



CITY OF HAMILTON
Public Works Department
Hamilton Water Division

TO:	Chair and Members Public Works Committee
COMMITTEE DATE:	June 18, 2018
SUBJECT/REPORT NO:	Hamilton Water Financial Plan - (PW18051) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	George Giovinazzo 905-546-2424, Extension 1192
SUBMITTED BY:	Mark Bainbridge Director, Water & Wastewater Planning Public Works
SIGNATURE:	

RECOMMENDATION

- (a) That the “Hamilton Water Financial Plan” as prescribed by Ontario Regulation 453/07 be approved by a resolution that the Hamilton drinking water systems have the resources necessary to operate successfully over the next ten years based on current projections;
- (b) That the “Hamilton Water Financial Plan” be released for public review, and submitted to the Ontario Ministry of Municipal Affairs and Housing in response to Ontario Regulation 453/07 under the *Safe Drinking Water Act, 2002*;
- (c) That Appendix “A” attached to Report (PW18051) respecting the “Hamilton Water Financial Plan” be approved.

EXECUTIVE SUMMARY

The Hamilton Water Division of Public Works has developed a Hamilton Water Financial Plan (Financial Plan) to comply with Ontario’s legislative requirements under the *Safe Drinking Water Act, 2002* and Ontario Regulation (O.Reg.) 453/07 entitled “Financial Plans”. This requirement is also referenced in the City license issued under O.Reg. 188/07 entitled “Licensing of Municipal Drinking Water Systems”. The first Financial Plan was created in 2009 to respond to new legislation, and a second Financial Plan was created in 2013 for licensing renewal. An updated Financial Plan is again required as part of the reoccurring drinking water licensing renewal process.

The Financial Plan update is required to provide a current forward-looking financial view of at least six years into the future of our drinking water systems. The Hamilton Water

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Financial Plan exceeds this minimum requirement and is based on the standard City budgeting practice of a 10-year forecast. The details of the financial plan, however, are different than financial information and budgets as it reflects a full accrual perspective. The Financial Plan conforms to accounting standards and principles applied to municipal governments effective as of 2009. The full accrual basis of accounting reports tangible capital assets and the amortization expense of these assets over their useful life.

The completed plan must be approved by a Council resolution. This statement of agreement reflects an acknowledgement that the City's water systems are being provided with the appropriate financial resources to successfully continue operation over the next 10-year time frame. Submission of the Financial Plan to the Provincial Ministry of Municipal Affairs and Housing will take place in 2018 once Council endorsement is received; this is required to meet our licensing requirements.

Data produced from this work reflects available information generated through existing City processes, as well as calculated future projections, based on an understanding of water system assets and their lifecycles. Council is presented with the following three financial statements:

1. Statement of Financial Position (Balance Sheet)
2. Statement of Operations (Income Statement)
3. Statement of Cash Flow

Each statement noted above is provided in Appendix "A" detailing the relevant financial figures. Together these statements meet the provincial requirement to develop a financial plan under O.Reg 453/07.

The resulting Financial Statements produced through this process indicates that there are suitable financial resources allocated to our water systems over the 10-year time period based on planned capital expenditures and the cost to operate the system.

The Province, through the *Infrastructure for Jobs and Prosperity Act, 2015* recently enacted O.Reg 588/17 – "Asset Management Planning for Municipal Infrastructure". The intent of O.Reg 588/17 and O.Reg 453/07 are complementary in that they encourage asset management planning which includes financially sustainable asset renewal and replacement. As a point of clarification, the two regulations differ in their planning horizons and in their reporting requirements. The Financial Plan produced for this report meets all of the requirements of O.Reg 453/07.

Alternatives for Consideration – See Page 7

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Appendix A 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. Data can also be used to more effectively plan the pace of necessary expenditures at a strategic level.

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Staffing: NA

Legal: Appendix A outlines the financial planning requirements described in O.Reg 453/07 under the *Safe Drinking Water Act, 2002*. These requirements have implications for the City of Hamilton in obtaining Municipal Drinking Water System licensing required to maintain municipal control over water operations. Approval of Appendix A is required prior to filing information with Provincial authorities in order to successfully retain licences to provide drinking water services under the current program of legislation.

HISTORICAL BACKGROUND

The recommendations contained within this report have City wide implications.

After the release of O.Reg 453 in 2007, City staff in conjunction with financial consultants, engineering consultants, and other internal stakeholders undertook a process that was applied again in 2013 and 2018 for license renewal. This work identified the information and effort needed to develop the municipal financial statements. The result was a document that met the need to address the municipal accounting principles that reflect a full accrual accounting methodology.

The update in 2018 includes data reflecting the capital and operating status of all piping and facility assets, which make up the water treatment and distribution systems in the City of Hamilton. This requirement is part of the provincial response to recommendations formulated as a result of water contamination events in Walkerton, Ontario during May 2000.

The concept of the Hamilton Water Financial Plan is premised on principles that are also reflected in our corporate mission to be fiscally and socially responsible. This work is consistent with strong asset management practices and affirms continued development of improved processes to support future decision making. It ties closely to the annual budget and will become a tool to assist in developing strategic directions for management of the City's water infrastructure.

