs were readily identifiable, we have allocated them to the Storm Utility for the County's visibility. Refer to Appendix B for further details on total identified costs and impact to the Utilities' Total Deficit.

# Executive Summary

## Key Findings Overview

### Overall Financial Performance

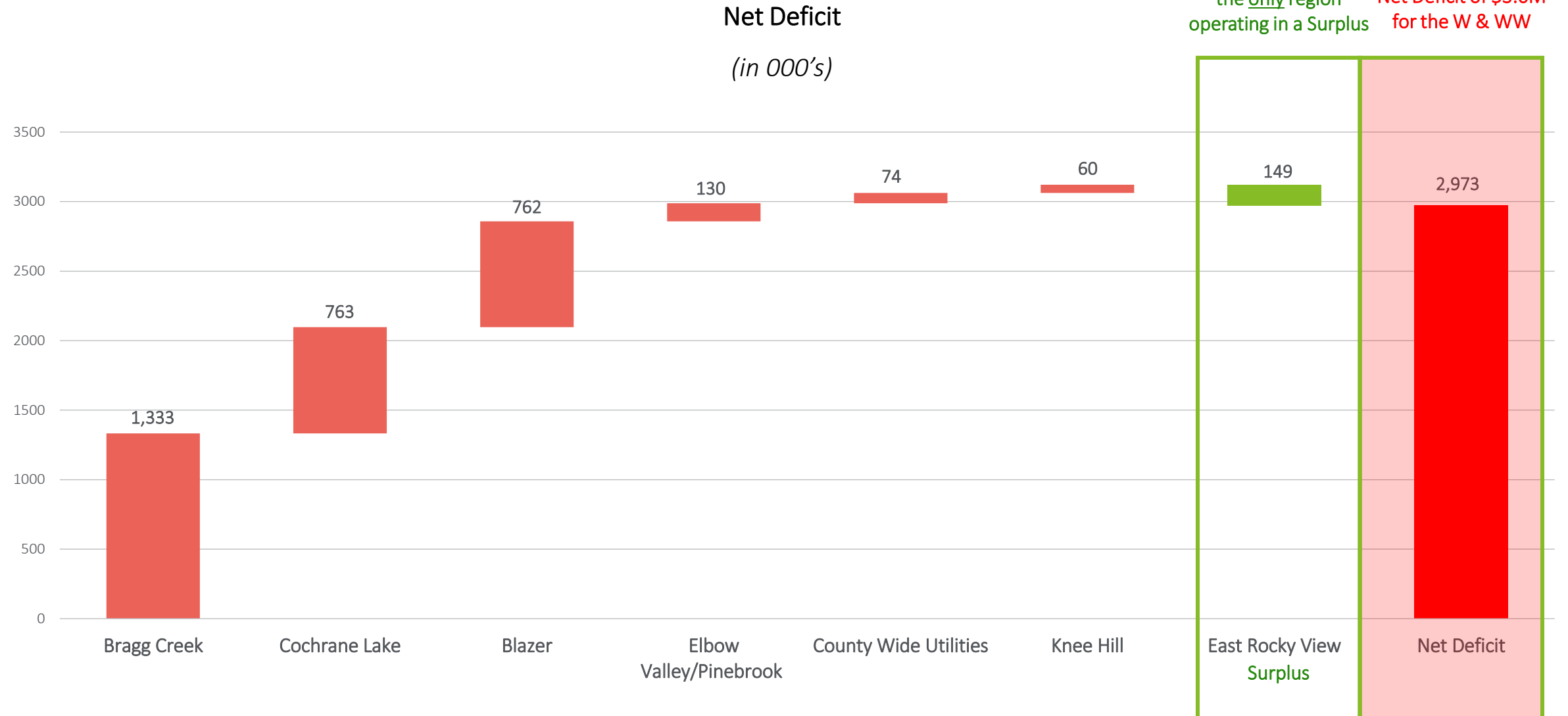
1. Utilities: **\$3M deficit** = rev **\$17M** - exp **\$20M**
  - East Rocky View: **\$149K profit**
  - Bragg Creek: **\$1.3M deficit**
  - Offset by deficits in other regions
2. Water has better results than Wastewater:
  - **Water** almost at break-even: **\$52K deficit**
    - East Rocky View: **\$1.7M profit**
    - Offset by deficits in other regions
  - **Wastewater** is not profitable (at the County or regional level)
    - **\$2.9M deficit**
    - Costs are **132%** of revenues
3. Overhead costs allocation – 12% of total costs
  - Capital & Engineering: highest category

### Debt & Assets

4. Split **50/50** between **Water** and **Wastewater**
5. Debt of **\$50M**, or **93%** of RVC's Total Debt
  - East Rocky View holds **\$26.3M** of total
6. Assets of **\$233M** = **\$212** Tangible Capital Assets + **\$21M** Water licenses

# Net Deficit Position

Net deficit for Water and Wastewater Utilities





## Note to Reader

Basis of presentation - Net Deficit for Water and Wastewater Utilities

The deficit identified for the Utilities in this exercise vs. the previous deficit presented by Administration are not prepared on the same basis and therefore should not be compared.

