



## REPORT TO COUNCIL

Report No.: 10-194

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**TO:** Mayor and Members of Council

**FROM:** Jim Keech, President and CEO, Utilities Kingston

**RESOURCE STAFF:** Randy Murphy, Manager of Finance, Utilities Kingston

**DATE OF MEETING:** June 15, 2010

**SUBJECT:** Endorsement of the Drinking Water Quality Management Standard Financial Plan for the City of Kingston's Drinking Water Supply System

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### EXECUTIVE SUMMARY:

Ontario has established a strong regulatory framework for drinking water systems in the province. This framework under the *Safe Drinking Water Act* (SDWA) has established the Municipal Drinking Water Licensing Program.

Currently, the City of Kingston has applied for and has received an interim drinking water License for the two water systems it owns. There are six components listed under the SDWA that are required to be in place before the Director issues a drinking water license. The remaining component is a financial plan, approved by the owner (Kingston City Council), that satisfies the requirements of the SDWA, the Director's Direction, and the Licensing Regulation. This financial plan must then be submitted to the Ministry of Municipal Affairs and Housing before July 1, 2010.

### RECOMMENDATION:

That Council approve the Kingston Drinking Water Supply System Financial Plan;

*- and further -*

That Council authorize the President and CEO of 1425445 Ontario Limited (o/a Utilities Kingston) to sign the formal endorsement of these plans and submit the plans to the required Ministries.

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**AUTHORIZING SIGNATURES:**

ORIGINAL SIGNED BY PRESIDENT & CEO, UTILITIES KINGSTON _____ Jim Keech, President and CEO, Utilities Kingston
ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER _____ Gerard Hunt, Chief Administrative Officer

**CONSULTATION WITH THE FOLLOWING COMMISSIONERS:**

Cynthia Beach, <i>Sustainability &amp; Growth</i>	N/R
Terry Willing, <i>Community Services</i>	N/R
Denis Leger, <i>Transportation, Properties &amp; Emergency Services</i>	N/R
Jim Keech, <i>President and CEO, Utilities Kingston</i>	✓

*(N/R indicates consultation not required)*

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**OPTIONS/DISCUSSION:**

With the proclamation of section 33 of the Safe Drinking Water Act, 2002 (SDWA) in May of 2007, the Ministry of the Environment (MOE) began a transition from an approvals process referred to as the Certificate of Approval (C of A) Program for municipal drinking water systems to the new Municipal Drinking Water Licensing Program. This transition is occurring over a 5 year period.

Section 44 of the SDWA lists six components that will be required to be in place before the Director issues a drinking water licence:

1. a drinking water works permit for the system
2. operational plans for the system that satisfy the requirements of the Director's Directions
3. proof that the system will be operated by an accredited operating authority
4. proof that the financial plans for the system if required, satisfy the requirements under the SDWA
5. proof that a permit to take water has been issued for the system, and
6. the Director is satisfied that the system will be operated in accordance with the requirements of the SDWA and the conditions to be imposed by the licence.

Specific timelines were set for several of the six components; however the Director will require all components to be in place before a licence is issued to owners. The Licensing of Municipal Drinking Water Systems Regulation, O. Reg. 188/07 (Licensing Regulation) prescribes the dates for owners of municipal residential drinking water systems to submit the following to the ministry:

- an operational plan for acceptance by the Director
- an application for a drinking water works permit, and
- an application for a licence.

As noted in our Report To Council dated November 25, 2008, Utilities Kingston would be coming back to Council with updates and requests for additional endorsements and approvals. The City of Kingston has complied with all requirements and submissions to the Ministry to date with the exception of the financial plan. This report requests approval of the financial plan.

The financial plans portion of the SDWA is governed by Ontario Regulation 453/07.

The City of Kingston, as the owner of the water supply system, must comply with Ontario Regulation 453/07. The key requirements of this regulation are as follows:

- The financial plans must be prepared and approved for the system no later than July 1, 2010,
- The financial plans must be approved by a resolution that is passed by the Council of the municipality,
- The financial plans must apply to a period of at least six years beginning in 2010,
- The financial plan must include details of the projected financial position, projected financial operations and projected gross cash receipts and cash payments.
- The financial plans must be posted on the municipality's web site and also made available, free of charge, to members of the public who are served by the drinking water system,
- The owner of the drinking water system must give a copy of the financial plans to the Ministry of Municipal Affairs and Housing.

