

City of Regina's 30-year evolution from short-term to long-term financial sustainability

Background

The City of Regina delivers water, wastewater and stormwater services to Regina residents and businesses, as well as customers outside city limits. Regina sources its water from Buffalo Pound Lake which is about 60 kilometers from Regina. The source water originates in the Rocky Mountains, flowing as rainfall and snowmelt through the South Saskatchewan River and is diverted to Buffalo Pound Lake. The Buffalo Pound Water Treatment Plant is jointly owned by the City of Regina and the City of Moose Jaw.

Thirty years ago, as part of a comprehensive water utility study, the City of Regina moved a rate-setting policy that set the city forward on a path toward full cost recovery using user rates and charges. The policy sets out the following rate policy objectives:

- 1. Financial sufficiency:** utility rates must generate adequate revenues to meet all operating and capital costs.
- 2. Conservation:** utility rates should encourage customers to minimize water consumption.
- 3. Reduction of peak demand:** utility rates should reduce peak demand, primarily due to outdoor watering.
- 4. Equity:** utility rates should charge customers according to the cost of services they require.

Key insights

- Utility modelling and planning for long-term financial sustainability is an iterative, collaborative process that requires continual reviews and improvements.
- The capital investment planning (CIP) process and multi-criteria prioritization tool, as well as Master Plans, have helped the City of Regina to improve its approach to assessing needs and projecting costs. This allows the city to sustain levels of service for the community and stabilize rates.
- As a result of the improvements made in capital planning, administration is better equipped to make the case for the capital investment plan and to prepare for the potential impacts of changes to the plan if funding is reduced. Council also has an improved understanding of the utility financial forecast as a result.
- Water affordability programs support low-income households with senior citizens or people living with disabilities. They do this by applying rebates to water bills and providing vouchers to purchase water efficiency audits and high-efficiency water fixtures.





Over the years, the city has introduced two significant advancements in support of the policy objectives:

1. A full meter replacement program (including current meter upgrades to AMI).
2. A utility rate structure that includes a base rate and uniform volumetric rates, a sewer charge based on a percentage of water consumption depending on the residence type, and an area-based stormwater rate structure.

Until 2015, the city also employed a utility financial model that considered the utility's finances over a 20-year horizon, including revenues, operating and capital expenditures, debt, transfer policies and reserve balance.

Challenges

The utility model served as a tool to determine opportunities for reducing operating and capital costs to balance the available revenue. However, this approach resulted in two main challenges:

- 1. The utility model had a limited impact on long-term financial sustainability.** Originally, the utility model's primary purpose was to assess efficiencies, short-term needs and financing. At the time, the utility's current finances

were in a good state, and future needs projections included some longer-term expenditures and financial requirements. The model was used to determine where operating and capital budget requests could be reduced to balance the revenue available. While this approach supported mainly short-term fiscal management, it pulled the focus away from more robust long-term planning and business case developments for future system requirements or upgrades.

- 2. Inaccurate budget requests.** At times, the short-term focus on efficiency led to inaccurate or inflated budget requests.

Over time, the city became more aware of changing conditions, the needs, and costs to maintain existing infrastructure, and the criticality of meeting future demands to achieve long-term sustainability.

Capital investment planning process and multi-criteria prioritization tool

Starting in 2015, the city started building out the rate policy objectives to include a more complete capital investment planning process driven by service needs. The city worked with consulting firms to complete water and wastewater master plans. It also worked with consulting firms to develop a multi-criteria prioritization (MCP) tool that linked the city's



