Water Ontario Regulation 453/07 Financial Plan

Region of Halton

Financial Plan # 004-301A

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July 17, 2023

Table of Contents

Table of Contents (Cont'd)

Page

List of Acronyms and Abbreviations

Acronym	Full Description of Acronym
A.M.P.	Asset Management Plan
D.C.	Development Charges
I.J.P.A.	Infrastructure for Jobs and Prosperity Act
MECP	Ministry of the Environment, Conservation and Parks
MMAH	Ministry of Municipal Affairs and Housing
OCIF	Ontario Community Infrastructure Fund
O. Reg.	Ontario Regulation
P.S.A.B.	Public Sector Accounting Board
S.D.W.A.	Safe Drinking Water Act
T.C.A.	Tangible Capital Assets
W.O.A.	Water Opportunities Act

Report

Chapter 1
Introduction

1. Introduction

1.1 Study Purpose

Watson & Associates Economists Ltd. (Watson) was retained by the Region of Halton (the Region) to prepare a water financial plan as part of the five submission requirements for the purposes of obtaining a municipal drinking water license as per the *Safe Drinking Water Act, 2002*. In general, a financial plan requires an in-depth analysis of capital and operating needs, a review of current and future demand versus supply, and consideration of available funding sources. The detailed financial planning and forecasting regarding the Region's water systems has already been completed and documented by the Region within the 2023 Budget and Business Plan. The objective of the report provided herein is to convert the findings of the 2023 Budget and Business Plan into the prescribed reporting requirements for a financial plan as defined by Ontario Regulation 453/07 (O.Reg. 453/07).

1.2 Background

The Safe Drinking Water Act (S.D.W.A.) was passed in December, 2002 in order to address some of the recommendations made by the Walkerton Inquiry Part II report. One of the main requirements of the Act is the mandatory licensing of municipal water providers. Section 31 (1) specifically states,

> "No person shall,
>
> a) establish a new municipal drinking water system or replace or carry out an alteration to a municipal drinking water system except under the authority of and in accordance with an approval under this Part or a drinking water works permit; or
>
> b) use or operate a municipal drinking water system that was established before or after this section comes into force except under the authority of and in accordance with an approval under this Part or municipal drinking water licence."

In order to become licensed, a municipality must satisfy five key requirements as per section 44 (1):

1. Obtain a drinking water works permit.

2. Acceptance of the operational plan for the system based on the Drinking Water Quality Management Standard.

3. Accreditation of the Operating Authority.

4. Prepare and provide a financial plan.

5. Obtain permit to take water.

The preparation of a financial plan is a key requirement for licensing and as such, must be undertaken by all water providers.

1.2.1 Financial Plan Defined

Subsection 30 of the Act provides the following definition of financial plans:

> "financial plans" means financial plans that satisfy the requirements prescribed by the Minister. 2017, c. 2, Sched. 11, s. 6 (3)

As of time of writing, the *Sustainable Water and Sewage Systems Act, 2002* has been repealed (see Section 2.2 of this report) however, the standards that it directs underpin the specific requirements of s.30 as they are outlined in O. Reg. 453/07 and which will be examined in detail below.

1.2.2 Financial Plan Requirements – Existing System

O.Reg. 453/07 also provides details with regards to s.30 (1) part b of the S.D.W.A. for existing water systems. The requirements for existing systems are summarized as follows:

- Financial plans must be approved by Council resolution (or governing body);
- Financial plans must include a statement that the financial impacts have been considered and apply for a minimum six-year period (commencing in the year of licence expiry);
- Financial plans must include detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and

accumulated surplus/deficit (i.e. the components of a "Statement of Operations" as per the P.S.A.B.) for each year in which the financial plans apply;

- Financial plans must present financial position itemized by total financial assets, total liabilities, net debt, non-financial assets, and tangible capital assets (i.e. the components of a "Statement of Financial Position" as per P.S.A.B.) for each year in which the financial plans apply;
- Gross cash receipts/payments itemized by operating transactions, capital transactions, investing transactions and financial transactions (i.e. the components of a "Statement of Cash Flow" as per P.S.A.B.) for each year in which the financial plans apply;
- Financial plans applicable to two or more solely-owned drinking water systems can be prepared as if they are for one drinking water system;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge;
- Notice of the availability of the financial plans is to be given to the public; and
- Financial plan is to be submitted to the Ministry of Municipal Affairs and Housing.

1.2.3 Financial Plan Requirements – General

Given that the requirements for a financial plan is legislated under the Act, a financial plan is mandatory for water systems. The financial plans shall be for a forecast period of at least six years but longer planning horizons are encouraged. The ten-year forecast provided herein goes beyond the minimum requirement. The financial plan is to be completed and approved by resolution of Council or the governing body in accordance with subsection 3 (1) 1 of O. Reg. 453/07. Confirmation of approval of the financial plan must be submitted at the time of municipal drinking water license renewal (i.e. six months prior to license expiry).

A copy of the financial plan will be submitted to the Ministry of Municipal Affairs and Housing (MMAH) and not the Ministry of the Environment, Conservation, and Parks (MECP); however, the MECP may request it in the course of review of the licence renewal. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary. The financial plan must contain on the front page, the appropriate financial plan number as set out in Schedule A of the Municipal Drinking Water Licence.

1.2.4 Public Sector Accounting Board (P.S.A.B.) Requirements

The components of the financial plans indicated by the regulation are consistent with the requirements for financial statement presentation as set out in section PS1200 of the Canadian Institute of Chartered Accountants Public Sector Accounting Handbook:

> "Financial statements should include a Statement of Financial Position, a Statement of Operations, a Statement of Change in Net Debt, and a Statement of Cash Flow."

The format required is to conform to the requirements of PS1200 and PS3150. The financial statements are to be reported on a full accrual accounting basis. The accrual accounting method recognizes revenues and expenses in the same period as the activities that give rise to them regardless of when they are actually paid for. Since an exchange of cash is not necessary to report a financial transaction, the accrual method is meant to provide a more accurate picture of financial position.

The accounting treatment of tangible capital assets is prescribed under section PS3150. Tangible capital assets are to be capitalized to ensure an inventory of the assets owned are recorded and to account for their ability to provide future benefits.

The Statement of Cash Flow and the Statement of Change in Net Financial Assets/Debt are required statements. The Statement of Change in Net Financial Assets/Debt reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities. The Statement of Cash Flow reports on how activities were financed for a given period providing a measure of the changes in cash for that period.

1.2.5 The Region's Financial Plan

The Region is currently in the process of renewing the drinking water license (which includes South Halton, Acton, Campbellville, and Georgetown) and the previous version of the financial plan no longer meets the requirements as it must apply to a period of a least six years beginning in the year that the licenses would otherwise expire. This financial plan provides for a 2023 start year and forecast period to 2032.

Chapter 2
Sustainable Financial Planning

2. Sustainable Financial Planning

2.1 Introduction

In general, sustainability refers to the ability to maintain a certain position over time. While the S.D.W.A. requires a declaration of the financial plan's sustainability, it does not give a clear definition of what would be considered sustainable. Instead, the MECP released a guideline ("Towards Financially Sustainable Drinking-Water") that provides possible approaches to achieving sustainability. The Province's Principles of Financially Sustainable Water Services are provided below:

Principle #1: Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system to which they relate.

