

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Infrastructure, Development and Enterprise Services
Date	Tuesday, February 6, 2024
Subject	<b>Financial Plan for Water and Wastewater Services</b>

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## Recommendation

1. That City Council, as the owner of the Guelph Municipal Drinking Water System, approve the current six-year financial plan as required under Ontario Regulation 453/07 and the Municipal Drinking Water License.
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## Executive Summary

### Purpose of Report

The purpose of this report is to obtain City Council approval of a financial plan that is prepared as a condition of the Municipal Drinking Water License renewal process under the [Safe Drinking Water Act, 2002](#). A Municipal Drinking Water License is an approval issued by the Ontario Ministry of the Environment, Conservation and Parks for the operation of a municipal drinking water system.

The City of Guelph's current Municipal Drinking Water License expires in 2024. This financial plan for the City of Guelph's drinking water system has been prepared in accordance with [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#) and must be approved by a resolution of Council for submission to the Province as part of the Municipal Drinking Water License renewal application process.

### Key Findings

A financial plan is a condition requirement for license renewal of the City's Municipal Drinking Water License (MDWL) and must have Council endorsement. This financial plan is developed from the Council approved operating and capital budget and forecast. Following Council's approval, staff submit the approved financial plan to the Province to renew its MDWL, in accordance with [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#).

Ontario Regulation 453/07 details very prescribed license renewal requirements for the preparation and submission of financial plans as a condition in a MDWL renewal submission. The financial plans must include:

1. Approval Process
  - a) Financial plans must be approved by the Municipal Council. This ensures that the plans are endorsed by the appropriate authority, thereby ensuring accountability and oversight.

## 2. Content of Financial Plans

- a) Should include detailed information about the proposed or projected financial operations of the drinking water system. This includes itemized revenue and expense information, such as water rates, user charges, other revenues, amortization expenses, interest expenses, and other expenses.
- b) Must indicate the annual surplus or deficit and the accumulated surplus or deficit. For license renewals, further information about the financial position of the system, such as financial assets, liabilities, net debt, and non-financial assets, should be included.
- c) In cases where the system involves lead service pipes, particulars regarding their replacement should be outlined.
- d) Length of Financial plans should cover a minimum period of six years, and the first year of the financial plan, must be the year in which the drinking water system's existing municipal drinking water license would expire.

## 3. The Owner of the Drinking Water System must:

- a) Make the financial plans easily accessible to the public.
- b) Members of the public who are served by the drinking water system should be able to request the plans without incurring any charges.
- c) If the owner maintains a website, the financial plans must be published on the internet and made available to the public free of charge.
- d) The owner should provide notice to the public about the availability of the financial plans, ensuring that the intended audience is aware of the availability of this information.

## 4. Submission to the Ministry

- a) It is essential for the owner of the drinking water system to submit a copy of the approved financial plans to the Ministry to meet regulatory compliance.

Water and Wastewater operations have a long-standing dedication to sound financial management through the incorporation of leading practices and financial policies to ensure the City's long-term service and infrastructure levels and standards can be met.

### **Strategic Plan Alignment**

The City's strategic plan theme 'Foundations' supports the objective to maintain the City's healthy financial positions. [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#) mandates municipalities to prepare and submit financial plans. This requirement ensures that owners engage in long-term financial planning, promoting transparency, accountability, and the long-term viability of the drinking water system.

### **Financial Implications**

There are no direct financial impacts as a result of the financial plan as it is prepared to meet the prescribed legislative requirements required under [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#). This financial plan has been developed based on City of Guelph 2024-2027 Operating Budget and a preliminary 2028/2029 operating forecast, 2024-2027 Capital Budget and 2028-2029 capital forecast.

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## Report Details

### Background

The [Safe Drinking Water Act, 2002 \(SDWA\)](#) was initiated in 2000 by Justice O'Connor in response to the Walkerton Inquiry and passed into law in 2002. Under the Act, a number of Regulations were enacted, all designed to protect drinking water systems and their consumers. The SDWA sets out the prescribed requirements to obtain or renew a Municipal Drinking Water License, including:

1. A drinking water works permit;
2. An operational plan documenting the quality management system the owner and operating authority;
3. A Financial Plan containing financial projections;
4. Accreditation from a third-party verifying that their quality management; system conforms to Ontario's Drinking Water Quality Management Standard
5. A permit to take water.

