

**2. FINANCIAL PLAN FOR WATER SERVICES 2018, PURSUANT TO ONTARIO
REGULATION 453/07**

**PLAN FINANCIER CONCERNANT LES SERVICES D'EAU 2018,
CONFORMÉMENT AU RÈGLEMENT DE L'ONTARIO 453/07**

COMMITTEE RECOMMENDATION

That Council approve the Financial Plan for Water Services described herein, attached as Document 1, and submission of the Financial Plan to the province as required by Ontario Regulation 453/07.

RECOMMANDATION DU COMITÉ

Que le Conseil approuve le plan financier des services d'eau décrit aux présentes (le Document 1 ci-joint), et la présentation de ce plan financier au gouvernement provincial conformément au Règlement de l'Ontario 453/07.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, Corporate Services Department, dated 13 February 2018 (ACS2018-CSD-FIN-0002).

Rapport de la Trésorière adjointe municipale, Finances municipales, Direction générale des services organisationnels, daté le 13 février 2018 (ACS2018-CSD-FIN-0002).

**Report to
Rapport au:**

**Environment and Climate Protection Committee
Comité de l'environnement et de la protection climatique
20 February 2018 / 20 février 2018**

**and Council
et au Conseil
28 February 2018 / 28 février 2018**

**Submitted on February 13, 2018
Soumis le 13 février 2018**

**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2018-CSD-FIN-0002

**SUBJECT: FINANCIAL PLAN FOR WATER SERVICES 2018, PURSUANT TO
ONTARIO REGULATION 453/07**

**OBJET: PLAN FINANCIER CONCERNANT LES SERVICES D'EAU 2018,
CONFORMÉMENT AU RÈGLEMENT DE L'ONTARIO 453/07**

REPORT RECOMMENDATIONS

That the Environment and Climate Protection Committee recommend Council approve the Financial Plan for Water Services described herein, attached as Document 1, and submission of the Financial Plan to the province as required by Ontario Regulation 453/07.

RECOMMANDATIONS DU RAPPORT

Que le Comité de l'environnement et de la protection climatique recommande au Conseil d'approuver le plan financier des services d'eau décrit aux présentes (le Document 1 ci-joint), et la présentation de ce plan financier au gouvernement provincial conformément au Règlement de l'Ontario 453/07.

EXECUTIVE SUMMARY

O. Reg. 453/07 is a Regulation under the Safe Drinking Water Act (2002) that requires Owners of municipal drinking water systems to prepare Financial Plans as part of the Municipal Drinking Water License.

In 2010, the City of Ottawa submitted its first Financial Plan to the Ministry of Municipal Affairs & Housing on June 30 per the Council report ACS2010-ICS-ESD-021. The Regulation required that the Financial Plan cover a period of at least 6 years; and the City submitted a plan at the time, which covered a 10-year period from 2010 to 2019. The current municipal drinking water licenses expire on June 16, 2019; however, the renewal application must be submitted no later than December 15, 2018. As part of the license renewal application, the City of Ottawa must submit a new Financial Plan.

This report serves two purposes, to receive Council approval on the City's Financial Plan as part of the license renewal application, and as part of the application for a new municipal drinking water system, which is expected to be serving the community of Richmond by the end of 2018. In order for the City of Ottawa to operate this new drinking water system, the City must apply for a separate and new municipal drinking water license. As part of the application process, the City must provide the required information that will ensure the following elements of the license are in place:

- 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). 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.

This 2018 Financial Plan for Water Services reflects the 10-year financial projections approved by Council in the LRFPV, for Water services only. 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 2018 *Financial Plan for Water Services* covers the period 2018-2027, and contains the following key information:

- Net book (depreciated) value of existing drinking water assets as of January 1, 2018;
- 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 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 web site.

SOMMAIRE

Le *Règlement de l'Ontario 453/07* est pris en application de la *Loi de 2002 sur la salubrité de l'eau potable* qui exige des propriétaires d'un réseau d'eau potable municipal qu'ils préparent un plan financier dans le cadre d'une demande de permis municipal d'eau potable ou de renouvellement de permis.