Principle #2: An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.

Principle #3: Revenues collected for the provision of water services should ultimately be used to meet the needs of those services.

Principle #4: Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.

Principle #5: An asset management plan is a key input to the development of a financial plan.

Principle #6: A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.

Principle #7: Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.

Principle #8: Financial plans are "living" documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.

Principle #9: Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

2.2 Sustainable Water and Sewage Systems Act

The *Sustainable Water and Sewage Systems Act* (S.W.S.S.A.) was passed on December 13, 2002. The intent of the Act was to introduce the requirement for municipalities to undertake an assessment of the "full cost" of providing their water and the wastewater services. In total, there were 40 areas within the Act to which the Minister could have made Regulations. It is noted that, the regulations, which accompany the Act, were not issued and the Act was repealed on December 31, 2012.

2.3 Water Opportunities Act, 2010

Since the passage of the *Safe Drinking Water Act*, changes and refinements to the legislation have been introduced, including the *Water Opportunities Act* (W.O.A). W.O.A. was introduced into legislation on May 18, 2010 and received Royal Assent on November 29, 2010.

The purposes of the W.O.A. are to foster innovative water, wastewater and storm water technologies, services, and practices; create opportunities for economic development and clean-technology jobs; and conserve and sustain water resources. To achieve this, the W.O.A. provides for the creation of performance targets (financial, operational and maintenance related), which will vary by service type and location and the required submission of conservation and sustainability plans for water, wastewater, and stormwater.

The sustainability plan in the W.O.A. expands on interim legislation for financial plans included in O.Reg 453/07, to include the following:

- an asset management plan for the physical infrastructure;
- financial plan;
- water conservation plan (for water service only);
- a risk assessment;
- a strategy for maintaining and improving the services; and

- additional information considered advisable.

Where a Board has jurisdiction over a service, the plan (and any plan amendments) must be approved by the municipality in which the municipal service is provided, before submission to the Minister. The Minister may also direct preparation of joint or partially joint plans.

Regulations (still forthcoming) will prescribe details in regard to any time periods or time limits, contents of the plans, identifying which portions of the plan will require certification, the public consultation process (if required), limitations updates and refinements.

2.4 Infrastructure for Jobs and Prosperity Act (I.J.P.A.), 2015

On June 4, 2015, the Province passed the *Infrastructure for Jobs and Prosperity Act* (I.J.P.A.) which, over time, will require municipalities to undertake and implement asset management plans (A.M.P.) for all infrastructure they own. On December 27, 2017, the Province of Ontario released Ontario Regulation 588/17 under I.J.P.A. which has three phases that municipalities must meet. The timelines associated with the three phases were later extended by Ontario Regulation 193/21 which was filed on March 15, 2021.

Every municipality in Ontario had to prepare a strategic asset management policy by July 1, 2019. Municipalities are required to review their strategic asset management policies at least every five years and make updates, as necessary. The subsequent phases are as follows:

- Phase 1 – Asset Management Plan (by July 1, 2022):
  - For core assets – Municipalities must have the following:
    - Inventory of assets;
    - Current levels of service measured by standard metrics; and
    - Costs to maintain levels of service.
- Phase 2 – Asset Management Plan (by July 1, 2024):
  - Same steps as Phase 1 but for all assets.
- Phase 3 – Asset Management Plan (by July 1, 2025):
  - Builds on Phase 1 and 2 by adding:
    - Proposed levels of service; and
    - Lifecycle management and Financial strategy.

In relation to water (which is considered a core asset), municipalities were to have an asset management plan that addresses the related infrastructure by July 1, 2022 (Phase 1). O.Reg. 588/17 specifies that a municipality's asset management plan must include the following for each asset category:

- the current levels of service being provided;
  - determined in accordance with the following qualitative descriptions and technical metrics and based on data from at most the two calendar years prior to the year in which all information required under this section is included in the asset management plan.
- the current performance of each asset category;
- a summary of the assets in the category;
- the replacement cost of the assets in the category;
- the average age of the assets in the category, determined by assessing the average age of the components of the assets;
- the information available on the condition of the assets in the category;
- a description of the municipality's approach to assessing the condition of the assets in the category, based on recognized and generally accepted good engineering practices where appropriate; and
- the lifecycle activities that would need to be undertaken to maintain the current levels of service.

In May, 2022, Halton Region Council approved an update to the Asset Management Plan, in accordance with the requirements of O. Reg. 588/17 to report on core assets by July 1, 2002. The Update advanced assessment of all other municipal assets, for a consolidated approach, more aligned with the annual budget process. The Asset Management Plan can be viewed at: https://halton.ca/Repository/Halton-Region-Asset-Management-Plan.

The Region's A.M.P. Update identifies what has been achieved, what is being done, and what needs to be done to ensure services provided to residents, businesses and institutions in Halton Region are delivered to achieve desired levels of service while maintaining financial sustainability. It also contains a roadmap to further sustain the asset management program and ensure it is responsive, useful and successful in the future in the face of emerging climate and technological changes impacting infrastructure assets.

2.5 Water Forecast

The Region has already completed their financial planning through its 2023 water Budget and Business Plan. The budget process is designed to address “full cost” principles and reflect the guiding principles toward sustainable financial planning.

As a result of employing this process, the 2023 Budget and Business Plan provides the basis for a financial plan for the Region’s water systems by including:

- A detailed assessment of current and future capital needs including an analysis of potential funding sources;
- An analysis of operating costs in order to determine how they will be impacted by evolving infrastructure needs and system growth;
- An analysis of the required revenues that are sufficient to meet system needs; and
- A public process that involves consultation with the main stakeholders including the Region’s staff, Council, the general public (specifically the users of the system) and others with the aim of gaining input and collaboration on the sustainability of the water financial plan.

Chapter 3
Approach

3. Approach

3.1 Overview

The 2023 Budget and Business Plan (along with additional detailed information provided by Regional Staff) has been used as a starting point to prepare the water financial plan. The Budget and Business Plan is prepared on a modified cash basis; therefore, a conversion is required in order to present a full accrual financial plan for the purposes of this report. The conversion process used will help to establish the structure of the financial plan along with the opening balances that will underpin the forecast. This chapter outlines the conversion process utilized and summarizes the adjustments made to prepare the financial plan.

3.2 Conversion Process

The conversion from the existing modified cash basis financial plan to the full accrual reporting format required under O.Reg. 453/07 can be summarized in the following steps:

1. Calculate Tangible Capital Asset Balances
2. Convert Statement of Operations
3. Convert Statement of Financial Position
4. Convert Statement of Cash Flow and Net Assets/Debt
5. Verification and Note Preparation

3.2.1 Calculate Tangible Capital Asset Balances

In calculating tangible capital asset balances, existing and future purchased, developed, and/or contributed assets will need to be considered. For existing water assets, an inventory has already been compiled and summarized by the Region for the purposes of their annual P.S.A.B. 3150 compliance processes. The asset inventory listing provided historical cost (which is the original cost to purchase, develop, or construct each asset) and an estimated useful life for each asset, which is required for financial reporting purposes. The following calculations are made to determine net book value:

- Accumulated amortization up to the year prior to the first forecast year.
- Amortization expense on existing assets for each year of the forecast period.
- Acquisition of new assets for each year of the forecast period.
- Disposals and related gains or losses for each year of forecast period.

