



Report to: General Committee

Date Report Authored: April 29, 2010

SUBJECT: Water and Wastewater System Financial Plan
PREPARED BY: Raymond Law, Senior Business Analyst, Ext.3585
Eddy Wu, P.Eng., Waterworks QMS Controller, Ext. 2737

RECOMMENDATIONS:

- 1) THAT the report entitled "Water and Wastewater System Financial Plan" prepared in accordance with the Safe Drinking Water Act and Ontario Regulation 453/07 be received;
- 2) AND THAT Council, as the Owner and Operating Authority of the Town of Markham's Drinking Water System, approve the Corporation of the Town of Markham's "Water and Wastewater System Financial Plan";
- 3) AND THAT Council authorize Staff to submit the "Water and Wastewater System Financial Plan" to the Ministry of Municipal Affairs and Housing on or before July 1, 2010;
- 4) AND THAT this report be taken to the June 8, 2010 Council meeting;
- 5) AND THAT Staff be authorized and directed to do all things necessary to give effect to this resolution

EXECUTIVE SUMMARY:

Not applicable

PURPOSE:

To obtain Council's approval of the "Water and Wastewater System Financial Plan", and to seek authorization from Council to publish the Town's water and wastewater system financial information, and submit a copy to the Ministry of Municipal Affairs and Housing, as required by the Safe Drinking Water Act.

BACKGROUND:

In Part Two of Justice Dennis O'Connor's Walkerton Inquiry Report, it stated that the Ministry should move towards a municipal licensing program regime incorporating the concepts of quality management. The recommendation forms the basis of the Municipal Drinking Water License (MDWL) program.

The MDWL is a new approvals framework for municipal residential drinking-water systems, replacing the current Certificate of Approval (C of A). Requirements for the issuance of a MDWL became mandatory for all owners of municipal residential drinking-water systems in 2007, as part of the Safe Drinking Water Act (SDWA).

The requirements for the issuance of the MDWL are:

1. A Drinking Water Works Permit (DWWP – replacing any current C of A)
2. A Permit to Take Water
3. An approved Operational Plan
4. An accredited Operating Authority
5. An approved Financial Plan

The Town has already fulfilled requirements 1 to 4 (with requirement 2 as not applicable), by implementing the Quality Management System (QMS) that complies with the Drinking Water Quality Management Standard (DWQMS). The successful QMS implementation leads the Town to become the accredited Operating Authority and received the Municipal Drinking Water License in August 2009. However it is with the understanding that the Owner must prepare and approve the Financial Plan for the Town's drinking-water system that satisfies the requirements O.Reg. 453/07 by July 1, 2010.

O.Reg. 453/07 requires the following:

- The Financial Plan be approved by resolution of Council that specifies that the drinking water system is financially viable;
- Full-cost accounting to be utilized to determine the true cost of the drinking water system; and
- Projections be at least six years, but recommends a long term plan

Together with the approved Operational Plan, the Financial Plan must be made available to the public who are served by the Town's drinking-water system. Failure to approve and submit a Financial Plan prior to the deadline may result in the loss of the Town's MDWL. The Financial Plan is a mandatory requirement for the Town to be in full compliance with the MDWL program.

The Financial Plan must include a statement that the financial impacts of the drinking-water system have been considered, and must apply for a period of at least six years. For each year in which the Financial Plan applies, the Financial Plan must include details of the following:

- i. Details of the proposed or projected financial position of the drinking water system itemized by,
 - a) Total financial assets,
 - b) Total liabilities,
 - c) Net debt,
 - d) Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses, and

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- e) Changes in tangible capital assets that are additions, donations, write downs and disposals.
 - ii. Details of the proposed or projected financial operations of the drinking water system itemized by,
 - a) Total revenues, further itemized by water rates, user charges and other revenues,
 - b) Total expenses, further itemized by amortization expenses, interest expenses and other expenses,
 - c) Annual surplus or deficit, and
 - d) Accumulated surplus or deficit.
 - iii. Details of the drinking water system's proposed or projected gross cash receipts and gross cash payments itemized by,
 - a) Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges,
 - b) Capital transactions that are proceeds on the sale of tangible capital assets and cash used to acquire capital assets,
 - c) Investing transactions that are acquisitions and disposal of investments,
 - d) Financing transactions that are proceeds from the issuance of debt and debt repayment,
 - e) Changes in cash and cash equivalents during the year, and
 - f) Cash and cash equivalents at the beginning and end of the year.