The updated Financial Plan will be provided to the Provincial Ministry of Municipal Affairs and Housing and will also be made available to the public. A notice will be posted to make residents aware that a financial plan is available, documentation must be provided without charge, and posted on the municipality's website.

The work undertaken includes a series of regulated financial statements for Hamilton water system infrastructure. It aligns with the requirements outlined in O. Reg 453/07 Financial Plans, as summarized below:

1. 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;

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- d. non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses; and,
 - e. changes in tangible capital assets that are additions, donations, write downs and disposals.
2. 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.
 3. 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.
 4. Details of the extent to which the information described in subparagraphs 1, 2 and 3 relate directly to the replacement of lead service pipes as defined in section 15.1- 3 of Schedule 15.1 to Ontario Regulation 170/03 (Drinking Water Systems), made under the *Act*.

The process in assembling the data in preparation for the "Hamilton Water Financial Plan" has been completed with the intent of using the information in our efforts to prepare for O-Reg. 588/17 reporting. Although the work completed for creating the financial plan has provided information that will feed into O-Reg 588. There will still be additional effort required to comply with the obligations of this new regulation. The regulation will specifically require an asset management plan and policy which should outline action that may be required to address vulnerabilities as they relate to the City's infrastructure desired level of service.

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POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The development of a drinking water quality management Operational Plan and accreditation of the Operating Authority are license requirements in conjunction with the creation of the financial plan. These components are monitored and maintained through the development of a Drinking Water Quality Management System (DWQMS) which is audited by an independent Accreditation Body. The DWQMS Operational Plan and its DWQMS Policy originally approved by Council on June 27, 2007 (PW07095) and again on June 24 2015 (PW15046) contain procedures that include reviewing the adequacy of infrastructure for delivering safe drinking water. This infrastructure review process has a direct relationship to financial resource allocation and will benefit from the holistic and strategic perspective that has been developed under the Hamilton Water Financial Plan. The objective of these related works is to provide tools for the efficient and effective management of infrastructure. Together these processes look to support critical asset investments to reduce the risks associated with service delivery, as well as optimize the cost of ownership. The licensing process requires that these financial plans be produced and endorsed by Council on a reoccurring basis and that this financial plan represents the City's third such submission for a valid drinking water license.

Legislative policies affecting or impacting this Report include:

- *Ontario Safe Drinking Water Act, 2002*
- *Ontario Infrastructure for Jobs and Prosperity Act, 2015*

RELEVANT CONSULTATION

In 2018 staff undertook a process of engaging internal groups within the Public Works and Corporate Services Departments to identify existing resources and limitations that would impact the development of the Hamilton Water Financial Plan.

A process of coordinating several meetings to engage staff in the Financial Services Division, Financial Planning Administration and Policy Division, Engineering Services Division, and the Hamilton Water Division was launched to collect information and leverage staff knowledge to provide input into the process. Staff were engaged based on interests and expertise related to existing accounting practice and corporate reporting of financial information returns, current development of water related budgets, water system licensing requirements, water system infrastructure, and relationship with sustainable asset management practice. These early meetings provided information from which project outcomes were developed forming the basis of information that would support the updated financial statements for this third municipal water system license term.

Once accepted by City Council, the information contained in this Financial Plan is required to be available to members of the public and submitted to the Province of Ontario.

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ANALYSIS AND RATIONALE FOR RECOMMENDATION

The Financial Plan created for City of Hamilton water infrastructure includes three key statements described below:

1. Statement of Financial Position:

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

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

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 government 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 of Hamilton financed its activities in the period and met its cash requirements.

Financial Plan Conclusions

The three financial statements created under this project meet the legislated requirement of O-Reg. 453/07 and indicate there are the necessary financial resources allocated to the drinking water systems over the next 10-year time period based on the planned capital expenditures and the predicted cost to operate. The City of Hamilton will be required to submit the content of Appendix "A" to the Ministry of Municipal Affairs and Housing in 2018 and release for public review soon after approval by council.

The production of this financial plan was carried out with the intent to build and assemble the information and data required to allow financial analysis to be carried out for planning horizons beyond 50 years. It should be noted that when the financial analysis looks farther than 10 years into the future the results suggest that current levels of service

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cannot be achieved when maintaining the fixed assumptions used in this report regarding water user rate structures and debt financing principles.

ALTERNATIVES FOR CONSIDERATION

The approval of this Financial Plan by a Council resolution, and subsequent submission to the Ministry of Municipal Affairs and Housing is a legislated requirement under the *Safe Drinking Water Act, 2002* and the related O.Reg. 453 entitled “Financial Plans”. Council has the option to not submit an approved financial plan but in so doing will remove our ability to maintain a municipal drinking water systems license. Implications of this course of action could entail potential charges from the Ministry of the Environment or loss of municipal control over water system operation in Hamilton.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Healthy and Safe Communities

Hamilton is a safe and supportive city where people are active, healthy, and have a high quality of life.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix A - Hamilton Water Financial Plan