



The Regional Municipality of Halton

Report To:	Regional Chair and Members of Regional Council
From:	Mark Scinocca, Commissioner, Finance and Regional Treasurer Jim Harnum, Commissioner, Public Works
Date:	March 27, 2019
Report No.-Re:	FN-11-19/PW-05-19 - Drinking Water System Financial Plan for Halton Region in Accordance with the Ministry of the Environment, Conservation and Parks' Municipal Drinking Water Licensing Program

RECOMMENDATION

1. THAT Regional Council approve the Drinking Water System Financial Plan for Halton Region, as outlined in Attachment #1 to Report No. FN-11-19/PW-05-19 re: "Drinking Water System Financial Plan for Halton Region in Accordance with the Ministry of the Environment, Conservation and Parks' Municipal 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. FN-11-19/PW-05-19 to the Ministry of Municipal Affairs and Housing in accordance with O. Reg. 453/07 made under the *Safe Drinking Water Act, 2002*.

REPORT

Executive Summary

The purpose of this report is to seek Council's approval of the Drinking Water System Financial Plan ('financial plan') for Halton Region's drinking water systems, which is required as part of the Ministry of the Environment, Conservation and Parks' (MECP) Municipal Drinking Water Licensing Program pursuant to O. Reg. 453/07 under the *Safe Drinking Water Act, 2002*, and as a condition of Halton Region's Municipal Drinking Water Licences for the Acton, Campbellville, Georgetown and South Halton Drinking Water Systems.

Background

The MECP introduced a 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. In Report No. 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. All Municipal Drinking Water Systems in the province of Ontario must be licensed by the MECP.

The Region received the inaugural editions of licences for the Acton, Campbellville, Georgetown and South Halton Drinking Water Systems in 2009. In 2010, the Region completed the first 10-year Drinking Water System Financial Plan which was approved by Council in 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.”

Licences are valid for 5 years as long as municipalities maintain status as (or employ) an accredited operating authority, prepare and approve a financial plan, have a valid permit to take water, have an operational plan and operate the drinking water systems in accordance with the conditions in the licence. In 2014, the Region successfully renewed the licences and the next renewal applications were due to be submitted in November and December 2018. In early 2018, the Region approached the MECP to advise them of the municipal election on October 22, 2018. The MECP agreed that the Region’s applications would be accepted without resolution of Council approving the financial plan provided that the Region state the date, within the application review window, when the resolution of Council would be submitted. The Council date stated was March 27, 2019. It is anticipated that the licences for 2019-2024 will be issued by the MECP prior to June 2019 upon the Region meeting the legislative requirements associated with the financial plan as prescribed in Ontario Regulation 453/07.

As licences come due for renewal, municipalities must ensure that the current approved financial plan meets the requirements of the legislation for the forecasted period. If the current version of the financial plan does not meet the requirements, a new financial plan must be prepared and approved and validation of the financial plan approval is part of the submission package to the MECP.

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

- The financial plan must be approved by resolution of Council;
- The financial plan must apply to a forecasted period of at least six years;
- The financial plan must include projected financial operations, present the financial position, and outline the cash flows by year;
- The financial plan must be made available to the public without charge;
- Notice of the availability of the financial plan is to be given to the public; and
- A copy of the financial plan must be submitted to the Ministry of Municipal Affairs and Housing.

The financial plan required under the legislation consists of the following:

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

The Region retained Watson & Associates Economists Ltd. to prepare the Drinking Water System Financial Plan as part of the submission requirements for the purposes of obtaining a municipal drinking water licence as per the *Safe Drinking Water Act, 2002*. The financial plan was prepared based on Halton Region's Council approved 2018 Budget and Business Plan, Halton Region's 2017 consolidated financial statements and Public Works capital assets ledger.

To meet the regulated requirements, it was required to restate the Council approved 2018 budget and 10-year forecast to be 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.

The preparation of the 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 minimum six-year projection of the Statement of Financial Position which is not a common financial reporting practice.

Attachment #1 to this report contains a 10-year financial plan from 2018-2027 that meets the requirements of the drinking water licence and O. Reg. 453/07.

Upon Council approval of Report No. FN-11-19/PW-05-19, a copy of the approved financial plan will be sent to the Ministry of Municipal Affairs and Housing, satisfying the Region's licensing and regulatory requirements.

