



The Regional Municipality of Durham
Report to: The Finance & Administration Committee
From: R.J. Clapp, Commissioner of Finance
Report #: 2014-F-28
Date: April 15, 2014

SUBJECT:

Durham Region Water Financial Plan #003-301A

RECOMMENDATIONS:

THAT the Finance & Administration recommend to Regional Council that:

1. In accordance with Provincial Regulation 453/07, the Water Financial Plan (Provincial #003-301A) as provided in Appendix #1, which has been prepared in the Public Sector Accounting Standards format employing tangible capital asset methodology, be approved;
 2. A copy of the Water Financial Plan and Council Resolution approving the plan be submitted to the Ministry of Municipal Affairs and Housing (MMAH) as prescribed by Ontario Regulation 453/07 under the Safe Drinking Water Act, 2002 which requires owners of municipal drinking water systems to submit a Water Financial Plan to the Province in order to obtain or maintain a Municipal Drinking Water Licence;
 3. Regional staff be authorized to place notification in newspapers and on the Region's website advising the public of the availability of Durham's Water Financial Plan, as prescribed by Ontario Regulation 453/07; and
 4. The Province be requested to amend Ontario Regulation 453/07 (Financial Plans) in order to allow large municipalities to submit existing studies in lieu of the financial plan in order to avoid significant staff time and related costs in preparing water financial plans which will not be used for Business Planning purposes and do not provide meaningful information to Council, ratepayers and users of the system.
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REPORT:

1.0 BACKGROUND

- As part of the Province's commitment to implement all of Justice O'Connor's Walkerton recommendations, the Ministry of Environment (MOE) has put in place an approvals framework (**The Municipal Drinking Water Licence Program**) under the Safe Water Drinking Act, 2002 (SWDA) for municipal residential drinking water systems. This program replaced the previous MOE Certificate of Approval process.

- There are five requirements under the Municipal Drinking Water Licence Program in order for a municipality to become licensed, which include:
 1. Obtaining a water works permit;
 2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard;
 3. Accreditation of the Operating Authority;
 4. Obtaining a permit to take water; and
 5. **Preparing and providing a financial plan.**

- The Province passed Ontario Regulation 453/07 in August 2007 which identified the requirements of the Financial Plan for water systems. The regulation is part of the Province's long term strategy to ensure that municipal drinking water systems are financially viable.

- Durham Region received its municipal drinking water license in November 2009 and the Region submitted a Water Financial Plan to MMAH in June, 2010, as prescribed by the Regulation. **The Region is required to submit an application to renew its municipal drinking water license by May 20, 2014. Prior to this date, the Region is to submit a Financial Plan approved by Regional Council to MMAH. As well, a copy of the approving resolution by Regional Council must be included with the application.**

2.0 REQUIREMENTS OF FINANCIAL PLANNING REGULATION 453/07

- The regulation requires owners of municipal drinking water systems to complete and submit Financial Plans for existing and new water systems. The Financial Plans must be developed for at least a six year period and must contain details of a system's financial position, financial operations and cash flow and be made available to the public. **The regulation does not require Provincial approval of Financial Plans but the plans must be submitted to MMAH.**

- The regulation sets out different requirements for existing and new systems.

2.1 New Water Supply Systems

- For new water supply systems, the regulation requires the owner to declare in the form of resolution (Council resolution) that the financial impacts of the proposed system have been considered and that the proposed system is financially viable. The resolution must include a copy of the Financial Plan and sent to MMAH.

- The financial plan must include detail regarding projected financial operations such as total revenues, expenses and annual surplus or deficits for each year in which the financial plan applies.

2.2 Existing Water Supply Systems

- For existing systems, the Financial Plan must be approved by the owner (Council) and a copy of the Financial Plan and the approving resolution must be submitted to MMAH. The Financial Plan must be updated in conjunction with every application to renew a system's drinking water licence (ie. every five years).
- **The Financial Plan for an existing water supply system requires significantly more information as compared to a Financial Plan for a new system.** The Financial Plan for an existing system must include all the information required for a new system, plus information on tangible capital assets as follows:
 - Details of the financial position of the system include:
 - Total non-financial assets;
 - Tangible capital assets acquisition;
 - Betterments;
 - Write downs;
 - Disposals; and
 - Total liabilities and net debt.
 - Details of the financial operations for the system include:
 - Total revenues, itemized by water rates, user charges and other revenues;
 - Total expenses, itemized by amortization expenses, interest expenses and other expenses;
 - Annual surplus or deficit; and
 - Accumulated surplus or deficit.
 - Details of the drinking water system's cash flow including receipts and payments arising from:
 - Financing activities;
 - Capital activities;
 - Investing activities;
 - Operating activities;
 - Changes in cash and cash equivalents in the period; and
 - Cash and cash equivalents at the beginning and end of period.
- The Regulation states that for a municipality that owns and operates numerous water supply systems (like Durham), the municipality can prepare a single Financial Plan for all systems.