Future water capital needs have also been determined and summarized within the 2023 Budget and Business Plan. However, these estimates only represent future assets that the Region anticipates purchasing or constructing without consideration for assets that are contributed by developers and other parties (at no or partial cost to the Region). These contributed assets could form a significant part of the infrastructure going forward in terms of the sustainability of the system as a whole and despite their non-monetary nature, the financial plan may need to be adjusted in order to properly account for these transactions. Once the sequence and total asset acquisition has been determined for the forecast period, annual amortization of these assets for each year is calculated in a similar manner as that used for existing assets.

Once the historical cost, accumulated amortization, and amortization expenses are calculated as described above, the total net book value of the tangible capital assets can be determined and recorded on the Statement of Financial Position.

3.2.2 Convert Statement of Operations

A wide range of adjustments will be considered, dependent on the size and complexity of the system, in order to convert from the modified cash to full accrual basis. For example, debt repayment costs relating to the principal payment portion only needs to be removed under the accrual basis, as they no longer qualify as an expense for reporting purposes. Principal payments are reported as a decrease in debt liability on the Statement of Financial Position. Transfers to and from reserves are removed as these transactions are represented by changes in cash and accumulated surplus. Finally, expenses relating to tangible capital assets, such as amortization, write-offs, and (gain)/loss on disposal of assets are reported on the Statement of Operations in order to capture the allocation of the cost of these assets to operating activities over their useful lives and therefore are added in under the accrual basis.

Table 3-1
Conversion Adjustments
Statement of Operations (Water)

Modified Cash Basis	Budget 2023	Adjustments DR	Adjustments CR	Full Accrual Budget 2023	Accrual Basis
Revenues					**Revenues**
Rate Based Revenue	114,982,928			114,982,928	Rate Based Revenue
Transfers from Reserves	2,850,499	2,850,499			
			53,854,499	53,854,499	Earned Development Charges and Gas Tax Revenue
Other Revenue	12,912,974		4,306,235	17,219,209	Other Revenue*
Water Meter Replacement Projects Revenue			1,235,000	1,235,000	Water Meter Replacement Projects Revenue
Total Revenues	**130,746,401**			**187,291,636**	**Total Revenues**
Expenditures					**Expenses**
Operating	57,915,255	23,457,000		81,372,255	Operating Expenses
Capital					
Transfers to Reserves	63,978,820		63,978,820		
Transfers to Capital (Water Meter Replacement Projects)		1,235,000		1,235,000	Water Meter Replacement Projects Expenditure
Debt Repayment (Principal & Interest)	8,852,326		6,716,409	2,135,917	Interest on Debt
		36,152,456		36,152,456	Amortization
		-		-	Loss on Disposal of Tangible Capital Assets
Total Expenditures	**130,746,401**			**120,895,628**	**Total Expenses**
Net Expenditures	**-**			**66,396,008**	**Annual Surplus/(Deficit)**
Increase (decrease) in amounts to be recovered	-			1,839,766,029	Accumulated Surplus/(Deficit), beginning of year
Change in Fund Balances	**-**	**66,396,008**	**-**	**1,906,162,037**	**Accumulated Surplus/(Deficit), end of year**
TOTAL ADJUSTMENTS		**130,090,963**	**130,090,963**		

Note: The combined adjustments above should be balanced and net to $0 (i.e. Total DR = Total CR)
*Other Revenue of $12.9 million includes CWIP, Subsidies, and non-rate revenues. The $4.3 million Credit includes interest from Water-related Reserves and Reserve Funds.

3.2.3 Convert Statement of Financial Position

Once the Statement of Operations has been converted and the net book value of tangible capital assets has been recorded, balances for the remaining items on the Statement of Financial Position are determined and recorded (see Figure 3-2). As noted earlier, the applicable balances from the Statement of Capital and the Statement of Reserve and Reserve Funds will need to be transferred to this statement. The opening/actual balances for the remaining accounts such as accounts receivable, inventory, accounts payable, outstanding debt (principal only), are recorded and classified according to the structure of the Statement of Financial Position as outlined in PS1200.

It is acknowledged that some of the balances required on the Statement of Financial Position will be consolidated across the Region and as such, it may be difficult to isolate the information that is relevant to water. An example of this is accounts receivable, which may be administered centrally by the Finance Department. Ontario Regulation 453/07 allows for the exclusion of these numbers if they are not known at the time of preparing the financial plan. Please refer to the Financial Plan Notes in Chapter 4 for more details.

3.2.4 Convert Statement of Cash Flow and Net Financial Assets/Debt

The Statement of Cash Flow summarizes how the Region financed its activities or in other words, how the costs of providing services were recovered. The statement is derived using comparative Statement of Financial Position, the current Statement of Operations and other available transaction data.

The Statement of Change in Net Financial Assets/Debt is a new statement which reconciles the difference between the surplus or deficit from current operations and the change in net financial assets/debt for the year. This is significant, as net debt provides an indication of future revenue requirements. In order to complete the Statement of Net Financial Assets/Debt, additional information regarding any gains/losses on disposals of assets, asset write-downs, acquisition/use of supplies inventory, and the acquisition use of prepaid expenses is necessary, (if applicable). Although the Statement of Change in Net Financial Assets/Debt is not required under O.Reg. 453/07, it has been included in this report as a further indicator of financial viability.

Table 3-2
Conversion Adjustments
Statements of Financial Position (Water)

Modified Cash Basis	Budget 2023	Adjustments DR	Adjustments CR	Full Accrual Budget 2023	Accrual Basis
ASSETS					**ASSETS**
Financial Assets					**Financial Assets**
Cash	228,685,087			228,685,087	Cash
Accounts Receivable	24,549,711			24,549,711	Accounts Receivable
Total Financial Assets	**253,234,798**			**253,234,798**	**Total Financial Assets**
Non-Financial Assets					
Inventory of Supplies	-		-		
Prepaid Expenses	-		-		
Total Non-Financial Assets	-				
LIABILITIES					**Liabilities**
Accounts Payable & Accrued Liabilities	24,275,396			24,275,396	Accounts Payable & Accrued Liabilities
Gross Long-term Liabilities	43,689,969			43,689,969	Debt (Principal only)
Deferred Revenue	54,251,756			54,251,756	Deferred Revenue
Other	-			-	Other
Total Liabilities	**122,217,121**			**122,217,121**	**Total Liabilities**
Net Assets/(Debt)	**131,017,677**			**131,017,677**	**Net Financial Assets/(Debt)**
					Non-Financial Assets
		1,799,836,360	23,457,000	1,776,379,360	Tangible Capital Assets
		-		-	Inventory of Supplies
		-		-	Prepaid Expenses
				1,776,379,360	**Total Non-Financial Assets**
Municipal Position					
Water Reserves	174,707,646	174,707,646	-		
Development Charge Reserve Fund	54,251,756	54,251,756	-		
Amounts to be Recovered	(97,941,725)	-	97,941,725		
Total Municipal Position	**131,017,677**		1,907,397,037	**1,907,397,037**	**Accumulated Surplus/(Deficit), end of year**
TOTAL ADJUSTMENTS		**2,028,795,762**	**2,028,795,762**		

Note: The combined adjustments above should be balanced and net to $0 (i.e. Total DR = Total CR)

3.2.5 Verification and Note Preparation

The final step in the conversion process is to ensure that all of the statements created by the previous steps are in balance. The Statement of Financial Position summarizes the resources and obligations of the Region at a set point in time. The Statement of Operations summarizes how these resources and obligations changed over the reporting period. To this end, the accumulated surplus/deficit reported on the Statement of Financial Position should equal the accumulated surplus/deficit reported on the Statement of Operations.

