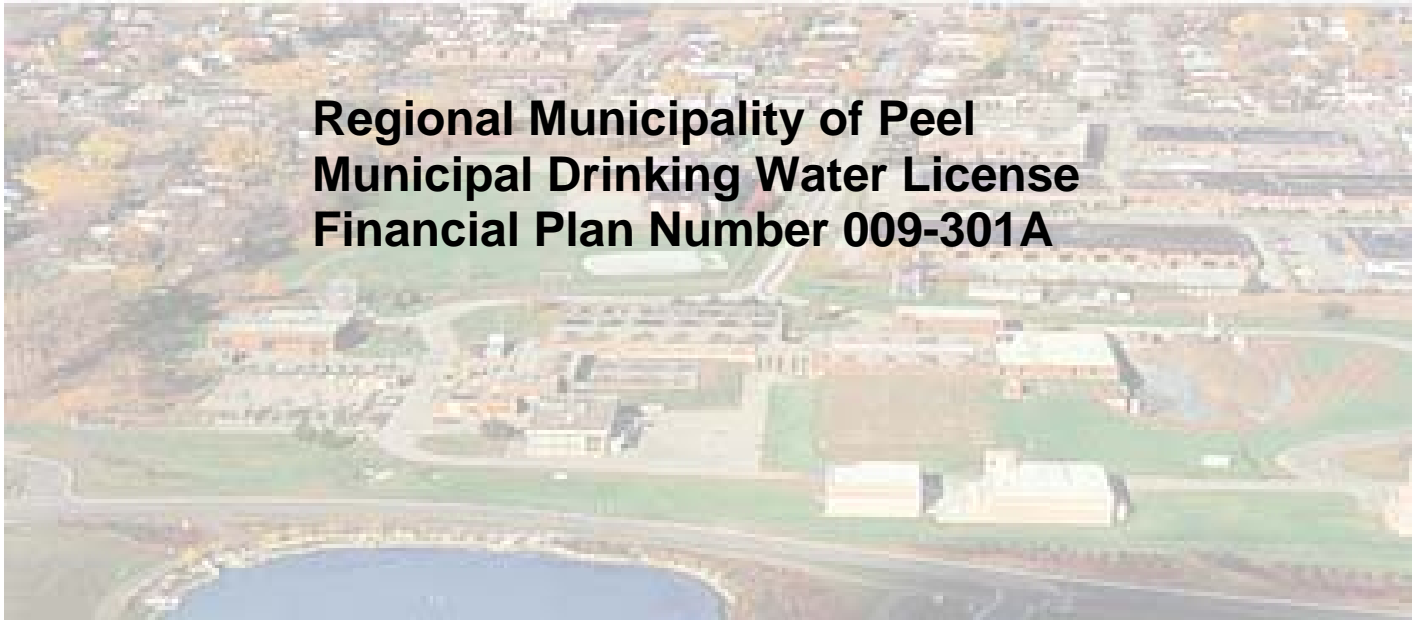




**Regional Municipality of Peel  
Municipal Drinking Water License  
Financial Plan Number 009-301A**



**Prepared by: Water Division  
Date: April 20, 2010**

## **Executive Summary**

The contents of this report will describe the six (6) year financial plan to sustain municipal drinking water systems in the Regional Municipality of Peel. The financial plan utilizes the guidelines of the Public Sector Accounting Board's new accounting standards PSAB 3150 for tangible capital assets in preparing this document required by Ontario Regulation 4543/07 under the Safe Drinking Water Act.

The plan will outline the processes in place within Peel that ensure the financial sustainability of the drinking water systems, financial funding for new infrastructure and financial funding for existing infrastructure maintenance. The plan will document current financial commitments and funding sources for the current budget year commencing with Peel's 2010 budget and projections for the subsequent five (5) years including both capital outlays and operational expenditures. The plan will also document the water infrastructure 10 year capital plan.

The plan is not an accounting summary nor does it describe water program specifics such as service levels, program processes, service delivery, etc. The plan is focussed on the means by which Peel assures financial sustainability of the physical asset and a high level summary of financial projections and position.

