



**ENGINEERING AND OPERATIONS DEPARTMENT  
OPERATIONS DIVISION**

**Report Number: 2019-53**

**Date: April 15, 2019**

**SUBJECT: 2019-2029 PORT COLBORNE DISTRIBUTION SYSTEM  
FINANCIAL PLAN**

**1) PURPOSE:**

This report, prepared by Darlene Suddard, Environmental Compliance Supervisor and authorized by Richard Daniel, Manager of Operations, Peter Senese, Director of Corporate Services and by Chris Lee, Director of Engineering and Operations, has been prepared to present the 2019-2029 Port Colborne Distribution System Financial Plan (#073-301) to Council and seek a resolution of Council, approving the financial plan.

The financial plan has been prepared in accordance with Ontario Regulation 453/07 (O. Reg 453/07) Financial Plans, under the *Safe Drinking Water Act, 2002* (SDWA) and in accordance with Schedule B, condition 8.0 of The Corporation of the City of Port Colborne's Municipal Drinking Water Licence Number 073-101.

**2) HISTORY, BACKGROUND, COUNCIL POLICY, PRACTICES**

In 2007, as part of the Municipal Drinking Water Licensing Program, the Ministry of Environment released O. Reg 453/07 that requires the preparation of a financial plan for all municipal drinking water systems. This plan must be approved by a resolution of Council, submitted with the Municipal Drinking Water Licence renewal application every five years, and must cover a period of six years – the first year is the year the Licence expires, plus five years.

In 2010, the City of Port Colborne, Engineering and Operations Department (Operating Authority), together with the Treasury Department, prepared a ten-year financial plan, that covered 2009 to 2019, (as 2009 was the year the City received the first Licence), in accordance with O.Reg. 453/07. Council approved the financial plan on June 28, 2010.

The requirements to renew the City's Municipal Drinking Water Licence and the current status of these requirements are summarized below:

**a. Operational Plan**

The City's Operational Plan, describing how the City's Quality Management System conforms to the Drinking Water Quality Management Standard (DWQMS), was

originally endorsed by Council on April 27, 2009. Re-endorsement is required within one year following the election of a new Council, or following significant changes to the Operational Plan. Most recently, Council re-endorsed the Operational Plan on February 25, 2019.

**b. Accredited Operating Authority**

The City of Port Colborne was originally accredited in June 2013 by QMI-SAI Global. Full on-site re-accreditation audits are required every 3 years, with annual document review, or surveillance audits, conducted in the two years between re-accreditation. The City was re-accredited in 2016, and the accreditation expires in June 2019. Therefore, an on-site re-accreditation audit will be conducted in 2019.

**c. Drinking Water Works Permit (DWWP)**

The Permit and Licence are issued by the Province at the same time. The current Licence and Permit are valid until September 2019, and the application renewal deadline is April 23, 2019.

**d. Financial Plan**

The requirement to submit a Financial Plan for the drinking water system is regulated by Ontario Regulation 453/07. The intention of 453/07 is to ensure the system Owner understands the financial impacts of/on the drinking water system and funds the drinking water system accordingly.

Council approved financial plans are to be submitted to the Ministry of Municipal Affairs and Housing prior to the Licence renewal date every five years, and copy of the Council endorsement and the cover page of the financial plan are required to be submitted as part of the renewal application. Licence and Permit renewal application deadlines are 6 months before the expiry dates. The City's License and Permit expire on September 23 every five years, therefore the regulated application deadline every five years is April 23. In April 2014, because the original financial plan approved in 2010 was valid from 2009-2019, it was not necessary to update the financial plan and seek council re-endorsement, as the approved financial plan covered the second Licence renewal period.

Ontario Regulation 453/07 details specifically in Section 3.(1)1. *“The financial plans must be approved by a resolution that is passed by, the council of the municipality, if the owner of the drinking water system is a municipality.”* As Council is the owner of the Port Colborne Distribution System (PCDS), Council must approve the Financial Plan prior to the April 23, 2019 licence renewal submission deadline.

The Regulation also details the minimum contents of the Financial Plan, and states that the Financial Plan must apply to a period of at least six (6) years.

Section 3.(1) 5. details that the public must be notified that the Financial Plan is ready and available, that the Financial Plan must be made available free of charge and even details how the Financial Plan must be made available. To ensure compliance with this section, once approved, the Financial Plan will be posted to the City's website, with copies available at the Engineering and Operations Centre. Notification of Financial Plan completion and availability will be posted to the City's website and posted in the monthly City Hall newsletter.

### **3) STAFF COMMENTS AND DISCUSSIONS**

The City of Port Colborne's Distribution System Financial Plan has been attached for review. While developing this plan, the Engineering and Operations Department, as the Operating Authority for the Distribution System, set out to achieve:

- Financial viability
- Provide safe drinking water
- Enable the long term plan for capital renewal to be realized
- Achieve full cost recovery over the long term and;
- Maintain current service levels.

