



**CITY OF HAMILTON**  
**PUBLIC WORKS DEPARTMENT**  
**Hamilton Water Division**

<b>TO:</b>	Chair and Members Public Works Committee
<b>COMMITTEE DATE:</b>	September 8, 2023
<b>SUBJECT/REPORT NO:</b>	Hamilton Water Financial Plan (PW23055) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	George Giovinazzo (905) 546-2424 Ext. 1192
<b>SUBMITTED BY:</b>	Mark Bainbridge Director, Water and Wastewater Planning and Capital Public Works Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the Hamilton Water Financial Plan for the City of Hamilton drinking water systems, attached as Appendix “A” to Report PW23055, and as prescribed by Ontario Regulation 453/07, be approved by a resolution that the City of 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, attached as Appendix “A” to Report PW23055, be released for public review and submitted to the Ontario Ministry of Municipal Affairs and Housing as required by Ontario Regulation 453/07 under the *Safe Drinking Water Act*, 2002.

**EXECUTIVE SUMMARY**

The Hamilton Water Division of Public Works has developed a Hamilton Water Financial Plan (Financial Plan) for the City of Hamilton (City) drinking water systems as required by Ontario Regulation (O.Reg.) 453/07 (Financial Plans) under the *Safe Drinking Water Act*, 2002. This requirement is also referenced in the City drinking water system licenses issued under O.Reg. 188/07 (Licensing of Municipal Drinking Water Systems). The first Financial Plan was created in 2009 in response to new legislation. Additional Financial Plans were created in 2013 and 2018 for the purpose of drinking water system license renewals. An updated Financial Plan is required as part of the re-occurring

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OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

drinking water system licensing renewal process and is required for all five (5) drinking water system licenses.

The Financial Plan update, required by legislation, is aimed to provide a forward-looking fiscal view of the City's drinking water systems for a minimum period of six years. The Hamilton Water 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 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 Financial 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 2023 after Council endorsement is received.

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" to Report PW23055 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 drinking water systems over the 10-year time period based on planned capital expenditures and the cost to operate and maintain the system.

### **Alternatives for Consideration – See Page 5**

## **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: Appendix “A” to Report PW23055 provides information on the current status of the City’s 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.

Staffing: N/A

Legal: Appendix “A” to Report PW23055 outlines the financial planning requirements described in O.Reg. 453/07 under the *Safe Drinking Water Act, 2002*. Approval of Appendix “A” to Report PW23055 is required prior to filing applications with Provincial authorities in order for the City to successfully retain its drinking water licences under the legislation.

## **HISTORICAL BACKGROUND**

The recommendations contained within this report have City wide implications. After the release of Ontario Regulation (O.Reg.) 453/07 (Financial Plans) in 2007, the City created the first Financial Plan for its drinking water systems in 2009. Additional Financial Plans were created in 2013 and 2018 for the purpose of drinking water system license renewals. An updated Financial Plan is required as part of the re-occurring drinking water system licensing renewal process and is required for all five drinking water system licenses.

The update in 2023 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. The work undertaken includes a series of regulated financial statements for the City’s water system infrastructure.

The Financial Plan has been created using previously Council approved budget information that is aligned with the intentions of O.Reg. 588/17 Asset Management Planning for Municipal Infrastructure under the *Ontario Infrastructure for Jobs and Prosperity Act, 2015* and the City of Hamilton’s Strategic Asset Management Policy dated May 28, 2019.

Additional historical background is contained in Appendix “A” to Report PW23055.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Legislative requirements and policies affecting or impacting this Report include:

- *Ontario Safe Drinking Water Act, 2002*
- *Ontario Infrastructure for Jobs and Prosperity Act, 2015*
- O. Reg. 588/17 Asset Management Planning for Municipal Infrastructure
- City of Hamilton Strategic Asset Management Policy (PW23044)

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 will be provided without charge, and posted on the City's website <https://www.hamilton.ca/>.

## **RELEVANT CONSULTATION**

In 2022 and 2023 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, Corporate Asset Management Division, and the Hamilton Water Division was launched to collect information and leverage staff knowledge and expertise throughout the process.

During these consultations, two matters that will have a future impact to this process were discussed at a high level. These matters are the difference between how assets are valued, and the impact of Bill 23 *More Homes Built Faster Act, 2022*.

Assets have been valued on a historical basis using the conventional and Public Sector Accounting Board (PSAB) approved treatment of fixed assets in municipal accounting. Looking forward, the valuation of assets will need to be reviewed through the perspective of asset management. It is common for organizations to have differences between valuations determined through the asset management process and the financial accounting process. This difference is rooted in using the generally accepted accounting principles of historical asset valuations as opposed to calculated future replacement costs for assets.

Bill 23 *More Homes Built Faster Act, 2022* made several changes to the *Development Charges Act, 1997* which impacts all municipalities' ability to finance planned growth infrastructure. Since the City was assessing the impact of these changes at the same time that the Financial Plan was being prepared, they have not been accounted for in the preparation of the financial statements.

## **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 include 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 Report PW23055 to the Ministry of Municipal Affairs and Housing in 2023 and release for public access when approval by Council is given.

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 longer planning horizons.

### **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. 453/07 titled Financial Plans. If Council elects not to approve this Financial Plan, the City of Hamilton risks non-compliance with the regulations.

### **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report PW23055 – Hamilton Water Financial Plan