

August 11, 2017

Ray Ritcey, Chair  
Halifax Water  
Halifax, Nova Scotia

The Annual General Meeting of the Halifax Water Board will be held on Monday, August 14, 2017 at 1:00 p.m. at Halifax City Hall on 1841 Argyle Street, Halifax.

#### **AGENDA**

1. Chair's Opening Remarks
2. Governance Overview
3. 2016/17 Year End Financial Results
4. Halifax Water Strategic Initiatives – Update
5. Question and Answer Forum
6. Chair's Closing Remarks

*Original Signed By:*

James G. Spurr  
Secretary



## Governance Overview

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**Annual General Meeting  
August 14, 2017**



**Providing world-class services for our  
customers and our environment**

## Overview

- Background
- Governance Principles
- Halifax Water Board Governance
- Committees of the Board

## Background

- The Halifax Regional Water Commission Act establishes Halifax Water's Board of Commissioners and sets out the various powers of the Commission
- The Halifax Regional Water Commission Regulations provide for much of the day to day operation and administration of the Commission through matters including
  - Rates and Charges
  - Metering and Billing
  - Prohibitions and Offences

## Governance Principles

- The Board of Directors sets the strategic direction of the Commission.
- Management implements the strategy through its business plan, its budgets and its operations
- The Board will monitor management's ongoing operation of the business
- As a regulated public utility, the Commission's business operations are also overseen by the Nova Scotia Utility and Review Board

## Halifax Water Board Governance

- In 2016, the Halifax Water Board approved a Corporate Governance Manual to guide its oversight of Halifax Water management's operation of the Commission
- The purpose of the Corporate Governance Manual is to ensure that Halifax Water has an effective corporate governance system to guide the Commission in achieving its corporate objectives.
- The Corporate Governance Manual sets out roles and responsibilities within the governance system, including the roles and responsibilities of Commissioners.

## Halifax Water Board Governance

- The Corporate Governance Manual sets out various governance responsibilities for the Board, including:
  - Governance Style
  - Accountability
  - Pension Governance
  - Enterprise Risk
  - Ethical Conduct

## Committees of the Board

- The Halifax Water Board operates with three Committees:
  - The Executive Committee
  - The Audit & Finance Committee
  - The Environment, Health & Safety Committee





## Committees of the Board-The Executive Committee

- The Executive Committee is entitled to generally exercise all the powers of the Board between Board meetings respecting:
  - The operations of the Commission
  - Compensation programs
  - The mandates of Board Committees
  - Board planning processes
  - Representing the interests of the Commission

## Committees of the Board-Audit & Finance

- The Audit & Finance Committee deals with all things financial, including:
  - Financial reporting and accounting trends
  - Internal Controls
  - Appointment of the external auditor
  - Audit procedures



## Committees of the Board-Environment, Health & Safety Committee

- The Environment, Health & Safety Committee assists the Board in its oversight of:
  - The environment
  - Occupational health and safety
  - Security
  - Overall business conduct and ethics



## Year End Results 2016/17

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### Financial Overview and Year End Results



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## Financial Framework

- **International Financial Reporting Standards – audited financial statements, which are consolidated with HRM**
- **NSUARB Accounting and Reporting Handbook for Water Utilities - guides budgets and rates**
- **Cost of Service Manual - guides setting of rates**
- **Integrated Resource Plan (IRP) - guides development of capital budget**
- **5 Year Business Plan (current version approved Oct. 2014)**
- **Debt Strategy - guides financing of capital program**
- **Rate Smoothing Strategy- guides rate of increase of operating and capital budgets, and rate design**
- **Cost Containment – encourages prudent financial management**

