



**Joint Report of the Commissioner of Public Works and Commissioner of Finance
Water Financial Plan Required under *Safe Drinking Water Act, 2002***

1. Recommendations

1. Council approve the Water Financial Plan (Attachment 1) prepared for York Region's Municipal Drinking Water System Licence Renewals (Financial Plan Number 013-301A), in accordance with Ontario Regulation 453/07.
2. Regional Clerk circulate this report to the Ministry of the Environment, Conservation and Parks and the Ministry of Municipal Affairs and Housing in accordance with the *Safe Drinking Water Act, 2002*.

2. Purpose

This report seeks Council approval of the Water Financial Plan for the Region's drinking water systems prepared as a requirement under the *Safe Drinking Water Act, 2002*.

Key Points:

- Water Financial Plan is a regulatory requirement that details long-term financial sustainability commitments and funding sources, commencing with York Region's 2024 budget and outlook for 2025-2026, and projections for the subsequent four years to 2030, including both capital and operating expenditures
- Water Financial Plan brought forward in this report confirms the financial sustainability of the Region's drinking water systems
- Water Financial Plan was informed by financial information and details contained in the 2024 Operating Budget, 10-year Capital Plan and 2021 rate study
- Water Financial Plan aligns with the Region's [2023 to 2027 Strategic Plan](#) objective of providing financially sustainable services

3. Background

Water Financial Plan required under *Safe Drinking Water Act, 2002*

As part of the Province's commitment to fulfill Justice O'Connor's Walkerton Inquiry recommendations, Ministry of the Environment, Conservation and Parks implemented an approvals framework under the *Safe Drinking Water Act, 2002* for municipal residential drinking water systems called the Municipal Drinking Water Licence Program. All municipal residential systems must be licensed under the Municipal Drinking Water Licensing Program.

Justice O'Connor recommended owners of municipal water systems obtain a licence for operation of their drinking water systems. The licence is issued to owners by Ministry of the Environment, Conservation and Parks under the *Safe Drinking Water Act, 2002* once the owner demonstrates it has five elements in place:

1. Drinking-water works permit
2. Permit to take water
3. Approved operational plan
4. Accredited operating authority
5. Approved financial plan

York Region required to submit a renewal application for Municipal Drinking Water Licence every five years

Municipal drinking water licences are valid for five years and include an expiry date and renewal application deadline. To ensure a licence remains valid, municipalities must submit a renewal application on or before the date listed in Schedule A of their licence. The expiry date for the Region's current licence is January 9, 2025 and a renewal application must be submitted by July 10, 2024. Council approved the previous Water Financial Plan [June 2019](#), and the previous renewal application was submitted on July 25, 2019.

Council approval of York Region's Water Financial Plan is required before renewal application submission due date of July 10, 2024

Information submitted for a licence renewal is essentially the same as information required for issuance of the first licence, except an updated Water Financial Plan is to be prepared and approved by Council resolution. This is in addition to assurance the system has been and will continue to be operated in accordance with requirements under the *Safe Drinking Water Act, 2002* and licence.

The Region's Drinking Water Works Permit, Permits to Take Water, and Drinking Water Quality Management Standard operating accreditations are current and up-to-date. The Commissioner of Public Works endorsed the Drinking Water Quality Management Standard Operational Plan in March 2024.

Regulatory requirements include making the Water Financial Plan available to those served by the drinking water system

Ontario Regulation 453/07, made under the *Safe Drinking Water Act, 2002*, prescribes the requirements for renewal of a financial plan. The Water Financial Plan must:

- Be approved by Council resolution (or governing body)
- Apply to a period of at least six years
- Begin with the year that the licence expires
- Be made available, upon request, to members of public served by the drinking water system without charge
- Be made available through publication on www.york.ca, and the Region must provide notice of availability to the public
- Be provided to the Ministry of Municipal Affairs and Housing

In addition to the above requirements, the Water Financial Plan must include projected financial operations, projected financial positions, and projected gross cash receipts and payments.

4. Analysis

York Region's Water Financial Plan prepared in accordance with Ministry of the Environment, Conservation and Parks financial plan regulation

York Region's Water Financial Plan was prepared in accordance with Ministry of the Environment, Conservation and Parks' requirements to report using full accrual accounting. This method recognizes revenues and expenditures in the same period as the activities that give rise to them regardless of when they are paid for. This is the same basis of accounting used to prepare the Region's audited financial statements.

Pricing structures that support conservation and full cost recovery will achieve benefits over the long-term

Full cost recovery supports the Regional Fiscal Strategy's guiding principle of intergenerational equity. In [September 2021](#), Council approved annual water and wastewater user rate increases from 2022 through 2027. The rate study and associated [Water & Wastewater Financial Sustainability Plan](#) found that full cost recovery could be achieved and maintained over this period with annual rate increases of 3.3%. The Water Financial Plan was prepared using these

approved rate increases up to 2027. Consistent with the rate study, annual increases of 2.9% were assumed beyond 2027.

In collaboration with local cities and towns, the Region's ongoing outreach and education efforts continue to raise awareness and engage residents on the importance of water conservation, value of water and cost of operating and maintaining Region's water and wastewater system.