The Statement of Change in Net Financial Assets/Debt and the Statement of Financial Position are also linked in terms of reporting on net financial assets/debt. On the Statement of Financial Position, net financial assets/debt is equal to the difference between financial assets and liabilities and should equal net financial assets/debt as calculated on the Statement of Net Financial Assets/Debt.

While not part of the financial plan, the accompanying notes are important to summarize the assumptions and estimates made in preparing the financial plan. Some of the significant assumptions that need to be addressed within the financial plan are as follows:

a) Opening cash balances – Opening cash balances are necessary to complete the Statement of Cash Flows and balance the Statement of Financial Position. Preferably, opening cash balances should be derived from actual information contained within the Region's ledgers. However, it may not be possible to extract this information from the ledgers for water alone; therefore, a reasonable proxy will be needed. One approach is to assume that opening cash balances equal ending reserve and reserve fund balances from the previous year adjusted for accrual-based transactions reflected by accounts receivable/payable balances. The following equation outlines this approach:

   Ending Reserve/Reserve Fund Balance

   Plus: Ending Accounts Payable Balance

   Less: Ending Accounts Receivable Balance

   Equals: Approximate Ending Cash Balance

b) Amortization Expense – The method and timing of amortization should be based on the Region's amortization policy. Otherwise, an assumption will need to be made and applied consistently throughout the financial plan.

c) Accumulated Amortization – Will be based on the culmination of accumulated amortization expenses throughout the life of each asset however derived, along with information on construction/acquisition date and useful life obtained from the Region's asset listing.

d) Contributed Assets – As noted earlier, contributed assets could represent a significant part of the Region's infrastructure acquisitions. As such, a reasonable estimate of value and timing of acquisition/donation may be required in order to adequately capture these assets. In the case where contributed assets are deemed to be insignificant or unknown, an assumption of "no contributed assets within the forecast period" will be made.

e) Accumulated Surplus – The magnitude of the surplus in this area may precipitate the need for additional explanation especially in the first year of reporting. This Accumulated Surplus captures the historical infrastructure investment which has not been reported in the past but has accumulated to significant levels. It also includes all water reserve and reserve fund balances.

f) Other Revenues – Will represent the recognition of revenues previously deferred (i.e. development charge revenues) and/or accrued revenues (developer contributions), and/or other minor miscellaneous revenues.

Chapter 4
Financial Plan

4. Financial Plan

4.1 Introduction

The following tables provide the complete financial plan for the Region's water systems. A brief description and analysis of each table is provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Region's water systems. It is not an audited document[1] and contains various estimates as detailed in the "Notes to the Financial Plan" section below.

4.2 Water Financial Plan

4.2.1 Statement of Financial Position (Table 4-1)

The Statement of Financial Position provides information that describes the assets, liabilities, and accumulated surplus of the Region's water systems. The first important indicator is net financial assets/(debt), which is defined as the difference between financial assets and liabilities. This indicator provides an indication of the system's "future revenue requirement." A net financial asset position is where financial assets are greater than liabilities and implies that the system has the resources to finance future operations. Conversely, a net debt position implies that the future revenues generated by the system will be needed to finance past transactions, as well as future operations. Table 4-1 indicates that for 2023, the Region's water systems will be in a net financial asset position of approximately $131.02 million. For the balance of the forecast, 2024-2032, the financial plan forecasts a continuing net financial asset position.

Another important indicator on the Statement of Financial Position is the tangible capital asset balance. As noted earlier, providing this information is a requirement for municipalities as part of PS3150 compliance and is significant from a financial planning perspective for the following reasons:

[1] O.Reg. 453/07 does not require an audited financial plan.

- Tangible capital assets such as water mains and treatment plants are imperative to water service delivery.
- These assets represent significant economic resources in terms of their historical and replacement costs. Therefore, ongoing capital asset management is essential to managing significant replacements and repairs.
- The annual maintenance required by these assets has an enduring impact on water operational budgets.

In general terms, an increase in the tangible capital asset balance indicates that assets may have been acquired either through purchase by the municipality or donation/contribution by a third party. A decrease in the tangible capital asset balance can indicate a disposal, write down, or use of assets. A use of assets is usually represented by an increase in accumulated amortization due to annual amortization expenses arising as a result of allocating the cost of the asset to operations over the asset's useful life. Table 4-1 shows tangible capital assets are expected to increase by approximately $821 million over the 10-year forecast period. This indicates that the Region has plans to invest in tangible capital assets in excess of the anticipated use of existing assets over the forecast period.

4.2.2 Statement of Operations (Table 4-2)

The Statement of Operations summarizes the revenues and expenses generated by the water systems for a given period. The annual surplus/deficit measures whether the revenues generated were sufficient to cover the expenses incurred and in turn, whether net financial assets have been maintained or depleted. Table 4-2 illustrates the ratio of expenses to revenues, although fluctuating to some extent, generally increasing from 64% to 76% over the forecast period to 2032. As a result, annual surplus decreases from $67.6 million to $59.2 million. This is primarily due to a general increasing trend in expenses relative to the reserve balances and should be revisited through future budgets. It is important to note that an annual surplus is beneficial to ensure funding is available to non-expense costs such as tangible capital asset acquisitions, reserve/reserve fund transfers and debt principal payments.

Another important indicator on this statement is accumulated surplus/deficit. An accumulated surplus indicates that the available net resources are sufficient to provide future water services. An accumulated deficit indicates that resources are insufficient to provide future services and that borrowing or rate increases are required to finance annual deficits. From Table 4-2, the financial plan proposes to add approximately $989.8 million to a 2023 accumulated surplus of $1.84 billion over the forecast period. This accumulated surplus, as indicated in Table 4-2, is predominantly made up of reserve and reserve fund balances, as well as historical investments in tangible capital assets.

4.2.3 Statement of Change in Net Financial Assets/Debt (Table 4-3)

The Statement of Change in Net Financial Assets/Debt indicates whether revenue generated was sufficient to cover operating and non-financial asset costs (i.e., inventory supplies, prepaid expenses, tangible capital assets, etc.) and in so doing, explains the difference between the annual surplus/deficit and the change in net financial assets/debt for the period.