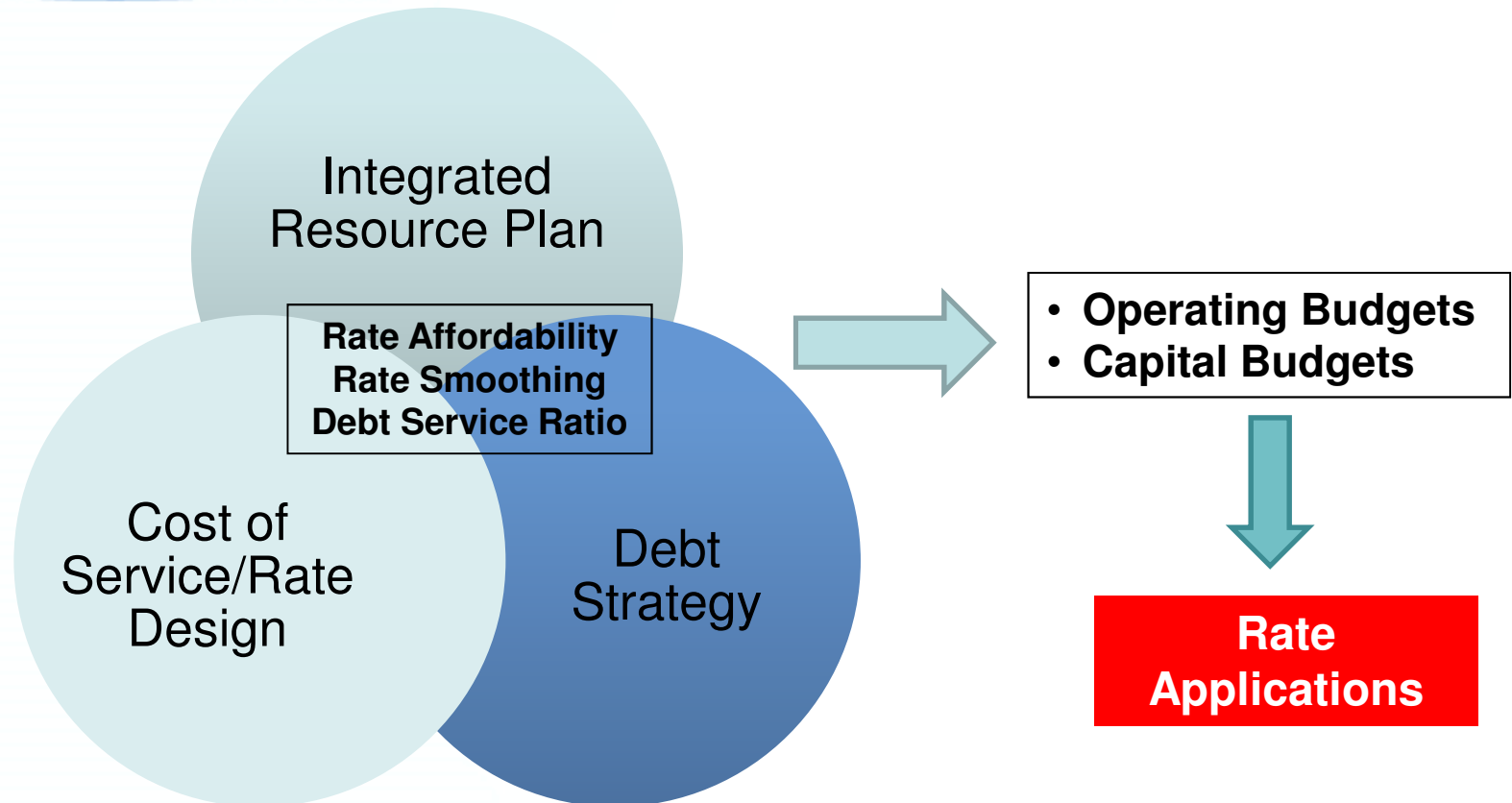
## Key Facts that Impact our Finances

- **97,416 customers at March 31/16, and 80% receive all three services (W, WW, SW)**
- **Customers are increasing**
- **Consumption is decreasing**
- **Impervious area is increasing**
- **Infrastructure intensive, with \$1.1 billion in net assets at March 31, 2016**
- **Estimated replacement value of \$6.6 billion (as at 2012)**

## Challenges

- **Setting cost of service based rates for wastewater and stormwater services**
- **Aging infrastructure**
- **Federal wastewater regulations**
- **Insufficient capital funding**
- **Lack of historical data on age, location, condition and capacity of some assets**
- **Gradually increasing capital funding without causing “rate shock”**

