



The Regional Municipality of Durham Report

To: Finance and Administration Committee
From: Commissioner of Finance
Report: #2024-F-7
Date: April 9, 2024

Subject:

Region of Durham Water Financial Plan #003-301A

Recommendations:

That the Finance and Administration Committee recommends to Regional Council:

- A) That in accordance with Provincial Regulation 453/07, the Water Financial Plan (Provincial #003-301A) as provided in Appendix #1, which has been prepared in the Public Sector Accounting Standards format employing tangible capital asset methodology, be approved;
 - B) That a copy of the Water Financial Plan and Council Resolution approving the plan be submitted to the Ministry of Municipal Affairs and Housing as prescribed by Ontario Regulation 453/07 under the Safe Drinking Water Act, 2002 which requires owners of municipal drinking water systems to submit a Water Financial Plan to the Province in order to obtain or maintain a Municipal Drinking Water Licence; and
 - C) That notification be placed on the Region's website and on the Public Notification section of the Metroland website to advise the public of the availability of Durham's Water Financial Plan, as prescribed by Ontario Regulation 453/07.
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Report:

1. Purpose

- 1.1 As part of the Province's commitment to implement all of Justice O'Connor's recommendations from the Walkerton Inquiry, the Ministry of Environment (now the Ministry of Environment, Conservation, and Parks) put in place an approvals framework (The Municipal Drinking Water Licence Program) under the Safe Drinking Water Act, 2002 (SDWA) for municipal drinking water systems. This program replaced the previous Ministry of Environment Certificate of Approval process.

- 1.2 There are five requirements under the Municipal Drinking Water Licence Program for a municipality to become licensed, which include:
 - Obtaining a water works permit;
 - Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard;
 - Accreditation of the Operating Authority;
 - Obtaining a permit to take water; and
 - Preparing and providing a financial plan.
- 1.3 The Province passed Ontario Regulation 453/07 in August 2007 which identified the requirements of the Financial Plan for water systems. The regulation is part of the Province's long term strategy to ensure that municipal drinking water systems are financially viable.
- 1.4 The Region of Durham received its municipal drinking water license in November 2009 and the Region submitted its first Water Financial Plan to the Ministry of Municipal Affairs and Housing (MMAH) in June 2010 as prescribed by the Regulation. The Region subsequently sent an updated Water Financial Plan to MMAH in both May 2014 and May 2019, as prescribed by the Regulation, to renew its license.
- 1.5 The Region is required to submit an application to renew its municipal drinking water license by May 18, 2024. Prior to this date, the Region is required to submit a Financial Plan aligned with the requirements of Ontario Regulation 453/07 that has been approved by Regional Council to MMAH along with a copy of the approving resolution by Regional Council. The purpose of this report is to satisfy these requirements in order to renew the Region's municipal drinking water licence.

2. Previous Reports and Decisions

- 2.1 On April 24, 2019 Regional Council, through [Report #2019-F-16](#) approved the 2019 – 2024 Water Financial Plan # 003-301A under Ontario Regulation 453/07.

3. Requirements of Financial Planning Regulation 453/07

- 3.1 The regulation requires owners of municipal drinking water systems to complete and submit Financial Plans for existing and new water systems. The Financial Plans must be developed for at least a six-year period and must contain details of a system's financial position, financial operations and cash flow and be made available to the public. The regulation does not require Provincial approval of Financial Plans but the plans must be submitted to MMAH.
- 3.2 The Financial Plan must be approved by the owner (Council) and a copy of the Financial Plan and the approving resolution must be submitted to MMAH. The Financial Plan must be updated in conjunction with every application to renew a system's drinking water licence (i.e., every five years).

3.3 The Financial Plan must include the following information:

- Details of the projected financial position of the system including:
 - Total financial assets;
 - 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;
 - Total liabilities; and
 - Net debt.
- Details of the projected financial operations for the system including:
 - Total revenues, itemized by water rates, user charges and other revenues;
 - Total expenses, itemized by amortization expenses, interest expenses and other expenses;
 - Annual surplus or deficit; and
 - Accumulated surplus or deficit.
- Details of the drinking water system's projected cash flow including receipts and payments arising from:
 - Financing activities;
 - Capital activities;
 - Investing activities;
 - Operating activities;
 - Changes in cash and cash equivalents during the period; and
 - Cash and cash equivalents at the beginning and end of period.

3.4 The Regulation states that for a municipality that owns and operates numerous water supply systems (like the Region with fourteen water supply systems), the municipality can prepare a single Financial Plan for all systems.

