

Subject: 2024 Financial Plan for the Renewal of the Municipal Drinking Water License, Pursuant to *Ontario Regulation 453/07*

File Number: ACS2024-FCS-FIN-0003

**Report to Environment and Climate Change Committee on 16 April 2024
and Council 1 May 2024**

Submitted on April 5, 2024 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance and Corporate Services Department

**Contact Person: Kristin Ratcliffe, Account Manager, Financial Services Unit,
Finance and Corporate Services Department**

613-580-2424 ext. 22714, kristin.ratcliffe@ottawa.ca

Ward: Citywide

**Objet : Plan financier 2024 pour le renouvellement des permis municipaux
d'eau potable, conformément au *Règlement de l'Ontario 453/07***

Numéro de dossier : ACS2024-FCS-FIN-0003

Rapport au Comité de l'environnement du changement climatique

le 16 avril 2024

et au Conseil le 1er mai 2024

**Soumis le 5 avril 2024 par Isabelle Jasmin, Trésorière municipale adjointe,
Finances municipales, Direction générale des finances et des services
organisationnels**

**Personne ressource : Kristin Ratcliffe, Gestionnaire de comptes, Unité des
services financiers, Direction générale des finances et des services
organisationnels**

613-580-2424 poste 22714, kristin.ratcliffe@ottawa.ca

Quartier : À l'échelle de la ville

REPORT RECOMMENDATION

That the Environment and Climate Change Committee recommend that Council approve the 2024 Financial Plan for Water Services required for the renewal of the Municipal Drinking Water License, attached as Document 1, and submit the Financial Plan to the province as required by *Ontario Regulation 453/07*.

RECOMMANDATION(S) DU RAPPORT

Que le Comité de l'environnement et du changement climatique recommande au Conseil d'approuver le plan financier 2024 pour les services d'eau requis dans le cadre du renouvellement des permis municipaux d'eau potable, ci-joint en tant que document 1, et de présenter ce plan au gouvernement provincial, conformément au *Règlement de l'Ontario 453/07*.

EXECUTIVE SUMMARY

Ontario Regulation 453/07 is a regulation under the *Safe Drinking Water Act, 2002*, that requires owners of municipal drinking water systems to prepare a financial plan in support of necessary Municipal Drinking Water Licenses, applicable to each municipal drinking water system. Each of the City's seven licenses expire in June 2024. Considering each system as one, the City must prepare and submit an updated financial plan that extends to 2029. In 2018, as per the Financial Plan for Water Services 2018, Pursuant to Ontario Regulation 453/07 report [ACS2018-CSD-FIN-0002](#) Council approved the Financial Plan covering a ten-year period from 2018 to 2027.

Each drinking water license renewal application includes a comprehensive package including the following:

- Permit to Take Water
- Drinking Water Works Permit
- Operational Plan
- Accredited Operating Authority
- Financial Plan

This report addresses the Financial Plan element.

In September 2017, Council approved the Long-Range Financial Plan V – Water, Wastewater and Stormwater Supported Programs (LRFPV). The LRFPV presented a ten-year outlook of the rate supported operating and capital requirements for the delivery of water, wastewater and stormwater services. It focused on the funding strategies that will be required to provide for the renewal and maintenance of the City's existing asset base in a state of good repair, as discussed in the Comprehensive Asset Management Program report. The Long-Range Financial Plan will be updated in 2025.

This 2024 Financial Plan for Water Services reflects the ten-year financial projections approved by Council in the LRFPV, for Water services only, as well as an estimate for 2028 to 2029 that are outside the timeframe of the LRFP. The difference between this plan and the LRFPV is that in accordance with regulation 453/07, the Water Financial Plan must be reported on a full accrual basis of accounting, which includes tangible capital assets and the related amortization expense of these assets, over their useful life. There are four financial statements that make up the Water Financial Plan as follows:

- Statement of Financial Position (Balance Sheet)
- Statement of Operations (Income Statement)
- Statement of Cash Flow
- Tangible Capital Assets (TCA) Continuity Schedule

The 2024 Financial Plan for Water Services covers the period 2024-2029, and contains the following key information:

- Net book (depreciated) value of existing drinking water assets as of January 1, 2024;
- Projected infrastructure needs to meet lifecycle renewal, growth, regulatory, and city-policy requirements over the ten-year period;
- Projected operating and capital costs to plan, design, build, operate, maintain, rehabilitate, and replace those assets;
- Projected net book value of existing and planned assets;
- Projected water sales and other revenues;
- Projected cash needed to meet operating and capital activities;

- Projected debt financing;
- Projected cash position; and,
- Projected revenue increases.