# ▶ The Solution.... Keeping us Sustainable

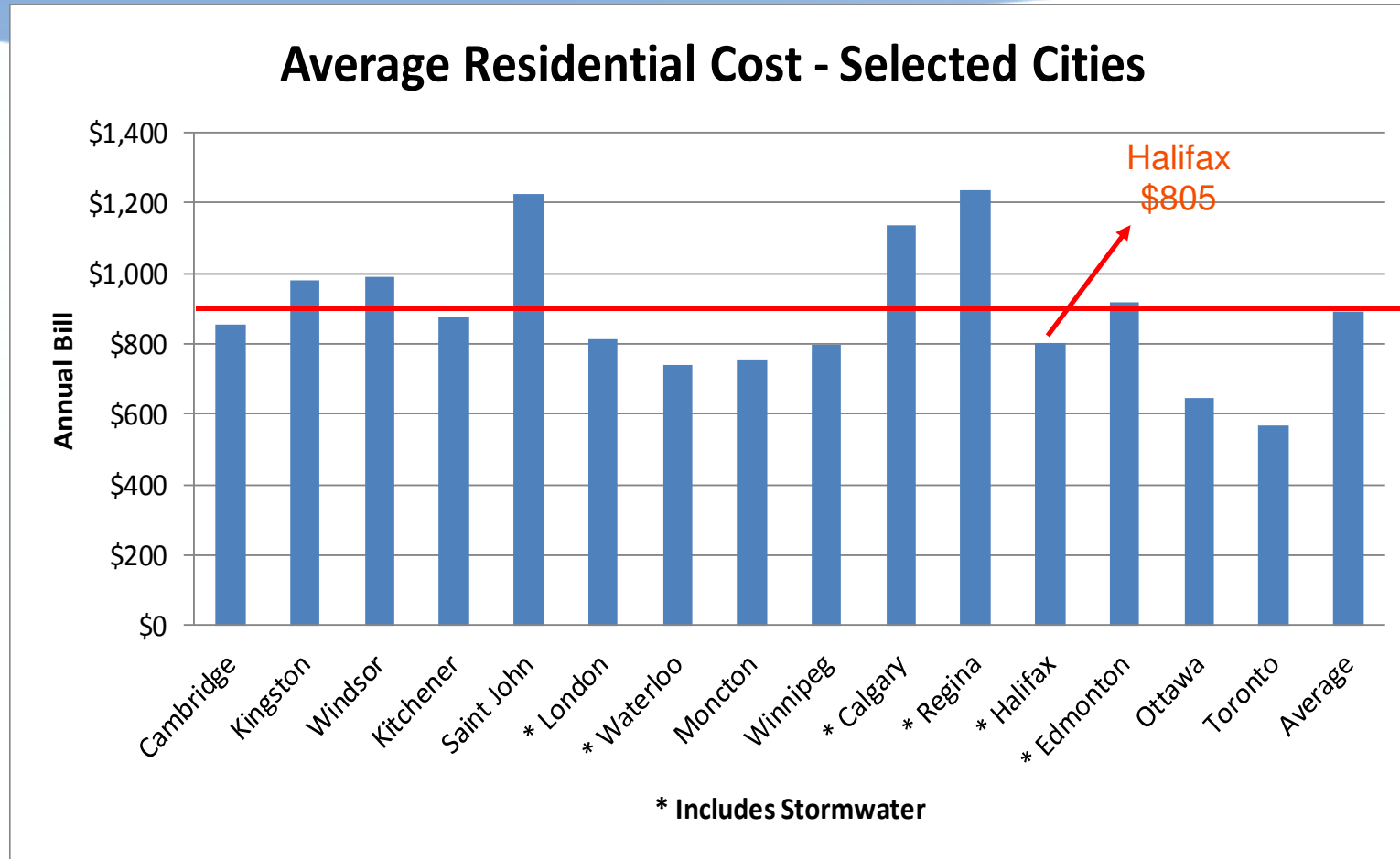




## Rate Smoothing Strategy

- Smooth revenue requirements by: controlling growth in capital, containing operating costs, and diversifying or increasing revenues.
- Rate design considerations:
  - Gradually phase in material change in the COS approach
  - No customer should see an increase more than 3x the average
  - Revenue for each customer class should be within 95 – 100% of the actual cost of providing the service
  - Limit rate increases to single digits

# ▶ Rate Affordability



Average bill = 0.8% of median household income, less than current rate affordability threshold