The timing of the preparation and approval of the financial plans coincides with the requirements of section 3150 of the Public Sector Accounting Board, which requires capital assets to be shown on municipalities' financial statements effective for the

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December 31, 2009 fiscal year. The December 31, 2009 capital asset balances are then used as opening figures for the 2010 financial plan.

The expected capital expenditures over the six year period totals \$185 million. The capital program for water assets is largely derived from the Council Approved Master Plan for Water Supply for the City of Kingston Urban Area (2007). The master plan provided a blue print for treatment and distribution upgrades and improvements necessary to address the community's needs and requirements over the next 20 years. The current capital budget has focused spending on a number of significant trunk water main projects identified in the Master Plan, treatment plant upgrades and expansion (Pt. Pleasant) and new reservoir and booster station assets. This is in addition to regular asset replacement activity (local water main reconstruction) and equipment upgrades. The future capital program (10 year budget) continues to focus on the implementation of the Master Plan improvements to ensure a safe and reliable water treatment and distribution system for our residents.

The projected Statement of Financial Operations includes increases in revenues which are based on projected rate increases for the years 2011-2015 which were reported to Council during the 2008 budget deliberations. The projected rate increases are 12%, 10%, 10%, 5%, and 5%. A 10% rate increase for a typical residential customer amounts to approximately \$3 - \$4 per month. For the purposes of the revenue projections, it is assumed that any revenue increase for growth will be offset by conservation measures taken. Future updates to the financial plan will look at the impact of growth and conservation in greater detail.

The operating expenses are based on 3.5% increase per year with the exception of 2012 and 2013 which includes an estimated increase of an additional 2.5% or \$250,000 per year for the increased operating costs expected to operate the upgraded and expanded Point Pleasant Water Treatment Plant. In addition, commencing in 2013, the operating expenses for the water utility will increase an additional 4% or approximately \$455,000 per year. This amount is for the water utility's portion of the debt repayment required for the expansion of 85 Lappans Lane.

The Water utility's cash balance is expected to fall from a balance of \$17.8 million at January 1, 2010 to approximately \$7 million and stay at that level throughout the six year term of the financial plan. In addition, the utility is expected to acquire new debt of approximately \$48.1 million to fund a portion of the required capital infrastructure work. Also, during that time, the water utility will repay \$4.9 million of principal on existing or newly acquired debt. In the last year of the plan, 2015, the utility is then in a position to repay more debt than it acquires, moving toward a "pay as you go" approach. The debt considered in this financial plan is in accordance with the overall debt management plan for the City of Kingston, which is within the financial capacity of the City. Grants have not been planned for the purposes of this financial plan, however we will continue to explore opportunities for higher level of government funding for our capital works.

It should be noted that actual Council approval for capital expenditures, operating expenditures, debt transactions and rate increases are not the subject of the recommendation in this report. Specific approvals for these items will be presented to Council during annual budget deliberations. The financial plans will continue to be updated for the most recent information to ensure continued financial and operational stability of the water utility.

Following submission of the financial plan, Utilities Kingston will have completed the required components of the licensing program and will then be awaiting the final approval.

#### **EXISTING POLICY/BY LAW: N/A**

#### **NOTICE PROVISIONS:**

Approved Financial Plans will be made available to the public served by the system at no charge and also available on the City of Kingston's website.

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**ACCESSIBILITY CONSIDERATIONS: N/A**

**FINANCIAL CONSIDERATIONS:**

Reflected in the body of the report

**CONTACTS:**

Randy Murphy, Manager of Finance – 613-546-1181 Extension 2317

Kevin Riley, Manager, Water and Wastewater Operations – 613-546-1181 Extension 2224

Jim Miller, Manager, Utilities Technical Services – 613-546-1181 Extension 2475

**OTHER CITY OF KINGSTON STAFF CONSULTED:**

Lana Foulds, Financial Planning Coordinator, City of Kingston

Stephen Dickey, Acting Director of Finance, City of Kingston

**EXHIBITS ATTACHED:**

Exhibit A – Corporation of the City of Kingston Drinking Water Supply System Financial Plan

