

The Regional Municipality of York

Committee of the Whole
Environmental Services
June 13, 2019

Report of the Commissioner of Environmental Services

Municipal Drinking Water Financial Plan Required by *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 License Renewals (Financial Plan Number 013-301A), in accordance with Ontario Regulation 453/07.
2. Environmental Services staff submit the Water Financial Plan 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*.
3. Environmental Services staff issue notice of the Water Financial Plan availability, as prescribed by Ontario Regulation 453/07, in the local media and on the Region's website.

2. Summary

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 include:

- The Water Financial Plan is a regulatory requirement separate from any other financial or asset management plan, including the Council-approved Corporate Asset Management Plan.
- The Water Financial Plan details long-term financial sustainability commitments and funding sources for the current budget year for new and existing infrastructure, commencing with York Region's 2019 budget, and projections for the subsequent six years to 2025, including both capital and operating expenditures. The Financial Plan brought forward in this report confirms the financial sustainability of the Region's drinking water systems.
- The Water Financial Plan, presented in Attachment 1, was informed by financial information and details contained in the approved 2019 Operating Budgets, 2019-

2028 10-year Capital Plan and the 2015 Council approved rate study. The financial plan aligns with the Region's 2019 to 2023 Strategic Plan objective of managing the Region's finances prudently.

3. Background

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

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

Justice O'Connor recommended that owners of municipal water systems obtain a license for the operation of their drinking water systems. The license is issued to owners by the MECP under the *Safe Drinking Water Act, 2002* once the owner demonstrates it has the following 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

Having met all of the necessary prerequisites, the Ontario Ministry of the Environment issued York Region a Municipal Drinking Water License for its drinking water system on January 29, 2010. As of September 2011, all existing municipal residential drinking water systems in Ontario had received a license and a drinking water works permit.

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

Municipal drinking water licenses are valid for five years and include an expiry date and renewal application deadline to be included. To ensure that a license remains valid, municipalities are required to submit a renewal application on or before the date listed in Schedule A of their license. The expiry date for our current license is January 26, 2020 and a renewal application has to be submitted by July 27, 2019. The previous renewal application was due in July 2014 and Council approved the [Water Financial Plan](#) in May 2014.

Council approval of York Region's Water Financial Plan required before renewal application submission due date of July 27, 2019

The information to be submitted for a license renewal is essentially the same as the information required for the issuance of the first license except an updated Water Financial Plan is required to be prepared and approved by Council resolution, in addition to assurance

that the system has been and will continue to be operated in accordance with the requirements under the *Safe Drinking Water Act, 2002* and the license.

Work is currently underway to prepare and/or update the required five elements (mentioned above) to support the July 2019 submission of the license renewal application. The Region's Drinking Water Works Permit, Permits to Take Water, and Drinking Water Quality Management Standard (DWQMS) operating accreditations are current and up-to-date. The DWQMS Operational Plan was last endorsed by the Commissioner of Environmental Services in May 2018.

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

The detailed Water Financial Plan, completed by staff in accordance with the regulatory requirements (as listed below), is included as Attachment 1 to this report.

Ontario Regulation 453/07 (effective as of August 2007), made under the *Safe Drinking Water Act, 2002*, prescribes the requirements for renewal of a financial plan. The 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, financial plans must include the following details summarized in Table 1:

**Table 1
Financial Plan Requirements**

Summary of Required Details	Description
Proposed or projected financial <i>position</i> of the drinking water system	<ul style="list-style-type: none"> • Total financial assets and liabilities • Net debt • Non-financial assets that are tangible capital assets • Tangible capital assets under construction • Inventories of supplies and prepaid expenses • Changes in tangible capital assets that are additions, donations, write downs, and disposals
Proposed or projected financial <i>operations</i> of the drinking water system	<ul style="list-style-type: none"> • Total revenues (further itemized by water rates, user charges, and other revenues) • Total expenses (further itemized by amortization expenses, interest expenses, and other expenses) • Annual and accumulated surplus or deficit

Summary of Required Details	Description
Proposed or projected gross cash receipts and gross cash payments	<ul style="list-style-type: none"> • Operating transactions (cash received from revenues, cash paid for operating expenses, and finance charges) • Capital transactions (proceeds on the sale of tangible capital assets and cash used to acquire capital assets) • Investing transactions (acquisition and disposal of investments) • Financing transactions (proceeds from the issuance of debt and debt repayment) • Changes in cash and cash equivalents during year • Cash and cash equivalents (beginning and end of year)

4. Analysis

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

York Region’s Water Financial Plan has been prepared in accordance with Ministry of the Environment, Conservation and Parks requirements to report using full accrual accounting, which recognizes revenues and expenditures in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of a municipality’s financial position.

