

**CITY OF VAUGHAN  
SPECIAL COUNCIL MINUTES  
JUNE 15, 2010**

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**CITY OF VAUGHAN**  
**SPECIAL COUNCIL MEETING**

**TUESDAY, JUNE 15, 2010**

**MINUTES**

**±4:00 P.M.**

Council convened in the Municipal Council Chambers in Vaughan, Ontario, at 4:04 p.m.

The following members were present:

Mayor Linda D. Jackson, Chair  
Regional Councillor Joyce Frustaglio  
Regional Councillor Mario F. Ferri  
Regional Councillor Gino Rosati  
Councillor Tony Carella  
Councillor Bernie Di Vona  
Councillor Peter Meffe  
Councillor Alan Shefman  
Councillor Sandra Yeung Racco

**105. CONFIRMATION OF AGENDA**

MOVED by Councillor Yeung Racco  
seconded by Regional Councillor Ferri

THAT the agenda be confirmed.

CARRIED

**106. DISCLOSURE OF INTEREST**

There was no disclosure of interest by any member.

**107. THE CONSOLIDATED SIX YEAR WATER FINANCIAL PLAN (2010-2015)**  
(Item 5, Report No. 3, Budget Committee)

MOVED by Councillor Shefman  
seconded by Regional Councillor Rosati

That the following recommendation of Item 5, Report No. 3, Budget Committee of June 14, 2010, be approved:

The Budget Committee recommends:

- 1) THAT the recommendation contained in the following report of the City Manager, the Commissioner of Finance/City Treasurer, the Commissioner of Engineering and Public Works, the Director of Public Works and the Director of Financial Services, dated June 14, 2010, be approved; and
- 2) That staff prepare a media release following Council approval.

CARRIED

**Recommendation**

The City Manager, the Commissioner of Finance/City Treasurer, the Commissioner of Engineering and Public Works, the Director of Public Works and the Director of Financial Services recommend:

- 1) That the attached Consolidated Six Year Water Financial Plan provides a viable and sustainable financial plan for the combined Vaughan Water Distribution System (license 011-101, permit 011-210) and the Kleinburg Water Distribution System (license 011-102, permit 011 -202); and
- 2) That the Vaughan and Kleinburg Consolidated Six Year Water Financial Plan be adopted; and
- 3) That a copy of the Vaughan and Kleinburg Consolidated Six Year Water Financial Plan be forwarded to the Ministry of Municipal Affairs and Housing and the Ministry of the Environment; and
- 4) That the Vaughan and Kleinburg Consolidated Six Year Water Financial Plan be placed on the City's web site.

**Economic Impact**

There is no economic impact as result of this report.

**Communications Plan**

As required by legislation the City's Vaughan and Kleinburg Consolidated six year financial plan for water will be available to the public on the City's web site.

**Purpose**

For Council adoption of the City's Vaughan and Kleinburg Consolidated Six Year Water Financial Plan (2010-2015) that provides a financially viable and sustainable water system as required by the Safe Drinking Water Act, 2002, Ontario regulation 453/07 and that a copy of the financial plan be forwarded to the Ministry of Municipal Affairs.

**Background Analysis and Options**

**The Safe Drinking Water Act (SDWA) – Licensing Requirements**

The Safe Drinking Water Act is comprehensive in its legislative requirements and was enacted to place all legislation and regulations relating to the treatment and distribution of drinking water into one Act. The SDWA expands on existing policy and practices and introduces new regulations to protect drinking water. It includes certification of drinking water system operators and analysts and puts in place certain financial reporting requirements and the need for municipalities to develop financially sustainable water treatment and distribution systems.

Under the Safe Drinking Water Act the City has received a full scope – Entire Accreditation Certificate on July 7<sup>th</sup>, 2009 for its Drinking Water Quality Management Standards (DWQMS). As a result of receiving the accreditation the City must now provide to the Ministry of Municipal Affairs and Housing by July 1st an annual unaudited six year financial plan for Water only.

The six year financial plan must include: Statement of Operations  
Statement of Financial Position  
Statement of Net Financial Assets  
Statement of Cash Flow

The financial plan must be adopted by the Council of the municipality and the resolution must also indicate that the drinking water system is financially viable. The act does not require that a six year financial plan be prepared for wastewater.

The financial plans presented under regulation O.Reg 453/07 must be compliant with the new CICA PSAB requirements PS1200 and PS3150. These new accounting standards for the preparation of financial statements provide for full accrual accounting and the inclusion of tangible capital assets. The tangible capital assets of the City include land, buildings, facilities, vehicles, equipment and underground water/ wastewater assets, etc.