These initiatives continue to build on success of the Long-Term Water Conservation Strategy by driving conservation efforts while ensuring adequate reserves are set aside for rehabilitation and replacement of water and wastewater infrastructure. Water conservation has financial advantages in addition to societal and environmental benefits, such as reduced energy consumption, deferred capital investments and reduced operational costs.

York Region's Drinking Water Financial Plan is sustainable without any additional rate supported debt

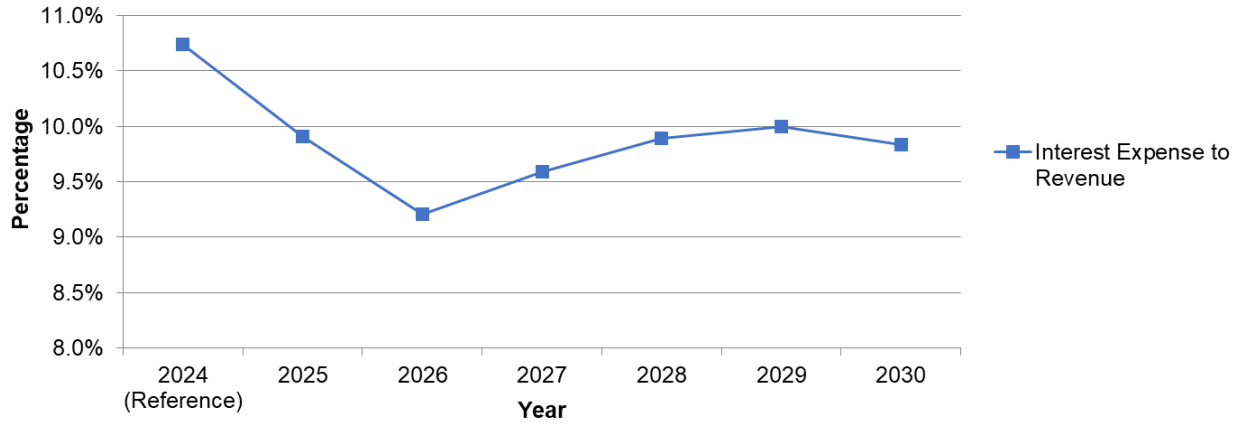
In practice, developing a full cost recovery financial plan is complex because it relies on predicting future cash needs, revenues and timing of cash inflows and outflows. It involves understanding the organization's high-level goals and must ensure rates follow well thought-out principles and fiscal strategies. Finally, it must be flexible to respond to actual outcomes.

Good fiscal planning strives to balance revenues, expenses, and asset/liability management. Financial projections in the Water Financial Plan indicate the Region can maintain service levels without additional debt or deterioration of current financial position. This demonstrates the Region's water services are sustainable.

Interest Expense to Revenue ratio and Financial Assets to Liabilities ratio forecasted to improve through 2030

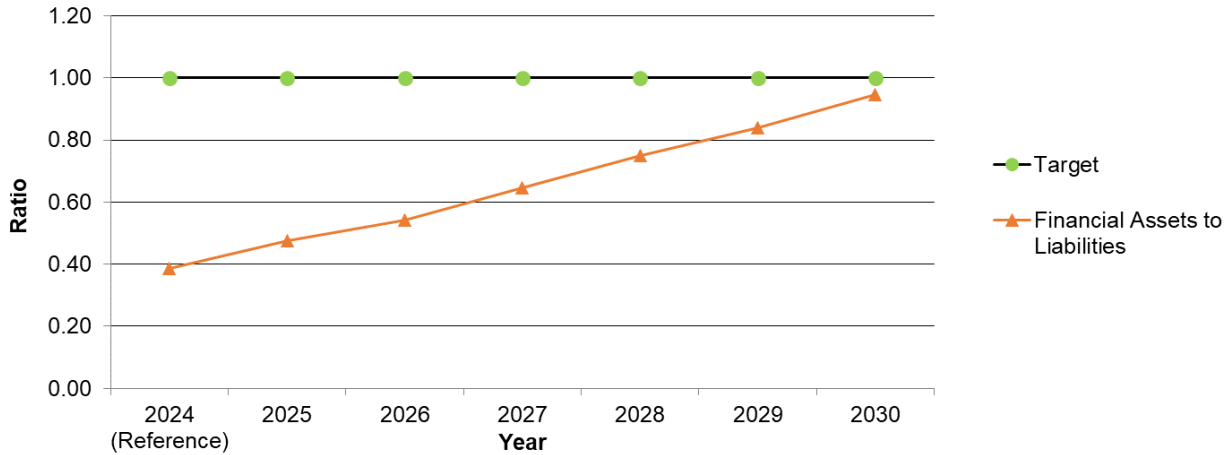
The ratio of Interest Expense to Revenue is a marker of financial vulnerability. When interest expense grows faster than revenues, the Region may have to divert too much of its revenues to paying interest costs, limiting its ability to fund other water system priorities. The Region's interest expense to revenue ratio was 4.7% in 2023, which is below the 5% benchmark cited in [S&P Global's June 23, 2023 credit rating report](#). The ratio for water services, which tends to be higher since assets need to be in place prior to revenue generation, is expected to improve from 10.7% in 2024 to 9.8% in 2030 (Figure 1).