Financial Implications

The report provides information on the current status of the water infrastructure financial position. The information provided should be used as the basis for future planning and decision-making that takes into consideration the full cost of ownership and operation. The financial projections included in this report are largely based on the drinking water component of the City's Long Range Financial Plan V approved by Council on September 27, 2017.

This report does not commit Council to the assumptions implicit in the plan such as projected revenue increases, pace of necessary capital expenditures, or projected levels of debt financing. These decisions will continue to be subject to the normal yearly budget approval process.

Public Consultation/Input

Ontario Regulation 453/07 prescribes that the plan be released to the public, and that the approved document be accessible via the municipal website.

RÉSUMÉ

Le Règlement de l'Ontario 453/07 pris en application de la *Loi de 2002 sur la salubrité de l'eau potable* oblige les propriétaires des réseaux d'eau potable municipaux à joindre un plan financier à leur demande de permis obligatoire d'eau potable, et ce, pour chaque réseau. Les sept permis de la Ville expirent en juin 2024. Si l'on regroupe tous les réseaux en un seul, la Ville doit préparer et présenter un plan financier à jour s'échelonnant jusqu'en 2029. En 2018, selon le rapport Plan financier concernant les services d'eau 2018, conformément au Règlement de l'Ontario 453/07 ([ACS2018-CSD-FIN-0002](#)), le Conseil a approuvé un plan financier décennal (2018-2027).

Chaque demande de renouvellement de permis d'eau potable s'accompagne d'un dossier complet comprenant ce qui suit :

- Permis de prélèvement d'eau
- Permis d'aménagement de station de production d'eau potable
- Plan opérationnel

- Organisme d'exploitation agréé
- Plan financier

Le présent rapport porte sur le plan financier.

En septembre 2017, le Conseil a approuvé le Plan financier à long terme V – Programmes relatifs à l'eau, aux eaux usées et aux eaux pluviales financés par les tarifs. Ce plan financier présentait une perspective sur 10 ans des besoins de fonctionnement et d'immobilisations financés par les tarifs pour les services d'eau, d'eaux usées et d'eaux pluviales. Il était axé sur les stratégies de financement requises pour renouveler et entretenir le parc d'actifs actuel de la Ville, comme il a été dit dans le rapport sur le Programme de gestion intégrale des actifs. Le Plan financier à long terme (PFLT) sera mis à jour en 2025.

Le plan financier 2024 pour les services d'eau tient compte des projections financières décennales approuvées par le Conseil dans le PFLT pour les services d'eau uniquement ainsi que d'une estimation pour 2028 et 2029, années ne s'inscrivant pas dans la période visée par le PFLT. La différence entre ce plan et le PFLT des Programmes relatifs à l'eau, aux eaux usées et aux eaux pluviales financés par les tarifs, c'est que conformément au *Règlement 453/07*, le plan financier des services d'eau doit être produit selon la méthode de la comptabilité d'exercice intégrale, qui comprend les actifs corporels et les frais d'amortissement connexes, pour la durée de vie utile. Le plan financier des services d'eau comprend quatre états financiers :

- Bilan;
- Résultats;
- État des flux de trésorerie;
- Historique des actifs corporels.

Le plan financier 2024 pour les services d'eau, qui couvre la période de 2024 à 2029, comprend les renseignements importants suivants :

- Valeur comptable nette (dépréciée) des actifs d'eau potable en date du 1er janvier 2024;
- Projection des infrastructures nécessaires pour répondre aux exigences liées au renouvellement du cycle de vie, à la croissance, aux règlements et aux politiques municipales sur 10 ans;

- Projection des coûts de fonctionnement et d'immobilisations pour planifier, concevoir, construire, exploiter, entretenir, réhabiliter et remplacer ces actifs;
- Projection de la valeur comptable nette des actifs actuels et à venir;
- Prévion des ventes d'eau et des autres recettes;
- Prévion des besoins en trésorerie pour les activités de fonctionnement et d'immobilisations;
- Financement par emprunt prévu;
- Position de trésorerie prévue;
- Projection des augmentations de recettes.

