
Subject: Water and Wastewater Financial Plan for O.Reg. 453/07

Report to: Public Works Committee

Report date: Tuesday, January 8, 2019

Recommendations

1. That the following statements included in the Water and Wastewater Financial Plan **BE APPROVED** by a resolution of Regional Council in accordance with O.Reg 453/07:
 - Pro forma Statement of Financial Position - Water
 - Pro forma Statement of Financial Operations - Water
 - Pro forma Statement of Cash Flow/Cash Receipts – Water
2. That the Water and Wastewater Financial Plan **BE APPROVED** to be used by staff as the guidance for the preparation of water and wastewater budgets for the 2019 to 2028 period of the plan.
3. That a copy of the Water and Wastewater Financial Plan **BE SUBMITTED** to the Ministry of Municipal Affairs and Housing.
4. That a copy of the Water and Wastewater Financial Plan **BE MADE** available on the Regional website.

Key Facts

- Approval of the Water and Wastewater Financial Plan is a legislated requirement as per O.Reg. 453/07.
- O.Reg. 453/07 requires that the Financial Plan cover only water operations, however information for wastewater operations has also been included in the same format in order to show a more complete picture; especially given Niagara Region is experiencing greater fiscal challenges in wastewater operations related to both sustainability and growth. This approach is in line with the Province's principles of Financially Sustainable Water and Wastewater Services (Appendix 2), and is consistent with Niagara Region's financial planning process. Similarly, although the regulations only require a 6-year plan, Niagara has prepared a 10-year plan to coincide with the 2019 capital budget forecast timeframe.
- The Water and Wastewater Financial Plan presents a snapshot of Niagara Region's current and forecasted position, and requires approval by resolution of Regional Council prior to renewal of the Region's Drinking Water Licenses, which expire February 23, 2019.

- The Water and Wastewater Financial Plan was prepared based on the proposed 2019 water and wastewater operating budget and the proposed 2019-2028 water and wastewater capital budget and forecast. The Region's 2017 Asset Management Plan (AMP) and 2017 Water and Wastewater Master Servicing Plan (MSP) are the basis of the capital and operating budgets and thus the foundation of the Financial Plan as well.
- The Water and Wastewater Financial Plan proposes an annual rate increase for 10 years of 5.15% comprised of an annual increase to the water requisition of 3.8%, and an annual increase to the wastewater requisition of 6.0%.
- The Region's current Taxpayer Affordability Guidance Policy that ties annual budget guidance to inflation cannot be used going forward for the development of future water and wastewater budgets, as it does not put the water and wastewater systems in a position of sustainability.

Financial Considerations

The Water and Wastewater Financial Plan was prepared based on the proposed 2019 water and wastewater operating budget and the proposed 2019-2028 water and wastewater capital budget and forecast.

The following guiding principles were used to help create the Water and Wastewater Financial Plan:

- Smooth the rate increases over the 10 year period
- Incorporate water and wastewater asset sustainability requirements in accordance with the approved Asset Management Plan
- Ensure funds are available to support growth related capital in accordance with the approved Water and Wastewater Master Servicing Plan
- Maintain minimum reserve balances at 2% of current asset value
- Balance the use of debt with needs of the Levy supported programs
- Use of reserves/pay-as-you-go for existing assets sustainability
- Use of debt for the Region portion of growth related infrastructure

Niagara Region's Water and Wastewater Operations division currently operates and maintains assets with an estimated replacement value of \$4.4 billion. The Region's Asset Management Plan (AMP) has identified that in order to properly sustain these assets, and clear an infrastructure backlog of \$360 million, a total of \$106 million in sustainability capital is required annually for the next 50 years. This is referred to as the Average Annual Renewal Investment (AARI). The current capital budget and forecast has taken steps to reduce the existing gaps and increase funding for sustainability, however on average only \$69 million a year in sustainability projects are included.

In addition to requirements to sustain existing infrastructure, Niagara Region's Water and Wastewater Master Serving Plan has also identified a significant amount of new infrastructure that is required to support growth. A total of \$557 million in growth related capital is included in the water and wastewater capital budget and forecast. While the majority of growth is funded externally from the collection of development charges, a total of \$172 million of the new infrastructure is considered a benefit to existing and therefore must be funded from regional funds.

Based on the guiding principles above; the need to significantly increase capital sustainability funding; and the need to fund the regional portion of growth; the Water and Wastewater Financial Plan has identified the need for an annual 5.15% rate increase in order to be sustainable and viable over the 10-year forecast period. The 5.15% increase is comprised of an annual increase to the water requisition of 3.8%, and an annual increase to the wastewater requisition of 6.0%.

Other municipalities are being faced with the same fiscal challenges as the Region in funding their water and wastewater systems as indicated in the page 5 of the Water and Wastewater Financial Plan (Appendix 3), which highlights annual rate increases in other jurisdictions of between 4.0% to as high as 9.0% per year.

Approval of the Water and Wastewater Financial Plan is an approval in principle only of the Plan. Separate approval of the Water and Wastewater Operating Budgets as well as the 10-year Capital Budget and Forecast are required annually and are not part of this report.

Analysis

Niagara Region has five existing licenses, all of which require renewal in 2019. The Municipal Drinking Water Licensing Program was implemented under the Safe Drinking Water Act (2002) (SDWA) and requires system owners to meet the following five key requirements for licensing:

1. Drinking Water Works Permit
2. Permit to Take Water
3. Approved Operational Plan
4. Accredited Operating Authority
5. Financial Plan

Through the approvals recommended in this report related to the Financial Plan, Niagara Region can finalize and submit the applications for license renewals.

Niagara's Financial Plan has been prepared to meet the requirements of O.Reg. 453/07 and will serve as a valuable tool to ensure the long-term financial sustainability of the Region's drinking water systems.

Provided as Appendix 1 is a summary of the Financial Plan requirements as per O.Reg 453/07, along with an overview of the way in which Niagara Region is satisfying those requirements. The regulations provide specific requirements with respect to the timing, content, and structure of the financial plan, as well as the means by which transparency to the public is ensured.

Appendix 2 lists the principles of financial sustainability as outlined in the Ministry of the Environment's guideline, "Towards Financially Sustainable Drinking-Water and Wastewater Systems".

Appendix 3 provides the full Water and Wastewater Financial Plan, including the three key pro forma schedules required under the provincial regulations, which are:

- Statement of Financial Operations – summarizes annual revenues & expenditures
- Statement of Cash Flow/Cash Receipts – summarizes cash generation & utilization
- Statement of Financial Position – summarizes financial assets, tangible capital assets, and the accumulated surplus

Alternatives Reviewed

The preparation of the Water and Wastewater Financial Plan and approval by Council is required as per O.Reg 453/07. Should the Region not have an approved Water and Wastewater Financial plan it would mean its Drinking Water Licenses would not be renewed and the Region would not be permitted to continue to provide drinking water to the residents, businesses, and visitors of Niagara.

An additional alternative is to prepare a financial plan based on only inflationary increases, however this plan would not show that the water and wastewater systems to be sustainable. Not only would this fail to satisfy the requirements of O.Reg 453/07, but it would also contradict the needs identified in the Region's approved AMP and the Water Wastewater MSP.

Relationship to Council Strategic Priorities

The Water and Wastewater Financial Plan supports Council's performance outcome by maintaining existing infrastructure, while also supporting the fostering growth priority by providing new infrastructure to support growth and economic development in Niagara Region.

Other Pertinent Reports

PW 13-2014, January 28, 2014, Financial Plan for Ontario Regulation 453/07

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