## Overview

At the time of this document, the Region of Peel currently identifies six (6) municipal drinking water systems that service the area municipalities of the City of Mississauga, the City of Brampton, and the Town of Caledon all within the Region of Peel and a contractual arrangement to supply drinking water to the Regional Municipality of York.

The drinking water systems are described in detail in the Region of Peel's Operational Plan as prescribed under the Drinking Water Quality Management System and for which Limited Scope Accreditation and Drinking Water License have been granted.

The financial information the Region of Peel is able to provide as part of financial plan is as follows (See Appendix I, II and III for details)

- Complete projected statement of financial activities
- Tangible capital assets and changes in tangible capital assets in the projected statement of financial position
- Level of details related directly to the replacement of lead service pipes

As supplementary documents, Water program 2010-2019 10 year capital plan in high level and detail as well as two council reports on reserve sustainability are also attached

Some financial information required by the Regulation is consolidated on a municipal level across numerous departments and it is difficult for that information to be allocated to the drinking-water system. The financial information that the Region of Peel is unable to provide due to the unavailability of information breakdown in the current financial system is as follows:

- Projected statement of changes in financial position
- Financial assets, liabilities and non-financial assets except tangible capital assets

### **Region of Peel Financial Processes**

The Region of Peel conducts an annual review and potential adjustment of the capital and operating budget. The process in place includes input and expertise from the finance department, drinking water system operations and capital works/design and final approval by Region of Peel Council.

The budget framework requires a budget plan and identifies and allocates funds for:

- operations and maintenance projections for one year
- major capital design and construction projections for one, five and 10 years forward which identifies infrastructure needs
  - to meet growth demands (new infrastructure and expansions)
  - major maintenance on treatment facility, transmission and storage systems
- capital design and construction projection for one year and 10 years forward for repair and replacement of the existing distribution system

- consideration and implementation of advancing technologies, continuous improvement and risk management<sup>1</sup> approaches in support of the drinking water infrastructure
- emergency situations for specific infrastructure events related to service disruption.

The budget and financial process identifies funding sources, funding allocations and cash flow projections. The Region of Peel manages its financial process through a Council approved financial by-law, which provides guidance and controls over the current budget, capital budget and reserve management.

### **Funding Sources**

The Region of Peel has maintained a debt free status in the past through disciplined financial management and the maintenance of strong reserves through contributions and prudent asset management including the maintenance of Regional infrastructure. In early 2010, Standard & Poor's ratings services affirmed its 'AAA' issuer credit rating on the Region of Peel.

Water capital financing for the repairs and replacement on the existing infrastructure is funded by the internal reserve, which is sourced from contributions through the annual operating budget and recovered through water retail rate. Guided by Regional Council's "growth pays for growth" philosophy, the new infrastructure is financed from Development Charges, which are currently reviewed on a regular basis.<sup>2</sup> For any joint capital projects with other municipalities, the cost share is determined and agreed upon by both parties. In addition, a joint reserve is set up to address infrastructure repairs and replacements in the future and the reserve contribution is part of the annual operating budget and recovered through the wholesale rate.

Water existing infrastructure maintenance and operation financing is budgeted to recover fully through revenues from the water retail rate. Budgeting for revenues is based on projections and actual water revenue is subject to various influences such as climate changes, consumption patterns and maintenance and emergency response activities, In order to address these fluctuations a water rate stabilization reserve is set up to subsidize revenue shortfalls and accommodate surpluses.

Annual contributions to a variety of reserves have been assessed continuously in order to meet the future spending needs. Two latest reviews took place in 2008 and 2009 and were approved by Regional Council. In the council reports included in this plan, reserve contribution rates were recommended by the Management based on the comprehensive analyses and approved by Councillors under the context of maintaining water assets in a state-of-good-repair.