## **Halifax Water's Approach**

- **Slowly and steadily increasing rates**
- **Diversifying funding sources (RDC, SW rates, adding unregulated business)**
- **Demonstrating cost containment**
- **Improving condition of assets through additional capital investment**

## 2016/17 Audited Financial Results

- **Second set of IFRS financial statements**
- **Clean audit**
- **Surplus of \$23.9 M (IFRS) or \$8.9 M (NSUARB)**
- **Schedules A to G based on NSUARB Accounting and Reporting Handbook (for rate setting)**
- **Addition of driveway and cross culverts to capital assets, valued at \$102 M**

## ▶ IFRS vs NSUARB Net Income

**NSUARB Handbook Net Income +\$8.9 M**

**Add debt principle appropriation +\$21.3 M**

**Deduct depreciation on contributed assets - \$13.0 M (offset)**

**Amortize contributed capital as revenue +13.0 M (offset)**

**Various depreciation adjustments on componentized assets and pre-1985 assets -\$7.0 M**

**IFRS Earnings for the Year + \$23.2 M**

**+ Other Comprehensive Income (benefits) +\$0.7**

**IFRS Total Comprehensive Earnings + \$23.9 M**

## Balance Sheet Highlights

- **Assets increased by 1.5% or \$19.7 million compared to prior year, bringing total assets to \$1.29 billion.**
  - Capital work in progress – increased by \$9.9 M or 53.3% as there were large capital projects underway at year end – Aerotech WWTF upgrade & Macdonald Bridge water line
  - Utility Plant in Service +0.8% or \$9.7 M due to \$49.7 M in additions, offset by \$2.2 M in retirements and Depreciation of \$37.8 M.
- **Liabilities decreased by 1.5% or \$5.0 M, bringing total liabilities to \$323.3 M.**
  - Long term debt -5.8%
    - ✓ Total debt including the current portion, is \$226.0 M
    - ✓ \$7.1 M in new debt was issued, repayments of \$21.2 M
    - ✓ Debt service ratio is 21.7%

## ▶ Summarized Consolidated Operating Results (NSUARB Handbook Results)

Summarized Consolidated Operating Results				
	Actual YTD 2016/17 '000	Actual YTD 2015/16 '000	\$ Change	% Change
Operating Revenue	<b>\$137,997</b>	\$131,716	\$6,280	4.8%
Operating Expenses	<b>\$97,839</b>	\$96,238	\$1,601	1.7%
Operating Profit (Loss)	<b>\$40,158</b>	\$35,479	\$4,679	13.2%
Non Operating Revenue	<b>\$3,322</b>	\$3,370	(\$48)	-1.4%
Non Operating Expenditures	<b>\$34,622</b>	\$33,972	\$650	1.9%
Net Surplus (Deficit)	<b>\$8,858</b>	\$4,877	\$3,981	81.6%

Year to Date Operating Results by Service		
	2016/17 '000	2015/16 '000
Water	<b>\$3,731</b>	\$1,136
Wastewater	<b>\$3,369</b>	\$1,621
Stormwater	<b>\$1,759</b>	\$2,120
Net Surplus (Deficit)	<b>\$8,858</b>	\$4,877

## What the Year End Results Mean

- **The financial position has improved over last year**
- **The Cumulative Operating Surplus of \$16.7 M enables a deficit budget of \$6 M next year, and another year without rate increases**
- **Worst case: Next Rate App Fall 2018, with new rates taking effect Spring 2019**
- **Likely case: Next Rate Application Fall 2019, with new rates taking effect Spring 2020**
- **Consumption and cost containment are key to holding current rates for 3 years from the last rate increase at April 1, 2016.**



# Questions?





## Strategic Initiatives Overview

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**Annual General Meeting**  
*August 14, 2017*



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## **Strategic Overview**

- **Review of 2016/17 Strategic Priorities**
- **Overview of 2017/18 Strategic Priorities**

## Strategic Priorities for 2016/17- A Year in Review

- Full roll out of Phase One of Computerized Maintenance Management System [Cityworks] and development of Phase Two [**Phase One completed and Phase Two went live on March 27/17- focus on linear infrastructure including new locate process**]
- Customer Care Centre to take all customer calls [including water operations] by end of fiscal year; Integration of Customer Relationship Management system [Cayenta] with Cityworks [**Completed with new Call Centre number H20-WATR**]