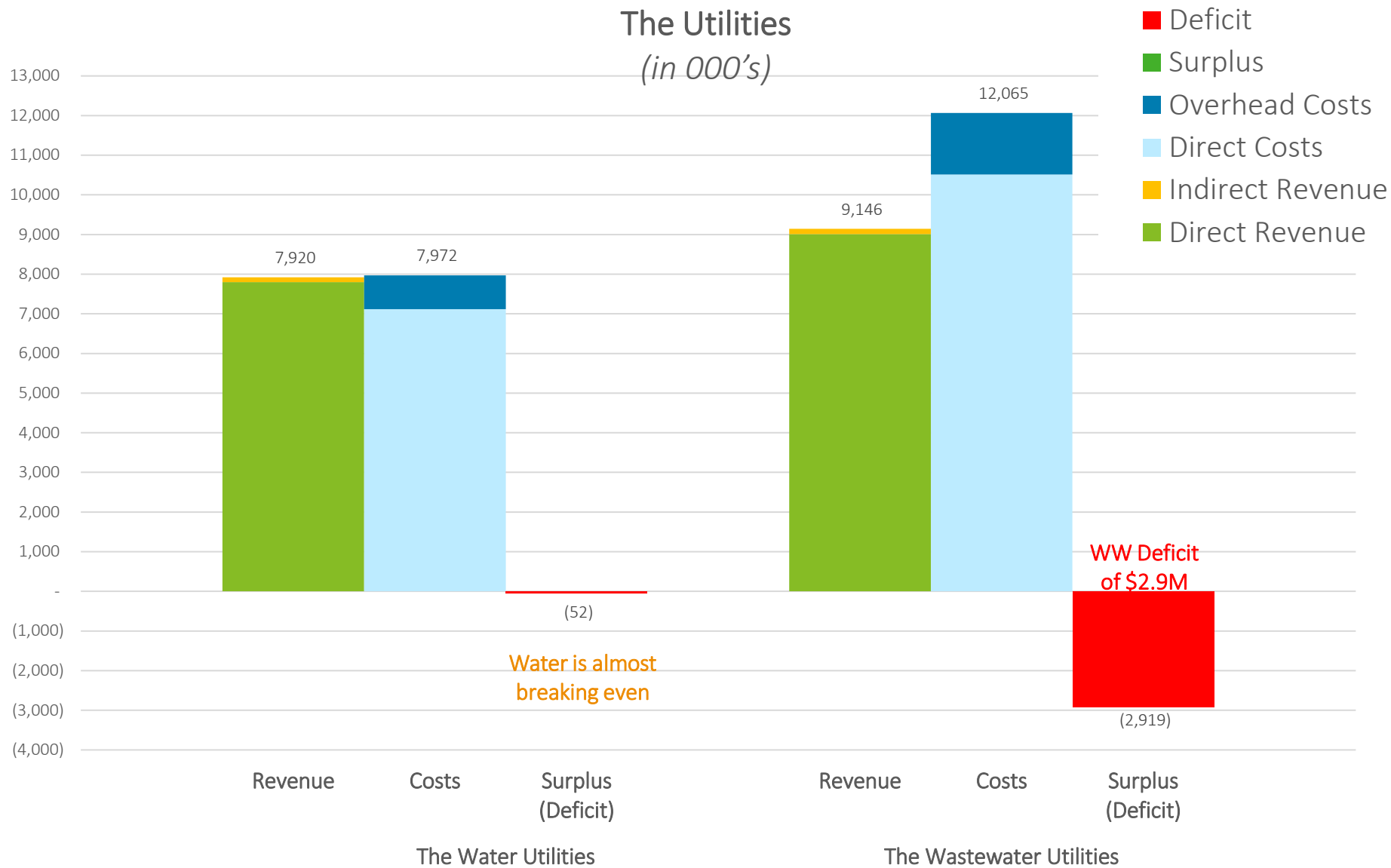
### Comparing apples vs. oranges

Deficit previously presented to Council \$2M	Deficit per Current Exercise \$3.0M
<ul style="list-style-type: none"> <li>Excludes Local Improvement Taxes (“LIT”)</li> <li>Excludes Amortization</li> <li>Includes principal repayments made on the Utilities debentures</li> <li>Does not include allocation of overhead costs</li> </ul>	<ul style="list-style-type: none"> <li>Includes LIT</li> <li>Includes Amortization</li> <li>Excludes principal repayments made on the Utilities debentures</li> <li>Includes allocation of overhead costs</li> <li><u>Includes Normalizing Items that reduce the deficit by \$2.4M:</u> <ul style="list-style-type: none"> <li>\$2.1M increase in Revenue – Removing prior periods adjustments from 2009-2022</li> <li>\$0.4M decrease in Expenses for non-recurring items – Transfer to Balzac Recoverable</li> </ul> </li> </ul>

*\$3M Deficit is comprised of \$0.8M Direct Costs and \$2.2M Overhead Costs*

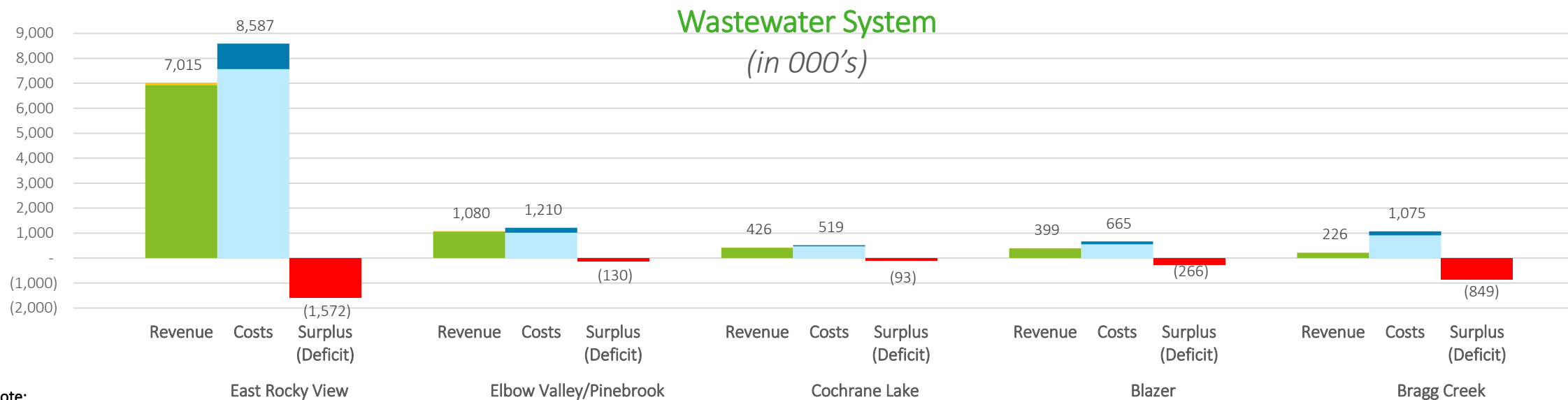
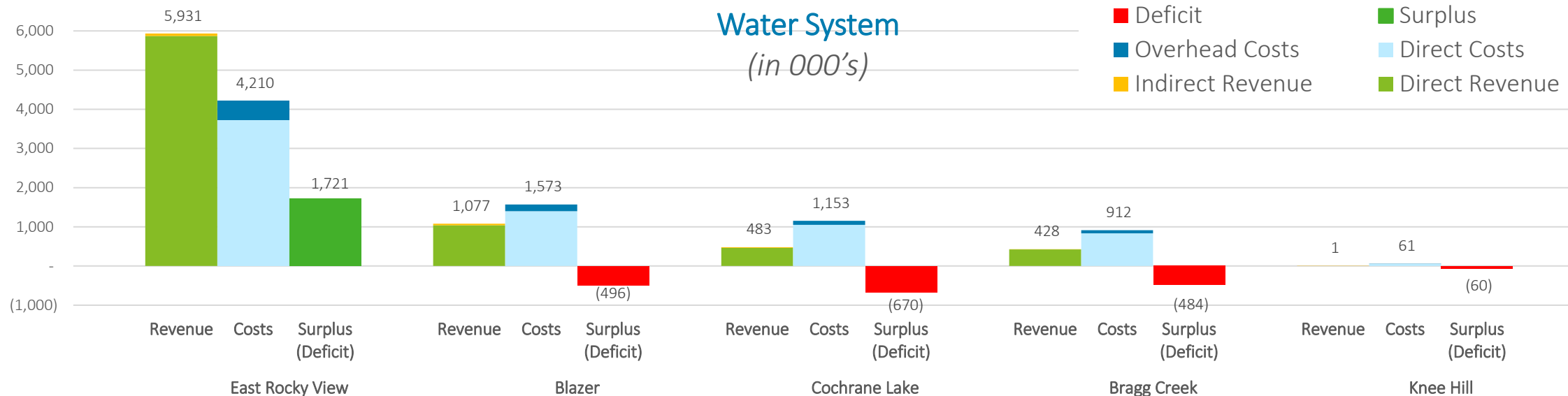
# Summary of the Utilities