3.0 **DURHAM'S CURRENT FINANCIAL PLANNING PRACTICES**

- Long-term financial planning is an integral part of Durham Region's Business Planning Process as Regional Council approves three annual financial and capital planning studies related to water supply and sanitary sewerage (Water Supply and Sanitary Sewerage Servicing and Financing Study, Water and Sewer User Rate Report and Asset Management Report) which identify future capital and operating costs and sources of funding (upfront funding, development charges, user rates etc.) to ensure the long-term financial viability of the systems.
- The Region also undertakes a full review of its development charges by-law at a minimum every five years. The development charge study estimates the future population and employment growth for the Region (approximately 20 year projection) and identifies the capital requirements to accommodate the residential and non-residential growth. Based on this information, a development charge is established for a number of Regional services including water supply. Development charges provide revenue to fund growth related capital expenditures and eases the burden on existing residents.
- Durham Region's financial policies (pay as you go financing, use of reserves, commitment that growth-pays-for growth, and minimal debt issuance) and the use of long term financial planning which has supported the Region's strong financial position has resulted in Durham Region being rewarded with the highest bond rating of triple AAA.
- **Despite the financial planning utilized by the Region, a separate financial plan is required to be submitted to the Province as part of the municipal license renewal.**

4.0 **DURHAM'S FINANCIAL PLAN #003-301A (APPENDIX #1)**

- Durham's Financial Plan (Appendix #1) is for an existing water supply system and has been prepared in Public Sector Accounting Standard format employing tangible capital asset methodology, utilizing the Council approved 2014 Water Supply Business Plans and Budget. The schedules are unaudited and contain detailed information related to tangible capital assets including acquisitions, assumption of assets, amortization, and disposal costs. The time period for the Financial Plan is the six-year period (2014-2019).

- The on-going work completed for the Region's annual Asset Management Report, Water Supply and Sanitary Sewerage Servicing and Financing Study and the Water and Sewer User Rate Report have provided input into the Financial Plan. The Financial Plan provided in Appendix #1 provides the necessary schedules and information to meet the requirements of Ontario Regulation 453/07.
- **It should be noted that the schedules provided in the Financial Plan do not provide the necessary information regarding user rate pressures, age and condition of Regional infrastructure and potential shortfall in development charge funding that Regional Council receives through the business planning process in order to make informed decisions on the Water and Sewer Budgets and user rate increases.**

5.0 **PUBLIC NOTICE**

- Section 3(5) of Ontario Regulation 457/03 requires that the owner of a drinking water system must:
 - Make the financial plans available, on request, to members of the public who are served by the drinking-water system without charge;
 - Make the financial plans available to members of the public without charge through publication on the Internet, if the owner maintains a website on the Internet; and
 - Provide notice advising the public of the availability of the financial plans in a manner in the opinion of the owner, will bring the notice to the attention of members of public who are served by the drinking-water system.
- It is recommended that staff be authorized to provide notification in the Toronto Star and the local Metroland newspapers to advise the public that Durham's Financial Plan has been completed and is available on the Region's website or through the Region's Clerk's Office at no charge.

6.0 **SUMMARY AND CONCLUSION**

- It is recommended that the Financial Plan as included in Appendix #1 be approved and provided to MMAH to fulfill the requirements for the Region to renew its Municipal Drinking Water Licence.

- Although the Financial Plan provides detailed information related to tangible capital assets, staff will continue to complete the annual water and sewer study, user rate report and asset management report to provide Council the financial information required to make informed decisions regarding capital spending, including but not limited to the expansion and construction of new water systems.
- This Report has been reviewed by staff of the Works Department who concur with the recommendations.

R.J. Clapp, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

G.H. Cubitt, M.S.W.
Chief Administrative Officer

APPENDICES

APPENDIX #1 FINANCIAL PLAN #003-301A



REGION OF DURHAM

WATER FINANCIAL PLAN ONTARIO REGULATION 453/07

FINANCIAL PLAN #003-301A

Prepared by:

THE REGIONAL MUNICIPALITY OF DURHAM

1.0 INTRODUCTION

1.1 Purpose

Durham Region has completed a financial plan for the time period 2014-2019 for their existing water supply system as part of the requirements to renew their municipal drinking water license as per the *Safe Drinking Water Act, 2002*. The Region needs to submit their application to renew their municipal drinking water license by May 20, 2014, therefore a Financial Plan approved by Regional Council must be submitted to MMAH by May 20, 2014. The Financial Plan is being made available to the public, as required by Ontario Regulation 453/07. As well, a notice will be provided in the Toronto Star and local Metroland newspapers to advise the public of the availability of Durham's Water Financial Plan.

