

Report To:	Chair and Members of the Planning and Public Works Committee
From:	Mitch Zamojc, P. Eng., Commissioner, Public Works J. E. MacCaskill, Commissioner, Corporate Services and Regional Treasurer
Date:	May 31, 2010
Report No. - Re:	PW-48-10/CS-47-10 - Drinking Water System Financial Plan for Halton Region in Accordance with the Ministry of the Environment's Drinking Water Licensing Program

RECOMMENDATION

1. THAT Council approve the Drinking Water System Financial Plan for Halton Region, as outlined in Attachment #1 to Report No. PW-48-10/CS-47-10 re: "Drinking Water System Financial Plan for Halton Region in Accordance with the Ministry of the Environment's Drinking Water Licensing Program", as a requirement of O. Reg. 453/07 made under the *Safe Drinking Water Act, 2002*.
2. THAT the Regional Clerk forward a copy of Report No. PW-48-10/CS-47-10 to the Ministry of Municipal Affairs and Housing in accordance with O. Reg. 453/07 made under the *Safe Drinking Water Act, 2002*.

REPORT

Purpose

The purpose of this report is to seek Council's approval of the Financial Plan for Halton Region's drinking water system in compliance with the Ministry of the Environment's Municipal Drinking Water Licence Program under O. Reg. 453/07 made under the *Safe Drinking Water Act, 2002*, as a condition of Halton's Municipal Drinking Water Licences for the Acton, Campbellville, Georgetown and South Halton Drinking Water Systems.

Background

The Ontario Ministry of the Environment introduced a new Municipal Drinking Water Licensing Program under the *Safe Drinking Water Act, 2002*. This legislation was created as a result of a recommendation by Justice O'Connor's Part II Report of the Walkerton Inquiry. Report PPW84-08, re: "New Drinking Water Licensing Program and Drinking Water Quality Management Standard", Council was advised that the preparation of a financial plan for the water system was a new licensing requirement. It should be noted that the legislation does not currently require a financial plan for the wastewater system.

Between June and August 2009, Halton obtained new Municipal Drinking Water Licences for the Acton, Campbellville, Georgetown and South Halton Drinking Water Systems. These licenses deal with a number of operating requirements such as the need for a Drinking Water Works Permit, an Operational Plan, Accreditation of the Operating Authority and a Permit to Take Water.

In addition, each licence contains the following common condition:

The owner of the drinking water system, by the latter of July 1, 2010 and the date that is six months after the date the first licence is issued, shall prepare and approve financial plans for the system that satisfy the requirements prescribed under section 3 of O. Reg. 453/07.

Section 3 of O. Reg 453/07 sets out a number of requirements for the water financial plan, such as:

- The plan must be approved by a resolution of Council;
- The plan must apply to a period of a least six years;
- Details of the projected financial position and operations must be itemized;
- The financial plans must be made available to the public without charge.

Once a system is licensed Financial Plans are required every 5 years with the license renewal application.

Attachment #1 to this report contains a financial plan that meets the requirements of the drinking water licence and O. Reg. 453/07. The Financial Plan required under the legislation consists of the following:

- Statement of Financial Position;
- Statement of Operations; and
- Statement of Cash Flow.

The plan required under the legislation was prepared based on Halton Region's Council approved 2010 Budget and Business Plan, Halton Region's 2009 financial statements and Public Works capital assets ledger.

To meet the requirements of the regulations, staff were required to restate the Council approved 2010 budget and 10-year forecast consistent with the requirements for financial statement presentation as set out in section PS1200 of the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook and with PS3150 accounting for tangible capital assets. These requirements are new for 2009 reporting and most significantly require reporting of tangible capital assets on the statement of Financial Position and recognition of amortization expense on the Statement of Operations.

The preparation of the required Water System Financial Plan also requires the allocation of asset and liability account balances which are maintained at a corporate level and not normally attributed to individual services. The legislation also requires a 6 year projection of the Statement of Financial Position which is not a common financial reporting practice.

Upon Council approval of Report No., PW-48-10/CS-47-10, a copy of the approved plan will be sent to the Ministry of Municipal Affairs and Housing, satisfying Halton's permit and regulatory requirements.