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

In [October 2015](#), Council approved annual blended water and wastewater rate increases from 2016 through 2021. The rate study assumed full cost recovery to be achieved in 2021, following five years of annual increases of 9 per cent and an increase of 2.9 per cent in 2021. The Water Financial Plan was prepared using these approved rate increases up to 2021. For subsequent years, a 2.9 per cent yearly water rate increase was assumed.

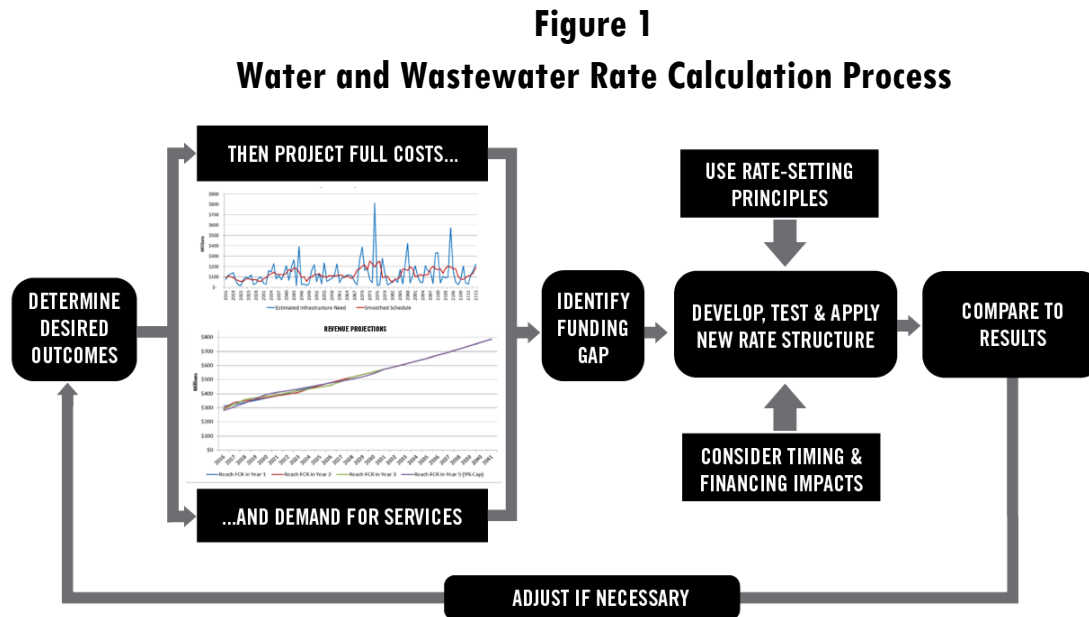
In 2021, staff will bring forward to Council a comprehensive rate study that will address requirements for rate stability while maintaining a balance that encourages wise use of water. This study will inform the rates and rate structure that will begin in April 2022.

The Region’s Value of Water initiative is a comprehensive approach to increase public awareness on the importance and value of water, in coordination with a financial review of water cost models. These initiatives have built, and continue to build, on the success of the Water for Tomorrow program and the Long Term Water Conservation Strategy by driving conservation efforts while ensuring adequate funding is available for rehabilitation and replacement of water and wastewater infrastructure. This initiative will also provide input to wholesale water and wastewater rate recommendations in 2021.

Full cost recovery involves thorough life-cycle analysis of costs

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

The figure below provides an overview of the steps and activities involved in developing a plan for a water and wastewater service to achieve financial sustainability over time.