Table 4-3 indicates that in most years, forecasted annual surplus exceeds the forecasted tangible capital asset acquisitions (net of amortization for the year). Therefore, an overall increase to the net financial asset balance is anticipated over the forecast period to 2032. The ratio of cumulative annual surplus before amortization to cumulative tangible capital asset acquisitions is 0.82 in 2023 and increasing to 1.06 at the end of the forecast period (note: a desirable ratio is 1:1 or better).

4.2.4 Statement of Cash Flow (Table 4-4)

The Statement of Cash Flow summarizes how water systems are expected to generate and use cash resources during the forecast period. The transactions that provide/use cash are classified as operating, capital, investing, and financing activities as shown in Table 4-4. This statement focuses on the cash aspect of these transactions and thus is the link between cash- and accrual-based reporting. Table 4-4 indicates that cash from operations will be used to fund capital transactions (i.e., tangible capital asset acquisitions) and build internal reserves and reserve funds over the forecast period. The financial plan projects the cash position of the Region's water systems to improve from a balance of approximately $275.6 million at the beginning of 2023, to approximately $453.2 million by the end of 2032. For further discussion on projected cash balances please refer to the Notes to the Financial Plan.

Table 4-1
Statement of Financial Position: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

	Notes	Forecast									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Financial Assets											
Cash	1	228,685,087	161,689,045	163,451,762	189,966,579	211,710,714	277,985,277	312,014,236	373,505,031	410,478,400	453,161,737
Accounts Receivable	1	24,549,711	25,622,822	26,729,670	27,868,045	29,025,003	30,233,325	31,496,014	32,787,521	34,153,212	35,517,599
Total Financial Assets		**253,234,798**	**187,311,867**	**190,181,432**	**217,834,624**	**240,735,717**	**308,218,602**	**343,510,250**	**406,292,552**	**444,631,612**	**488,679,336**
Liabilities											
Bank Indebtedness		-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	1	24,275,396	25,118,603	25,992,155	26,779,984	27,605,637	28,454,947	29,334,659	30,248,997	31,195,005	32,181,770
Debt (Principal only)	2	43,689,969	37,886,222	33,820,005	29,677,387	28,600,945	27,524,502	26,448,060	25,371,618	24,295,176	23,218,734
Deferred Revenue	3	54,251,756	183,892	247,139	312,254	3,547,512	31,710,190	58,409,100	103,836,947	145,641,127	201,202,052
Total Liabilities		**122,217,121**	**63,188,717**	**60,059,299**	**56,769,625**	**59,754,094**	**87,689,639**	**114,191,819**	**159,457,562**	**201,131,308**	**256,602,556**
Net Financial Assets/(Debt)		**131,017,677**	**124,123,150**	**130,122,133**	**161,064,999**	**180,981,623**	**220,528,963**	**229,318,431**	**246,834,990**	**243,500,304**	**232,076,780**
Non-Financial Assets											
Tangible Capital Assets	4	1,776,379,360	1,945,900,184	2,047,152,025	2,322,416,314	2,345,488,543	2,363,964,615	2,421,795,201	2,460,030,970	2,526,853,728	2,597,509,460
Total Non-Financial Assets		**1,776,379,360**	**1,945,900,184**	**2,047,152,025**	**2,322,416,314**	**2,345,488,543**	**2,363,964,615**	**2,421,795,201**	**2,460,030,970**	**2,526,853,728**	**2,597,509,460**
Accumulated Surplus/(Deficit)	5	**1,907,397,037**	**2,070,023,334**	**2,177,274,158**	**2,483,481,313**	**2,526,470,166**	**2,584,493,578**	**2,651,113,632**	**2,706,865,960**	**2,770,354,032**	**2,829,586,240**

Financial Indicators	Total Change	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Increase/(Decrease) in Net Financial Assets	78,151,567	(22,907,536)	(6,894,527)	5,998,983	30,942,866	19,916,624	39,547,340	8,789,468	17,516,559	(3,334,686)	(11,423,524)
2) Increase/(Decrease) in Tangible Capital Assets	911,668,644	90,538,544	169,520,824	101,251,841	275,264,289	23,072,229	18,476,072	57,830,586	38,235,769	66,822,758	70,655,732
3) Increase/(Decrease) in Accumulated Surplus	989,820,211	67,631,008	162,626,297	107,250,824	306,207,155	42,988,853	58,023,412	66,620,054	55,752,328	63,488,072	59,232,208

Table 4-2
Statement of Operations: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

	Notes	Forecast									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Water Revenue											
Rate Based Revenue		114,982,928	120,506,335	126,185,761	132,028,834	137,972,536	144,188,417	150,684,853	157,329,824	164,357,823	171,377,945
Earned Development Charges and Gas Tax Revenue	3	53,854,499	129,344,499	79,901,499	269,003,499	88,031,234	65,748,234	69,850,234	54,342,234	61,119,234	50,955,234
Other Revenue	6	17,219,209	17,533,211	17,647,529	18,485,910	19,088,149	20,256,234	20,529,705	21,058,217	20,980,921	20,669,145
Water Meter Replacement Projects Revenue	6	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000	1,235,000
Total Revenues		**187,291,636**	**268,619,045**	**224,969,789**	**420,753,243**	**246,326,919**	**231,427,885**	**242,299,792**	**233,965,275**	**247,692,978**	**244,237,324**
Water Expenses											
Operating Expenses	Sch. 4-1	81,372,255	67,419,944	76,310,029	71,486,599	107,466,409	76,817,659	78,150,438	80,342,830	84,810,778	83,826,962
Interest on Debt	2	2,135,917	1,995,628	1,892,777	1,814,778	1,774,151	1,774,151	1,774,151	1,774,151	1,774,151	1,774,151
Amortization	4	36,152,456	36,577,176	39,516,159	41,244,711	45,992,771	46,707,928	47,650,414	47,991,231	49,515,242	51,299,268
Payback of Front-ending (for D.C. Reserves)		-	-	-	-	48,104,735	48,104,735	48,104,735	48,104,735	48,104,735	48,104,735
Total Expenses		**119,660,628**	**105,992,748**	**117,718,965**	**114,546,088**	**203,338,066**	**173,404,473**	**175,679,738**	**178,212,947**	**184,204,906**	**185,005,116**
Annual Surplus/(Deficit)		**67,631,008**	**162,626,297**	**107,250,824**	**306,207,155**	**42,988,853**	**58,023,412**	**66,620,054**	**55,752,328**	**63,488,072**	**59,232,208**
Accumulated Surplus/(Deficit), beginning of year	5	1,839,766,029	1,907,397,037	2,070,023,334	2,177,274,158	2,483,481,313	2,526,470,166	2,584,493,578	2,651,113,632	2,706,865,960	2,770,354,032
Accumulated Surplus/(Deficit), end of year		1,907,397,037	2,070,023,334	2,177,274,158	2,483,481,313	2,526,470,166	2,584,493,578	2,651,113,632	2,706,865,960	2,770,354,032	2,829,586,240
Note 5:											
Accumulated Surplus/(Deficit) Reconciliation:		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Reserve Balances											
Reserves: Development Charges		54,251,756	183,892	247,139	312,254	3,547,512	31,710,190	58,409,100	103,836,947	145,641,127	201,202,052
Reserves: Capital/Other		174,707,646	162,009,372	163,942,138	190,742,386	209,582,568	248,053,465	255,766,491	272,206,608	267,795,480	255,295,514
Total Reserves Balance		**228,959,402**	**162,193,264**	**164,189,277**	**191,054,640**	**213,130,080**	**279,763,655**	**314,175,591**	**376,043,555**	**413,436,607**	**456,497,566**
Less: Debt Obligations and Deferred Revenue		(97,941,725)	(38,070,114)	(34,067,144)	(29,989,641)	(32,148,457)	(59,234,692)	(84,857,160)	(129,208,565)	(169,936,303)	(224,420,786)
Add: Tangible Capital Assets	4	1,776,379,360	1,945,900,184	2,047,152,025	2,322,416,314	2,345,488,543	2,363,964,615	2,421,795,201	2,460,030,970	2,526,853,728	2,597,509,460
Total Ending Balance		**1,907,397,037**	**2,070,023,334**	**2,177,274,158**	**2,483,481,313**	**2,526,470,166**	**2,584,493,578**	**2,651,113,632**	**2,706,865,960**	**2,770,354,032**	**2,829,586,240**