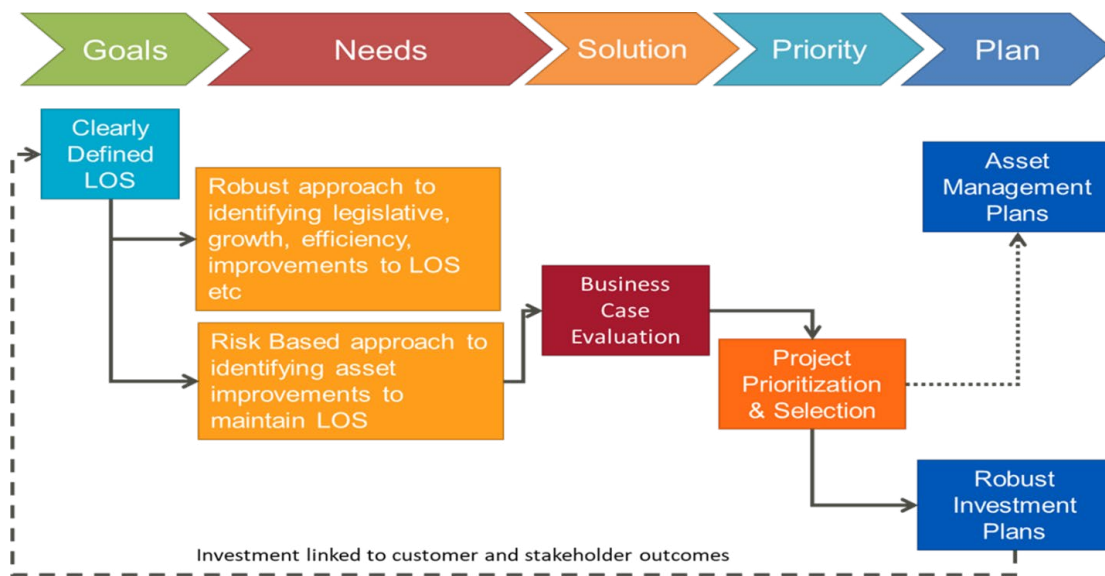


Figure 1. Overview of the capital investment planning CIP process.

10-year capital investment plans with asset performance and service outcomes, with the goal of advancing service-driven asset management approaches to investment planning.

At the same time, a more holistic 25-year utility model was built to gather all known costs, inflationary factors, and demand forecasts (subject to weather conditions, water conservation policy and price). The model also gathered growth projections and future expenditures to determine future water rates, debt issuance (considered as part of the overall debt capacity), and reserve balance considering the priority of capital project upgrades.

In addition to this, the city recognized the need to increase cross-functional collaboration to successfully implement the MCP tool. Stakeholders came together to discuss shared goals, priorities, and desired levels of service through the utility lens. Currently, the utility model, MCP tool and the capital investment planning process are collectively used to assess the impacts of large investments and develop scenarios to finance the investment plans with varying rates, debt, and reserve balance (levers). This new approach also assesses the impacts of potential changes to the proposed capital plan to achieve long-term sustainability.

Today, the annual process of completing reviews, updates and utility modelling involves:

1. Operations and engineering staff develop business cases that describe service needs and proposed solutions.
2. Business cases are reviewed, and benefits of investment in the projects are identified based on the following four investment drivers: maintaining levels of service, new regulations and improved environmental protection, enhancing levels of service, and growth.
3. The MCP tool helps develop a ranked list of priority projects that is reviewed and agreed by a cross-functional team.
4. A capital investment plan is developed in consideration of preliminary funding constraints and risk of unfunded projects.
5. Alternative financing scenarios are developed using varying rates, debt issuances and draws from the reserve.
6. The prioritized plan and financing scenarios are used to develop the recommended investment plan, proposed budget, and proposed rate schedule for Council deliberations.





Affordability and equity

In recent years, the city has adopted a more intentional approach to including affordability considerations as part of its decision-making processes. The city applies the guidelines that households should not be spending more than five percent of annual income on water services. Using this guideline, the city determined that approximately eight percent of Regina households are experiencing some level of water unaffordability.

In 2023, the city introduced water and municipal tax affordability programs. Recognizing the cost of the programs was to be carried by all utility users, Council chose to provide the affordability programs to low-income households with at least one senior citizen or person living with a disability. The intent of the program is to balance the cost with providing support for those who are more vulnerable and have limited opportunities to increase household incomes.

Regina's Water Utility Rebate Program applies a rebate to the qualifying customer's monthly water bill. The High-Efficiency Water Retrofit Program provides eligible households with vouchers to purchase water efficiency audits and purchase high-efficiency water fixtures. The Low-Income Municipal Property Tax Deferral Program provides qualifying households with the opportunity to defer a portion of their municipal property tax.

Current status and outlook

Scenarios developed with the utility model, CIP process and MCP tool help assess options and inform decisions for long-term sustainability. As a result, city administration has improved its capacity to strengthen the case for the capital investment plan and prepare for the potential impacts of changes to the plan if funding is reduced.

Council has an improved understanding of financial projections from the utility model and is aware of the general process at a high level. While the use of the utility model and the overall framework for the CIP process have remained the same, the city is continually looking for ways to make improvements over time.

Using the CIP process and MCP tool, the city has improved its approach to evaluating needs and projecting costs. Projections have closely matched capital investment funding, enabling the city to sustain levels of service for the community. In recent years, utility rates increased by two percent in 2018, three percent in 2019, three percent in 2020, three percent in 2021, five percent in 2022 and 4.5 percent in 2023. Council approved a 2024 rate that includes a three percent increase to base utility charges and a four percent increase on consumption charges. These rates are expected to support the city's full cost recovery and inter-generational equity goals.





Rates are projected to be relatively stable over the next several years.

Lessons learned

- **Collaboration:** the breaking down of siloes within and across branches and departments is key to ensuring the success of implementing the CIP process and MCP tool.
- **Progress over perfection:** municipalities and utilities are encouraged to start with the existing data and resources they have and adjust and improve the process over time.
- **Change is certain, and the process is a journey:** annually review and adapt to changing conditions and new information, capital plan updates, financial projections and scenarios.