The above regulation does not require that the annual six year water forecast be audited.

### **Consolidated Six Year Water Forecast - Highlights - 2010 to 2015**

#### **PSAB Standards**

The City has implemented for 2009 the new Public Sector Accounting Board (PSAB) standards 3150 Tangible Capital Assets and 1200 Financial Statement Presentation as outlined below.

#### **Accounting for Tangible Capital Assets – PSAB Standard 3150**

The City of Vaughan has implemented the accounting and reporting recommendations of the Public Sector Accounting Board section 3150 regarding the accounting for municipal tangible capital assets. Tangible capital assets consist of land, parks, buildings, bridges, sidewalks, vehicles, equipment, streetlights, roads and underground water/wastewater infrastructure.

The PSAB 3150 tangible capital asset requirement is one of the most significant changes to ever occur in municipal accounting. This project was co-coordinated by Reserves and Investments and involved all departments over a two year period ending in the successful identification and valuing of all the City's tangible capital assets above and below ground. This project included the determination of the asset value, asset service life, annual amortization and disposals. These assets are classified on the financial statements under "Non Financial Assets".

#### **Financial Statement Presentation - PSAB Standard 1200**

This standard moves municipal financial statements away from fund accounting. The statement of financial position and financial activities are no longer reported by fund. For example reporting financial operations by fund i.e. Operating, Capital, Reserves will no longer be reported. The statement of operations is on a consolidated basis only with consolidated budget comparisons. The municipal position which captured the various funds and amounts to be recovered is replaced with a single line titled "Accumulated Surplus/Deficit".

#### **Forecast Factors and Assumptions**

The development of the pro forma consolidated six year water financial statements incorporated the assumptions contained in the 2009 water/wastewater rate study, the 2009 development charges study and the City's 2009 Consolidated Financial Statements. The above referred studies included assumptions for growth, inflationary factors, lifecycle capital forecasts and development charge revenues. The cost used for the purchase of potable water over the forecasted period was available from Regional publications.

In certain situations best estimates were used in the development of the forecasted figures when financial information or data was not known. Generally the development of the consolidated six year financial forecast used a conservative approach in terms of consumption, inflation, expenditures, etc. In addition the 2010 water budget as approved by Council formed the base year of the six year forecast.

**Statement of Operations**

The base year for the statement of operations six year forecast was the 2010 water budget which was presented and approved by Council on May 11, 2010.

**Revenues**

Total water revenues for 2010 for residential, commercial properties and other revenues are \$39.6m as per the approved budget and over the six year forecast period will generate \$61.8m annually by 2015.

The annual forecasted revenue figures were developed using a conservative growth pattern of 2.0% for both residential and commercial properties. This growth rate approximates the growth used in the 2009 rate study. The revenue forecast assumes an average year in terms of weather for the forecasted period.

The water rate per cubic meter in 2010 is 106.3 cents and will move to 134.4 cents in 2015 representing a 6% average increase per year. The water rate as shown is moving to a full cost recovery position over ten years. This smoothing approach was recommended in the 2009 rate study. The rate based revenues over the six year period will translate into water revenues for residential and commercial properties that total \$36.5m in 2010 and will increase to \$54.8m by 2015.

**Purchase of Potable Water**

The Region of York has increased their rate for the purchase of potable water for 2010 and 2011 by 10%, for 2012, 2013 5%, for 2014 and thereafter 2%. This Regional water increase and the City's anticipated growth have been factored into the cost of the purchased potable water.

Purchases of potable water over this period are forecasted to be \$25.2m to \$35.7m for 2015 and includes unmetered water at a forecasted rate of 13% over the six year period.

**Expenditures**

**Expenses**

The operating and maintenance costs represent the administration, joint services costs and preventative maintenance activities of the City's underground infrastructure. Two factors impacting the forecast is growth of the water system and the second is inflation. Growth is conservatively estimated at 2.0% and inflation of 3% over this period. In 2010 the first year of the forecasted period the operating costs total \$8.0m increasing to \$9.5m in 2015.

For the balance of the expenditures the factors that have been applied over the six year period include inflation at 3%, growth at 2.0% where applicable and inflation at 3% for insurance and joint services expenditures.

The annual amortization expense is based on a straight line approach. The amortization calculation is simply the value of the asset divided by the expected operational life of the asset. The increasing amortization expense over the six year period represents the growth in the underground water distribution system. The amortization expense for 2010 is \$4.7m and increases to \$5.1m by 2015.