1.2 Background

The Financial Plan includes capital and operating costs, acquisition and disposal of tangible capital assets including amortization costs and consideration of available funding sources. The Financial Plan complies with Ontario Regulation 453/07 for an existing water system. Although Durham Region has 14 water supply systems, one single Financial Plan is being submitted for all systems as permitted.

Under municipal accounting standards, municipalities adopted full accrual accounting practices beginning January 1, 2009. The requirements under section PS3150 required municipalities to report additional information related to treatment of tangible capital assets and amortization costs. The information provided in the schedules comply with the public sector accounting standards.

1.3 Financial Plan

The following three unaudited schedules for Durham's Water Supply System provide the information required by Ontario Regulation 453/07:

- I. Schedule 1 is Durham's Statement of Financial Position which identifies the financial assets, liabilities, net debt and non-financial assets;
- II. Schedule 2 is the Statement of Operations which provides water revenue, expenses, annual surplus or deficit and accumulated surplus or deficit; and
- III. Schedule 3 is the Statement of Cash Flow which provides cash provided by operating transactions, cash applied to capital transactions, cash provided by investing transactions, cash applied to financing transactions and cash and cash equivalents (beginning and end of year).

There is no schedule for Lead Water Service Replacement as the Capital Forecast does not include funding for this service.

The following three schedules are based on the Council approved 2014 Water Supply Business Plans and Budget and have been converted into Public Sector Accounting format employing tangible capital asset methodology as required by Provincial Regulation 453/07. These schedules do not provide the information concerning the age and condition of the Regional water supply infrastructure or the future financial challenges with respect to user rates and development charge funding, both of which are required for a complete evaluation of the financial health of a water supply system.

Please refer to the Region's annual Servicing and Financing Study, User Rate Report and the Asset Management Report that are approved annually by Regional Council in November / December. These studies provide the detailed information on:

- **The age and condition of the Regional infrastructure and the capital requirements to address the replacement / rehabilitation needs;**
- **Development forecasts (residential and non-residential) and the capital requirements to meet the needs of future growth; and**
- **Future financing challenges including pressures on user rates and potential shortfalls in development charge funding.**

Schedule 1
Regional Municipality of Durham
Statement of Financial Position – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2014-2019
(\$millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Financial Assets	265.8	240.7	221.5	181.6	168.9	157.5
Total Liabilities	196.8	184.4	168.6	160.5	165.6	158.4
Net Financial Assets/(Debt)	69.0	56.3	52.9	21.1	3.3	(0.8)
Total Non-Financial Assets	1,094.6	1,186.4	1,320.3	1,463.2	1,575.7	1,627.3
Change in Tangible Capital Assets	83.7	91.8	133.9	142.9	112.5	51.6

Note:

1. This schedule has been prepared on a PSAB basis using the tangible capital asset methodology.

Schedule 2
Regional Municipality of Durham
Statement of Operations – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2014-2019
(\$million's)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenues						
Water Revenues	85.4	86.1	87.1	88.1	89.1	90.0
Other Revenues	48.2	72.3	124.0	108.8	97.7	55.6
Revenues Sub-Total	133.6	158.4	211.1	196.9	186.7	145.6
Expenses						
Operating Expenses	57.6	58.4	58.3	58.6	59.4	59.3
Amortization Expenses	19.4	21.0	22.3	24.7	27.7	31.6
Interest Expenses	-	-	-	2.5	4.9	7.2
Expenses Sub-Total	77.0	79.4	80.6	85.9	92.0	98.1
Total Annual Surplus	56.6	79.0	130.6	111.0	94.8	47.5
Total Accumulated Surplus (End-of-Year Balance)	1,163.6	1,242.7	1,373.2	1,484.3	1,579.0	1,626.5

Note:

1. This schedule has been prepared on a PSAB basis using the tangible capital asset methodology.

Schedule 3
Regional Municipality of Durham
Statement of Cash Flow – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2014-2019
(\$million's)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cash Provided by Operating Transactions	70.7	84.8	88.5	82.9	78.4	78.3
Cash Provided by/(Applied to) Capital Transactions	(87.2)	(93.5)	(138.9)	(143.8)	(115.2)	(58.1)
Cash Provided by/(Applied to) Investment Transactions	0.7	0.6	1.0	1.1	1.4	1.3
Cash Provided by/(Applied to) Financing Transactions	-	-	45.9	43.8	41.7	(6.5)
Increase in Cash and Cash Equivalents	n/a	n/a	n/a	n/a	n/a	n/a
Cash and Cash Equivalents, Beginning of Year	n/a	n/a	n/a	n/a	n/a	n/a
Cash and Cash Equivalents, End of Year	n/a	n/a	n/a	n/a	n/a	n/a

Note:

1. This schedule has been prepared on a PSAB basis using the tangible capital asset methodology.