Overview of the Utilities



# Summary of the Utilities

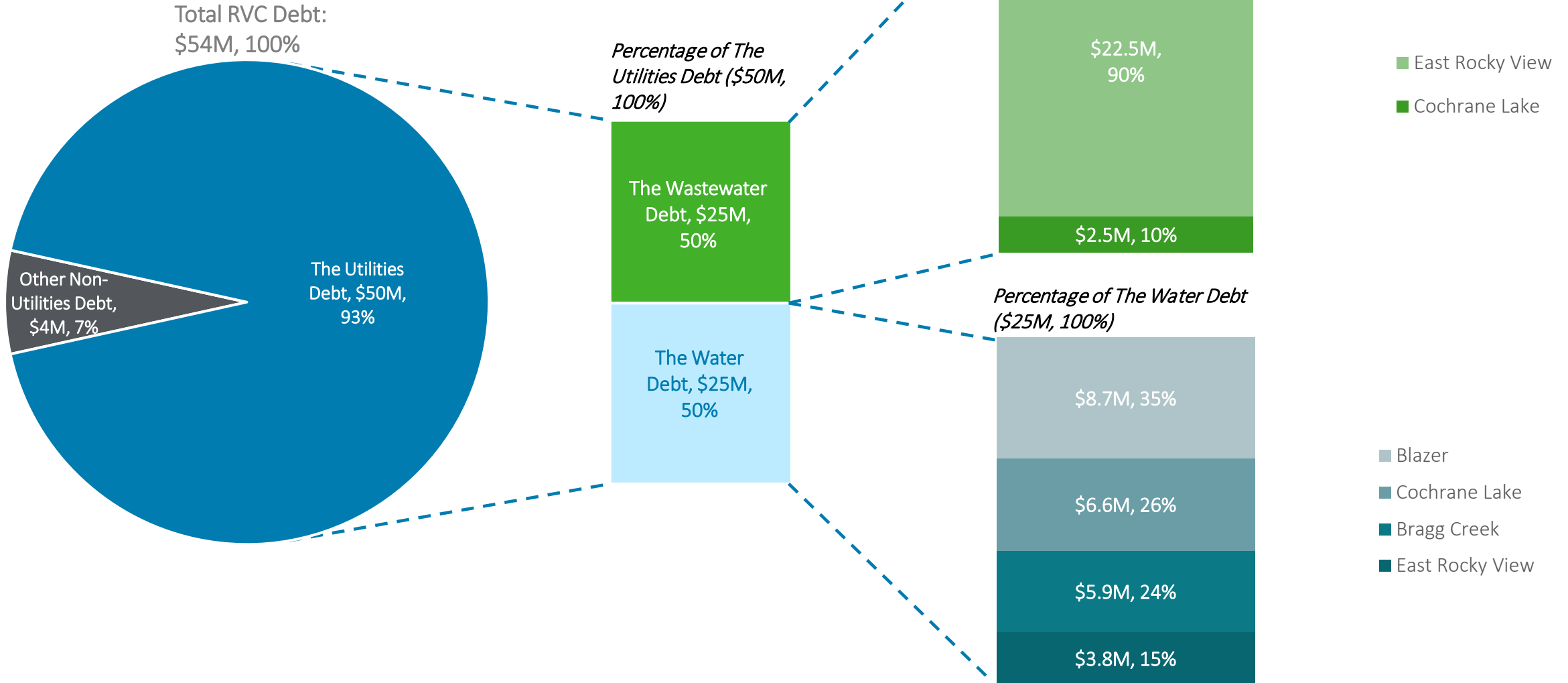
Overview of *Water*, *Wastewater*



**Note:**  
**Elbow Valley/Pinebrook** does not have water operations; therefore, it has been excluded from the Water System bar chart.  
**Knee Hill** does not have wastewater operations; therefore, it has been excluded from the Wastewater System bar chart.  
**County Wide Utilities** have been excluded from the presentation of these charts due to insignificance. As a result, chart totals will not agree to total results.