Financial Indicators	Total Change	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Expense to Revenue Ratio		64%	39%	52%	27%	83%	75%	73%	76%	74%	76%
2) Increase/(Decrease) in Accumulated Surplus	989,820,211	67,631,008	162,626,297	107,250,824	306,207,155	42,988,853	58,023,412	66,620,054	55,752,328	63,488,072	59,232,208

Schedule 4-1
Statement of Operating Expenses: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

	Notes	Forecast									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Expenses											
Personnel Services		6,869,890	7,110,336	7,359,198	7,616,770	7,883,357	8,159,274	8,444,849	8,740,419	9,046,333	9,362,955
Chemicals		1,543,126	1,674,292	1,808,235	1,853,441	1,899,777	1,937,772	1,976,528	2,016,058	2,056,380	2,097,507
Plant Maintenance Materials		1,596,700	1,676,535	1,760,362	1,804,371	1,849,480	1,886,470	1,924,199	1,962,683	2,001,937	2,041,975
Unshrinkable Fill		4,000	4,040	4,080	4,121	4,162	4,204	4,246	4,289	4,331	4,375
Other Materials & Supplies		2,588,886	2,614,775	2,640,922	2,667,332	2,694,005	2,720,945	2,748,154	2,775,636	2,803,392	2,831,426
Hydro		6,039,382	6,160,169	6,283,373	6,409,040	6,537,221	6,667,965	6,801,325	6,937,351	7,076,098	7,217,620
Other Purchased Services		4,937,726	4,987,103	5,036,974	5,087,344	5,138,217	5,189,599	5,241,495	5,293,910	5,346,849	5,400,318
LDC Charges		3,414,300	3,548,337	3,685,462	3,823,991	3,967,689	4,116,095	4,269,884	4,429,979	4,596,890	4,770,938
Plant Maintenance Purchases		1,332,567	1,399,195	1,469,155	1,505,884	1,543,531	1,574,401	1,605,889	1,638,007	1,670,767	1,704,183
Professional Services		50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Property Taxes		2,091,220	2,153,957	2,218,575	2,274,040	2,330,891	2,377,509	2,425,059	2,473,560	2,523,031	2,573,492
Financial and Rent Expenses		30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Allocated Charges / Recoveries		23,461,991	24,365,464	25,304,814	26,186,894	27,126,338	28,126,896	29,166,506	30,253,268	31,378,515	32,562,458
Corporate Support		3,945,468	4,142,741	4,349,878	4,567,372	4,795,741	5,035,528	5,287,304	5,551,670	5,829,253	6,120,716
Transfers to Non-Water Operating reseves		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Non TCA - Expenses from Capital Budget	7	23,457,000	7,493,000	14,299,000	7,596,000	41,606,000	8,931,000	8,165,000	8,176,000	10,387,000	7,049,000
TOTAL OPERATING EXPENSES		**81,372,255**	**67,419,944**	**76,310,029**	**71,486,599**	**107,466,409**	**76,817,659**	**78,150,438**	**80,342,830**	**84,810,778**	**83,826,962**

Table 4-3
Statement of Changes in Net Financial Assets/Debt: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

	Notes	Forecast									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual Surplus/(Deficit)		67,631,008	162,626,297	107,250,824	306,207,155	42,988,853	58,023,412	66,620,054	55,752,328	63,488,072	59,232,208
Less: Acquisition of Tangible Capital Assets	4	(126,691,000)	(206,098,000)	(140,768,000)	(316,509,000)	(69,065,000)	(65,184,000)	(105,481,000)	(86,227,000)	(116,338,000)	(121,955,000)
Add: Amortization of Tangible Capital Assets	4	36,152,456	36,577,176	39,516,159	41,244,711	45,992,771	46,707,928	47,650,414	47,991,231	49,515,242	51,299,268
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Proceeds on Sale of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Add: Write-downs of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
		(90,538,544)	(169,520,824)	(101,251,841)	(275,264,289)	(23,072,229)	(18,476,072)	(57,830,586)	(38,235,769)	(66,822,758)	(70,655,732)
Less: Acquisition of Supplies Inventory		-	-	-	-	-	-	-	-	-	-
Less: Acquisition of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-
Add: Consumption of Supplies Inventory		-	-	-	-	-	-	-	-	-	-
Add: Use of Prepaid Expenses		-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
Increase/(Decrease) in Net Financial Assets/(Net Debt)		**(22,907,536)**	**(6,894,527)**	**5,998,983**	**30,942,866**	**19,916,624**	**39,547,340**	**8,789,468**	**17,516,559**	**(3,334,686)**	**(11,423,524)**
Net Financial Assets/(Net Debt), beginning of year		153,925,213	131,017,677	124,123,150	130,122,133	161,064,999	180,981,623	220,528,963	229,318,431	246,834,990	243,500,304
Net Financial Assets/(Net Debt), end of year		**131,017,677**	**124,123,150**	**130,122,133**	**161,064,999**	**180,981,623**	**220,528,963**	**229,318,431**	**246,834,990**	**243,500,304**	**232,076,780**

Financial Indicators		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
1) Acquisition of Tangible Capital Assets (Cumulative)		126,691,000	332,789,000	473,557,000	790,066,000	859,131,000	924,315,000	1,029,796,000	1,116,023,000	1,232,361,000	1,354,316,000
2) Annual Surplus/Deficit before Amortization (Cumulative)		103,783,464	302,986,937	449,753,920	797,205,786	886,187,410	990,918,750	1,105,189,218	1,208,932,777	1,321,936,091	1,432,467,567
3) Ratio of Annual Surplus before Amortization to Acquisition of TCA's (Cumulative)		0.82	0.91	0.95	1.01	1.03	1.07	1.07	1.08	1.07	1.06

Table 4-4
Statement of Cash Flow – Indirect Method: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