3.5 Asset Management Plans and the Financial Plans are also required to be integrated as Ontario Regulation 588/17 (Asset Management Planning for Municipal Infrastructure) requires that asset management planning be aligned with the Financial Plans related to the municipality's water assets prepared under the Safe Drinking Water Act, 2002.

4. Durham's Current Financial Planning Practices

4.1 The Region has adopted a Long-Term Financial Planning Framework that provides an integrated and coordinated approach for the funding of Regional Council's priorities, accommodating growth, and investing in infrastructure and service levels, with property taxes and user rate increases aligned with service priorities. The plan brings together the Region's financial planning process and financial policies, which are guided by the three core principles of financial flexibility, sustainability, and affordability.

- 4.2 With this, long-term financial planning is an integral part of the Region's Business Planning Process. Regional Council approves annual business plans and budgets related to water supply and sanitary sewerage which includes a detailed ten-year capital forecast which outlines projected financing requirements. In addition, the Region's Asset Management Plan identifies projected future capital and operating costs and sources of funding (upfront funding, development charges, user rates, debt etc.) and potential financing strategies to ensure the long-term financial viability of the Region's various assets including the Region's water systems.
- 4.3 The Region is also required to complete a full review of its development charge by-law as per the Development Charges Act legislation. Previously, the reviews were undertaken at a minimum of every five years. Changes to the Development Charges Act now extend the life of development charge by-laws up to ten years. The development charge study estimates the future population and employment growth for the Region and identifies the capital requirements to accommodate the residential and non-residential growth. Based on this information, a development charge is established for a number of Regional services including water supply. Development charges provide revenue to fund a portion of the growth-related capital expenditures and ease the burden on existing residents.
- 4.4 The Region's financial policies (pay as you go financing, use of reserves, commitment that growth-pays-for growth, and minimal debt issuance) and the use of long-term financial planning has supported the Region's strong financial position and has resulted in the Region consistently achieving a Triple "A" credit rating, the highest credit rating available.

5. Durham's Financial Plan #003-301A (Appendix #1)

- 5.1 The Region's Financial Plan (Appendix #1) is for an existing water supply system and has been prepared in accordance with Public Sector Accounting Standards employing tangible capital asset methodology. The schedules are unaudited and the time period for the Financial Plan is the six-year period (2024-2029).
- 5.2 The Financial Plan provided in Appendix #1 provides the necessary schedules and information to meet the requirements of Ontario Regulation 453/07. The information provided in these schedules reflects the changes to the Development Charges Act that lowers the amount of growth-related costs being funded by development charges and projected increases in user rate revenue to fund the development charge shortfalls resulting from the phase-in, freezing, exemptions and discounts of development charges resulting from Bill 23, *More Homes Built Fast Act*, Bill 134, *Affordable Homes and Good Jobs Act, 2023* and related legislation. Any further changes to development charge legislation that further restricts or eliminates the amount of development charges collected for water supply would result in higher user revenue requirements and/or the deferral of the capital program, which would impact the Financial Plan in Appendix #1.

5.3 The on-going work on the Region's Asset Management Plan and the approved 2024 Water Supply Business Plans and Budget and the 2024 Water and Sewer User Rate Report provided the data necessary to complete the Financial Plan. The schedules in the Financial Plan as mandated by the Regulation provide limited information regarding user rate pressures, age and condition of Regional infrastructure.

6. Public Notice

6.1 Section 3(5) of Ontario Regulation 453/07 requires that the owner of a drinking water system must:

- Make the financial plans available, on request, to members of the public who are served by the drinking-water system without charge;
- Make the financial plans available to members of the public without charge through publication on the Internet, if the owner maintains a website on the Internet; and
- Provide notice advising the public of the availability of the financial plans in a manner in the opinion of the owner, will bring the notice to the attention of members of public who are served by the drinking-water system.

7. Oversight Responsibilities Under the Safe Drinking Water Act

7.1 Under Section 19 the Safe Drinking Water Act, it states that for a municipal water system owned by a municipality, that every person (i.e., councillors and senior municipal officials) on behalf of the municipality involved in overseeing the accredited operating authority of the system or exercising decision-making authority over the system must:

- Exercise the level of care, diligence and skill in respect of a municipal water system that a reasonably prudent person would be expected to exercise in a similar situation; and
- Act honestly, competently and with integrity with a view to ensure the protection and safety of the users of the municipal water system.