# Utilities Debt

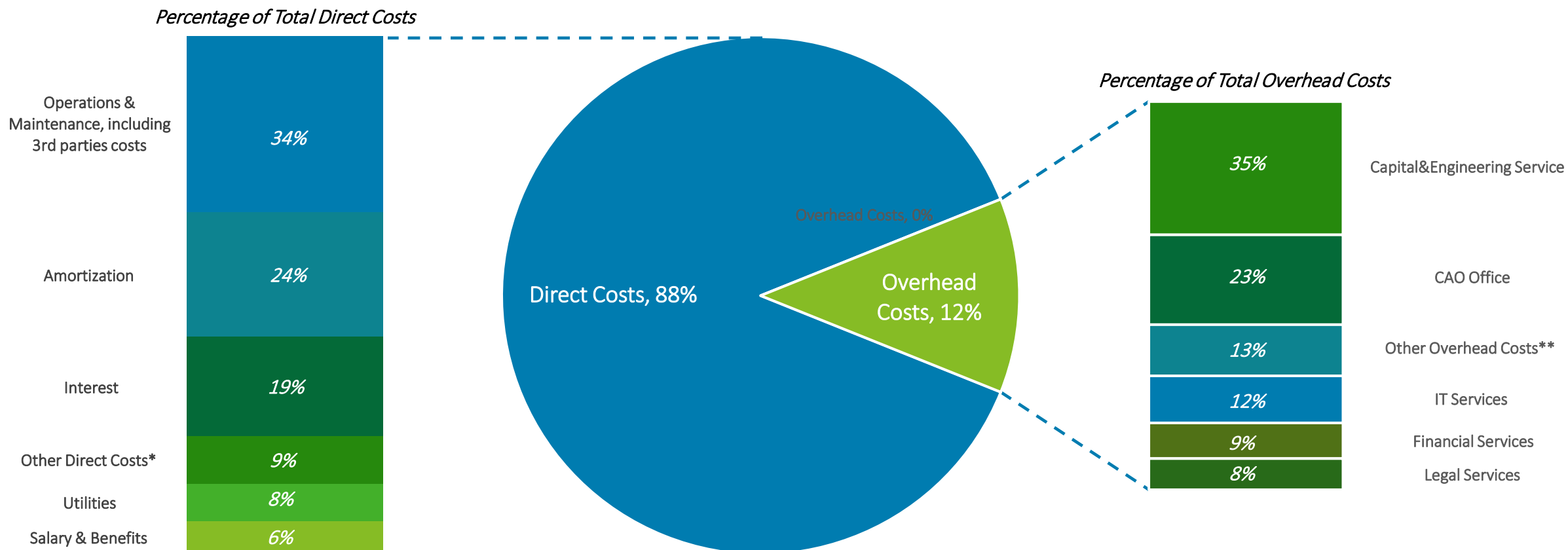
## Total Utilities



# Nature of Costs

Direct Costs vs. Overhead Costs

Full Cost Structure of The Utilities

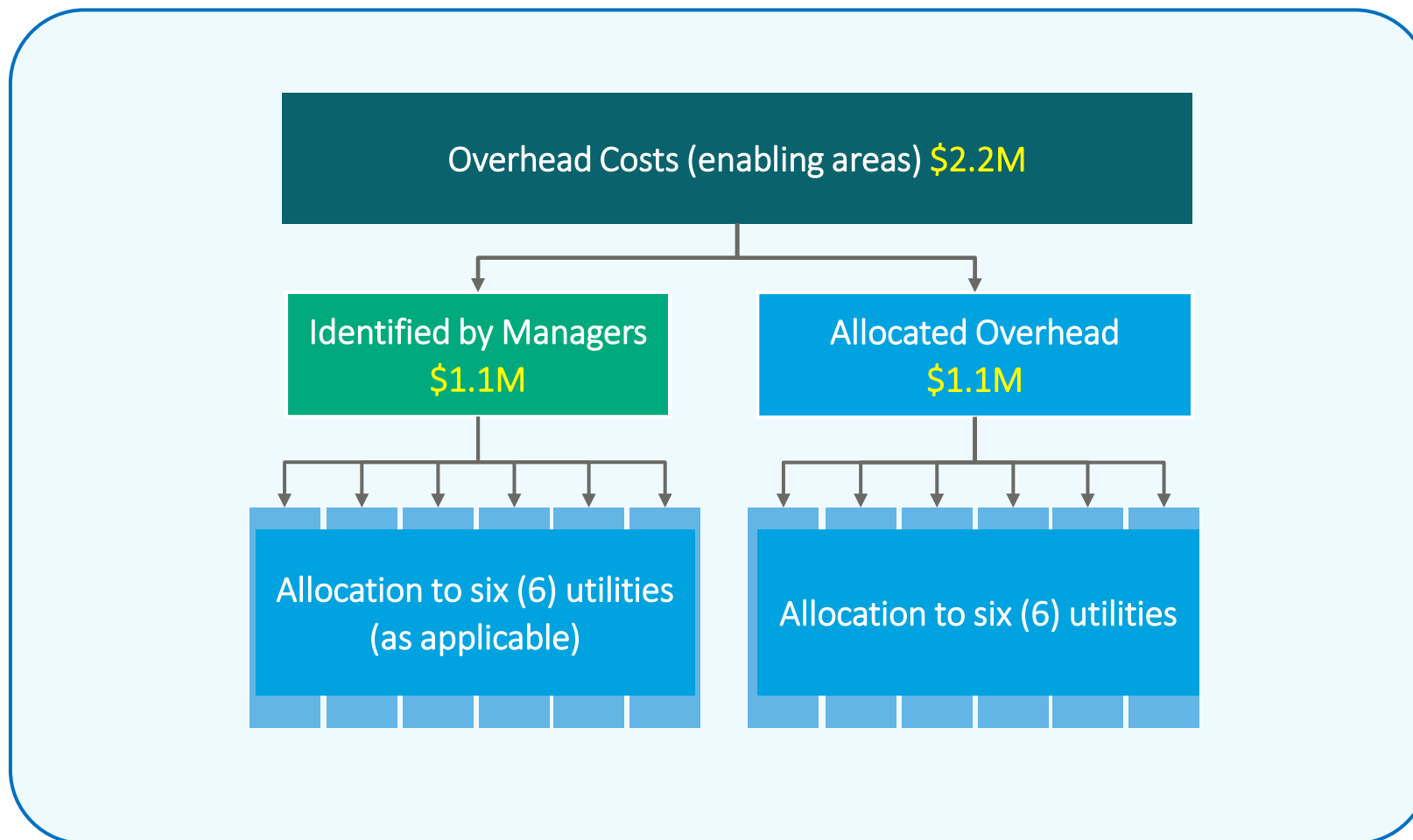


\*Other Direct Costs include Contractors and Consultants, Materials, Supplies, Water Conveyance, Hauling, Other Expenses and Interdepartmental Allocation

\*\*Other Overhead Costs include People & Culture, Customer Care & Support, Cemetery Operations, Building Services, Corporate Properties, Transport Services and Road Operations

# Cost Allocation Methodology

Overhead costs of (12%) comprised of the following:



## Legend (Color Code)

Costs already allocated as per the system AND Allocations based on enabling areas manager

Overhead allocated using allocation methodology

# Next Steps



## Next Steps



### Operationalize:

- Application of cost allocation based on 'cost accounting' principles is key to full-cost recovery
- Apply cost allocation model
- Consider if there is a need to refine cost drivers



### Consider downstream impacts

- Rate-making and time horizon for recovery
- How are capital and operating costs factored into current rate structure
- Asset Management Framework
- Assessment of infrastructure aging, asset renewal/replacement
- Resource & capital allocation decisions
- Budgeting & Forecasting

*Cost Accounting – methodology to capture total cost of service, including overhead costs.*

