

## CITY OF VAUGHAN

### **EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 10, 2013**

Item 3, Report No. 17, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on December 10, 2013.

### **3                    THE CONSOLIDATED SIX YEAR WATER FINANCIAL PLAN (2014-2019)**

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Acting Commissioner of Finance & City Treasurer, the Commissioner of Engineering and Public Works, the Director of Public Works and the Director of Financial Services, dated December 2, 2013:

#### **Recommendation**

The Acting Commissioner of Finance & City Treasurer, the Commissioner of Engineering and Public Works, the Director of Public Works and the Director of Financial Services recommend:

1. That the attached Vaughan and Kleinburg Consolidated Six Year Water Financial Plan that demonstrates a viable and sustainable financial plan for the combined distribution systems (Vaughan license 011-102, permit 011-202 and Kleinburg license 011-101, permit 011-201) be adopted; and
2. That a copy of the Vaughan and Kleinburg Consolidated Six Year Water Financial Plan be forwarded to the Ministry of Municipal Affairs and Housing and the Ministry of the Environment

#### **Contribution to Sustainability**

This report is consistent with the priorities previously set out by Council in *Green Directions Vaughan*, the Community Sustainability and Environmental Master Plan:

- Goal 1: To significantly reduce our use of natural resources. Water is a valued resource and efforts continue to be made to reduce its consumption to ensure viability for future generations.
- Goal 5: To be leaders on sustainability issues. Vaughan is committed to providing leadership by implementing sustainable best practices in its own municipal operations.

The Six Year Water Financial Plan increases awareness of the importance of financially sustainable water distribution systems in the protection and conservation of this valuable natural resource.

#### **Economic Impact**

There is no economic impact as result of this report, however this consolidated six year financial plan will be utilized in the preparation of the 2014 – 2017 Water Operating budget.

#### **Communications Plan**

As required by legislation the City's Vaughan and Kleinburg Consolidated Six Year Financial Plan for water will be available to the public on the City's web site.

#### **Purpose**

For Council adoption of the City's Vaughan and Kleinburg Consolidated Six Year Water Financial Plan (2014-2019) that provides a financially viable and sustainable water system as required by the Safe Drinking Water Act, 2002, Ontario regulation 453/07 and that a copy of the financial plan be forwarded to the Ministry of Municipal Affairs and Housing and the Ministry of the Environment.

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#### **Background - Analysis and Options**

##### **The Safe Drinking Water Act (SDWA) – Licensing Requirements**

The Safe Drinking Water Act is comprehensive in its legislative requirements and was enacted to place all legislation and regulations relating to the treatment and distribution of drinking water into one Act. The SDWA expands on existing policy and practices and introduces new regulations to protect drinking water. It includes certification of drinking water system operators and analysts and puts in place certain financial reporting requirements and the need for municipalities to develop financially sustainable water treatment and distribution systems.

Under the Safe Drinking Water Act the City has received a full scope – Entire Accreditation Certificate on July 7<sup>th</sup>, 2009 for its Drinking Water Quality Management Standards (DWQMS). The City was issued a Drinking Water Works Permit (Permit number 011-201) along with a Municipal Drinking Water Licence (Licence number 011-101) in order to operate. The Municipal Drinking Water Licence expiry date is July 26, 2014. As such, the City is obligated to apply for renewal no later than January 24, 2014.

The Six Year Financial Plan must include:

- Statement of Operations
- Statement of Financial Position
- Statement of Net Financial Assets
- Statement of Cash Flow

The financial plan must be adopted by the Council of the municipality and the resolution must also indicate that the drinking water system is financially viable. The act does not require that a six year financial plan be prepared for wastewater. In addition the above regulation does not require that the six year financial plan be audited

This is the second six year financial plan that has been submitted, the first submission was in 2010 and covered the years 2010 to 2015.

The City's financial plan presented under regulation O.Reg 453/07 is compliant with the new CICA PSAB requirements PS1200 and PS3150. These new accounting standards for the preparation of financial statements provide for full accrual accounting and the inclusion of tangible capital assets. The tangible capital assets of the City include land, buildings, facilities, vehicles, equipment and underground water/ wastewater assets, etc.