8. Relationship to Strategic Plan

8.1 This report aligns with/addresses the following strategic goal and priority in the Durham Region Strategic Plan:

- Goal 5: Service Excellence – Optimize Resources and Partnerships to Deliver Exceptional Quality Services and Value – by responsibly managing the Region's financial assets to deliver critical infrastructure and services for current and future generations.

9. Conclusion

9.1 It is recommended that the Financial Plan as included in Appendix #1 be approved and be provided to MMAH to fulfill the requirements for the Region to renew its Municipal Drinking Water Licence.

9.2 This Report has been reviewed by staff of the Works Department and the Commissioner of Works who concurs with the recommendations.

10. Attachments

10.1 Attachment #1: Financial Plan #003-301A

Respectfully submitted,

Original Signed By

N. Taylor, BBA, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer



Region of Durham

Water Financial Plan Ontario Regulation 453/07

Financial Plan #003-301A

Prepared by:

The Regional Municipality of Durham

April 2024

1.1 Purpose

The Region of Durham has completed a financial plan for the time period 2024 - 2029 for its existing water supply systems as part of the requirements to renew its municipal drinking water license as per the *Safe Drinking Water Act, 2002*. The Region needs to submit its application to renew its municipal drinking water license by May 18, 2024, therefore a Financial Plan approved by Regional Council must be submitted to the Ministry of Municipal Affairs and Housing (MMAH) by May 18, 2024. The Financial Plan is being made available to the public, as required by Ontario Regulation 453/07, through the Region's website. In addition, a public notice will be provided on the Public Notification section of the Metroland website to advise the public of the availability of the Region of Durham's Water Financial Plan.

1.2 Background

The Financial Plan includes capital and operating costs, acquisition and disposal of tangible capital assets including amortization and accretion costs and consideration of available funding sources. The Financial Plan complies with Ontario Regulation 453/07 for an existing water system. Although the Region of Durham has 14 water supply systems, one single Financial Plan is being submitted for all systems as permitted.

Under Public Sector Accounting Standards, municipalities adopted full accrual accounting practices beginning January 1, 2009. The requirements under section PS3150 require municipalities to report additional information related to the treatment of tangible capital assets and amortization costs. In 2023, the Region also adopted PS3280 for Asset Retirement Obligations, requiring the reporting of costs related to legal obligations that will be incurred by the Region when an asset is ultimately disposed of or retired. The information provided in the schedules comply with the Public Sector Accounting Standards.

1.3 Financial Plan

The following three unaudited schedules for the Region's Water Supply System provide the information required by Ontario Regulation 453/07:

- I. Schedule 1 is the Region's Statement of Financial Position which identifies the financial assets, liabilities, net financial assets/debt and non-financial assets;
- II. Schedule 2 is the Statement of Operations which provides water revenue, expenses, annual surplus or deficit and accumulated surplus or deficit; and
- III. Schedule 3 is the Statement of Cash Flow which provides cash provided by operating transactions, cash applied to capital transactions, cash provided by investing transactions, cash applied to financing transactions and cash and cash equivalents (beginning and end of year).

Ontario Regulation 453/07 also states that details regarding the replacement of lead service pipes must be identified as it relates to the three schedules provided. The 2024 Water Supply Business Plans and Budgets approved by Regional Council includes a ten-year capital forecast (2024 – 2033) which

includes an annual allowance to support the replacement of lead water service connections (\$0.5 million for 2024, \$1.0 million annually for 2025 through 2027, and \$5.0 million annually for 2028 through 2033). The lead service replacement program provides for the following:

- The Region will replace the portion of lead water service connections that are found within the public right of way. The homeowners will be encouraged to replace the private side portion of the service when it is confirmed that lead material exists, which requires them to hire a qualified plumber to work on private property at their cost; and
- If a homeowner has provided confirmation to the Region of a lead water service connection on their property, staff will provide notification to homeowners in the adjacent area that they may have lead water service connections as well.

The Region will provide the household with a water filter (certified to NSF 053 International Standards) to remove lead from the water and provide testing to each property when the Region has replaced the lead water service connection on the public right of way side. This strategy will manage potential temporary increased exposure due to system disturbance. The annual funding allowance for the replacement of lead service connections, as outlined above, has been incorporated into the Financial Plan Schedules for 2024 - 2029.

Health Canada has a proposed guideline for lead in drinking water. The proposed guideline has a couple of significant changes as follows:

- Lowering the maximum acceptable concentration (MAC) for lead in drinking water from 10 ug/l to 5 ug/l; and
- Applying the proposed MAC to water samples taken at the tap.

It is important to note that when drinking water leaves a water supply plant or well, it typically contains no measurable level of lead. Lead at the water tap in homes comes mainly from the lead service lines.