***Corporation of the City of Kingston  
Drinking Water Supply System  
2010 - 2015 Financial Plan***

**Approved by Kingston City Council on June 15, 2010.**

**Endorsed by**

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J.A. Keech, President and CEO  
1425445 Ontario Limited

Corporation of the City of Kingston  
 Drinking Water Supply System  
 Projected Financial Position  
 As at December 31,

	2009	2010	2011	2012	2013	2014	2015
<b>Cash and Cash Equivalents</b>	\$ 17,837,000	\$ 12,155,000	\$ 7,268,000	\$ 6,943,000	\$ 6,626,000	\$ 7,625,000	\$ 7,674,000
<b>Inventory</b>	\$ 256,000	\$ 256,000	\$ 256,000	\$ 256,000	\$ 255,000	\$ 256,000	\$ 256,000
<b>Tangible Capital Assets</b>							
Capital Cost	\$ 263,373,000	\$ 322,603,000	\$ 367,503,000	\$ 403,803,000	\$ 429,786,000	\$ 439,004,000	\$ 448,353,000
Accumulated Amortization (see schedules attached)	(79,133,000)	(84,990,000)	(92,035,000)	(99,362,000)	(107,539,000)	(116,173,000)	(124,334,000)
	\$ 184,240,000	\$ 237,613,000	\$ 275,468,000	\$ 304,441,000	\$ 322,247,000	\$ 322,831,000	\$ 324,019,000
<b>Total Assets</b>	<b>\$ 202,333,000</b>	<b>\$ 250,024,000</b>	<b>\$ 282,992,000</b>	<b>\$ 311,640,000</b>	<b>\$ 329,128,000</b>	<b>\$ 330,712,000</b>	<b>\$ 331,949,000</b>
<b>Long Term Liabilities</b>							
Net Debt	\$ 5,476,000	\$ 11,023,000	\$ 28,167,000	\$ 41,383,000	\$ 48,756,000	\$ 49,372,000	\$ 48,683,000
<b>Surplus</b>	\$ 196,857,000	\$ 239,001,000	\$ 254,825,000	\$ 270,257,000	\$ 280,372,000	\$ 281,340,000	\$ 283,266,000
<b>Total Liabilities and Surplus</b>	<b>\$ 202,333,000</b>	<b>\$ 250,024,000</b>	<b>\$ 282,992,000</b>	<b>\$ 311,640,000</b>	<b>\$ 329,128,000</b>	<b>\$ 330,712,000</b>	<b>\$ 331,949,000</b>

**NOTE: Actual Results will differ and these differences could be material**

Council Meeting 7 June 15, 2010

**Corporation of the City of Kingston  
Drinking Water Supply System  
Projected Financial Operations  
For the fiscal years ended  
December 31,**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Revenues</b>						
Water Rates	\$ 16,102,000	\$ 18,034,000	\$ 19,837,000	\$ 21,821,000	\$ 22,912,000	\$ 24,058,000
Interest Income	570,000	381,000	279,000	266,000	279,000	300,000
User Charges	303,000	305,000	316,000	327,000	338,000	350,000
	<u>\$ 16,975,000</u>	<u>\$ 18,720,000</u>	<u>\$ 20,432,000</u>	<u>\$ 22,414,000</u>	<u>\$ 23,529,000</u>	<u>\$ 24,708,000</u>
<b>Expenses</b>						
Operating	\$ 9,896,000	\$ 10,242,000	\$ 10,851,000	\$ 11,936,000	\$ 12,337,000	\$ 12,753,000
Interest- Long term	183,000	175,000	472,000	1,330,000	1,971,000	2,323,000
Interest- Short term	400,000	331,000	75,000	125,000	100,000	50,000
Amortization	5,857,000	7,045,000	7,327,000	8,178,000	8,633,000	8,161,000
	<u>\$ 16,336,000</u>	<u>\$ 17,793,000</u>	<u>\$ 18,725,000</u>	<u>\$ 21,569,000</u>	<u>\$ 23,041,000</u>	<u>\$ 23,287,000</u>
<b>Surplus for the year</b>	\$ 639,000	\$ 927,000	\$ 1,707,000	\$ 845,000	\$ 488,000	\$ 1,421,000
<b>Funding - Development</b>	20,777,000	14,342,000	13,725,000	9,270,000	480,000	505,000
<b>Funding - Grants</b>	20,728,000	555,000	-	-	-	-
<b>Surplus, beginning of year</b>	196,857,000	239,001,000	254,825,000	270,257,000	280,372,000	281,340,000
<b>Surplus, end of year</b>	<u>\$ 239,001,000</u>	<u>\$ 254,825,000</u>	<u>\$ 270,257,000</u>	<u>\$ 280,372,000</u>	<u>\$ 281,340,000</u>	<u>\$ 283,266,000</u>