# Appendices

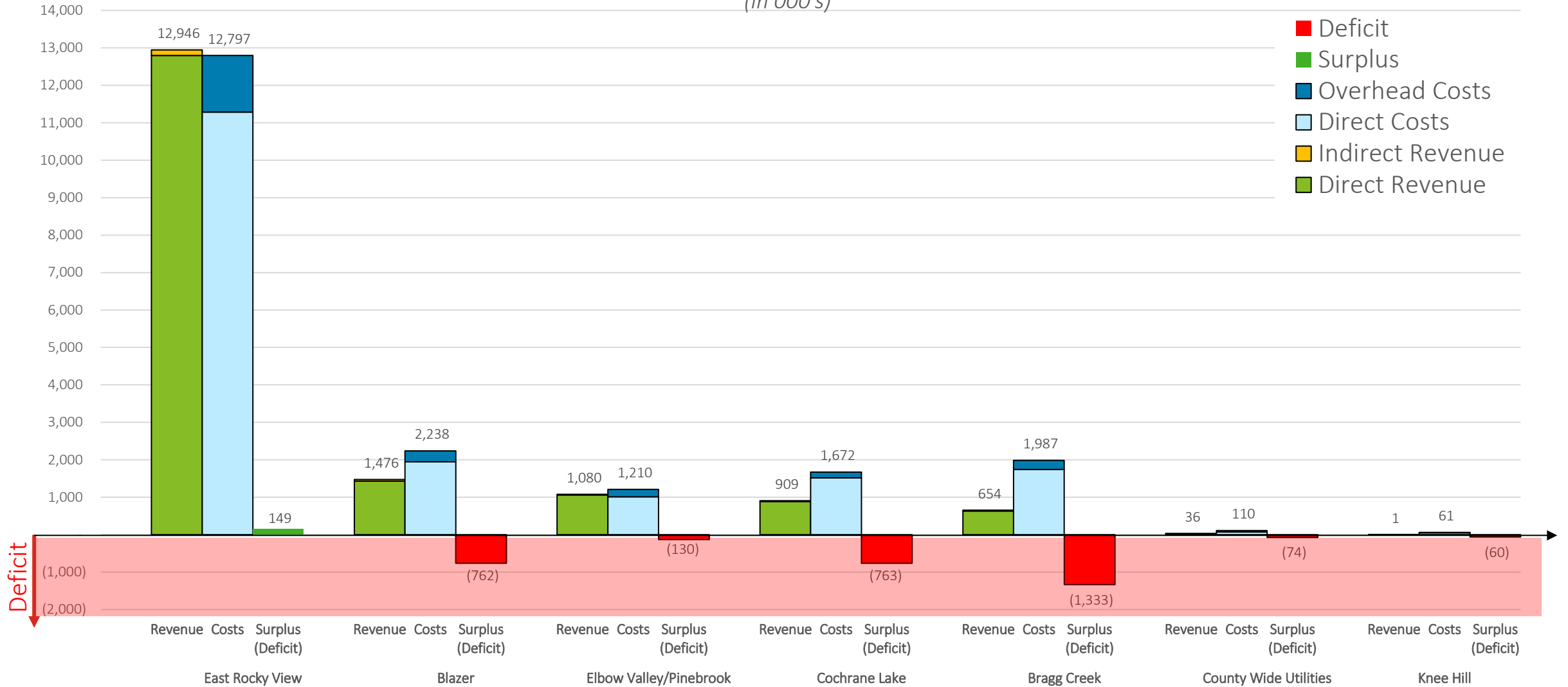


# Appendix A - Summary of Financial Results

# Revenues, Costs and Surplus/Deficit

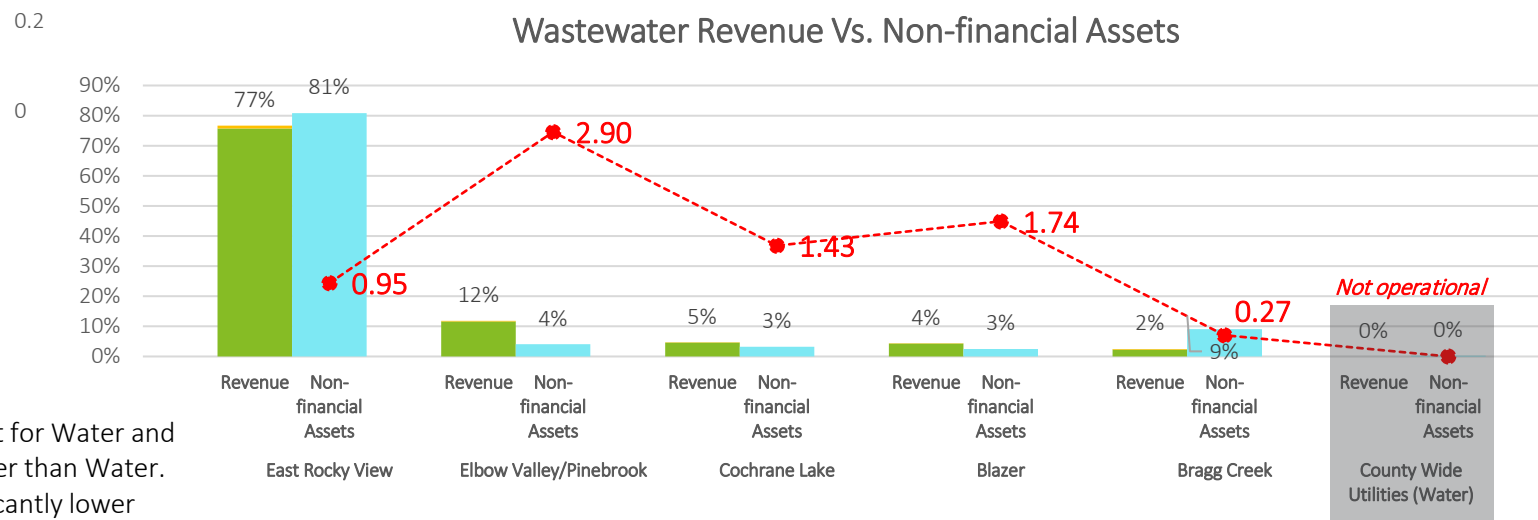
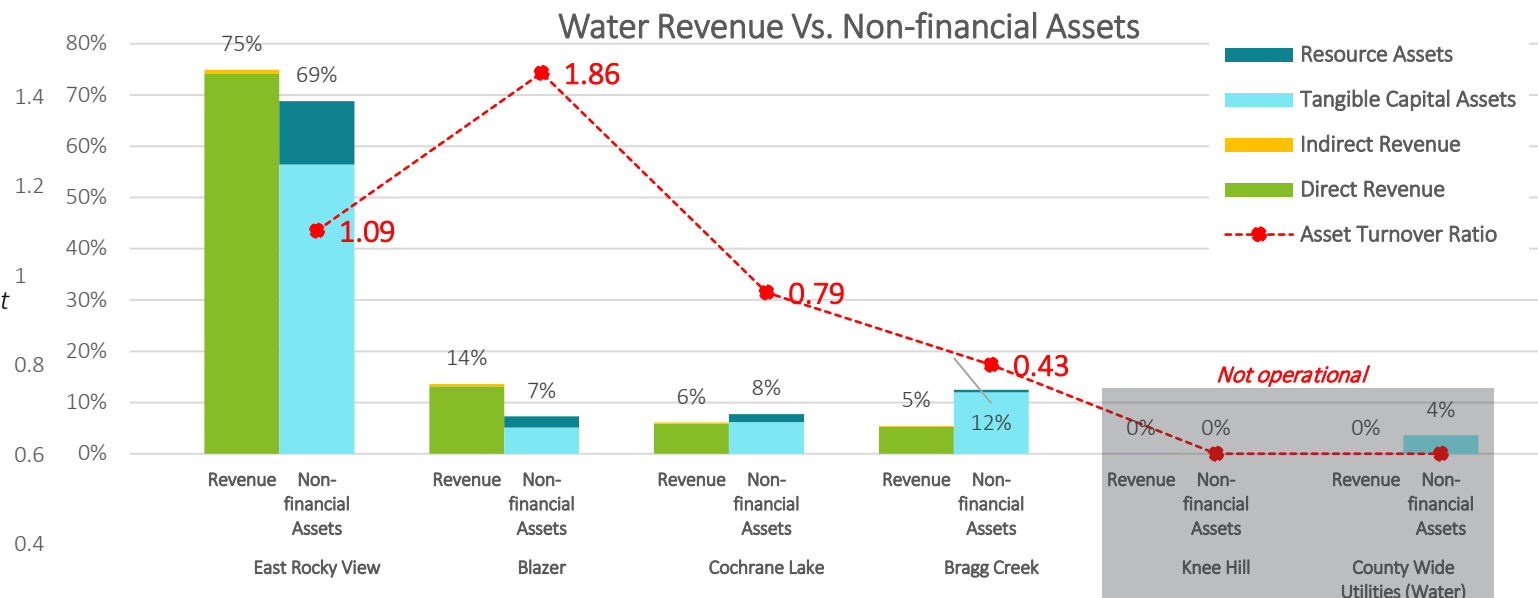
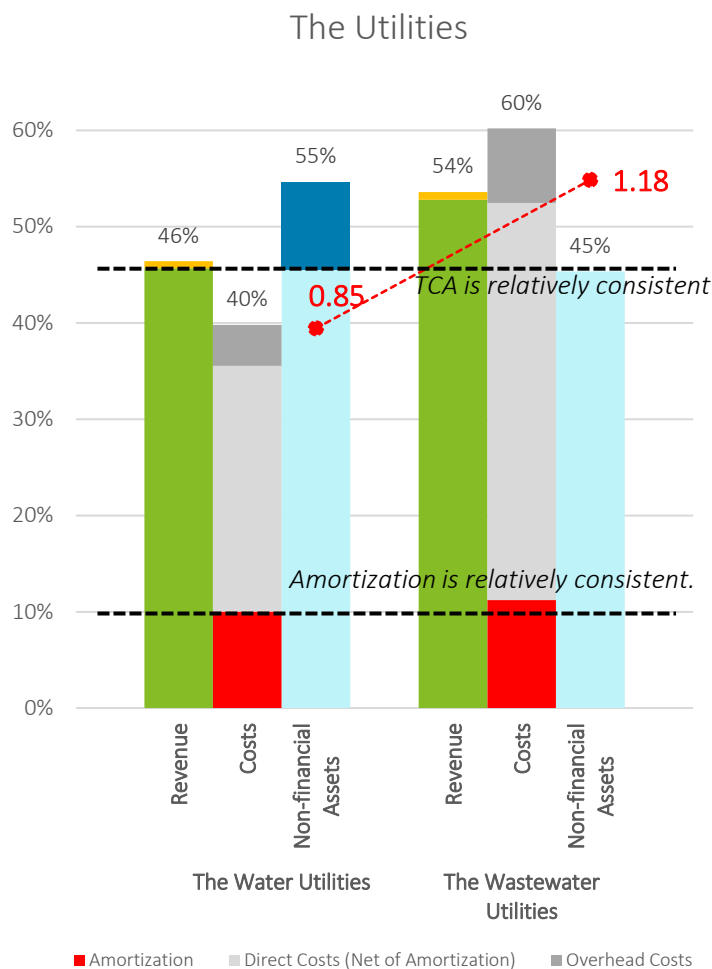
Summary for the Combined Water and Wastewater Utilities