Répercussions financières

Le rapport décrit la position financière actuelle des infrastructures d'eau. L'information fournie doit servir de base à la planification et à la prise de décisions tenant compte des coûts totaux de possession et d'exploitation. Les projections financières reposent essentiellement sur le volet « eau potable » du Plan financier à long terme V de la Ville approuvé par le Conseil le 27 septembre 2017.

Le présent rapport n'engage pas le Conseil à l'égard des hypothèses implicites du plan, comme les augmentations de recettes prévues, le rythme des dépenses nécessaires en immobilisations ou les projections sur les niveaux de financement par emprunt. Les décisions resteront assujetties au processus annuel courant d'approbation budgétaire.

Consultations publiques et commentaires

Le Règlement de l'Ontario 453/07 prévoit la publication du plan approuvé sur le site Web de la municipalité.

BACKGROUND

In 2018, as per report the Financial Plan for Water Services 2018, Pursuant to Ontario Regulation 453/07 report ([ACS2018-CSD-FIN-0002](#)), Council approved the Financial Plans covering a ten-year period from 2018 to 2027. The current municipal drinking water licenses expire in June 2024. As part of the license renewal application, the City must prepare and submit a new Financial Plan that covers a period of at least six years, starting in the year each license expires.

Each drinking water license application must include a comprehensive package including the following:

- Permit to Take Water
- Drinking Water Works Permit
- Operational Plan
- Accredited Operating Authority
- Financial Plan

This report addresses the Financial Plan element.

The scope and content of the 2024 Financial Plan for Water Services is driven by regulatory requirements:

- Ontario Regulation 453/07 requires municipalities to submit a council-approved Financial Plan(s) for their drinking water systems, in accordance with Generally Accepted Accounting Principles and which establishes an itemized report(s) on the drinking water system's projected financial position, projected financial operations, and projected gross cash receipts and payments.
- Projections included in the required financial statements will provide a snapshot of the drinking-water system's projected financial situation, as well as the resources required to run and sustain the system.

City policies were also considered during development of the plan. The City's [2007 Fiscal Framework](#) addresses many of the same principles set out in the regulation. For example, key City objectives and guiding principles include:

- Capital assets are maintained and/or replaced using models of best economy;
- Capital and operating costs for water to be 100 per cent recovered;
- Sufficient revenues are raised to fund operations, while maintaining appropriate levels of debt and equity;
- Equity (reserves) provides flexibility to respond to economic cycles and manage financial risk;
- Financial decisions based on a multi-year forecast.

The following activities were carried out as part of the development of the Long Range Financial Plan V approved by Council in September 2017, which was a key input to the Water Financial Plan:

- The lifecycle requirements of existing assets were projected; rehabilitation and replacement needs identified;
- Future growth and regulatory requirements were identified and projected—both operating and capital;
- The impacts of inflation, scheduled pay increases and conservative estimates of consumption were considered;
- Based upon the above, revenue needs were projected, vetted, revised, and an affordability check carried out; and
- Debt was projected at the level required to ensure system sustainability through capital investment while maintaining revenue stability
- To convert the projected capital investments in the LRFPV to an accrual basis, capital investments were aligned to asset classes and net book values calculated.

Commencing in 2009 municipalities moved from the “modified accrual basis of accounting” to “full accrual basis of accounting”. The main change was to move from an expenditure basis to an expense basis method. Unlike expenditures, which are the cost of goods and services acquired by the government in the period, expenses are the cost of goods and services consumed in the accounting period. A new set of financial statements was created in order to detail the full accrual methodology. Full accrual basis of accounting recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. It requires that tangible capital assets be reported on the balance sheet (statement of financial position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives. The Water Infrastructure Financial Plan presented in this report follows this methodology.

DISCUSSION

The accounting schedules that constitute the 2024 Financial Plan for Water Services are contained in Document 1.

These include four key statements described below:

1. Statement of Financial Position

This statement highlights four key figures that describe the financial position of the City at the reporting date.

- a. The cash resources of the City are its cash and cash equivalents.
- b. The net debt position of the City is calculated as the difference between its liabilities and financial assets.
- c. The non-financial assets of the City are assets that are, by nature, normally for use in service provision and include purchased, constructed, developed, or leased tangible capital assets, and inventories of supplies.
- d. The accumulated surplus or deficit of the City is calculated as the sum of the net debt of the City and its non-financial assets. This indicator represents the net assets of the City.

Each of the three remaining financial statements illustrates the change in one of these aspects of the City's financial position.