**NOTE: Actual Results will differ and these differences could be material**

**Corporation of the City of Kingston**  
**Drinking Water Supply System**  
**Projected Cash Receipts and Cash Payments**  
**For the fiscal years ended**  
**December 31,**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Net Surplus for the year from Operations</b>	\$ 639,000	\$ 927,000	\$ 1,707,000	\$ 845,000	\$ 488,000	\$ 1,421,000
add back non cash items						
Amortization	5,857,000	7,045,000	7,327,000	8,178,000	8,633,000	8,161,000
<b>Net Cash receipts from Operations</b>	<b>\$ 6,496,000</b>	<b>\$ 7,972,000</b>	<b>\$ 9,034,000</b>	<b>\$ 9,023,000</b>	<b>\$ 9,121,000</b>	<b>\$ 9,582,000</b>
<b>Investing Activities</b>						
Purchase of Tangible Capital Assets	\$ (59,230,000)	\$ (44,900,000)	\$ (36,300,000)	\$ (25,983,000)	\$ (9,218,000)	\$ (9,349,000)
<b>Financing Activities</b>						
Repayment of Debentures	\$ (241,000)	\$ (242,000)	\$ (411,000)	\$ (940,000)	\$ (1,384,000)	\$ (1,689,000)
Proceeds from Debentures	5,788,000	17,386,000	13,627,000	8,313,000	2,000,000	1,000,000
Funding - Grants	20,728,000	555,000	-	-	-	-
Funding - Development	20,777,000	14,342,000	13,725,000	9,270,000	480,000	505,000
	<b>\$ 47,052,000</b>	<b>\$ 32,041,000</b>	<b>\$ 26,941,000</b>	<b>\$ 16,643,000</b>	<b>\$ 1,096,000</b>	<b>\$ (184,000)</b>
Increase/(Decrease) in Cash and Cash Equivalents	\$ (5,682,000)	\$ (4,887,000)	\$ (325,000)	\$ (317,000)	\$ 999,000	\$ 49,000
Cash and Cash Equivalents, beginning of year	17,837,000	12,155,000	7,268,000	6,943,000	6,626,000	7,625,000
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 12,155,000</b>	<b>\$ 7,268,000</b>	<b>\$ 6,943,000</b>	<b>\$ 6,626,000</b>	<b>\$ 7,625,000</b>	<b>\$ 7,674,000</b>

**NOTE: Actual Results will differ and these differences could be material**

**Corporation of the City of Kingston  
Drinking Water Supply System  
Tangible Capital Asset Cost Continuity Schedule  
As at December 31,**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Land</b>						
Opening Balance	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000
Additions during the year	-	-	-	-	-	-
Closing Balance	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000	\$ 1,602,000
<b>Water Facilities</b>						
Opening Balance	\$ 50,631,000	\$ 65,892,000	\$ 93,243,000	\$ 119,997,000	\$ 138,734,000	\$ 139,855,000
Additions during the year	15,261,000	27,351,000	26,754,000	18,737,000	1,121,000	1,176,000
Closing Balance	\$ 65,892,000	\$ 93,243,000	\$ 119,997,000	\$ 138,734,000	\$ 139,855,000	\$ 141,031,000
<b>Distribution System</b>						
Opening Balance	\$ 202,055,000	\$ 244,530,000	\$ 261,014,000	\$ 269,862,000	\$ 276,410,000	\$ 283,809,000
Additions during the year	42,475,000	16,484,000	8,848,000	6,548,000	7,399,000	7,455,000
Closing Balance	\$ 244,530,000	\$ 261,014,000	\$ 269,862,000	\$ 276,410,000	\$ 283,809,000	\$ 291,264,000
<b>Meters</b>						
Opening Balance	\$ 8,960,000	\$ 9,816,000	\$ 10,733,000	\$ 11,283,000	\$ 11,833,000	\$ 12,383,000
Additions during the year	856,000	917,000	550,000	550,000	550,000	570,000
Closing Balance	\$ 9,816,000	\$ 10,733,000	\$ 11,283,000	\$ 11,833,000	\$ 12,383,000	\$ 12,953,000
<b>Equipment</b>						
Opening Balance	\$ 125,000	\$ 763,000	\$ 911,000	\$ 1,059,000	\$ 1,207,000	\$ 1,355,000
Additions during the year	638,000	148,000	148,000	148,000	148,000	148,000
Closing Balance	\$ 763,000	\$ 911,000	\$ 1,059,000	\$ 1,207,000	\$ 1,355,000	\$ 1,503,000
<b>Total Tangible Capital Assets</b>						
Opening Balance	\$ 263,373,000	\$ 322,603,000	\$ 367,503,000	\$ 403,803,000	\$ 429,786,000	\$ 439,004,000
Additions during the year	59,230,000	44,900,000	36,300,000	25,983,000	9,218,000	9,349,000
Closing Balance	\$ 322,603,000	\$ 367,503,000	\$ 403,803,000	\$ 429,786,000	\$ 439,004,000	\$ 448,353,000

