



REPORT FOR ACTION

Financial Plan for the City of Toronto's Municipal Drinking Water License Renewal

Date: June 11, 2019

To: Infrastructure and Environment Committee

From: General Manager, Toronto Water
Chief Financial Officer and Treasurer

Wards: All Wards

SUMMARY

The purpose of this report is to obtain City Council approval of a Financial Plan prepared as a condition of the Municipal Drinking Water Licence renewal process under the Safe Drinking Water Act, 2002. A Municipal Drinking Water Licence is an approval issued by the Ontario Ministry of the Environment for the operation of a municipal drinking water system. The City of Toronto's current Drinking Water Licence expires on February 10, 2020.

The Financial Plan for the City of Toronto's drinking water system has been prepared in accordance with Ontario Regulation 453/07 and must be approved by a resolution of Council for submission to the Ontario Ministry of Municipal Affairs and Housing by August 11, 2019.

RECOMMENDATIONS

The General Manager, Toronto Water and the Chief Financial Officer and Treasurer recommend that:

1. City Council approve the Financial Plan (Attachment 1) prepared for the City of Toronto's Municipal Drinking Water System, in accordance with Ontario Regulation 453/07, for submission to the Ontario Ministry of Municipal Affairs and Housing, in compliance with the requirements of the Municipal Drinking Water License renewal process.

FINANCIAL IMPACT

There are no direct financial impacts as a result of the preparation of the Financial Plan. The Plan has been developed based on Toronto Water's 2019 Operating Budget, 2019 Capital Budget and 2020-2028 Capital Plan and 2019 Water and Wastewater Service Rate Report, approved by Council on March 7, 2019.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

The Financial Plan represents a summary of financial information extracted from the 2019 Capital Budget and 2020-2028 Capital Plan and 2019 Water and Wastewater Service Rate Report approved by Council at its meeting of March 7, 2019. The Council decision can be viewed at:

<http://app.toronto.ca/tmmis/report/loadReport.jsp?report=CouncilDecisionDocumentReport&meetingId=15350>

The Financial Plan approved by Council for submission to the Ontario Ministry of Municipal Affairs and Housing by August 17, 2014 as a condition of the Municipal Drinking Water Licence issued to the City of Toronto on February 11, 2015 can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.PW32.15>

The Financial Plan approved by Council for submission to the Ontario Ministry of Municipal Affairs and Housing by August 17, 2010 as a condition of the Municipal Drinking Water Licence issued to the City of Toronto on February 17, 2010 can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.PW34.5>

In accordance with the requirements of the Safe Drinking Water Act, and fulfilling the requirements of the City of Toronto's Drinking Water License, Council has previously provided authorizations, through reports submitted to the Public Works and Infrastructure Committee, summarized in the following.

The report entitled "Authority to Enter into Agreement for Municipal Drinking Water System Operating Authority Accreditation" was approved by Council at its meeting of February 22 to 23, 2010. A copy of the Council Decision Document can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.PW30.6>

The report entitled "Signing Authority for Municipal Drinking Water Licensing Program" was approved by Council at its meeting of November 30 to December 7, 2009. A copy of the Council Decision Document can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.PW28.11>

The report entitled “Designating the General Manager of Toronto Water as the Owner Representative for Implementation of the Drinking Water Quality Management Standard” was approved by Council at its meeting of July 16 to 17, 2007.

A copy of the Council Decision Document can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2007.PW7.9>

COMMENTS

ISSUE BACKGROUND

The proclamation of Section 33 of Ontario’s Safe Drinking Water Act in May 2007 began the transition from the Ministry of the Environment Conservation and Parks’ Certificate of Approval Program to the new Municipal Drinking Water Licensing Program (the “Licensing Program”). The changes to the approvals process addressed recommendations from Justice O’Connor’s Report of the Walkerton Inquiry.

Under the Licensing Program, the Ontario Ministry of the Environment, Conservation and Parks (MECP) grants authority to use or operate a drinking water system through a Municipal Drinking Water Licence, subject to the owner meeting the following four prerequisites: receiving a Drinking Water Works Permit; submitting an acceptable Operational Plan; having an Accredited Operating Authority and obtaining a Permit to Take Water. The City of Toronto’s current Municipal Drinking Water Licence for its Drinking Water System was issued on July 10, 2017 by the Ontario Ministry of the Environment, Conservation and Parks.

In Part Two of Justice Dennis O’Connor’s Report of the Walkerton Inquiry, Justice O’Connor stressed the importance of ensuring that municipalities plan for the long-term financial sustainability of their drinking water systems to ensure that adequate finances are available to cover both day-to-day operational costs as well as the costs of maintaining and upgrading municipal water systems in order to ensure the safety of drinking water supplies now and into the future.

As part of the Province’s commitment to implement all of the Walkerton Inquiry recommendations, the Provincial Minister of the Environment issued O.Reg.453/07 under the Safe Drinking Water Act, 2002 (SDWA), in the summer of 2007, to require Municipal Drinking Water System owners to prepare and submit Council-approved Financial Plans as a condition of the new Municipal Drinking Water Licence set out in Part V of the SDWA.