## Strategic Priorities for 2016/17- A Year in Review

- **Stormwater Rate Application to implement Cost of Service Decision [not to increase revenue but to ensure fairness and equity across customer base; tiered rate for residential customers and credit system for non-residential] **Received NSUARB Decision on April 11/17, changes effective July 1<sup>st</sup>.****
- **Complete design for Lake Major dam and tender in spring, 2017 [Design completed and project contractor selected; working through NS Environment approval]**
- **Begin construction of Aerotech WWTF for completion by fall, 2017 [On schedule for commissioning this fall]**



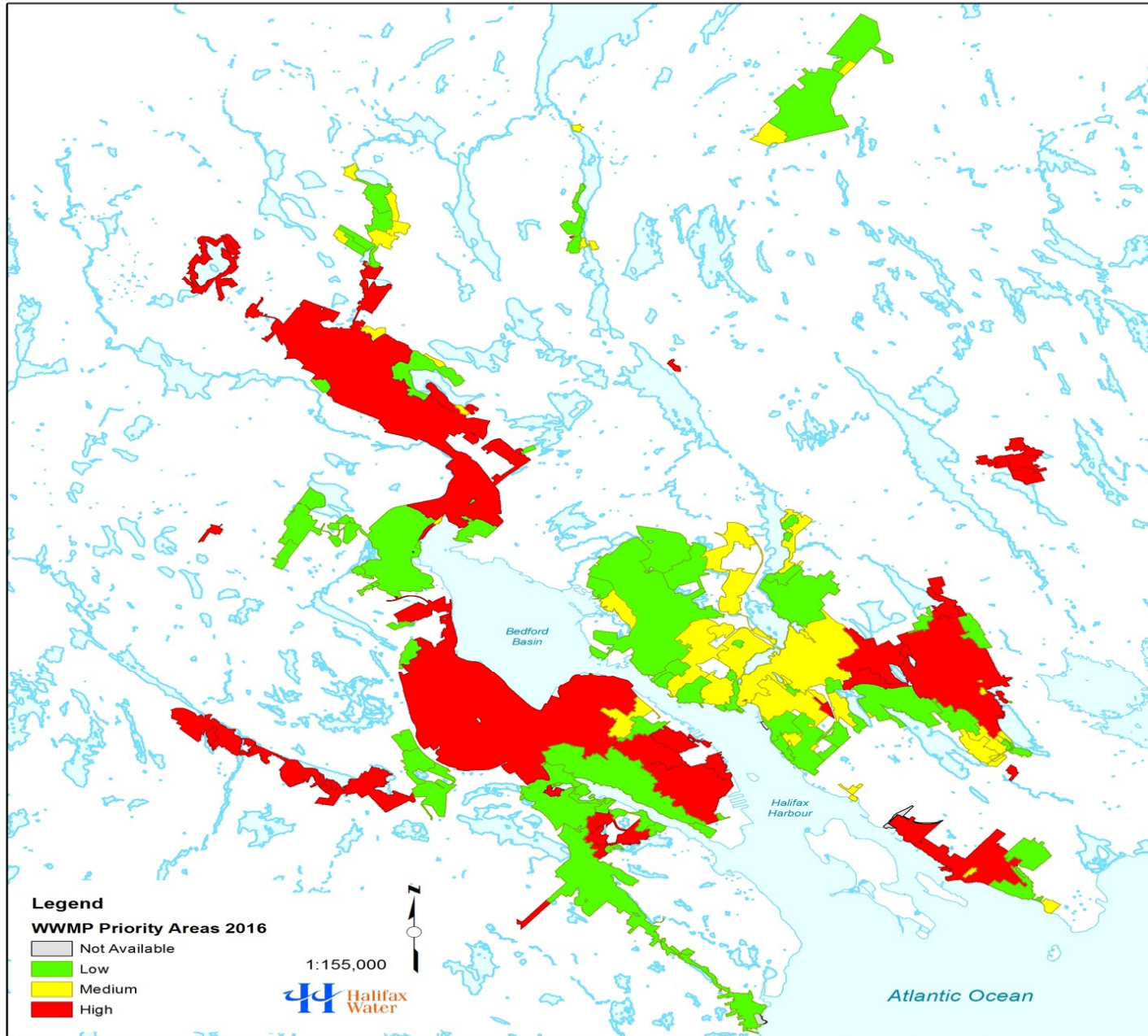
## Strategic Priorities for 2016/17- A Year in Review