2. Statement of Operations

This statement reports the surplus or deficit from operations in the accounting period. The statement displays the cost of City services provided in the period, the revenues recognized in the period and the difference between them. It measures, in monetary terms, the extent to which a City has maintained its net assets in the period.

3. Statement of Cash Flow

The statement of cash flow reports the change in cash and cash equivalents in the accounting period, and how the City financed its activities in the period and met its cash requirements.

4. Tangible Capital Assets (TCA) Continuity Schedule

The TCA Continuity Schedule reports the changes in value of tangible capital assets over time, based on historical cost. This information describes in financial terms the value of physical assets reflecting changes due to disposal, creation, and amortization.

It is a requirement in the regulation that these statements are provided for a minimum reporting period of six years. The financial statements projections developed for this plan covers the renewal period from 2024 to 2029.

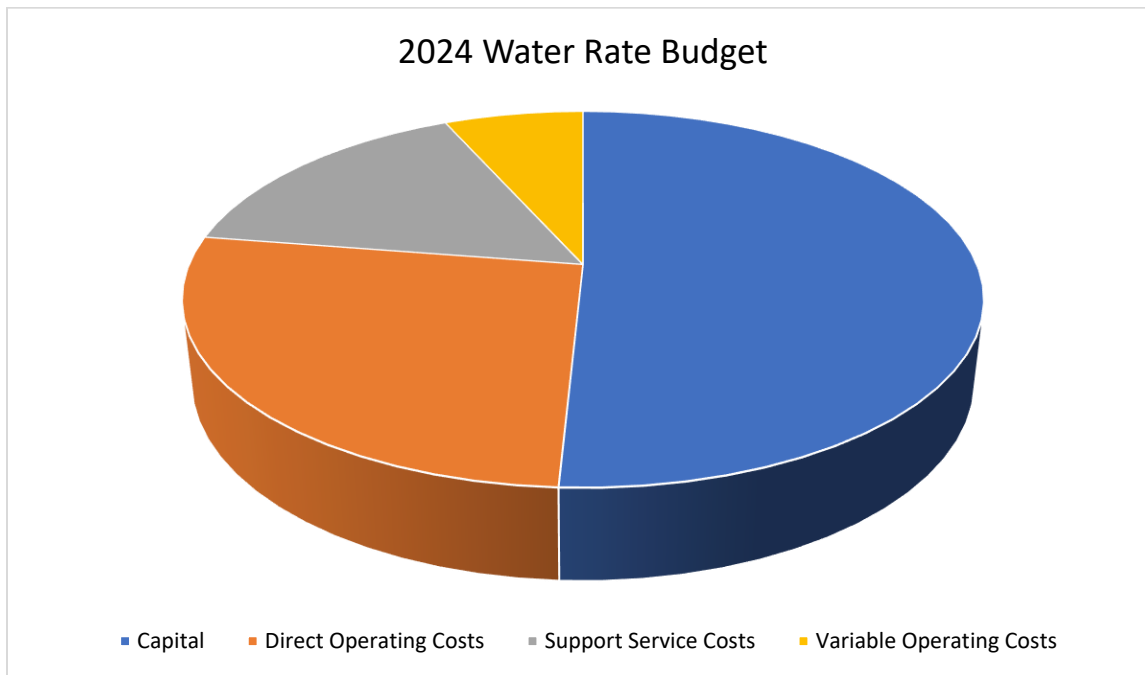
The following sections discuss underlying principles and assumptions in preparing the financial plan.

Cost Drivers

Figure 1 provides an overview of the 2024 Water Services Rate Budget, which totals \$207.7 million. Over 50 per cent of the annual budget is a contribution to capital to be used primarily for infrastructure maintenance, rehabilitation, and replacement.

Approximately 16 per cent of operating costs is for personnel compensation. All of these costs are a direct function of the size, complexity, age, and continuous growth of the City's water system, and are independent of the amount of water sold. All are subject to inflation, with compensation costs also subject to the terms established in collective agreements. Approximately seven per cent of total costs vary with the amount of water sold and the remaining 93 per cent are fixed costs.

Figure 1: 2024 Water Rate Budget



Infrastructure Renewal

Figure 2 illustrates the major expense components shown on the Statement of Operations. Where a municipality plans to meet its future investment needs, this will result in projected annual operating surpluses.