	Notes	Forecast									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Transactions											
Annual Surplus/Deficit		67,631,008	162,626,297	107,250,824	306,207,155	42,988,853	58,023,412	66,620,054	55,752,328	63,488,072	59,232,208
Add: Amortization of TCA's	4	36,152,456	36,577,176	39,516,159	41,244,711	45,992,771	46,707,928	47,650,414	47,991,231	49,515,242	51,299,268
(Gain)/Loss on disposal of Tangible Capital Assets		-	-	-	-	-	-	-	-	-	-
Less: Earned Deferred Revenue	3	(53,854,499)	(129,344,499)	(79,901,499)	(269,003,499)	(88,031,234)	(65,748,234)	(69,850,234)	(54,342,234)	(61,119,234)	(50,955,234)
Add: Deferred Revenue Proceeds		36,591,793	75,276,635	79,964,746	269,068,614	91,266,491	93,910,912	96,549,143	99,770,081	102,923,414	106,516,159
Change in A/R (Increase)/Decrease		-	(1,073,111)	(1,106,848)	(1,138,374)	(1,156,957)	(1,208,323)	(1,262,688)	(1,291,507)	(1,365,691)	(1,364,387)
Change in A/P Increase/(Decrease)		-	843,207	873,552	787,829	825,653	849,310	879,712	914,338	946,008	986,765
Less: Interest Proceeds		(4,306,235)	(4,581,076)	(4,637,371)	(5,417,960)	(5,966,703)	(7,087,215)	(7,311,866)	(7,790,705)	(7,662,225)	(7,298,148)
Cash Provided by Operating Transactions		**82,214,523**	**140,324,629**	**141,959,563**	**341,748,476**	**85,918,874**	**125,447,790**	**133,274,535**	**141,003,532**	**146,725,586**	**158,416,631**
Capital Transactions											
Less: Cash Used to acquire Tangible Capital Assets	4	(126,691,000)	(206,098,000)	(140,768,000)	(316,509,000)	(69,065,000)	(65,184,000)	(105,481,000)	(86,227,000)	(116,338,000)	(121,955,000)
Cash Applied to Capital Transactions		**(126,691,000)**	**(206,098,000)**	**(140,768,000)**	**(316,509,000)**	**(69,065,000)**	**(65,184,000)**	**(105,481,000)**	**(86,227,000)**	**(116,338,000)**	**(121,955,000)**
Investing Transactions											
Proceeds from Investments		4,306,235	4,581,076	4,637,371	5,417,960	5,966,703	7,087,215	7,311,866	7,790,705	7,662,225	7,298,148
Less: Cash Used to Acquire Investments		-	-	-	-	-	-	-	-	-	-
Cash Provided by (applied to) Investing Transactions		**4,306,235**	**4,581,076**	**4,637,371**	**5,417,960**	**5,966,703**	**7,087,215**	**7,311,866**	**7,790,705**	**7,662,225**	**7,298,148**
Financing Transactions											
Less: Debt Repayment (Principal only)	2	(6,716,409)	(5,803,747)	(4,066,217)	(4,142,619)	(1,076,442)	(1,076,442)	(1,076,442)	(1,076,442)	(1,076,442)	(1,076,442)
Cash Applied to Financing Transactions		**(6,716,409)**	**(5,803,747)**	**(4,066,217)**	**(4,142,619)**	**(1,076,442)**	**(1,076,442)**	**(1,076,442)**	**(1,076,442)**	**(1,076,442)**	**(1,076,442)**
Increase in Cash and Cash Equivalents		(46,886,651)	(66,996,042)	1,762,717	26,514,817	21,744,135	66,274,563	34,028,959	61,490,795	36,973,369	42,683,337
Cash and Cash Equivalents, beginning of year	1	275,571,738	228,685,087	161,689,045	163,451,762	189,966,579	211,710,714	277,985,277	312,014,236	373,505,031	410,478,400
Cash and Cash Equivalents, end of year	1	**228,685,087**	**161,689,045**	**163,451,762**	**189,966,579**	**211,710,714**	**277,985,277**	**312,014,236**	**373,505,031**	**410,478,400**	**453,161,737**

Water

Notes to Financial Plan

The financial plan format as outlined in Chapter 4 closely approximates the full accrual format used by municipalities (2009 onward) on their audited financial statements. However, the financial plan is not an audited document and contains various estimates. In this regard, Section 3 (2) of O.Reg. 453/07 states the following:

> "Each of the following sub-subparagraphs applies only if the information referred to in the sub-subparagraph is known to the owner at the time the financial plans are prepared:
>
> 1. Sub-subparagraphs 4 i A, B and C of subsection (1)
> 2. Sub-subparagraphs 4 iii A, C, E and F of subsection (1)."

The information referred to in sub-subparagraphs 4 i A, B and C of subsection (1) includes:

A. Total financial assets (i.e. cash and receivables);
B. Total liabilities (i.e. payables, debt and deferred revenue);
C. Net debt (i.e. the difference between A and B above).

The information referred to in sub-subparagraphs 4 iii A, C, E and F of subsection (1) includes:

A. Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges
B. Investing transactions that are acquisitions and disposal of investments
C. Change in cash and cash equivalents during the year
D. Cash and cash equivalents at the beginning and end of the year

In order to show a balanced financial plan in a full accrual format for the Region of Halton, some of the items listed above have been estimated given that the Region does not maintain all financial asset and liability data separately for water. Usually, this type of data is combined with the financial assets and liabilities of other departments and services given that there is not a current obligation to disclose this data separately (as there is with revenue and expenses).

The assumptions used have been documented below:

1. **Cash, Receivables and Payables**

   It is assumed that the opening cash balances required to complete the financial plan are equal to:

   Ending Reserve/Reserve Fund Balance

   Plus: Ending Accounts Payable Balance

   Less: Ending Accounts Receivable Balance

   Equals: Approximate Ending Cash Balance

   For the Region, receivable and payable balances were estimated for each year of the forecast based on the following factors:

   a) Receivables: Based on historical levels of water receivables as a percentage of annual water revenue earned; and

   b) Payables: Based on historical levels of Region-wide payables as a percentage of annual Region-wide expenditures.

2. **Debt**

   Outstanding water-related debt (growth and non-growth related) at the end of 2022 was approximately $50.4 million. Principal repayments (including contributions to the sinking fund) over the forecast period are scheduled as follows:

Year	Principal Payments
2023	6,716,409
2024	5,803,747
2025	4,066,217
2026	4,142,619
2027	1,076,442
2028	1,076,442
2029	1,076,442
2030	1,076,442
2031	1,076,442
2032	1,076,442
Total	**27,187,644**

For financial reporting purposes, debt principal payments represent a decrease in debt liability and the interest payments represent a current year operating expense.

3. **Deferred Revenue**

Deferred revenue is typically made up of water development charge reserve fund balances which are considered to be a liability for financial reporting purposes until the funds are used to emplace the works for which they have been collected. Regional staff have estimated annual development charge proceeds to equal the total of each year's transfers to operating and capital from the development charge reserve fund for the purposes of this financial plan. It is noted that in 2024-2026, the Region is anticipating undertaking capital projects with large capital costs. During these years, the Region has indicated that it may enter into front-end financing agreements with the development community to assist with these expenditures.