York Region's Drinking Water Financial Plan is sustainable

Good fiscal planning strives to balance revenues, expenses and asset/liability management. Main Indicators of Government Financial Condition, as outlined by the Canadian Institute of Chartered Accountants, 1997, include sustainability indicators, which focus on whether or not the Region can maintain service levels without additional debt or deterioration of the current financial position. These indicators can be used to demonstrate the sustainability of this water financial plan¹.

Assets to Liabilities ratio and Financial Assets to Liabilities ratio forecasted to improve through 2025

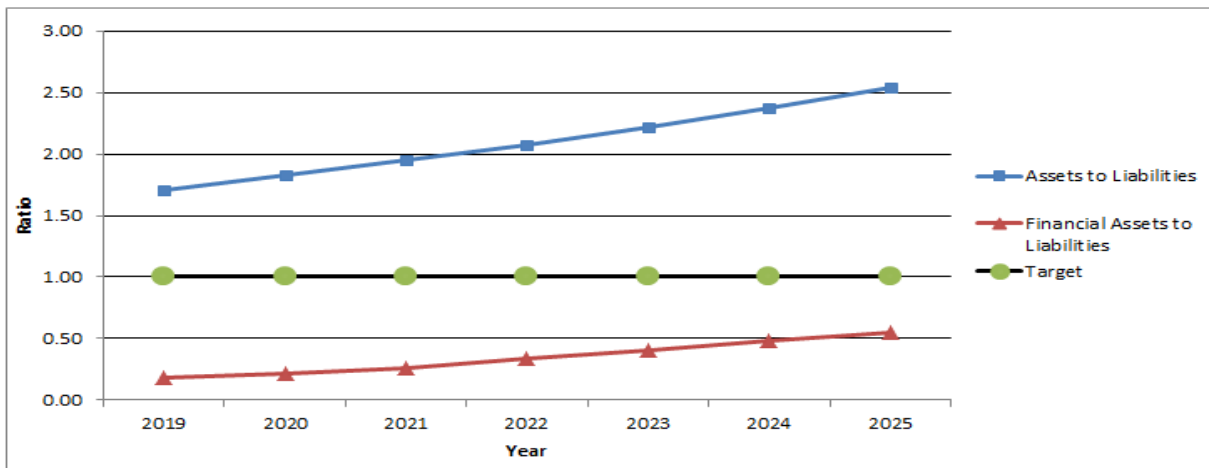
An Assets to Liabilities ratio indicates the extent to which operations are financed by debt. Anything above 1.00 indicates accumulated surplus. A ratio under 1.00 indicates a weak financial position to repay debt. The ratio is forecasted to grow from 1.71 in 2019 and expected to reach 2.54 in 2025. The improved ratios indicate that the Region's assets are increasingly financed through own-source of revenue as opposed to rely on debt (Figure 2).

¹Statement of Recommended Practices (SORP)

A Financial Assets to Liabilities ratio indicates the extent to which financial assets can fund future operations. Financial assets are defined as non-tangible assets, such as cash and accounts receivable. Anything above 1.00 indicates that financial assets exceed liabilities. The ratio is a measurement of the degree that financial assets can cover liabilities. Higher ratio indicates less financial risks to the operations.

The Financial Assets to Liability ratio increases from 0.18 in 2019 to 0.55 in 2025 mainly resulting from additional revenue sources and use of less debt to finance capital expenditures (Figure 2).