Figure 2: Understanding Accounting Surplus /Deficit Results

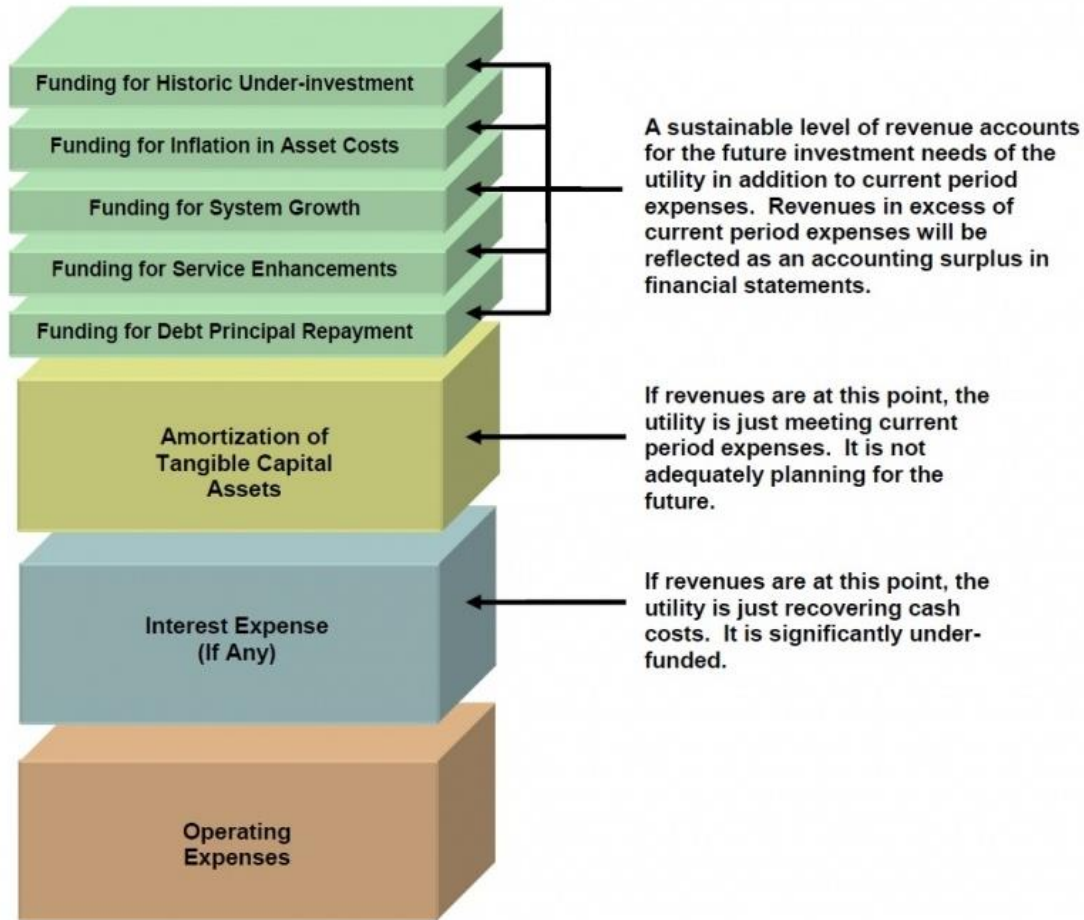
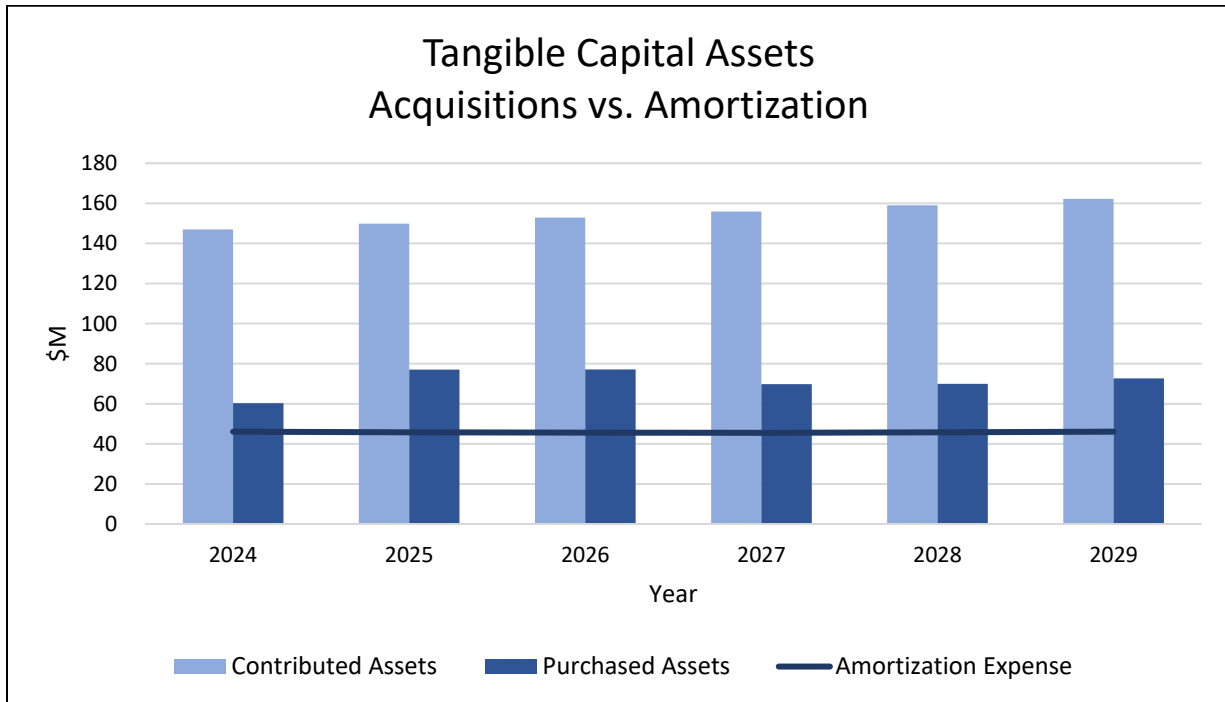