The Financial Plan is to cover a period of 6 years and include the following details:

- The proposed or projected financial position of the drinking water system;
- The proposed or projected financial operations of the drinking water system;
- The drinking water system’s proposed or projected gross cash receipts and gross cash payments; and

- The extent to which the financial information relates directly to the replacement of lead water 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.

A Financial Plan for the period covering 2015-2020 was approved by Council at its meeting on July 8, 2014 and submitted to the Ontario Ministry of Municipal Affairs and Housing by August 17, 2014 in compliance with the renewal requirements of the Municipal Drinking Water Licence. This licence will expire on February 10, 2020. In order to seek a license renewal, a new Council approved Financial Plan, for the period covering 2020-2025, needs to be submitted to the Ontario Ministry of Municipal Affairs and Housing by August 11, 2019.

The City will submit the Municipal Drinking Water Licence renewal application package to the MECP by August 11, 2019. The MECP will undertake its review of the licence renewal application package and upon successful review and approval the MECP will issue the renewed licence.

The City of Toronto's Drinking Water System Financial Plan (2020-2025), presented in Attachment 1, has been prepared drawing on financial information and details contained within the approved Toronto Water 2019 Operating Budget, 2019 Capital Budget and 2020-2028 Capital Plan; and 2019 Water and Wastewater Service Rate Report. These documents and previous staff reports from the General Manager, Toronto Water, to the Public Works Committee and City Council respectively consisting of "Toronto Water's Infrastructure Renewal Backlog" (October 8, 2008) and "Lead in Drinking Water Mitigation Strategy" (February 23 and 24, 2011) have been compiled into the "City of Toronto's Drinking Water System Financial Plan (2020-2025), Support Document". This Report and the Support Document will be submitted to the Ontario Ministry of Municipal Affairs and Housing, forming the City of Toronto's formal submission in fulfillment of the Financial Plan requirements of Ontario Regulation 453/07.

The approved budgets ensure that sufficient funding is available to meet the quality standards necessary for treating water and that the required infrastructure is being well maintained, renewed and expanded on a timely basis. This funding is provided through the approved 2019 and future planned residential water rate increases of 3% annually through to 2028, which is also reflected in this Financial Plan.

In the opinion of City staff, annual 3% increases in water rates are reasonable and necessary for the continued safe and reliable operation of the water treatment and supply system. City Council has approved a plan that will allow Toronto Water to 'pay as it goes' for the net operating and capital expenditures during the next six years and no debt exists as of December 31, 2018 or is expected to be issued in accordance with the Financial Plan.

The information presented in the Financial Plan is prescribed by O. Reg. 453/07, Section 3(1), and the following summarizes the key assumptions made in extracting data and information from existing financial systems and documents:

- Toronto Water's Water and Wastewater Programs are integrated both with each other and with the other Programs in the City's Financial Information System (FIS)

and as a result separate specific financial statements relating specifically to the Water Program's Financial Assets and Liabilities are not available directly from the FIS.

- Staff have, therefore, provided reasonable estimates based on realistic assumptions in the Financial Plan. For these purposes, 43% and 57% of such non-specific revenues and expenses have been allocated to Water and Wastewater program areas, respectively, in accordance with Section 849-23 of the Water and Sewage Services and Utility By-Law.
- Capital expenditures included in the Financial Plan are based on the approved 2019-2028 Capital Plan for Water Program since Council approves capital plans based on individual capital projects for each of Toronto Water programs.
- Since the aggregate operating expenditures are not exactly in 43%:57% ratio, the residual surpluses after providing funding for the Water Capital Program are to be used to fund the Wastewater Program residual operating and capital requirements.
- The Non-Financial Assets in the Financial Plan represent the historical amortized value of the Tangible Capital Assets, namely the assets required to treat and deliver water supply to the consumers. As part of the Public Sector Accounting Board Regulation 3150, staff from the Accounting Services Division have been working with staff in Toronto Water to determine the opening inventory of capital assets as of January 1, 2019, based on the historical amortized value of the entire drinking water system asset base. As has been reported previously to Council, much of Toronto Water's asset base is operating at or beyond its useful life and, as a result, the historical amortized value is quite low compared to the cost to completely replace the infrastructure (i.e. the replacement value for the drinking water system alone is an estimated \$9.2 billion). The need to accelerate the replacement of aged infrastructure has resulted in a Capital Plan that invests an estimated \$ 3.025 billion in water infrastructure renewal over the next 6 years.

A more detailed description of the derivation of information contained within the Plan is provided in Attachment 2.

CONTACT

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SIGNATURE

Lou Di Gironimo
General Manager, Toronto Water

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1 - City of Toronto's Drinking Water System Financial Plan (2020-2025)
Attachment 2 - Notes Regarding Financial Plan (2020-2025)
Attachment 3 - Safe Drinking Water Act 2002-Ontario Regulation 453/07 Financial Plans