Justice O'Connor identified financial planning as necessary to ensure that drinking water systems become self-financing and sustainable. He recommended that the Ontario provincial government require all owners of municipal water systems to submit a financial plan as a condition of obtaining and maintaining a Municipal Drinking Water License. Thus, [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#) was enacted to satisfy and outline the requirements for municipal drinking water systems. Under this Regulation, all residential drinking water system owners applying for a drinking water license renewal, must prepare a financial plan, approved by Council, that satisfy the requirements prescribed in the Regulation for submission.

### Process

The City of Guelph's Municipal Drinking Water License must be renewed through application every five years. As a condition for renewal, an updated financial plan must be submitted per [Ontario Regulation Financial Plans Regulation \(O. Reg. 453/07\)](#).

BMA Management Consulting was retained by the City to prepare the financial plan as part of the submission requirements under the Municipal Drinking Water License renewal process as per the [Safe Drinking Water Act, 2002](#). The objective of the report is to convert City-supplied financial reporting documents, including Master Plans and Studies, into the prescribed reporting requirements for a financial plan defined under Ontario Regulation 453/07.

Although not a requirement under Ontario Regulation 453/07, the financial plan has been prepared to present both the City's water and wastewater system's financial position, to emphasize the interconnectedness and interdependence of their financial management. By presenting the plan jointly it promotes a coordinated approach to financial management and ensuring the long-term sustainability of each utility.

The financial plan has been developed in alignment with studies and Council direction that supports financial sustainability, water conservation, program efficiency, customer affordability, asset management, and fairness and equity.

The following highlights key outcomes of the 2024 six-year financial plan:

### **Statement of Financial Operations**

The statements of financial operations show the City is generating excess revenues over ongoing operation expenses including amortization for water and wastewater throughout the forecast period. This indicates funds are available each year for future capital renewal or major maintenance through the transfer to Capital Reserves.

### **Cash Flow**

The water utility cash flow dip into a negative position in 2029 while wastewater utility remains positive during the financial term. The water shortfall in cashflows can be offset through internal borrowing from wastewater on a temporary basis. Staff will refine the capital budget to reduce expenditures to a sustainable level through the budget confirmation process.

### **Net Financial Assets**

Wastewater net financial assets are in a positive position throughout the forecast while water net position is in a negative position from 2024 to 2029. The water negative position indicates that past capital is being financed from future revenues. This is due to required renewal of critical water assets like FM Woods Station.

### **Tangible Capital Assets (Net Book Value)**

The net book value is projected to increase for water and wastewater indicating that assets are being renewed at an increased pace, as substantiated in the water and wastewater capital budget due to increasing growth needs.

### **Accumulated Surplus**

This indicator represents cash on hand plus the net book value of tangible capital assets less debt. The accumulated surplus is forecast to increase from 2024 to 2029 for both water and wastewater.

### **Financial Implications**

There are no direct financial impacts as a result of the preparation of the financial plan. This financial plan is prepared to meet the legislative requirements under Ontario Regulation 453/07. The multi-year budget is where operating and capital budgets are approved, determining the user rates required to ensure full cost recovery of the water and wastewater utility. Through the annual budget confirmation process the approved budget is reviewed, updated, and reconfirmed annually.

This financial plan is a summary which provides a financial forecast for both expense and revenue requirements to 2029 to ensure the ongoing financial sustainability of both utilities. The financial plan was developed using the [2024-2027 budget](#) adopted by Council on November 29, 2023. The 2028/29 Capital forecast from the ten-year capital budget and preliminary 2028/2029 operating forecast developed by BMA were used to complete the six-year financial plan (Attachment-1). As noted in the [2024-2027 Multi-Year Budget Companion Report](#) –

[Council Budget Decisions](#), the funded status of the Water Capital Reserve is a concern and staff will report back to Council on changes required to the 2025-2033 Capital Budget and Forecast through the 2025 budget confirmation.

### **Conclusion**

The submission requirements of the Provincial Financial Plans Regulation (O. Reg. 453/07) outline what is necessary for owners of municipal drinking water systems to prepare and submit financial plans. By fulfilling the submission requirements, Municipal Drinking Water System owners lay the groundwork for effective financial planning and management, enable sustainable provision of safe drinking water to the community and satisfy the condition requirement for MDWL renewal.

### **Consultations and Engagement**

Staff worked with BMA Municipal Financial and Management Consulting for the preparation of Attachment-1 BMA Report – City of Guelph Water and Wastewater Financial Plan and Attachment-2 BMA Report - City of Guelph - Water and Wastewater Financial Plan – O. Reg. 453/07

### **Attachments**

Attachment-1 BMA Report - City of Guelph Water and Wastewater Financial Plan

Attachment-2 BMA Report - City of Guelph - Water and Wastewater Financial Plan – O. Reg. 453/07

### **Departmental Approval**

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