**Annual Surplus/Deficit**

The annual surplus or lifecycle contribution over the forecasted period moves from a small surplus position of \$75,000 to an annual surplus of \$9.6m in 2015. These annual surpluses are net of amortization.

This gradual increase in the surplus amount over the six year period reflects the move in the consumption rates to full cost recovery. This gradual consumption rate approach was recommended

in the 2009 rate study due to the young age of the City's underground infrastructure and the current funding level in the water reserve.

**Statement of Financial Position**

The SDWA O.Reg. 453/07 requires that the statement of financial position be forecasted at a minimum over a six year period. The City's 2009 Consolidated Financial Statements were used as a base for the development of the six year pro forma Statement of Financial Position.

**Financial Assets**

Financial assets consisting of cash and water accounts receivables for 2010 is \$35.1m and are forecasted over the six year period to reach \$66.9m. Growth of the water system and rate increases are the reasons behind the increase.

The liabilities comprise various current payables, long term liabilities such as debentures, future employee benefits and deferred revenue. The liabilities total \$13.9m in 2010 and are forecasted over the six year period to reach \$18.1m. This increase over the period is a reflection of the increasing size of the water system infrastructure.

**Non Financial Assets**

The tangible capital assets consist of booster stations, land, vehicles, water distribution system, water filling stations, water meters and work in progress. The continuity of the above and below ground tangible capital assets over the forecasted period are as follows:

|                      |          |
|----------------------|----------|
| 2009 Opening balance | \$262.7m |
| Additions            | 8.5m     |
| Assumed assets       | 14.0m    |
| Work in progress     | 6.5m     |
| Total                | 291.7m   |
| Amortization         | (29.7m)  |
| 2015 Closing balance | \$262.0m |

**Accumulated Surplus**

Accumulated water surplus at the end of the forecasted period 2015 is comprised of three components; net tangible capital assets, amounts to be recovered in the future (debenture costs & employee future benefits) and the accumulated reserve that is earned annually through the financial results of the water operations is as follows:

|                                       |          |
|---------------------------------------|----------|
| Investment in tangible capital assets | \$262.0m |
| Amounts to be recovered               | (5.4m)   |
| Reserve balance                       | 54.2m    |
| Accumulated surplus 2015              | \$310.8m |

**Statement of Change in Net Financial Assets – (Sustainability)**

The attached Statement of Changes in Net Financial Assets forecast is a significant document that shows whether or not sufficient cash is being generated annually to cover both operational and future financial needs of the water system. The accumulated increase over the six year forecast period totals \$27.8m resulting in a balance \$48.8m by the end of 2015. This annual increase is the result of a planned implementation of the appropriate consumption rates based on the 2009 water rate study.

The \$48.8m in accumulated net financial assets is significant however it should be viewed in context of it's lifespan of approximately 80 years and the value of the City's water infrastructure that totals \$340m in 2015. This is a significant amount of infrastructure that will be replaced therefore sufficient funds must be accumulated over time. As an indication of the magnitude of the rate study shows that approximately \$75m in water infrastructure will need to be replaced over the next 20 years.

The water consumption rate study will be updated on a regular basis so that both the operational expenditures and capital infrastructure replacement needs can be determined. When both the operational and infrastructure component requirements are completed then the appropriate long term water rates can be calculated so that full cost recovery is attained. This approach will provide sufficient funds to maintain a sustainable water system in the long term.

The overall increase in net financial assets over the six year forecast period as shown above demonstrates that sufficient funds are being placed in the reserves thereby providing a financially viable consolidated drinking water system.

**Relationship to Vaughan Vision 2020**

Pursue excellence in service delivery  
Ensure financial sustainability  
Maintain assets and infrastructure

**Regional Implications**

No Implications

**Conclusion**

The attached consolidated six year water financial plan for the years 2010 to 2015 demonstrates a financially sustainable plan for the Vaughan and Kleinburg water distribution systems.

**Attachments**

The consolidated six year water financial plan and notes.

**Report prepared by:**

Barry E. Jackson, CGA  
Director of Financial Services  
Ext. 8272

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

**108. CONFIRMING BY-LAW**

MOVED by Regional Councillor Rosati  
seconded by Regional Councillor Frustaglio

THAT By-law Number 149-2010, being a by-law to confirm the proceedings of Council at its meeting on June 15, 2010, be read a First, Second and Third time and enacted.

CARRIED

**109. ADJOURNMENT**

MOVED by Regional Councillor Ferri  
seconded by Councillor Di Vona

THAT the meeting adjourn at 4:08 p.m.

CARRIED

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Linda D. Jackson, Mayor

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Jeffrey A. Abrams, City Clerk