This Financial Plan has been prepared in accordance with the Ministry of Environment, Conservation and Parks Financial Plans Regulation (O. Reg. 453/07). The process in developing this plan has focused on the achievement of a balance between maintaining the water system in a safe and effective manner, increasing capital contributions to reduce the infrastructure deficit, while limiting expenditure and water rate increases. A flexible and gradual approach has been utilized to achieve financial viability.

This Financial Plan must be approved by a City Council resolution, indicating that as a result of this plan, the City of Port Colborne Operating Authority is financially viable.

The Financial Plan has been divided into 3 sections: Operating Plan, Funding Plan and Financial Plan. Highlights from each section are summarized below:

#### **Operating Plan:**

The operating plan includes day to day operations, maintaining and administering the drinking water system; the capital investments that will be incurred to renew and replace existing capital infrastructure; and debt management, being the resulting debt repayments and interest charges that are incurred.

- Operating costs are projected to increase by 3.6% in 2020, by 3.9% in 2022, by 4.2% in 2027 and by 2.7% annually in the remaining years until 2029
- Staffing increases are proposed in 2020, to include a summer student and the balance of six months for the Water Operator added in 2019. The addition of a Temporary Water Operator for April 1 to October 31 each year commencing 2021,

an addition of a Water Operator in 2022 and a Water Operator in 2027, in anticipation of continued changes in legislation

- General operating expenses, including Regional water purchases, are projected to be increased in 2020 by 3.6% (new Operator hired), increased 3.9% in 2022 (new Operator hired), 4.2% in 2027 (new Operator hired) and by 2.7% annually for other years until 2029
- Water purchases from Niagara Region historically make up just over 50% of the total annual operating costs. Purchases have stabilized over the last few years and it is forecasted that purchases will remain around 3 million cubic metres during this financial plan
- Interest on long term debt includes interest on existing debentures which mature in 2025, 2027 and 2029
- Matured debt is allocated to a Debt reserve for future Debenture requirements
- Significant capital infrastructure investments are required for the next 10 years to address an “infrastructure deficit”. Over 36 km of watermains are well past their life expectancy, based on industry standards, with another 2 km of watermains reaching their life expectancy in the next 10 years. At 2019 prices, \$36.1 million is required to address this deficit. Despite life expectancy at industry standards, experience in Port Colborne demonstrates that life expectancy of watermains is variable. Consequently, this plan reflects management of main replacement based on local knowledge and the City’s empirical experience
- As aging infrastructure is replaced, cost-savings, in the form of reducing the unbilled, unaccounted for water and reducing the number of watermain breaks will be realized. These monies can then be directed towards additional watermain replacements, thus accelerating the replacement rate, and further decreasing these operational costs
- Under the existing Plan, approximately 10 km of watermains will be replaced over the next decade
- Total projected cash expenditures, including operating expenses, capital costs and debt repayment and interest charges fluctuate between \$5 and 6.3 million annually, gradually increasing as required to continue to maintain a water system compliant with legislation

### **Funding Plan:**

The funding plan was developed to determine the most appropriate balance of operating revenues and new debt financing. The achievements of the funding plan include:

- Operating revenues are a combination of those derived from the usage water rates based on billable consumption and annual fixed service charges (including capital requirements, amortization established, repayment of debt charges, reserve allocations and fixed Regional water charges) billed to each customer
- Revenues are based on annual expenditure requirements including operations, amortization, reserve allocations, long term debt payments and capital contributions

- The projected rate increases in operating revenues for usage rates and fixed service rates will average 3.4% to 3.9% in 2020 to 2022 and 2.5% to 3.0% from 2023 to 2029 being an average increase annually of \$22 to \$30 to the average household. These increases are a combination of volumetric (usage) rates and annual fixed charges. Future annual increases will be dependent on factors such as Regional charges for water purchased and levels of consumption
- Operating revenues are influenced by customer consumption and billable water usage. As water consumption has been stable over the last few years, it is anticipated that the consumption will stabilize around 1.8 to 1.9 million cubic metres annually
- This plan does not rely on the use of municipal tax dollars to operate the Operating Authority
- No debt is forecasted to be used to fund capital expenditures; however, should the Downtown CIP be completed in the next decade, this financial plan ensures that debenture reserves will be in place to permit the water/wastewater portion of the CIP to be debentured
- Financing of future capital costs are based on the amortization (depreciation) amounts projected plus capital contributions of \$200,000 with an annual 2% increase and commencing in 2023 an additional \$60,000 increased annually to \$260,000 in 2029.
- This plan accelerates the City's watermain replacement program, by increasing the annual capital expenditures to \$750,000 in 2020 and increasing the annual expenditures over the 10 years to \$900,000 in 2029.
- This Plan provides annual financing for ongoing capital renewal; however, it may be prudent to finance a portion of significant capital infrastructure investments in the future. This plan will be reviewed as needed accordingly;
- Through the generation of revenues from the rate structure, it is projected that the Operating Authority will achieve sufficient cash receipts to cover its annual cash expenditures of between \$5.1 to \$6.3 million for operating, debt repayment, reserves and asset repair and replacement; and
- Revenue levels will gradually increase to allow the Operating Authority to invest in a reserve fund for significant future capital investments and rate stabilization.
- Leak detection programs to assist with finding and reducing sources of non-revenue water will be funded from the operating budget
- Rebates for private water service replacements, if approved by Council, will be funded through the infrastructure capital reserve, which is not part of the financial plan