The Financial Plan

The "Statement of Financial Position" is the balance sheet in Municipal reporting and provides information that describes the assets, liabilities, and accumulated surplus of the Region's water system. The attached "Statement of Financial Position" indicates that at the end of 2010, the Region's water system will be in a net debt position of over \$93.6 million. Net financial debt is projected to grow to over \$215.4 million by the end of 2014, and then reduce annually until the Region reaches a net debt position of approximately \$48.7 million in 2019. The trend of increasing net financial debt to 2014, then a subsequent net debt reduction is largely a result of a higher proportion of debt financing for capital purchases through 2014, and lesser utilization of debentures post-2014. These trends are consistent with the 10 year forecast in the Council approved 2010 Budget and Business Plan.

Another important indicator on the "Statement of Financial Position" is the tangible capital asset balance. As indicated above, providing this information is a new requirement beginning in 2009 for municipalities by the Canadian Institute of Chartered Accountants, Public Sector Accounting Handbook as part of PS3150 compliance. The "Statement of Financial Position" shows Halton's tangible capital water assets are expected to increase by approximately \$427.3 million over the 10-year forecast period. This reflects the Region's plan to continue to invest in tangible capital assets in excess of the anticipated use (amortization) of existing assets. This would be expected in a growing municipality such as Halton. The "Accumulated Surplus" on the Statement of Financial Position of \$1.181 billion reflects the Region's significant investment in water infrastructure, water treatment plants, distribution system and associated works.

The "Statement of Operations" summarizes the revenues and operating expenses of the water systems for a given period. 'Net revenues' measure whether the revenues generated were sufficient to cover the operating expenses incurred and are used to fund tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments. The "Statement of Operations" shows positive net revenues throughout the 10-year forecast consistent with the Region's infrastructure investment plans.

The "Statement of Cash Flow" summarizes how the water systems are expected to generate and use cash resources during the planning period. This statement shows reasonably consistent cash balances throughout the forecast and therefore does not indicate any cash flow concerns for the water system.

As discussed above, staff have prepared this financial forecast to meet the requirements of O.Reg 453/07 as a condition of licensed operation of a municipal water drinking system. Although the legislative requirement is a six-year financial plan, staff have prepared the water financial plan on a 10-year basis, consistent with the Region's 10-year budget forecast as approved by Council in the 2010 Budget and Business Plan.

As reflected in the Region's 10-year budget forecast this financial plan confirms that the Region's water system is expected to operate with the appropriate financial resources over the next 10 years.

FINANCIAL/PROGRAM IMPLICATIONS

The cost of preparing of Halton's Drinking Water Financial Plan is financed from the capital program (W2401A – Drinking Water Quality Management Standards) and as such, there are no financial implications arising from this report.

RELATIONSHIP TO THE STRATEGIC PLAN

This is an operational matter with no direct relationship to the 2010 Planning and Public Works Committee Plan.

Respectfully submitted,



Kiyoshi Oka P. Eng.
Director, Water Services



Mitch Zamojc P.Eng.
Commissioner, Public Works



David Trevisani
Director, Financial and Purchasing Services



J. E. MacCaskill
Commissioner, Corporate Services and
Regional Treasurer

Approved by



Pat Moyle
Chief Administrative Officer

If you have any questions on the content of this report, please contact: K. Oka Tel. # 7602
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**The Regional Municipality of Halton
Statement of Financial Position (Water Only)
UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
2010 - 2019**