Revenue, Full Costs and Surplus (Deficit) for the Utilities  
(in 000's)



# Revenue Vs. Non-financial Assets

Overview of Water, Wastewater and the Total Utilities



Tangible Capital Assets and amortization are relatively consistent for Water and Wastewater. However, Wastewater's costs are significantly higher than Water. When looking at the Asset Utilization ratio, Bragg Creek is significantly lower than other regions, indicating its ability to generate revenues based on its capital expenditure for TCA is significantly lower than the other regions.

\*Asset Utilization Ratio evaluates the efficiency of a system in converting 1% of total assets owned into 1% of total revenue.

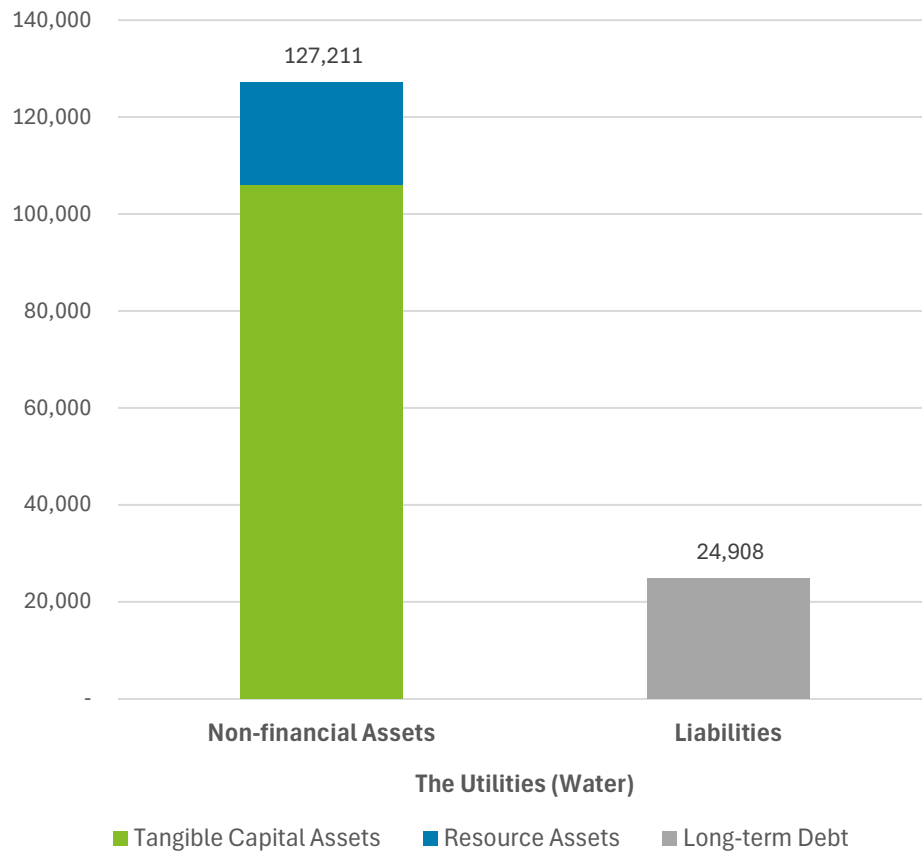
# Tangible Capital Assets, Resource Assets & Liabilities