OPTIONS/ DISCUSSION:

The Financial Plan is currently only required for the water system, as set out in the Regulation. This requirement may be expanded to include a wastewater system at a future date when the regulations governing the Sustainable Water and Sewer Systems Act are released. Two options were considered: develop the Financial Plan for only the water system or develop the Financial Plan which is inclusive of water and wastewater services.

Another consideration made in developing the Financial Plan included the number of years to include as the planning period. The minimum requirement of the legislation is a Financial Plan which applies for a period of at least six years and will need to be updated in five years as it is required for the renewal of the MDWL. There is no prescribed maximum period of time for the planning period.

The basis for the Financial Plan is the Town's annually updated reserve fund study which includes both water and wastewater services. On an annual basis, Financial Services reviews and updates the comprehensive Waterworks Reserve Study. The Study utilizes a rolling 25-year planning horizon and examines funding requirements for operating, capital, reserve and reserve fund contributions. Based on the total costs, projections of growth and consumption, the reserve study determines the water and wastewater rates to ensure long-term sustainability. Since the comprehensive reserve study is inclusive of the

wastewater system, the Financial Plan will also include both services. The Financial Plan is developed using the minimum prescribed planning period of six years. As the Waterworks Reserve Study is updated annually, a six-year planning period is better able to maintain alignment with the Reserve Study. The Financial Plan may be updated to reflect the changes in the reserve study, ahead of the renewal of the MDWL, should the reserve study vary significantly from the Financial Plan after an update.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The water and wastewater operating activities continue to present a surplus situation each year over the planning period (approx. \$79M over 6 years as evidenced in the Cash-Flow projections). The positive cash-flows from operations combined with the available balances in the reserves and reserve funds are forecasted to be sufficient for the planned capital acquisitions during this period. The cash-flow projections are based on the Town's water and wastewater reserve study that includes the full cost of providing services. Adequate funding is available when required, thereby negating the need for any external debt for capital acquisitions. As of January 1, 2010 the Town of Markham's inventory of water and wastewater tangible capital assets had a net book value of about \$686.3 million. Over the planning period, to the end of 2015, this total is estimated to increase to about \$786.3 million, an increase of \$100M.

The combination of water and wastewater reserve funds along with positive cash-flows from operations provides evidence of the financial viability of the water and wastewater systems during the planning period.

The completed "Water and Wastewater System Financial Plan" is attached as Attachment "A".

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Growth Management – The preparation of the Town's Financial Plan must apply for a period of at least six years, which takes into consideration the future growth of the Town's drinking-water system.

Municipal Services – The completion of the MDWL is crucial as the Town requires this license in order to continue provide drinking water to the Town's consumers.

Green Print – The development of the Financial Plan supports the sustainability of the Town's water system ensuring the continued delivery of clean and safe drinking water.

BUSINESS UNITS CONSULTED AND AFFECTED:

The completion of the Financial Plan is the joint effort of the Financial Services Department and the Waterworks Division. Financial Services is taking the lead role in the development of the Financial Plan, with Waterworks Division providing the required data and support in order to complete the Financial Plan.

The undersigned represents the Corporate Top Management of Town of Markham's Drinking Water Distribution System. By signing below, the Corporate Top Management of the Operating Authority has reviewed the Financial Plan, and hereby recommends the Financial Plan to be brought forward to the Owner's attention.

RECOMMENDED**BY:**

18/05/2010

19/05/2010

X



X



Jerry Klaus
General Manager, Waterworks

Peter Loukes
Director, Operations

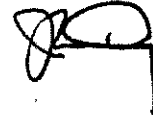
20/05/2010

20/05/2010

X



X



Brenda Librecz
Commissioner, Community & Fire Services

John Livey
Chief Administration Officer

ATTACHMENTS:

Attachment "A" – Town of Markham Water and Wastewater System Financial Plan

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