	Forecast									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial Assets										
Cash	55,710,742	59,153,082	64,299,441	57,376,006	47,511,375	47,994,194	51,207,182	59,502,528	72,543,803	84,087,366
Accounts Receivable	12,010,664	12,261,390	13,296,775	13,611,889	14,506,505	16,047,338	17,741,105	19,234,715	22,248,461	24,661,723
Investments	-	-	-	-	-	-	-	-	-	-
Inventory for Resale	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-
Total Financial Assets	67,721,406	71,414,472	77,596,216	70,987,895	62,017,880	64,041,532	68,948,287	78,737,243	94,792,264	108,749,089
Liabilities										
Accounts Payable & Accrued Liabilities	15,454,014	15,984,757	17,198,806	17,533,001	18,570,164	20,391,403	22,395,806	24,153,198	27,758,512	30,628,921
Debt (Principal only)	145,666,507	156,942,906	205,698,608	200,880,286	253,200,886	226,850,229	195,929,411	169,435,522	141,093,070	112,647,076
Deferred Revenue	237,640	1,521,146	2,933,991	4,143,351	5,661,085	7,239,529	8,881,110	10,588,354	12,363,888	14,210,444
Total Liabilities	161,358,161	174,448,809	225,831,405	222,556,638	277,432,135	254,481,161	227,206,327	204,177,074	181,215,470	157,486,441
Net Financial Assets/(Debt)	(93,636,755)	(103,034,337)	(148,235,189)	(151,568,743)	(215,414,255)	(190,439,629)	(158,258,040)	(125,439,831)	(86,423,206)	(48,737,352)
Non-Financial Assets										
Tangible Capital Assets	1,274,467,796	1,313,588,708	1,456,535,532	1,484,721,343	1,634,248,031	1,620,026,598	1,606,903,789	1,600,082,387	1,585,335,389	1,571,833,239
Inventory of Supplies	362,495	362,495	362,495	362,495	362,495	362,495	362,495	362,495	362,495	362,495
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Total Non-Financial Assets	1,274,830,291	1,313,951,203	1,456,898,027	1,485,083,838	1,634,610,526	1,620,389,093	1,607,266,284	1,600,444,882	1,585,697,884	1,572,195,734
Accumulated Surplus/(Deficit)	1,181,193,536	1,210,916,866	1,308,662,838	1,333,515,095	1,419,196,271	1,429,949,464	1,449,008,244	1,475,005,051	1,499,274,678	1,523,458,382
Financial Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1) Increase/(Decrease) in Net Financial Assets	(55,655,355)	(9,397,582)	(45,200,852)	(3,333,554)	(63,845,512)	24,974,626	32,181,589	32,818,209	39,016,625	37,685,854
2) Increase/(Decrease) in Tangible Capital Assets	129,976,839	39,120,912	142,946,824	28,185,811	149,526,688	(14,221,433)	(13,122,809)	(6,821,402)	(14,746,998)	(13,502,150)
3) Increase/(Decrease) in Accumulated Surplus	74,321,484	29,723,330	97,745,972	24,852,257	85,681,176	10,753,193	19,058,780	25,996,807	24,269,627	24,183,704

The Regional Municipality of Halton
Statement of Operations (Water Only)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2019

	Forecast									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Water Revenue										
Rate Based Revenue	70,483,902	71,955,268	78,031,373	79,880,602	85,130,600	94,172,896	104,112,657	112,877,817	130,563,820	144,725,909
Bulk Water Revenue	515,000	522,725	530,566	538,524	546,602	554,801	563,123	571,570	580,144	588,846
Earned DC & Gas Tax Revenue	63,163,000	28,387,631	101,429,540	38,966,792	102,601,462	29,997,633	36,313,566	39,323,533	35,288,545	32,734,375
Other Revenue	8,836,097	8,934,745	9,098,367	8,812,248	8,396,925	8,372,477	8,449,987	8,722,800	9,163,474	9,549,549
Total Revenues	142,997,999	109,800,369	189,089,846	128,198,167	196,675,589	133,097,807	149,439,333	161,495,720	175,595,982	187,598,679
Water Expenses										
Operating Expenses	45,642,123	49,367,464	56,824,471	61,617,445	66,134,688	70,649,253	77,157,438	83,158,660	99,920,404	112,993,349
Interest on Debt	3,907,131	4,686,343	6,682,726	9,078,410	10,756,024	12,508,093	13,422,431	11,784,946	10,239,728	8,639,420
Amortization	19,127,261	26,023,232	27,836,677	32,650,055	34,103,701	39,187,268	39,800,684	40,555,307	41,166,223	41,782,206
Total Expenses	68,676,515	80,077,039	91,343,874	103,345,910	110,994,413	122,344,614	130,380,553	135,498,913	151,326,355	163,414,975
Net Revenues	74,321,484	29,723,330	97,745,972	24,852,257	85,681,176	10,753,193	19,058,780	25,996,807	24,269,627	24,183,704
Accumulated Surplus/(Deficit), beginning of year	1,106,872,052	1,181,193,536	1,210,916,866	1,308,662,838	1,333,515,095	1,419,196,271	1,429,949,464	1,449,008,244	1,475,005,051	1,499,274,678
Accumulated Surplus/(Deficit), end of year	1,181,193,536	1,210,916,866	1,308,662,838	1,333,515,095	1,419,196,271	1,429,949,464	1,449,008,244	1,475,005,051	1,499,274,678	1,523,458,382