## Water System

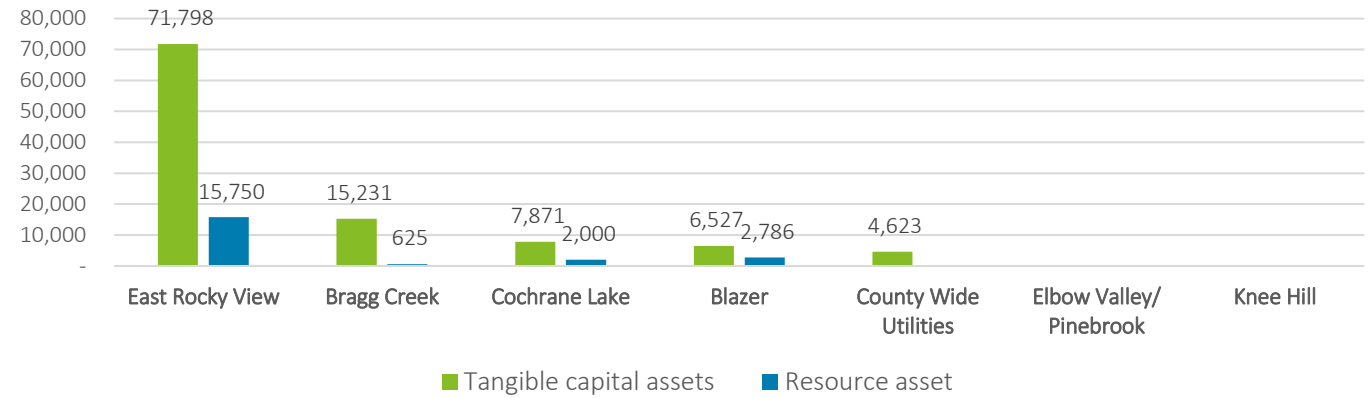
Tangible Capital Assets are Fixed Assets

Resource Assets are water licenses

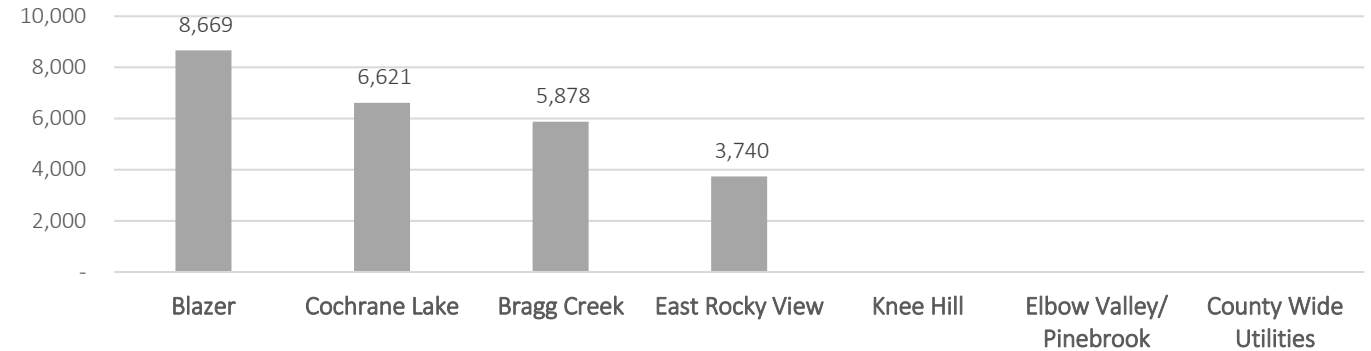
Total Non-financial Assets & Liabilities of Water System  
(in 000's)



Tangible Capital Assets & Resource Assets of Water System  
(in 000's)



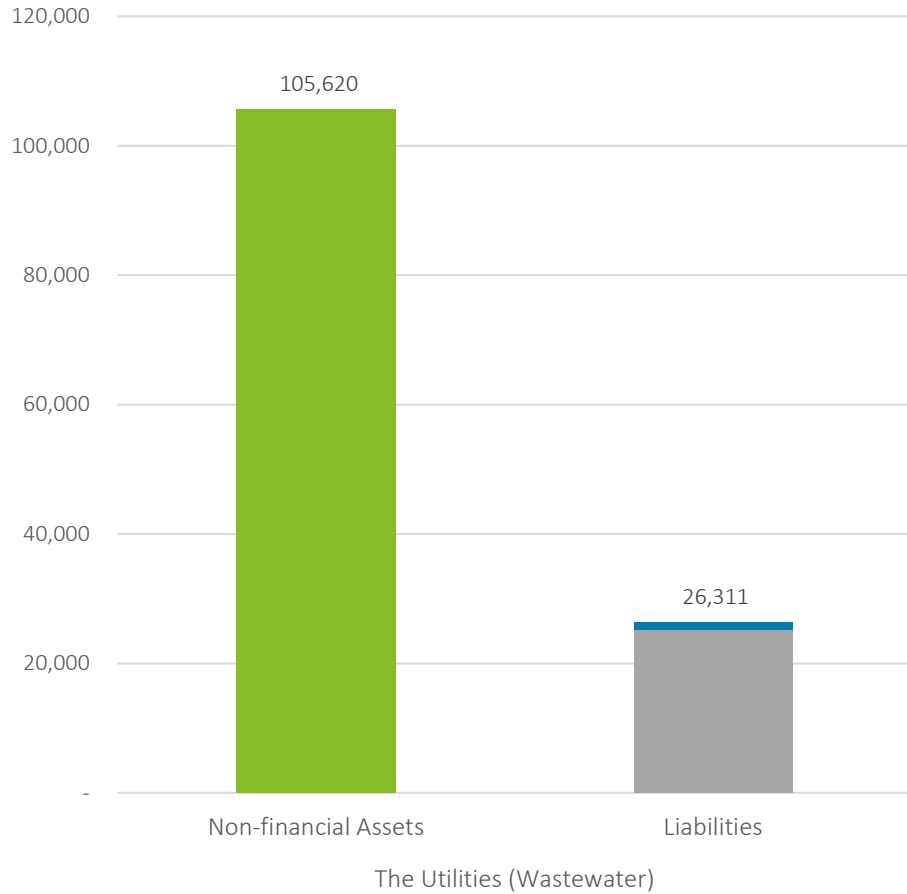
Long-term Debt of Water System  
(in 000's)



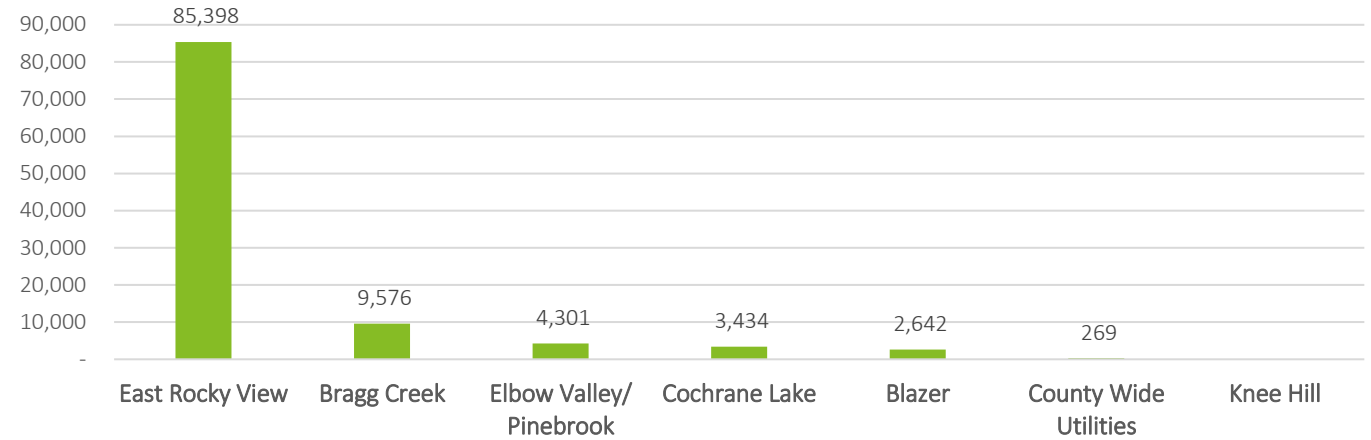
# Tangible Capital Assets, Resource Assets & Liabilities