##### **Consolidated Six Year Water Forecast - Highlights - 2016 to 2021**

#### **Factors and Assumptions**

The development of the consolidated six year water financial statements utilized the following documents the 2009 water/wastewater rate study, the 2013 development charges background study, 2013 water/wastewater budget, 2013-16 capital budget, Regional water rate documentation and estimates, the City's consolidated financial statements and other resources. Factors gleaned from the above referenced material included assumptions for growth, inflation, consumption levels, lifecycle capital forecasts, deferred revenues (development charge revenue) and contributed assets.

In certain situations best estimates were used in the development of the forecasted figures when financial information or data was not known. Generally the development of the consolidated six year financial forecast used a conservative approach in terms of consumption levels, inflation, expenditure levels, etc.

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Following are the highlights for the Statement of Operations and Statement of Financial Position that form part of the six year financial plan for the years 2014 to 2019.

#### **Statement of Operations Forecast**

##### **Rate Based Revenues**

This component of water revenue is based on metered water consumption for residential, commercial and industrial customers. The forecasted water revenues over the reported period will increase from \$52.1m in 2014 to \$76.5m in 2019. Total revenue year over year is increasing as a result of growth in the customer base and also the result of rate increases.

The forecasted revenue figures were developed using a conservative growth pattern of 1.5% for residential and 1.0% for commercial properties. This growth rate is slightly more conservative than the growth used in the DC background study. The revenue forecast also assumes an average year in terms of weather for the six year period.

The estimated water rate increase over this period ranges from 6.8% in 2014 to 6.0% in 2019. The increase in rates over the forecast period will permit the City to maintain service levels over an increasing infrastructure base and to also meet the annual capital requirements. This is evidenced in the paragraph below titled Changes in Net Financial Assets.

Water consumption over the forecasted period shows an increase in total demand as result of continued growth in the customer base and ranges from 37.7m cubic meters in 2014, to 40.0m cubic meters in 2019. On a per household basis water consumption is expected to decline over the forecasted period from 291cm to 288cm, this maintains to a small degree the expected trend in water consumption.

##### **Other Revenues and Interest income**

Other revenues range from \$0.6m in 2014 to \$0.7m in 2019. These revenues comprise a number of different services that are provided to the City's customers which include meter sales and installations, temporary meter rentals and other services.

Bank interest earned on cash investments over this period ranges from \$0.5m in 2014 to \$0.8m in 2019. The gradual increase over the forecasted period is the result of the increasing cash balance in the water reserve. The bank rate was conservatively estimated at 1.5% for this period.

##### **Contributions from Developers/Contributed Assets**

Contributions from Developers are development charge revenues that are drawn down each year from DC obligatory reserve fund for growth related capital water projects. These forecasted drawdowns for capital projects are based on the DC background study and range in the neighbourhood of \$8.5m per year.

Contributed assets are those tangible capital assets that are assumed by the City from developers through development agreements, or constructed on behalf of the City through capital projects and acquisitions. These assumed asset revenues are estimated to be in the range of \$1.9m to \$2.7m over the forecasted period.

##### **Purchase of Potable Water**

The largest expenditure component is the purchase of potable water from the Region of York. Their estimated rate increase for the purchase of water for the years 2014 to 2019 ranges from a

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high of 7.5% down to 5.0%. Both the Regional water rate increase and the City's anticipated growth in terms of consumption have been factored into the total cost of water purchased as shown on the Statement of Operations.

Purchases of potable water over the forecasted period ranges from \$37.2m in 2014 to \$52.8m in 2019. The unmetered water component is also factored in the amount shown above and is forecasted to be in the range of 13% over the six year period.

#### **Expenditures**

Operating and maintenance costs represent on going preventative maintenance, general repair activities and other operational expenditures for the City's above and below ground water infrastructure. The operating and maintenance costs range from \$8.5m in 2014, to \$10.9m in 2019. Two factors impacting the expenditure forecast over this period is the increasing size of the water system therefore increased maintenance costs and the impact of annual inflation.

Amortization has increased over the forecasted period as a result of a water system that continues to expand to meet the service demands of the City. Amortization over this period ranges from \$5.0m in 2014 to \$6.1m in 2019. To put this in perspective the net dollar value of the City's water infrastructure as shown on the Statement of Financial Position ranges from \$280.2m in 2014 to \$344.0m in 2019.

The annual amortization expense is based on a straight line approach for each asset component of the infrastructure. The amortization calculation is simply the value of the asset divided by the expected operational life of the asset. As mentioned above the increasing amortization expense over the six year period reflects the growth in size and value of the underground water distribution system.