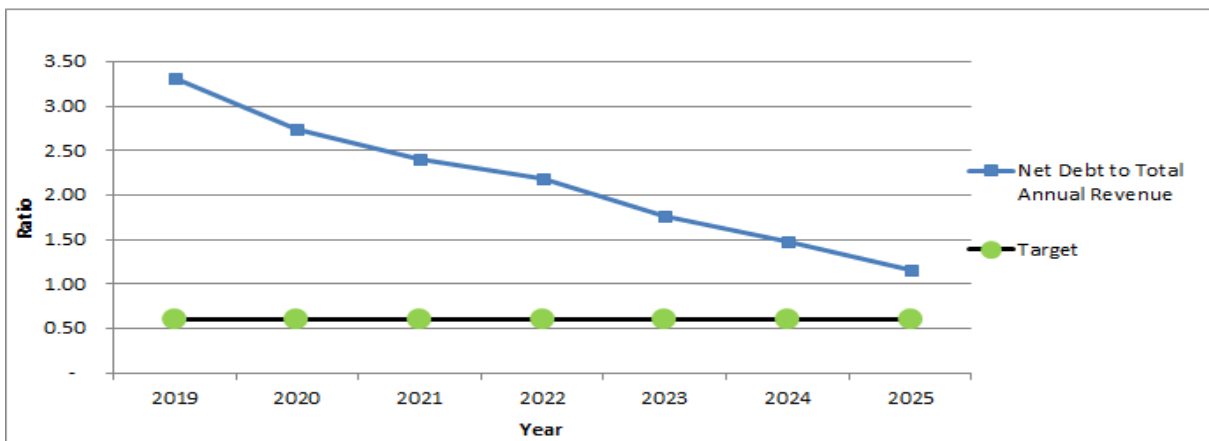
Figure 2
Assets to Liabilities



Net debt to total revenue ratio indicates improvement through 2025

Net debt to total revenue ratio is a measure of amount of future revenue available to meet the financial obligations. Net debt is calculated as total liabilities (including debt) less financial assets. A lower ratio indicates less revenue is spent paying down debt. There is a forecasted overall decrease during term of this financial plan with a ratio of 3.31 in 2019 decreasing to 1.15 by 2025 (Figure 3) indicating progress toward a more stable financial position.

Figure 3
Net Debt to Total Annual Revenue



Net debt position indicates improvement and declines through 2025

Section 4 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 \$691 million in 2019. The Statement of Financial Position developed for the Region forecasts decreasing net financial debt position through the term of this financial plan and is projected to be at approximately \$317 million by the end of 2025 as the Region has taken steps towards fiscal sustainability.

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

The Statement of Operations forecasts annual surpluses throughout the term of this financial plan indicating financial viability. This annual surplus is required to ensure funding is available for non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments. The Statement of Operations also maintains an accumulated surplus throughout the period of this financial plan indicating that available net resources are sufficient to provide future water services.

Planned use of debt to construct capital and fund development charge shortfall resulting from timing

The Statement of Changes in Net Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (e.g. inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net debt for the period. Table 4.3 of Attachment 1 indicates forecasted revenues exceed forecasted expenditures resulting in an increase in net financial assets over the forecast period from 2019 to 2025. The overall trend of net debt position is attributed to the planned use of debt to construct tangible capital assets. Water and wastewater infrastructure are required to be built in advance of growth, with debt used as a tool to fund projects until the costs can be recovered through development charges.

Cash position of water system indicates consistent increases through 2025

The 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 financial activities as shown in Table 4.4 of Attachment 1. This statement focuses on the cash aspect of these transactions, and is the link between cash and full accrual based reporting. Table 4.4 of Attachment 1 indicates that debt, investment income and cash on hand will be used to fund tangible capital asset acquisitions over the forecast period. The financial plan anticipates the cash position of the Region's water system improving from approximately \$79.7 million at the beginning of 2019, to \$320.3 million by the end of 2025.

Link 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 the approved 2019 Operating Budgets, 2019-2028 10-year Capital Plan and the 2015 Council approved rate study. The financial plan aligns with the Region's 2019 to 2023 Strategic Plan objective of managing the Region's finances prudently.

5. Financial

As part of the Region's sustainability plan, this Water Financial Plan estimates future financial needs for the water system and indicates that our water system is sustainable and financially viable to continue delivering safe water to our communities.

By approving the Plan, Council endorses the financial viability of the Region's drinking water system. This Financial Plan, along with the upcoming rate study, will be used to inform rate proposals that will be presented to Council in 2021.

6. Local Impact

With Council approval of the Water Financial Plan, Environmental Services staff will be in a position to submit the renewal application for York Region's Municipal Drinking Water License. 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 licenses.

7. Conclusion

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 Financial Plan in local newspapers and on the Region's website.

For more information on this report, please contact Michelle Canham, Director, Business Planning & Operations Support at 1-877-464-9675 ext. 73040. Accessible formats or communication supports are available upon request.

Recommended by: **Erin Mahoney, M. Eng.**
Commissioner of Environmental Services

Approved for Submission: **Bruce Macgregor**
Chief Administrative Officer

May 30, 2019
Attachments (1)
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