Le 30 juin 2010, la Ville d'Ottawa a présenté son premier plan financier au ministère des Affaires municipales et du Logement conformément au rapport ACS2010-ICS-ESD-021 présenté au Conseil. Le Règlement exigeait que le plan financier porte sur une période d'au moins six ans. À l'époque, la Ville a fourni un plan qui couvrait une période de dix ans, soit de 2010 à 2019. Les permis municipaux d'eau potable actuels expirent le 16 juin 2019; cependant, la demande de renouvellement doit être présentée au plus tard le 15 décembre 2018. Dans le cadre de sa demande de renouvellement de permis, la Ville d'Ottawa devra présenter un nouveau plan financier.

Le présent rapport remplit une double fonction. Il vise à obtenir l'approbation du Conseil pour le plan financier municipal qui sera présenté à la fois pour la demande de renouvellement de son permis municipal et pour la demande d'un permis pour le nouveau réseau d'eau potable municipal qui devrait desservir la communauté de Richmond d'ici la fin de 2018. Pour que la Ville d'Ottawa puisse exploiter ce nouveau réseau d'eau potable, elle doit présenter une demande de permis municipal d'eau potable distincte. Dans le cadre du processus de demande de permis, la Ville doit fournir les renseignements qui permettront d'assurer que les éléments suivants de la demande de permis sont bel et bien en place :

- 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 concerne le volet 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 présente une prévision sur dix ans des besoins d'exploitation et d'immobilisations financés par les tarifs qui doivent être comblés pour assurer la prestation des services d'eau potable, d'eaux usées et d'eaux pluviales. Il décrit notamment les stratégies de financement nécessaires pour assurer le renouvellement de l'ensemble des actifs actuels et les maintenir en bon état, comme il est mentionné dans le rapport sur le *Programme de gestion intégrale des actifs*.

Le plan financier de 2018 pour les services d'eau prend en considération les prévisions financières sur dix ans, approuvées par le Conseil dans le Plan financier à long terme V – Programmes relatifs à l'eau, aux eaux usées et aux eaux pluviales financés par les tarifs, pour les services d'eau uniquement. La différence entre le plan financier à long terme et le présent plan est que, conformément au Règlement 453/07, le plan financier des services d'eau doit être présenté selon la méthode de la comptabilité d'exercice, qui inclut les immobilisations corporelles et les charges d'amortissement connexes de ces actifs, pour la durée de leur vie utile estimative. Le plan financier des services d'eau se compose de quatre états financiers :

- état de la situation financière (bilan);
- état des résultats d'exploitation (état des résultats);
- état des flux de trésorerie
- historique des immobilisations corporelles.

En résumé, le *plan financier des services d'eau de 2018* couvre la période de 2018 à 2027 et contient les renseignements principaux suivants :

- valeur comptable nette (après amortissement) des actifs d'approvisionnement en eau potable actuels au 1^{er} janvier 2018;
- besoins en infrastructure prévus afin de satisfaire aux exigences en matière de renouvellement du cycle de vie et de la croissance, aux exigences réglementaires et à celles relevant des politiques municipales pour la période de dix ans;
- frais d'exploitation et coûts des immobilisations prévus pour la planification, la conception, la construction, l'exploitation, l'entretien, la remise en état et le remplacement de ces actifs;

- valeur nette projetée des actifs actuels et planifiés;
- ventes d'eau et autres revenus prévus;
- besoins en trésorerie prévus pour les activités d'exploitation et d'immobilisation;
- financement par emprunt prévu;
- position de trésorerie prévue;
- augmentations de tarif prévues.

Répercussions financières

Le présent rapport fournit de l'information sur l'état actuel de la situation financière de l'infrastructure d'approvisionnement en eau. L'information fournie servira de base à la planification et à la prise de décisions futures, processus qui doivent prendre en considération l'ensemble des coûts totaux d'exploitation et de possession. Les prévisions financières incluses dans ce rapport reposent sur la composante eau potable du prochain Plan financier à long terme V de la Ville approuvé par le Conseil le 27 septembre 2017.

Ce rapport n'engage pas le Conseil relativement aux hypothèses qui sont implicites dans le plan, comme les augmentations des recettes prévues, le rythme prévu pour l'engagement des dépenses en immobilisations nécessaires ou les niveaux de financement par emprunt projetés. Ces décisions demeurent assujetties au processus habituel d'approbation budgétaire annuelle.

Consultation publique et commentaires

Le Règlement de l'Ontario 453/07 prévoit que le plan soit rendu public et que le document approuvé soit accessible dans le site Web de la municipalité.