For the remaining operating expenditures, the same factors inflation and growth have been applied as applicable over the six year period.

#### **Annual Surplus**

The annual surplus represents the excess of revenues over expenditures. The surplus ranges over the forecasted period from \$11.7m in 2014, to \$15.9m in 2019. The annual increase in the surplus over this period is the result of a planned approach in setting sufficient rates so that the City can attain full cost recovery in the future and meet the SDWA's requirement of a viable and financially sustainable water system.

#### **Statement of Financial Position Forecast**

The SDWA O.Reg. 453/07 requires that the statement of financial position for water be forecasted at a minimum over a six year period. The City's 2012 Consolidated Financial Statements was used as a base for the development of the six year pro forma Statement of Financial Position.

#### **Financial Assets and Liabilities**

Financial assets consisting of cash and cash equivalents increase from \$48.0m in 2014 to \$57.6m in 2019. These funds are invested and earn investment income as shown on the Statement of Operations. Water billings receivable and cash balance increases over the forecasted period are the result of growth in the customer base and consumption rate increases.

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The liabilities are comprised of various current accounts payables, long term liabilities such as debentures, future employee benefits and deferred revenue or obligatory reserves (DC funds received). The liabilities total \$26.4m in 2014 and are forecasted over the six year period to reach \$34.0m in 2019. This increase in liabilities over the forecasted period is a reflection of the increasing size of the infrastructure as it relates to both operational maintenance activity and capital project requirements. The forecast assumes no new debt over the six years.

#### **Non-Financial Assets**

The tangible capital assets consist of land, booster stations, vehicles, water distribution infrastructure, water meters and capital work in progress. The value of these assets as shown on the Statement of Financial Position is net of amortization. The net value of these assets ranges from \$280.2m in 2014 to \$344.0m in 2019. This increase over six years reflects both the increasing size of the infrastructure and the growth in net value of the City's water distribution system.

#### **Statement of Accumulated Surplus**

Accumulated water surplus at the end of the forecasted period 2019 is comprised of three components; net tangible capital assets, amounts to be recovered in the future (debenture costs & employee future benefits) and the accumulated reserve that is earned annually through the operations of the water system. An accumulated surplus as shown below indicates that available net resources are sufficient to provide future water services. Over this period accumulated surplus increases by \$81.9m. Following is a breakdown of the components of accumulated surplus as of 2019:

Investment in tangible capital assets	\$344.0m
Amounts to be recovered	(\$6.5m)
Reserve balance	\$44.0m
Accumulated surplus 2019	\$381.5m

#### **Statement of Changes in Net Financial Assets – (Sustainability)**

The attached Statement of Changes in Net Financial Assets (NFA) is a significant document, in that it indicates whether or not sufficient revenues are being generated annually to cover both the operational cost and the annual capital cost of the water system. The annual change in NFA as shown in the schedule begins with a deficit of (\$1.7m) in 2014; however by 2017 the change in NFA is positive at \$0.9m which indicates that sufficient revenues are being generated on an annual basis. The positive change in NFA continues in 2018 \$3.3m and 2019 \$4.8m. This schedule is evidence that the City over time has put in place the appropriate rates to meet its annual financial obligations. It provides an affordable water service to the community and at the same time permits the City to attain the goal of full cost recovery.

The \$37.4m in accumulated net financial assets in 2019 is significant however to put this into perspective the gross value of the City's water infrastructure is forecasted to be \$459.7m in 2019. This is a significant amount of infrastructure that will be required to be maintained and replaced over time.

#### **Conclusion**

The six year financial plan for the period 2014 to 2019 as attached demonstrates that the City has developed a financially viable and sustainable drinking water financial plan thereby meeting the requirement of the Ontario regulation 453/07.

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**Relationship to Vaughan Vision 2020**

The above recommendation is consistent with the City's vision to Ensure Financial and Environmental Sustainability, to Manage Water Corporate Assets while promoting Excellence in Service Delivery to the community.

**Regional Implications**

No Implications

**Conclusion**

The attached Consolidated Six Year Water Financial Plan for the years 2014 to 2019 demonstrates a financially sustainable plan for the Vaughan and Kleinburg water distribution systems.

**Attachments**

Attachment 1: The Consolidated Six Year Water Financial Plan 2014 - 2019 and Notes

**Report prepared by:**

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)