Discussion

Drinking Water System 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. As the "Statement of Financial Position" presents in Attachment #1, at the end of 2018, the Region's water system will be in a positive net financial asset position of over \$85.3 million. Net financial assets is projected to grow to over \$207.4 million by the end of 2027. The trend of increasing net financial assets is a result of the Region continuing with a pay-as-you-go financing strategy for its State-of-Good-Repair capital program, translating to a lower proportion of debt financing for capital purchases and lesser utilization of debentures. The Region utilizes reserves and debt in the financing of the State-of-Good-Repair capital program for existing infrastructure. Reserves are a key component of the financial plan and are used to support the Region's pay-as-you-go approach for recurring lifecycle requirements. Debt financing is used for significant upgrade and rehabilitation initiatives to ensure the operating impact of the

investment remains smooth and to match revenue recovery from tax and rate payers with the benefit of the infrastructure. The 2018 Budget and Business Plan continues to include increasing operating contributions to reserves over the forecast period in order to provide sustainable investment for the growing of assets and to move forward with the pay-as-you-go financing strategy for the state of good repair capital program, while reducing reliance on debt.

Another important indicator on the “Statement of Financial Position” is the tangible capital asset balance. The “Statement of Financial Position” shows the Region’s tangible capital water assets are expected to increase by approximately \$665.0 million over the 10-year forecast period, which includes assets contributed by developers. The capital program identifies the significant investments in infrastructure that are required to appropriately maintain and replace the Region’s existing infrastructure assets (State-of-Good-Repair) and expand the infrastructure to meet the requirements of the growing community (Development). Similar to other growing municipalities, the 2018 accumulated surplus on the “Statement of Financial Position” of \$1.689 billion reflects significant investment in water infrastructure, water treatment plants, distribution systems 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 driven by operating contributions required to fund the State-of-Good-Repair capital program under a pay-as-you-go strategy as noted above.


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 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 Region's Drinking Water Financial Plan is included in the rate supported operating budget and as such, there are no financial implications arising from this report.

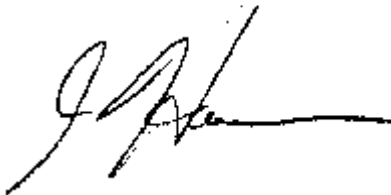
Respectfully submitted,



Cyndy Winslow
Director, Financial Services and Payroll



Mark Scinocca
Commissioner, Finance and Regional
Treasurer



Jim Harnum
Commissioner, Public Works

Approved by



Jane MacCaskill
Chief Administrative Officer

If you have any questions on the content of this report,
please contact:

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Attachments: Attachment #1: Statement of Financial Position: Water Services
Statement of Operations: Water Services
Statement of Cash Flow: Water Services

**Statement of Financial Position: Water Services
 UNAUDITED: For Financial Planning Purposes Only
 2018-2027**

	Forecast									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Financial Assets:										
Cash	258,291,256	286,503,554	295,482,219	294,309,182	283,859,338	237,014,176	214,432,880	200,892,308	210,160,056	254,797,048
Accounts Receivable	19,254,804	20,092,802	20,986,321	21,903,556	22,861,890	23,507,874	24,430,620	25,347,580	26,289,367	27,271,985
Total Financial Assets	277,546,060	306,596,356	316,468,540	316,212,738	306,721,228	260,522,050	238,863,500	226,239,888	236,449,423	282,069,033
Liabilities:										
Bank Indebtedness	-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	20,013,417	20,676,303	21,365,192	22,109,810	22,874,389	23,746,048	24,695,942	25,674,863	26,744,684	27,885,521
Debt (Principal and Sinking Fund)	89,177,486	79,360,054	69,610,485	60,401,477	51,707,794	45,312,736	39,830,340	36,085,474	32,264,207	31,509,116
Deferred Revenue	83,045,294	119,339,465	113,733,345	116,903,660	109,219,662	55,942,467	54,383,880	14,925,803	14,014,437	15,285,191
Total Liabilities	192,236,197	219,375,822	204,709,022	199,414,947	183,801,845	125,001,251	118,910,162	76,686,140	73,023,328	74,679,828
Net Financial Assets/(Debt)	85,309,863	87,220,534	111,759,518	116,797,791	122,919,383	135,520,799	119,953,338	149,553,748	163,426,095	207,389,205
Non-Financial Assets:										
Tangible Capital Assets	1,604,189,129	1,651,526,472	1,707,991,631	1,736,070,984	1,777,580,395	1,954,106,977	2,046,489,173	2,102,581,662	2,209,382,867	2,210,434,549
Inventory of Supplies	-	-	-	-	-	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-
Total Non-Financial Assets	1,604,189,129	1,651,526,472	1,707,991,631	1,736,070,984	1,777,580,395	1,954,106,977	2,046,489,173	2,102,581,662	2,209,382,867	2,210,434,549
Accumulated Surplus/(Deficit)	1,689,498,992	1,738,747,006	1,819,751,149	1,852,868,775	1,900,499,778	2,089,627,776	2,166,442,511	2,252,135,410	2,372,808,962	2,417,823,754
Financial Indicators	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1) Increase/(Decrease) in Net Financial Assets	7,236,985	1,910,671	24,538,984	5,038,273	6,121,592	12,601,416	(15,567,461)	29,600,410	13,872,347	43,963,110
2) Increase/(Decrease) in Tangible Capital Assets	58,765,377	47,337,343	56,465,159	28,079,353	41,509,411	176,526,582	92,382,196	56,092,489	106,801,205	1,051,682
3) Increase/(Decrease) in Accumulated Surplus	66,002,362	49,248,014	81,004,143	33,117,626	47,631,003	189,127,998	76,814,735	85,692,899	120,673,552	45,014,792

Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Forecast									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Water Revenue										
Rate Based Revenue	93,658,674	98,222,193	103,084,211	108,075,327	113,294,936	118,189,252	123,211,566	128,201,051	133,329,660	138,681,060
Earned Development Charges and Gas Tax Revenue*	47,797,840	30,268,540	62,522,190	8,331,040	20,059,040	160,597,109	48,608,048	57,146,209	90,013,088	14,290,158
Other Revenue	14,046,408	13,251,106	13,404,787	13,621,899	13,545,719	13,644,037	13,434,553	13,554,617	14,191,599	15,119,803
Total Revenues	155,502,922	141,741,839	179,011,188	130,028,266	146,899,695	292,430,398	185,254,167	198,901,877	237,534,347	168,091,021
Water Expenses										
Operating Expenses	55,288,132	56,138,672	60,895,391	58,921,795	60,546,230	63,303,065	64,522,000	67,948,690	70,178,222	73,817,760
Interest on Debt	3,263,805	3,016,496	2,776,813	2,544,198	2,322,873	2,135,917	1,995,628	1,892,777	1,814,778	1,774,151
Amortization	30,948,623	33,338,657	34,334,841	35,444,647	36,399,589	37,863,418	41,921,804	43,367,511	44,867,795	47,484,318
Loss on Disposal of Tangible Capital Assets	-	-	-	-	-	-	-	-	-	-
Total Expenses	89,500,560	92,493,825	98,007,045	96,910,640	99,268,692	103,302,400	108,439,432	113,208,978	116,860,795	123,076,229
Annual Surplus/(Deficit)	66,002,362	49,248,014	81,004,143	33,117,626	47,631,003	189,127,998	76,814,735	85,692,899	120,673,552	45,014,792
Accumulated Surplus/(Deficit), beginning of year	1,623,496,630	1,689,498,992	1,738,747,006	1,819,751,149	1,852,868,775	1,900,499,778	2,089,627,776	2,166,442,511	2,252,135,410	2,372,808,962
Accumulated Surplus/(Deficit), end of year	1,689,498,992	1,738,747,006	1,819,751,149	1,852,868,775	1,900,499,778	2,089,627,776	2,166,442,511	2,252,135,410	2,372,808,962	2,417,823,754
Note 5:										
Accumulated Surplus/(Deficit) Reconciliation:	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Reserve Balances										
Reserves: Development Charges	77,423,331	113,526,357	107,722,591	110,688,542	102,793,230	49,297,535	47,513,020	7,821,333	6,668,415	7,689,404
Reserves: Gas Tax	5,621,963	5,813,110	6,010,756	6,215,122	6,426,436	6,644,935	6,870,863	7,104,472	7,346,024	7,595,789
Reserves: Water Capital	107,375,194	97,707,478	110,676,065	104,622,594	100,103,754	104,297,174	81,165,939	104,869,338	112,695,100	153,602,140
Reserves: Capital Investment Revolving Fund	49,689,800	51,379,253	53,126,148	54,932,437	56,800,140	58,731,345	60,728,211	62,792,970	64,927,931	67,135,481
Reserves: Vehicles	2,102,998	2,174,500	2,248,433	2,324,880	2,403,926	2,485,659	2,570,171	2,657,557	2,747,914	2,841,343
Reserves: Rate Stabilization	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953	15,530,953
Total Reserves Balance	257,744,239	286,131,651	295,314,946	294,314,528	284,058,439	236,987,601	214,379,157	200,776,623	209,916,337	254,395,110
Less: Debt Obligations (including sinking fund investment) and Deferred Revenue	(172,434,376)	(198,911,117)	(183,555,428)	(177,516,737)	(161,139,056)	(101,466,802)	(94,425,819)	(51,222,875)	(46,490,242)	(47,005,905)
Add: Long-term Accounts Receivable	-	-	-	-	-	-	-	-	-	-
Add: Tangible Capital Assets	1,604,189,129	1,651,526,472	1,707,991,631	1,736,070,984	1,777,580,395	1,954,106,977	2,046,489,173	2,102,581,662	2,209,382,867	2,210,434,549
Total Ending Balance	1,689,498,992	1,738,747,006	1,819,751,149	1,852,868,775	1,900,499,778	2,089,627,776	2,166,442,511	2,252,135,410	2,372,808,962	2,417,823,754
Financial Indicators	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1) Expense to Revenue Ratio	58%	65%	55%	75%	68%	35%	59%	57%	49%	73%
2) Increase/(Decrease) in Accumulated Surplus	66,002,362	49,248,014	81,004,143	33,117,626	47,631,003	189,127,998	76,814,735	85,692,899	120,673,552	45,014,792

Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2018-2027

	Forecast									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating Transactions										
Annual Surplus/Deficit	66,002,362	49,248,014	81,004,143	33,117,626	47,631,003	189,127,998	76,814,735	85,692,899	120,673,552	45,014,792
Add: Amortization of TCA's	30,948,623	33,338,657	34,334,841	35,444,647	36,399,589	37,863,418	41,921,804	43,367,511	44,867,795	47,484,318
(Gain)/Loss on disposal of Tangible Capital Assets	-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	(47,797,840)	(30,268,540)	(62,522,190)	(8,331,040)	(20,059,040)	(160,597,109)	(48,608,048)	(57,146,209)	(90,013,088)	(14,290,158)
Less: Developer Contributions	-	-	-	-	-	-	-	-	-	-
Add: Deferred Revenue Proceeds	51,589,478	66,562,711	56,916,070	11,501,355	12,375,042	107,319,913	47,049,461	17,688,131	89,101,722	15,560,912
Change in A/R (Increase)/Decrease	-	(837,998)	(893,519)	(917,235)	(958,334)	(645,984)	(922,746)	(916,960)	(941,788)	(982,618)
Change in A/P Increase/(Decrease)	-	662,886	688,889	744,618	764,579	871,659	949,894	978,921	1,069,822	1,140,837
Less: Interest Proceeds	(6,017,003)	(5,189,082)	(5,304,132)	(5,481,632)	(5,368,920)	(5,429,670)	(5,181,548)	(5,261,879)	(5,862,088)	(6,752,358)
Cash Provided by Operating Transactions	94,725,620	113,516,648	104,224,102	66,078,339	70,783,919	168,510,226	112,023,552	84,402,414	158,895,927	87,175,725
Capital Transactions										
Proceeds on sale of Tangible Capital Assets	-	-	-	-	-	-	-	-	-	-
Less: Cash Used to acquire Tangible Capital Assets	(89,714,000)	(80,676,000)	(90,800,000)	(63,524,000)	(77,909,000)	(214,390,000)	(134,304,000)	(99,460,000)	(151,669,000)	(48,536,000)
Cash Applied to Capital Transactions	(89,714,000)	(80,676,000)	(90,800,000)	(63,524,000)	(77,909,000)	(214,390,000)	(134,304,000)	(99,460,000)	(151,669,000)	(48,536,000)
Investing Transactions										
Proceeds from Investments	6,017,003	5,189,082	5,304,132	5,481,632	5,368,920	5,429,670	5,181,548	5,261,879	5,862,088	6,752,358
Less: Cash Used to Acquire Investments	-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions	6,017,003	5,189,082	5,304,132	5,481,632	5,368,920	5,429,670	5,181,548	5,261,879	5,862,088	6,752,358
Financing Transactions										
Proceeds from Debt Issue	-	-	-	-	-	-	-	-	-	-
Add: Long-term Accounts Receivable Proceeds (recovery of debt)	-	-	-	-	-	-	-	-	-	-
Less: Debt Repayment (Principal only including sinking fund investment earnings)	(11,398,570)	(9,817,432)	(9,749,569)	(9,209,008)	(8,693,683)	(6,395,058)	(5,482,396)	(3,744,865)	(3,821,267)	(755,091)
Cash Applied to Financing Transactions	(11,398,570)	(9,817,432)	(9,749,569)	(9,209,008)	(8,693,683)	(6,395,058)	(5,482,396)	(3,744,865)	(3,821,267)	(755,091)
Increase in Cash and Cash Equivalents	(369,947)	28,212,298	8,978,665	(1,173,037)	(10,449,844)	(46,845,162)	(22,581,296)	(13,540,572)	9,267,748	44,636,992
Cash and Cash Equivalents, beginning of year	258,661,203	258,291,256	286,503,554	295,482,219	294,309,182	283,859,338	237,014,176	214,432,880	200,892,308	210,160,056
Cash and Cash Equivalents, end of year	258,291,256	286,503,554	295,482,219	294,309,182	283,859,338	237,014,176	214,432,880	200,892,308	210,160,056	254,797,048