BACKGROUND

In 2010, the City of Ottawa submitted its first Financial Plan to the Ministry of Municipal Affairs & Housing on June 30 per the Council report ACS2010-ICS-ESD-021. The Regulation required that the Financial Plan cover a period of at least 6 years; and the City submitted a plan at the time, which covered a 10-year period from 2010 to 2019.

The current municipal drinking water licenses expire on June 16, 2019; however, the renewal application must be submitted no later than December 15, 2018. As part of the license renewal application, the City of Ottawa must submit a new Financial Plan.

This report serves two purposes, to receive Council approval on the City's Financial Plan as part of the license renewal application, and as part of the application for a new municipal drinking water system, which is expected to be serving the community of Richmond by the end of 2018. In order for the City of Ottawa to operate this new drinking water system, the City must apply for a separate and new municipal drinking water license. As part of the application process, the City must provide the required information that will ensure the following elements of the license are in place:

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

This report addresses the Financial Plan element.

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

Ontario Regulation 453/07, which requires municipalities to submit a council-approved Financial Plan for their drinking water systems in accordance with Generally Accepted Accounting Principles which requires municipalities to report the net book (amortized) value of their tangible capital assets (TCAs), and the amortization expense of these assets over their useful lives.

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 LRFVPV 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 Financial Plan for Water Services are contained in Document 1 attached hereto.

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. 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 6 years. The financial statements projections developed for this plan covers a period of 10 years to better align with the City's long range financial planning process and the LRFVP approved in September.

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

Cost Drivers

Figure 1 provides an overview of the 2018 Water Services Rate Budget, which totals \$176M. Over 50% of the annual budget is a contribution to capital to be used primarily for infrastructure maintenance, rehabilitation, and replacement. Approximately 19% 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 10% of total costs vary with the amount of water sold and the remaining 90% are fixed costs.