**NOTE: Actual Results will differ and these differences could be material**

**Corporation of the City of Kingston  
Drinking Water Supply System  
Tangible Capital Asset Amortization Continuity Schedule  
As at December 31,**

	2010	2011	2012	2013	2014	2015
<b>Land</b>						
Opening Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization during the year	-	-	-	-	-	-
Closing Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Water Facilities Accumulated Amortization</b>						
Opening Balance	\$ (32,792,000)	\$ (34,604,000)	\$ (37,039,000)	\$ (39,970,000)	\$ (43,580,000)	\$ (47,487,000)
Amortization during the year	(1,812,000)	(2,435,000)	(2,931,000)	(3,610,000)	(3,907,000)	(3,282,000)
Closing Balance	\$ (34,604,000)	\$ (37,039,000)	\$ (39,970,000)	\$ (43,580,000)	\$ (47,487,000)	\$ (50,769,000)
<b>Distribution System Accumulated Amortization</b>						
Opening Balance	\$ (40,014,000)	\$ (43,402,000)	\$ (47,270,000)	\$ (51,341,000)	\$ (55,537,000)	\$ (59,847,000)
Amortization during the year	(3,388,000)	(3,868,000)	(4,071,000)	(4,196,000)	(4,310,000)	(4,416,000)
Closing Balance	\$ (43,402,000)	\$ (47,270,000)	\$ (51,341,000)	\$ (55,537,000)	\$ (59,847,000)	\$ (64,263,000)
<b>Meters Accumulated Amortization</b>						
Opening Balance	\$ (6,322,000)	\$ (6,948,000)	\$ (7,633,000)	\$ (7,891,000)	\$ (8,185,000)	\$ (8,516,000)
Amortization during the year	(626,000)	(685,000)	(258,000)	(294,000)	(331,000)	(368,000)
Closing Balance	\$ (6,948,000)	\$ (7,633,000)	\$ (7,891,000)	\$ (8,185,000)	\$ (8,516,000)	\$ (8,884,000)
<b>Equipment Accumulated Amortization</b>						
Opening Balance	\$ (5,000)	\$ (36,000)	\$ (93,000)	\$ (160,000)	\$ (237,000)	\$ (323,000)
Amortization during the year	(31,000)	(57,000)	(67,000)	(77,000)	(86,000)	(95,000)
Closing Balance	\$ (36,000)	\$ (93,000)	\$ (160,000)	\$ (237,000)	\$ (323,000)	\$ (418,000)
<b>Total Tangible Capital Assets Accumulated Amortization</b>						
Opening Balance	\$ (79,133,000)	\$ (84,990,000)	\$ (92,035,000)	\$ (99,362,000)	\$ (107,539,000)	\$ (116,173,000)
Amortization during the year	(5,857,000)	(7,045,000)	(7,327,000)	(8,177,000)	(8,634,000)	(8,161,000)
Closing Balance	\$ (84,990,000)	\$ (92,035,000)	\$ (99,362,000)	\$ (107,539,000)	\$ (116,173,000)	\$ (124,334,000)

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**NOTE: Actual Results will differ and these differences could be material**