- Continue to pursue excellence with Safety Program; complete Safety Manual and support WCB Doers Team **[Safety Manual completed and WCB Doers Team fully operational]**
- Continue to evolve Asset Management program [additional condition assessments and level of service calibrations] **Asset Management Plans for 13 Asset Categories completed**
- Complete IT Strategic Plan **[IT Strategic Plan RFP issued and awarded to Mariner Innovations]**

## Strategic Priorities for 2016/17 – A Year in Review

- Advance Cogswell District Energy concept including completion of pre-design [**Pre-design and preliminary feasibility study completed; received endorsement from HRM Council on mandatory connection**]
- Continue with seasonal disinfection program for Halifax, Dartmouth, Eastern Passage and Herring Cove [**Program was very successful with UV Systems off line from early November to late April**]
- Wet Weather Management Plan; implement monitoring and rehabilitation programs for next tier of candidates. Follow up on first tier [**Good progress with a focus on Beechville/Lakeside/Timberlea, Mt. St. Vincent Motherhouse lands and Halifax Peninsula**]

# Priority Map Wet Weather Management Program





## Strategic Priorities for 2016/17 – A Year in Review

- **Revise Lead Service Line Replacement Policy**  
**[Policy completed and Business Plan approved by HW Board]**
- **Secure external federal/provincial funding for infrastructure upgrades to the full extent possible**  
**[Five projects approved under CWWF program; all under construction, awarded or out to tender]**
- **Communications and Customer Education Strategy**  
**[Issued and awarded RFP to Revolve. Final report presented to HRWC Board in June 2017]**

## Strategic Priorities for 2017/18

- **Develop Five Year Business Plan [2018/19 to 2022/23]**
- **Complete IT Strategic Plan [Contract awarded to Mariner Innovations]**
- **Refine Asset Management plans to close the information gaps**
- **Ramp up lead service line replacement program [Application in front of NSUARB to permit financial incentive for private service laterals and establish By-Law through HRM for loan program]**

## Strategic Priorities for 2017/18

- **Construct new dam at Lake Major**
- **Complete construction of Aerotech WWTF**
- **Complete construction of Sullivan's Pond stormwater system**
- **Complete rehabilitation of NW Arm Trunk Sewer**
- **Complete replacement of cast iron pipes from Chain Lake to Quinpool Road [circa 1856, 1862 and 1896]**
- **Complete replacement of filter underdrains and media at J.D. Kline water supply plant [Pockwock]**
- **Replace transmission main along #102 Highway from Hammonds Plains Road to Bedford Reservoir**

## Strategic Priorities for 2017/18

- **Complete Phase 2 of Cityworks [linear infrastructure] and develop and implement Phase 3 [treatment plants and pump stations]**
- **Full customer service through the Customer Care Centre [further integration of Cayenta, Cityworks and SAP and implementation of enhanced telephony systems]**
- **Implementation of AMI project; complete pilot in Tucker Lake, Beaverbank area, refine the business processes and extend to other service areas [3 Year program]**
- **Implement Stormwater Rate amendments consistent with NSUARB Decision [tiered rate for residential customers and credit system for non-residential]**

## **Strategic Priorities for 2017/18**

- **Wet Weather Management; measure progress in current priority areas and expand reach to next priorities [contributions from Operations, Engineering and Regulatory Services]**
- **Push for regulatory compliance for all Wastewater Treatment Facilities by end of fiscal year**
- **Complete Central and East Wastewater Master Plan and Regional Water Plan**
- **Recalibrate Regional Development Charge in light of master plan results [including West Wastewater Master Plan]**

## **Dispute Resolution Officer**

- **As a link between its governance model and its priority on customer service, Halifax Water employs the services of a Dispute Resolution Officer (DRO).**
- **Customers who are unable to resolve complaints directly with Halifax Water may request the DRO to investigate and recommend resolution to such complaints.**
- **Either the customer or Halifax Water may appeal decisions of the DRO to the Nova Scotia Utility and Review Board.**



Do not follow where the path may lead. Go instead where there is no path and blaze a trail.