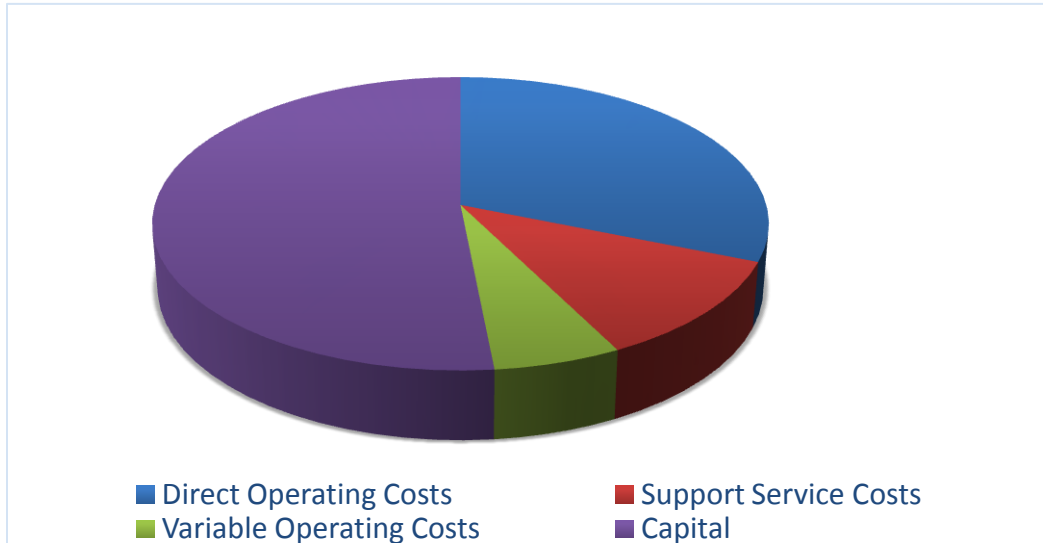


Figure 1 - 2018 Water Rate Budget

FIGURE 1 - 2018 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

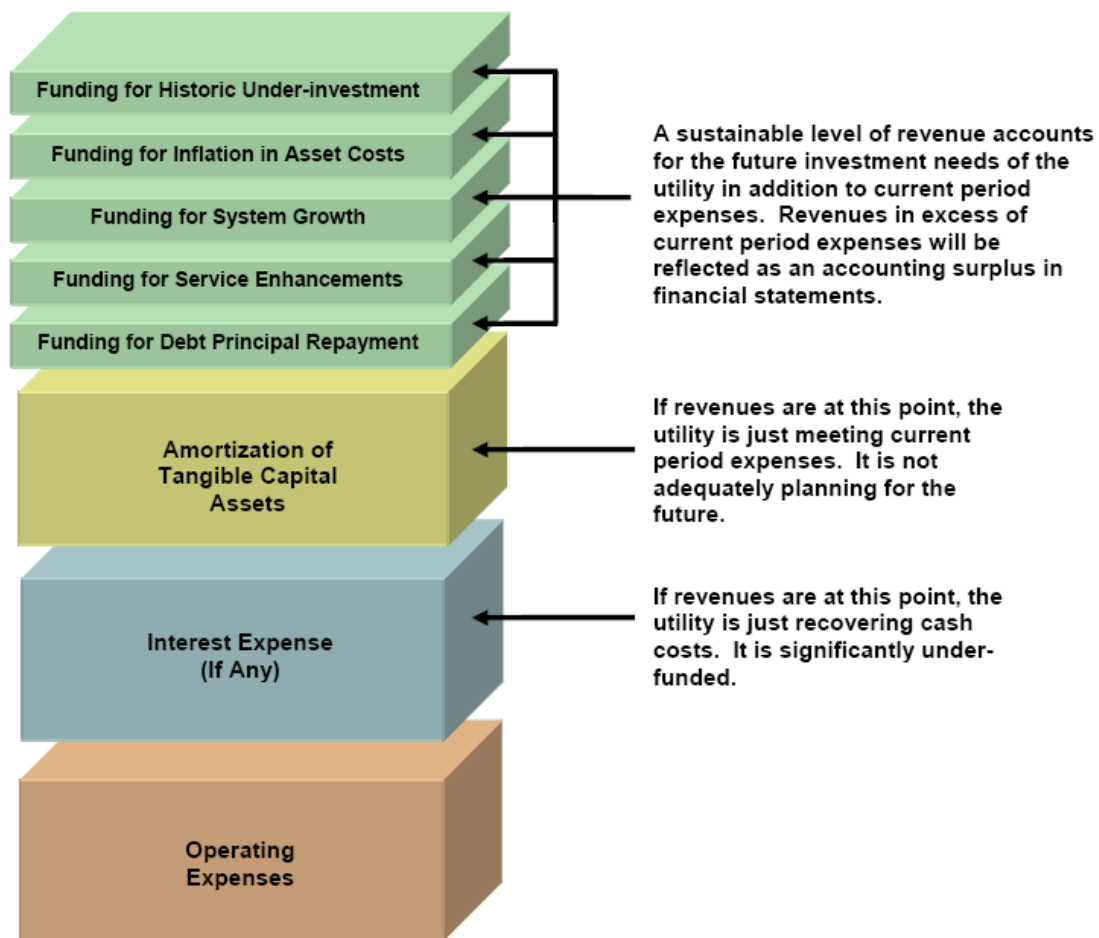


Figure 2 - Understanding Accounting Surplus or Deficit Results

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

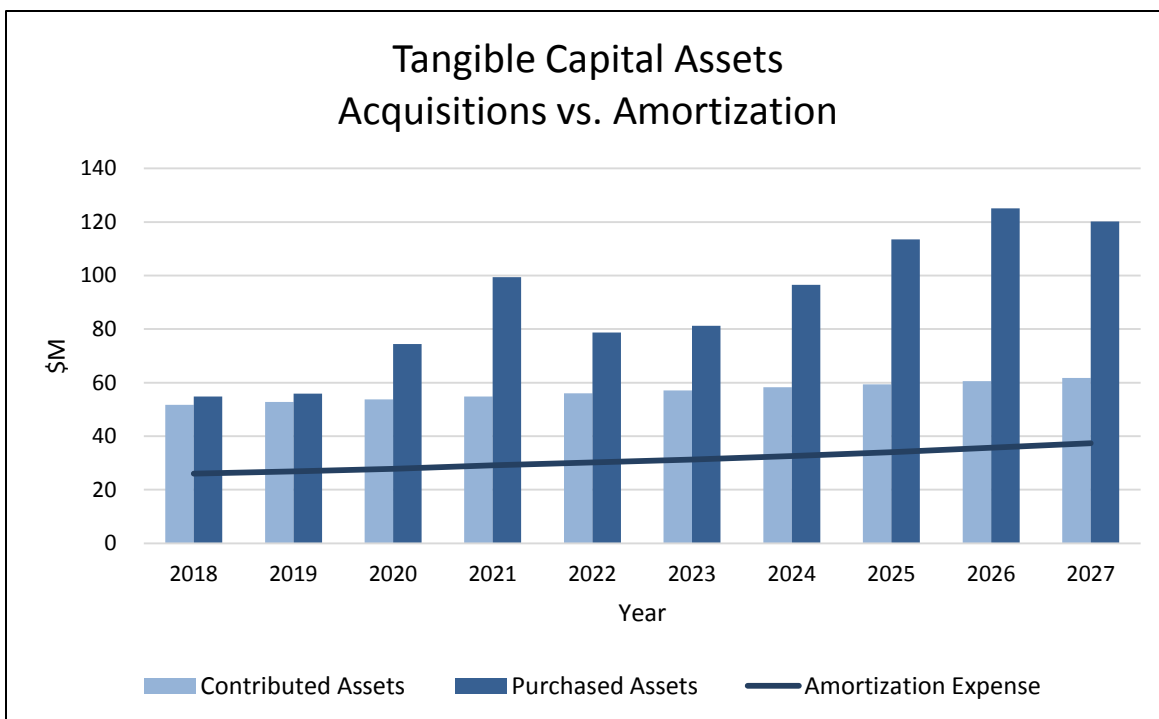


Figure 3 - Capital Requirements versus Amortization

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 LRFPV 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 four percent and drop to two percent by 2023. 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

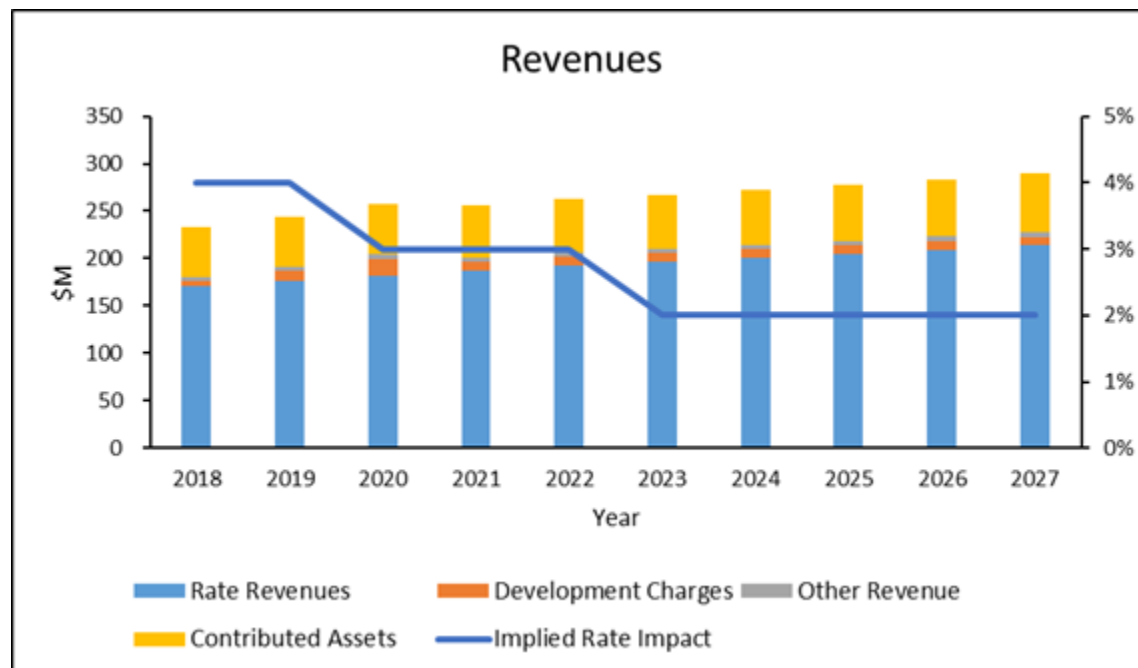


Figure 4 - Water Service Funding & Projected Rate Increases

Financial Plan Conclusions

Analysis of the prepared financial statements shows the overall financial health of water infrastructure reflects a viable 10-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 10 year time frame while keeping the debt service costs from outstanding debt as a percentage of own source revenues to a maximum of 14% which is below the 15% maximum approved by council.

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.

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.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City wide report.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications.

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.

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.

ACCESSIBILITY IMPACTS

No accessibility impacts.

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

(Previously distributed to all members of Council and held on file with the City Clerk.)

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

That the Public Works and Environmental Services Department publish and submit the Financial Plan per the requirements of *Ontario Regulation 453/07*.