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<sup>1</sup> Risk management approaches include but not limited to such items as source water protection initiatives, redundancy identification, social/geographic/nature risks

<sup>2</sup> Peel Management is proposing to raise capital through debt financing to fund accumulated shortfalls in development charges reserve fund. Development charge reserves are set up to finance growth-related infrastructure.

Recognizing the combined impacts of expansion and ageing of the water infrastructure, compounded by market pressures on maintenance and construction cost, the Region of Peel focuses on incorporating both asset management best practices and long-term planning, which allows the Region of Peel to sustain its drinking water infrastructure while minimizing exposure to financing risks and will continue to position the Region of Peel in ensuring long term sustainability of this essential public infrastructure.

The following lists the existing reserves and major policies in Region of Peel:

- Development charges policies are in place and reviewed on a regular basis
- 100% operating cost recovery through municipal water rates assessed annually
- Contributions to capital financing stabilization reserves assessed annually
- Contributions to York/Peel agreement reserve
- Contributions to operation Water Pumping Station reserve

### **Funding Drivers**

#### Growth Demand

- New infrastructure is identified through development of the Master Plan that includes development of new or expansion of existing treatment facilities, transmission and storage facilities and follows the Region Official Plan.

#### Aging Infrastructure

- Existing infrastructure requires routine inspection, repair and maintenance and long term planning for eventual replacement.

### **Water Infrastructure Management Support Tools**

#### Linear Asset Prioritization System

- This system provides for the condition assessment of the linear distribution system, identifying optimal life cycles and replacement program for existing assets, and identifies high risk assets related to soil conditions, pipe material, and operational impacts on pipe longevity.

#### Work Maintenance System

- This system records an inventory of all linear water infrastructure assets, their life span, maintenance and repair work performed and cost and records the history. It also records a history of reason for failure and number of failure/events for future replacement/repair schedule adjustments.
- The work maintenance system also records a high level inventory of all treatment, storage and transmission systems

#### Modelling System

- This system identifies opportunities for system redundancy and optimization related to new and existing infrastructure enhancements and upgrades leading to service improvement.

## **Water Infrastructure Management Sustainability Methodologies**

### **Master Plans**

- A 25 year plan that identifies projected growth and subsequent infrastructure requirements to assist in planning future financial requirements and identifying funding sources for treatment, storage and transmission. This plan is reviewed and revised every 5 years through the Environmental Assessment process and approved by Region Council.
  
- A 10 year Capital Plan that identifies existing infrastructure major repair and replacement for distribution systems based on projected life cycles, history of performance and economic and social opportunities.

The Capital Budget summaries included in this plan demonstrate Peel's 10 year Capital Plan which is reviewed annually through the budget process.

### **Corporate Asset Management Framework**

Although the capital plan has proven itself adequate in the past, much longer range modeling is required to assess the more complex long-term challenges ahead and to mitigate against sudden and significant rate increase and/or major debt financing.

Peel Management recognizes that the key to improving infrastructure and reserve planning is more robust asset management. In 2008 the Region of Peel initiated a Corporate Asset Management approach, the objective of which is to develop strategies to:

- Standardize asset management practices across the organization
- Assess the current and future state of Peel's asset and reserves
- Prioritize infrastructure needs across the organization
- Perform optimized infrastructure and financial planning
- Maximize the performance of Peel's assets to meet required levels of services at the lowest overall costs

The framework has been well developed and major components have been identified such as service level, infrastructure risk profiles, asset components, corporate standards for asset management and required funding for sustainability. The implementation of this approach is scheduled to be in place across the organization in 2011, which is expected to put the Region of Peel in a better position of sustaining Peel water program service levels.

This portion of the plan concludes the summary of the processes and mechanisms in place to achieve financial sustainability for the Region of Peel's water infrastructure. The attached appendices I, II and III outline our current financial position with respect to asset value, cash position, current (2010) year operating and capital budget and our capital and operating projections for the next six (6) years.

Endorsed by

Dan Labrecque  
Commissioner of Public Works,  
Region of Peel

Norma Trim  
Chief Financial Officer  
And Commissioner of Corporate Services,  
Region of Peel