Figure 3 shows that the City’s water infrastructure capital acquisitions will continue to rise with inflation, as the system ages and grows, and as regulatory requirements increase. Annual infrastructure needs will far exceed the projected annual amortization expense of tangible capital assets and will result in a planned operating surplus for water.

Figure 3: Capital Requirements versus Amortization



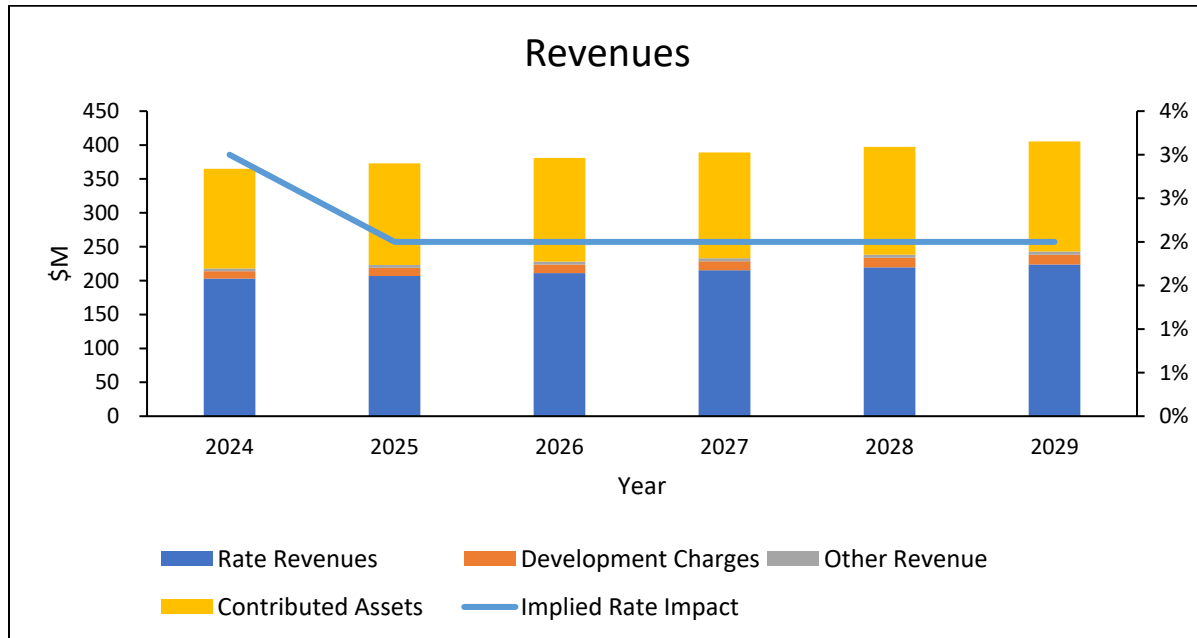
Cash Balances

To ensure sound fiscal management, preserve City Council discretion in its resource allocation decisions, minimize the impact to citizens of potentially significant rate increases, and to preserve a sound credit rating, a water infrastructure operating reserve target was established based on the LRFV operating and capital funding requirements. A minimum of six months operating expenses, including debt servicing is maintained in operating reserves throughout the projection period.