## Wastewater System

Total Non-financial Assets & Liabilities of Wastewater System  
(in 000's)



Tangible Capital Assets of Wastewater System  
(in 000's)



Long-term Debt & Asset Retirement Obligation of Wastewater System  
(in 000's)



■ Tangible Capital Assets ■ Long-term Debt ■ Asset Retirement Obligation

■ Long-term debt ■ Asset Retirement Obligation

# Appendix B - Cost Allocation Model

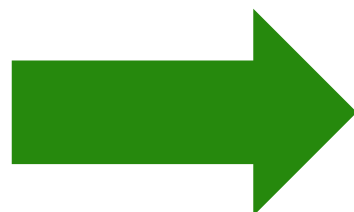
## Cost Allocation Model

**Purpose:** To identify and assign enabling areas costs of the Utilities to understand the full cost of operations.

**Utilities Full Cost Accounting** = **Direct Costs** + **Overhead Costs**

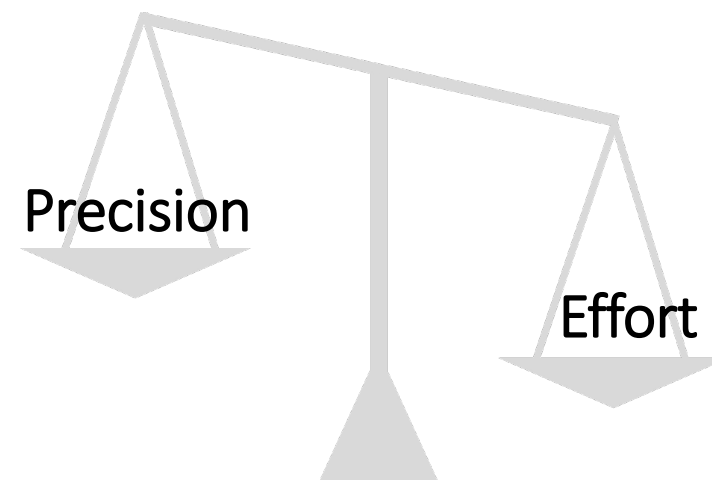
### Cost Drivers Evaluated

- FTEs
- % of Revenue
- % of Direct Costs
- Customer Type
- Customer Count
- Residency

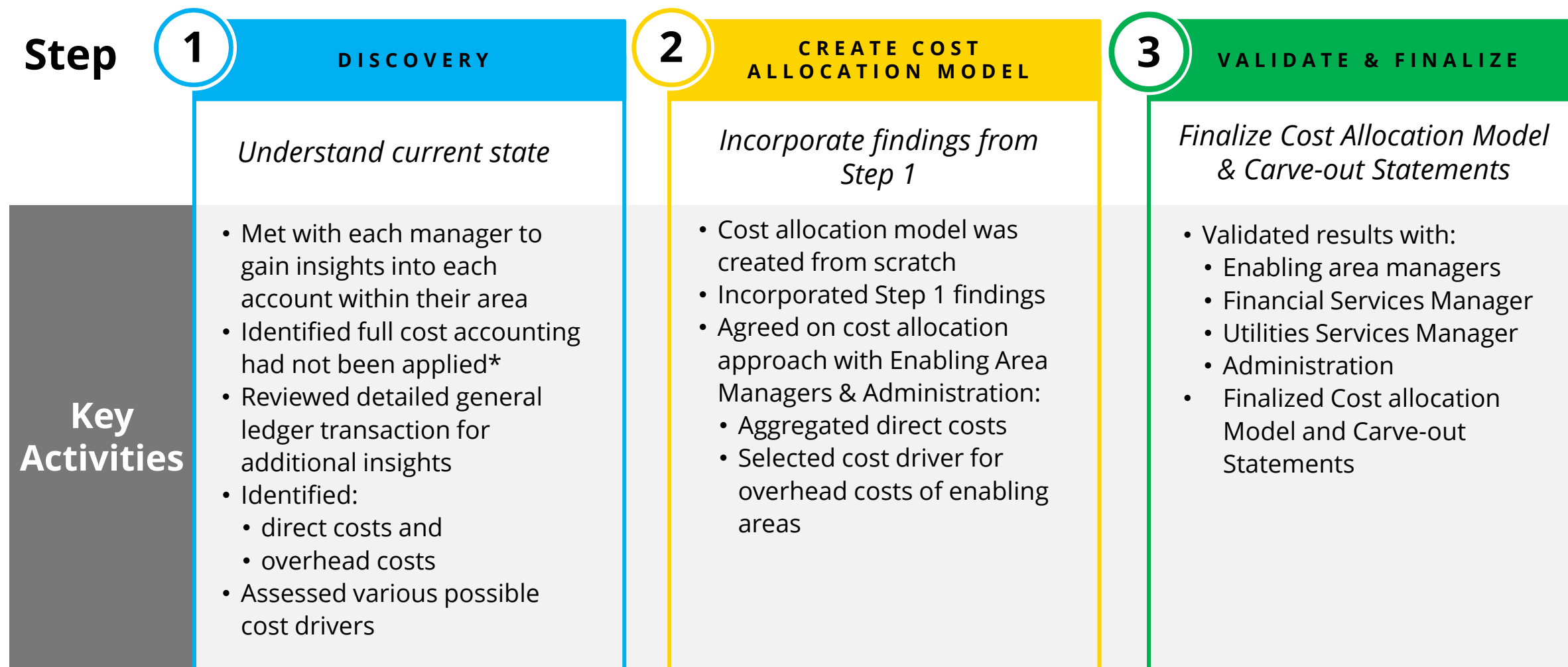


### Cost Driver Chosen % of direct costs

Can be refined in future if there is another measure that more closely approximates overhead costs



# Cost Allocation Model





\*Full cost accounting is not currently applied at the Utilities. Limited cost allocations are currently performed.



# Cost Allocation Methodology

		Bragg Creek		East Rocky View		Blazer		Cochrane Lakes		Knee Hill	Elbow Valley
		Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater	Water	Wastewater
CAO Office		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
IT Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Capital & Engineering Service		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
People & Culture		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Customer Care & Support		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Legal Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operational Services – Admin		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fleet Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Cemetery Operations		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Building Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Corporate Properties		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transport Services		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

### Legend

	Allocated to the Utilities
	Allocated to Storm