The Regional Municipality of Halton
Statement of Cash Flow - Indirect Method (Water Only)
 UNAUDITED: FOR FINANCIAL PLANNING PURPOSES ONLY
 2010 - 2019

	Forecast									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Operating Transactions										
Net Revenues	74,321,484	29,723,330	97,745,972	24,852,257	85,681,176	10,753,193	19,058,780	25,996,807	24,269,627	24,183,704
Add: Amortization of TCA's	19,127,261	26,023,232	27,836,677	32,650,055	34,103,702	39,187,267	39,800,684	40,555,307	41,166,222	41,782,205
Less: Earned Deferred Revenue	(63,163,000)	(28,387,631)	(101,429,540)	(38,966,792)	(102,601,462)	(29,997,633)	(36,313,566)	(39,323,533)	(35,288,545)	(32,734,375)
Add: Development Charge and Gas Tax Proceeds	61,572,140	29,671,137	102,842,386	40,176,152	104,119,196	31,576,076	37,955,147	41,030,777	37,064,080	34,580,931
Change in A/R (Increase)/Decrease	860,380	(250,726)	(1,035,387)	(315,114)	(894,616)	(1,540,832)	(1,693,764)	(1,493,610)	(3,013,746)	(2,413,261)
Change in A/P Increase/(Decrease)	(453,437)	530,743	1,214,050	334,195	1,037,163	1,821,239	2,004,402	1,757,392	3,605,314	2,870,409
Less: Interest Proceeds	(5,017,247)	(5,081,817)	(5,210,850)	(4,889,624)	(4,438,666)	(4,378,049)	(4,418,848)	(4,654,399)	(5,057,252)	(5,404,939)
Cash Provided by Operating Transactions	87,247,581	52,228,268	121,963,308	53,841,129	117,006,493	47,421,261	56,392,835	63,868,741	62,745,700	62,864,674
Capital Transactions										
Proceeds on sale of Tangible Capital Assets	-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	(149,104,100)	(65,144,144)	(170,783,501)	(60,835,866)	(183,630,390)	(24,965,834)	(26,677,876)	(33,733,905)	(26,419,225)	(28,280,056)
Cash Applied to Capital Transactions	(149,104,100)	(65,144,144)	(170,783,501)	(60,835,866)	(183,630,390)	(24,965,834)	(26,677,876)	(33,733,905)	(26,419,225)	(28,280,056)
Investing Transactions										
Proceeds from Investments	5,017,249	5,081,817	5,210,850	4,889,624	4,438,666	4,378,049	4,418,848	4,654,399	5,057,252	5,404,939
Less: Cash Used to Acquire Investments	-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions	5,017,249	5,081,817	5,210,850	4,889,624	4,438,666	4,378,049	4,418,848	4,654,399	5,057,252	5,404,939
Financing Transactions										
Proceeds from Debt Issue	75,185,000	28,783,000	68,082,000	14,465,000	76,024,000	785,000	508,000	1,553,000	49,000	49,000
Less: Debt Repayment (principal only)	(16,028,398)	(17,506,601)	(19,326,298)	(19,283,322)	(23,703,400)	(27,135,657)	(31,428,819)	(28,046,889)	(28,391,452)	(28,494,994)
Cash Applied to Financing Transactions	59,156,602	11,276,399	48,755,702	(4,818,322)	52,320,600	(26,350,657)	(30,920,819)	(26,493,889)	(28,342,452)	(28,445,994)
Increase in Cash and Cash Equivalents	2,317,332	3,442,340	5,146,359	(6,923,435)	(9,864,631)	482,819	3,212,988	8,295,346	13,041,275	11,543,563
Cash and Cash Equivalents, beginning of year	53,393,410	55,710,742	59,153,082	64,299,441	57,376,006	47,511,375	47,994,194	51,207,182	59,502,528	72,543,803
Cash and Cash Equivalents, end of year	55,710,742	59,153,082	64,299,441	57,376,006	47,511,375	47,994,194	51,207,182	59,502,528	72,543,803	84,087,366