4. **Tangible Capital Assets**

- Opening net book value of tangible capital assets includes water related assets in the following categories:
    i. Facilities;
    ii. Water Mains;
    iii. Water Meters;
    iv. Vehicles and Equipment; and
    v. Land.
- Amortization is calculated based on the Region's amortization methods:
    i. Facilities, Water Mains, Water Meters: straight-line approach with no amortization in the year of acquisition or construction.
    ii. Vehicles and Equipment: straight-line approach with half-year amortization in the year of acquisition or construction.
- Given the planned asset replacement forecast provided by the Region, useful life on acquisitions is assumed to be equal to the weighted average useful life for all assets on hand in each respective asset category.
- Write-offs are assumed to equal $0 for each year in the forecast period.

- Tangible capital assets are shown on a net basis. It is assumed that disposals occur when the asset is being replaced, unless the asset is documented as a new asset. The value of each asset disposal is based on the original historical cost.
- Gains/losses on disposal are assumed to be $0 (it is assumed that historical cost is equal to accumulated amortization for all disposals).
- Residual value is assumed to be $0 for all assets (except vehicles) contained within the forecast period.
- Contributed Assets, as described in Section 3.2.1, are deemed to be insignificant/ unknown during the forecast period and are therefore assumed to be $0.
- With respect to lead piping, the 1998-2007 Accelerated Cast Iron Watermain Replacement Program previously addressed nearly all public-side lead water service issues. Over a decade ago, the MECP mandated an ongoing lead sampling program across the province. Our in-home sampling and testing program has targeted Halton's oldest developed areas. Halton Region has been granted temporary relief from the in-home lead testing program due to the COVID pandemic since 2020 and had not found any public-side lead services in previous years.
- The T.C.A. inventory balance provided by the Region is summarized in Table 4-5, as follows:

Table 4-5
Tangible Capital Asset Summary: Water Services
UNAUDITED: For Financial Planning Purposes Only
2023-2032

Asset Historical Cost	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Opening Tangible Capital Asset Balance	2,346,455,357	2,465,137,950	2,662,810,709	2,798,789,476	3,109,949,575	3,173,845,632	3,229,929,756	3,319,695,437	3,390,550,537	3,484,845,556
Acquisitions	126,691,000	206,098,000	140,768,000	316,509,000	69,065,000	65,184,000	105,481,000	86,227,000	116,338,000	121,955,000
Disposals	8,008,407	8,425,241	4,789,233	5,348,901	5,168,943	9,099,876	15,715,319	15,371,900	22,042,981	32,521,989
Closing Tangible Capital Asset Balance	**2,465,137,950**	**2,662,810,709**	**2,798,789,476**	**3,109,949,575**	**3,173,845,632**	**3,229,929,756**	**3,319,695,437**	**3,390,550,537**	**3,484,845,556**	**3,574,278,567**
Opening Accumulated Amortization	660,614,541	688,758,590	716,910,525	751,637,451	787,533,261	828,357,089	865,965,141	897,900,236	930,519,567	957,991,828
Amortization Expense	36,152,456	36,577,176	39,516,159	41,244,711	45,992,771	46,707,928	47,650,414	47,991,231	49,515,242	51,299,268
Amortization on Disposal	8,008,407	8,425,241	4,789,233	5,348,901	5,168,943	9,099,876	15,715,319	15,371,900	22,042,981	32,521,989
Ending Accumulated Amortization	**688,758,590**	**716,910,525**	**751,637,451**	**787,533,261**	**828,357,089**	**865,965,141**	**897,900,236**	**930,519,567**	**957,991,828**	**976,769,107**
Net Book Value	**1,776,379,360**	**1,945,900,184**	**2,047,152,025**	**2,322,416,314**	**2,345,488,543**	**2,363,964,615**	**2,421,795,201**	**2,460,030,970**	**2,526,853,728**	**2,597,509,460**

5. Accumulated Surplus

Opening accumulated surplus for the forecast period is reconciled as follows:

Water	2023 Opening Accumulated Surplus
Reserve Balances	
Reserves: Development Charges	71,514,462
Reserves: Capital/Other	204,331,591
Total Reserves Balance	**275,846,053**
Less: Debt Obligations and Deferred Revenue	(121,920,840)
Add: Tangible Capital Assets	1,685,840,816
Total Opening Balance	**1,839,766,029**

The accumulated surplus reconciliation for all years within the forecast period is contained in Table 4-2.

6. Other Revenue

Other revenue includes interest and other non-operating general revenues (subsidies, CWIP, transfer payments, water meter replacement revenue, etc.).

7. Operating Expenses

Capital expenditures for items not meeting the definition of tangible capital assets have been reclassified as operating expenses and have been expensed in the year in which they occur.

Chapter 5
Process for Financial Plan Approval and Submission to the Province

5. Process for Financial Plan Approval and Submission to the Province

As mentioned in section 1.2, preparation of and approval of a financial plan for water assets that meets the requirements of the Act is mandatory for municipal water providers. Proof of the plan preparation and approval is a key submission requirement for municipal drinking water licensing and, upon completion, must be submitted to the MECP. The process established for plan approval, public circulation and filing is set out in O. Reg. 453/07 and can be summarized as follows:

1. The financial plan must be approved by resolution of Council of the municipality who owns the drinking water system or the governing body of the owner. (O. Reg. 453/07, section 3 (1) 1).

2. The owner of the drinking water system must provide notice advertising the availability of the financial plan. The plans will be made available to the public upon request and without charge. The plans must also be made available to the public on the municipality's website. (O. Reg. 453/07, section 3 (1) 5).

3. The owner of the drinking water system must provide a copy of the financial plan to the Director of Policy Branch, Ministry of Municipal Affairs and Housing. (O. Reg. 453/07, section 3 (1) 6).

4. The owner of the drinking water system must provide proof satisfactory to the Director that the financial plans for the system satisfy the requirements under the *Safe Drinking Water Act*. (S.D.W.A. section 32 (5) 2. ii.).

Chapter 6
Recommendations

6. Recommendations

This report presents the water financial plan for the Region of Halton in accordance with the mandatory reporting formats for water systems as detailed in O.Reg. 453/07. It is important to note that while mandatory, the financial plan is provided for Council's interest and approval however, for decision making purposes, it may be more informative to rely on the information contained within the Region's 2023 Budget and Business Plan. Nevertheless, Council is required to pass certain resolutions with regard to this plan and regulations and it is recommended that:

1. The Region of Halton's Water Financial Plan prepared by Watson & Associates Economists Ltd. dated July 17, 2023 be approved.

2. Notice of availability of the Financial Plan be advertised.

3. The Financial Plan and the Council Resolution approving the Financial Plan be submitted to the Ministry of Municipal Affairs and Housing. (O.Reg. 453/07, Section 3 (1) 6)

4. The Council Resolution approving the Financial Plan be submitted to the Ministry of the Environment, Conservation, and Parks satisfying the requirements under the Safe Drinking Water Act. (S.D.W.A. Section 32 (5) 2 ii)).