Figure 1
Interest Expense to Revenue



Financial Assets to Liabilities ratio measures the Region’s ability to fund water system operations. Financial assets are liquid assets such as cash and accounts receivable. A ratio above 1.00 indicates financial assets exceed liabilities. The water system’s financial Assets to liabilities ratio is projected to improve from 0.39 in 2024 to 0.95 in 2030 (Figure 2) mainly resulting from additional revenue and reduced capital expenditures on water infrastructure.

Figure 2
Financial Assets to Liabilities



Net debt position indicates improvement and declines through 2030

Section 3 of Attachment 1 contains the detailed financial plan information. Due to the level of existing debt and anticipated issuance of new debt predominantly for growth-related capital expenditures, the Region’s water system will be in a net debt position of \$375 million in 2024.

The Statement of Financial Position forecasts a decreasing net financial debt position through the term of this financial plan due to steps the Region has taken toward fiscal sustainability. By 2030, a net debt position of \$40 million is forecast. Consistent with the Regional Fiscal Strategy's emphasis on prudent use of debt financing, the Region issues debt only for capital projects that support growth and whose costs will be recovered through development charges.

Statement of operations shows Region's water system is financially viable over long-term

The Statement of Operations forecasts annual surpluses throughout the term of this financial plan indicating financial viability. This annual surplus represents net investments in tangible capital assets, saving for future needs through reserve contributions and repayment of debt for past investments in capital assets.

Statement of Changes in Net Debt shows the Region's use of debt to finance construction of growth-related capital before development charges are received

Water and wastewater infrastructure must be built in advance of growth, with debt used as a tool to finance projects until most of the costs can be recovered through development charges. Statement of Changes in Net Debt indicates whether revenue generated was sufficient to cover acquisition of tangible capital assets and other significant items and in so doing, explains the difference between annual surplus/deficit and change in net debt for the period. Table 3.3 of Attachment 1 indicates annual surpluses over the forecast period from 2024 to 2030. The overall trend of net debt position is attributed to planned use of debt to construct tangible capital assets.

Cash position of water system indicates consistent increases through 2030

Statement of Cash Flow summarizes how the water system is expected to generate and use cash resources during the planning period. Transactions that provide/use cash are classified as operating, capital, investing, and financing activities are shown in Table 3.4 of Attachment 1. This statement focuses on the cash aspect of these transactions and links cash and full accrual-based reporting. Debt, investment income and cash on hand will be used to fund tangible capital asset acquisitions over forecast period. The Water Financial Plan anticipates cash position of the Region's water system improving from approximately \$178 million at the end of 2024, to \$620 million by the end of 2030.

Water Financial Plan supports Good Government and is linked to key Council-approved plans

York Region's Water Financial Plan, presented in Attachment 1, has been prepared drawing on financial information and details contained in 2024 Operating Budget, 2024-2033 10-year Capital Plan, and 2021 Council-approved rate study. Water Financial Plan aligns with the Region's 2023 to 2027 Strategic Plan objective of delivering fiscally responsible services.

5. Financial Considerations

Water Financial Plan estimates future financial needs for the water system and is aligned with principles of the 2024 Regional Fiscal Strategy – specifically prudent management of capital expenditures, reserves, and debt with the objective of intergenerational equity. Asset replacement reserves are on target, no new user rate debt has been issued since 2015, funds in rate stabilization reserves are available to address unforeseen events and current and future rate payers have been treated fairly in the water rate strategy. All key metrics indicate the water system is financially sustainable and viable to continue delivering safe water to our communities. By approving the Water Financial Plan, Council endorses the financial viability of the Region’s drinking water system.

6. Local Impact

With Council approval of the Water Financial Plan, staff can submit the renewal application for York Region’s Municipal Drinking Water Licence. Local municipalities are also required to submit new water financial plans in accordance with the regulations under the *Safe Drinking Water Act, 2002* to renew their own licences.

7. Conclusion and Next Steps

It is recommended that Council approve the Water Financial Plan (Attachment 1) and approve its submission to the Ministry of the Environment, Conservation and Parks and the Ministry of Municipal Affairs and Housing as required under the *Safe Drinking Water Act, 2002* (Ontario Regulation 453/07). Once approved, staff will advertise the availability of the Water Financial Plan on the Region’s website.

For more information on this report, please contact Michelle Swan, Director, Finance and Performance at 1-877-464-9675 ext. 73040 or Jason Li, Director, Controllership Office, and Deputy Treasurer at 1-877-464-9675 ext. 71683. Accessible formats or communication supports are available upon request.

Recommended by:



Laura McDowell, P.Eng.
Commissioner of Public Works



Laura Mirabella

Commissioner of Finance and Regional Treasurer



Approved for Submission:

Erin Mahoney

Chief Administrative Officer

May 27, 2024

#15765059

Attachment (1) – Water Financial Plan (#16112361)