Revenues

Figure 4 shows how Drinking Water Services revenues are projected to grow over the next decade to help fund required expansion and renewal. Projected rate increases have been limited to two percent. It is important to note that the projected rate increases include inflation. These projected rates will be subject to change as new or unforeseen factors, such as regulatory changes, are incorporated into the model. The projected rates are subject to normal yearly budget approval.

Figure 4 - Water Service Funding & Projected Rate Increases



Financial Plan Conclusions

Analysis of the prepared financial statements shows the overall financial health of water infrastructure reflects a viable six-year horizon. The water system is being provided with an adequate amount of resources to continue successful operation over that time. Operationally, a surplus is realized every year allowing for investment in infrastructure, and the accumulated surplus continues to grow over time. The cash flow balance remains positive over the six-year time frame while keeping the debt service costs from outstanding debt as a percentage of own source revenues to a maximum of 14 per cent which is below the 15 per cent maximum approved by council.

FINANCIAL IMPLICATIONS

The report provides information on the current status of the water infrastructure financial position. The information provided should be used as the basis for future planning and decision making in terms of guiding the collection of revenue reflecting the true cost of ownership and operation. The financial projections included in this report are based on the drinking water component of the City’s Long Range Financial Plan V approved on September 27, 2017.

This report does not commit Council to the assumptions implicit in the plan such as projected rate increases, pace of necessary capital expenditures, or projected levels of debt financing. These decisions will continue to be subject to the normal yearly budget approval.

LEGAL IMPLICATIONS

There are no legal impediments associated with Committee and Council's approval of the recommendation of this report.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City-wide report.

CONSULTATION

Ontario Regulation 453/07 prescribes that the plan be released to the public, and that the approved document be accessible via the municipal web site.

ACCESSIBILITY IMPACTS

Finance and Corporate Services adheres to the requirements of the *Accessibility for Ontarians with Disabilities Act, 2005*, in its operations, programs and initiatives. This report is administrative in nature and has no associated accessibility impacts.

ASSET MANAGEMENT IMPLICATIONS

The recommendations documented in this report are consistent with the City's Comprehensive Asset Management (CAM) Program objectives and based on the background and updated needs assessment documented in the [City of Ottawa Comprehensive Asset Management Program](#) report tabled June 6, 2017.

The program provides for a customer-focused, forward looking, and systematic approach to managing city assets that support service delivery. The implementation of the CAM program results in timely decisions that minimize lifecycle costs and ensure the long-term affordability of assets. The 2018 Financial Plan for Water Services will ensure key initiatives supporting these objectives continue to be undertaken and brought to Council for consideration as required.

RURAL IMPLICATIONS

The new municipal drinking water system in the village of Richmond, anticipated to be operational by 2018, will serve a residential subdivision development approved for the western part of the village. Ontario Regulation 453/07 prescribes that the plan be released to the public, and that the approved document be accessible via the municipal web site.

TERM OF COUNCIL PRIORITIES

The development of a Financial Plan for Water Services supports the following Council Priorities:

FS1 – Demonstrate sound financial management

ES1 – Support an environmentally sustainable Ottawa

SUPPORTING DOCUMENTATION

Document 1 – Water Service Financial Plan includes:

- Schedule 1 – Statement of Financial Position
- Schedule 2 – Statement of Operations
- Schedule 3 – Statement of Cashflows
- Schedule 4 – Tangible Asset Continuity Schedule

DISPOSITION

Following Council approval of this report, the Infrastructure and Water Services Department will publish and submit the Financial Plan to the province per the requirements of O. Reg. 453/07.

Note: Pursuant to the City Clerk's Delegated Authority as set out in Schedule C, Subsection 7 of Delegation of Authority By-Law (being By-Law No. 2023-2), minor amendments were made to references within the Report's 'Executive Summary' (p. 2), 'Résumé' (p. 4), and 'Background' (p. 6) sections to correct typographical errors in reference to O. Reg. 453/07 (which had, in error, originally referenced O.Reg. 443/07).