**Financial Plan:**

Appendix One of the Financial Plan includes projected financial statements for the Operating Authority. These statements include a projected statement of financial position, projected statement of operations and projected statement of cash flow for

the periods ending from December 31, 2019 to 2029.

As required, these statements are in accordance with the Public Sector Accounting Standards. Actual results will vary from the projections herein and the differences may be material.

It is important to note that the Financial Plan is a living document. It is the intention of staff to regularly review this plan for internal compliance, performance measurement, adjustment and revisions if required and to ensure absolute performance congruent with O. Reg. 453/07 and the Safe Drinking Water Act (2002). Consequently, this plan can be considered to be a work in progress even after its adoption.

In preparing the Financial Plan, the financial impacts of the drinking water system have been considered. Based on the Projected Financial Statements and the assumptions herein, the PCDS will be financially viable and will continue to provide safe drinking water to consumers.

### **Affordability of Water**

While the provision of safe drinking water and the financial viability of the PCDS are key priorities for the Operating Authority, the overall affordability of water to consumers is also a key objective. Industry standards indicate that affordable water/wastewater rates make up 4% or less of median household income. A search of the most recent census data for Port Colborne and neighbouring municipalities, and calculation of 2019 water/wastewater bills in each municipality for an average family revealed the following:

	Municipality		
	Port Colborne	Welland	Fort Erie
Median household income (2016 Census)	\$57,244	\$56,981	\$55,788
Annual water/wastewater bill (based on 0.75 m <sup>3</sup> per day, or 274 m <sup>3</sup> per annum)	\$1,615.61	\$1,628.44	\$1,713.04
Percentage of median household income	2.81%	2.86%	3.07%

In comparing Port Colborne's rates to neighbouring communities with comparable median household incomes, it is evident that water/wastewater rates remain affordable.

**4) OPTIONS AND FINANCIAL CONSIDERATIONS:**

**a) Do nothing.**

Council could choose not to approve the Financial Plan, as presented and request additions/deletions to the plan. However, the close renewal deadline makes it difficult to make changes and approve the plan before the deadline. This delay could cause the City to be non-compliant with Ontario Regulation 453/07 (O. Reg 453/07) Financial Plans, under the *Safe Drinking Water Act, 2002* (SDWA) and in violation of Schedule B, condition 8.0 of The Corporation of the City of Port Colborne's Municipal Drinking Water Licence Number 073-101. Therefore, this option is not recommended.

**b) Other Options**

Council could choose to approve the plan as presented, and then direct staff to come forward with a revised plan for future consideration as warranted.

Staff recognize that the financial plan is a living document, and anticipate revisiting the plan, particularly when new requirements, such as the corporate Asset Management Plan, are prepared, to ensure the individual plans do not contradict each other, but complement each other.

**5) COMPLIANCE WITH STRATEGIC PLAN INITIATIVES**

Not Applicable

**6) ATTACHMENTS**

Appendix A - City of Port Colborne Distribution System Financial Plan

**7) RECOMMENDATION**

That Council, as the Owner of the Port Colborne Distribution System, approve the City of Port Colborne Distribution System Financial Plan #073-301 attached as Appendix A to Engineering and Operations Department, Operations Division report 2019-53, 2019-2029 Port Colborne Distribution System Financial Plan; and

That staff submit the City of Port Colborne Distribution System Financial Plan #073-301 to the Province by April 23, 2019 in compliance with Ontario Regulation 453/07.

**8) SIGNATURES**

Prepared on April 8, 2019 by:



Darlene Suddard  
Environmental Compliance Supervisor

Reviewed by:



Richard Daniel  
Manager of Operations

Reviewed by:



Peter Senese  
Director of Corporate Services

Reviewed by:



Chris Lee  
Director of Engineering & Operations

Reviewed and Respectfully Submitted:



C. Scott Luey  
Chief Administrative Officer