In addition, plumbing components on the customer's internal private system can also contribute to lead within tap water. If Health Canada's guideline is adopted in regulation by the Province of Ontario, water utilities will have a challenge to meet "at the tap" compliance as there is limited or no access to the customer's private plumbing system. Regional staff will monitor any change in regulations for lead and update Council on any challenges to meet potential new requirements.

The following three schedules are based on the Council approved 2024 Water Supply Business Plans and Budget including the 2024 – 2033 Capital Forecast and have been converted into Public Sector Accounting format employing tangible capital asset methodology as required by Provincial Regulation 453/07.

Please refer to the Region's annual User Rate Report, Annual Water Supply Business Plans and Budget and the Region's Asset Management Report. These planning reports provide detailed information on:

- The age and condition of the Regional infrastructure and the capital requirements to address the replacement / rehabilitation needs;

- Development forecasts (residential and non-residential) and the capital requirements to meet the needs of future growth; and
- Future financing challenges including pressures on user rates and potential shortfalls in development charge funding.

The Provincially prescribed schedules do not provide information concerning the age and condition of Regional water supply infrastructure or the future financial challenges with respect to user rates and development charge funding, both of which are required for a complete evaluation of the financial health of a water supply system.

Contact: Nancy Taylor
Commissioner of Finance
Finance Department, Regional Municipality of Durham

Schedule 1
Regional Municipality of Durham
Statement of Financial Position – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2024 - 2029
(\$millions)

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Total Financial Assets	549.2	578.1	733.0	639.9	711.0	731.2
Total Liabilities	432.2	486.4	759.4	745.0	912.4	937.0
Net Financial Assets/(Debt)	117.0	91.7	-26.4	-105.2	-201.4	-205.8
Total Non-Financial Assets	1,796.5	2,056.4	2,381.1	2,706.4	3,052.1	3,259.0
Accumulated Surplus	1,913.4	2,148.1	2,354.7	2,601.3	2,850.7	3,053.3

Notes:

1. This schedule has been prepared on a Public Sector Accounting basis.
2. Columns may not add due to rounding.
3. The following schedule summarizes the annual estimated change in tangible capital assets (in \$ millions):

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Change in Tangible Capital Assets	187.4	292.3	363.8	367.3	394.8	265.1

Schedule 2
Regional Municipality of Durham
Statement of Operations – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2024 - 2029
(\$millions)

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Revenues						
Water Revenues	135.2	157.4	172.8	189.7	206.3	209.4
Other Revenues	107.9	203.0	177.1	225.1	229.7	197.1
Revenues Sub-Total	243.1	360.4	349.8	414.8	436.0	406.5
Expenses						
Operating Expenses	79.5	91.9	99.3	111.1	123.1	125.0
Amortization Expenses	30.8	32.4	39.1	42.0	49.2	58.2
Loss on Disposal	0.1	0.5	0.8	0.5	0.5	0.5
Interest Expenses	1.0	1.0	4.1	14.5	13.8	20.2
Expenses Sub-Total	111.3	125.8	143.2	168.2	186.6	203.9
Total Annual Surplus	131.8	234.6	206.6	246.6	249.4	202.6
Total Accumulated Surplus (End-of-Year Balance)	1,913.4	2,148.1	2,354.7	2,601.3	2,850.7	3,053.3

Note:

1. This schedule has been prepared on a Public Sector Accounting basis.
2. Columns may not add due to rounding.

Schedule 3
Regional Municipality of Durham
Statement of Cash Flow – Water Supply ⁽¹⁾
Unaudited: For Financial Planning Purposes Only
2024 - 2029
(\$millions)

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Cash Provided by Operating Transactions	245.3	255.3	307.3	283.1	331.4	300.5
Cash Provided by/(Applied to) Capital Transactions	-172.8	-276.9	-311.6	-344.1	-371.6	-242.1
Cash Provided by/(Applied to) Investment Transactions	1.5	1.3	0.7	1.4	1.2	1.5
Cash Provided by/(Applied to) Financing Transactions	-1.8	61.3	206.7	-14.8	127.7	-22.9
Increase in Cash and Cash Equivalents	72.1	41.0	203.2	-74.4	88.6	37.0
Cash and Cash Equivalents, Beginning of Year	347.2	419.3	460.3	663.5	589.1	677.7
Cash and Cash Equivalents, End of Year	419.3	460.3	663.5	589.1	677.7	714.7

Note:

1. This schedule has been prepared on a Public Sector Accounting basis.
2. Columns may not add due to roundin.