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Date: March 18, 2021

To: Mayor and Council

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RE: Union Water System Treatment Capacity & Governance Discussion

Report No.: IED 2021-16

AIM

To provide Council with an update with respect to Union Water Supply System treatment capacity limitations, and provide additional information regarding the historical and current governance discussions.

BACKGROUND

The Union Water Supply System (UWSS) Joint Board of Management recently unanimously approved a Moratorium, which limits applications for large water service connections due to treatment production capacity limitations until such time as treatment capacity upgrades can be completed and or other investigations completed. The moratorium is not intended to restrict residential, commercial, and light industrial growth, and is limited to any requests for more than 50,000 liters/day for a period of up to twelve (12) months.

The legal ownership of the UWSS is vested in the four (4) partner municipalities as tenants in common with ownership share being in proportion to the volume of water they take from the system and operates under a Joint Board of Management (Board). The Transfer Order provides that the ownership share is fixed for four (4) years based on the average supply to each municipality over the previous four (4) years.

DISCUSSION

The Transfer Order set the initial proportional ownership in January 2001 and it has been revised in 2005, 2009, 2013, 2017 and again this year (2021). This proportional ownership has consequences for the financial administration of the system and the municipalities. The Board is exclusively responsible for the oversight of the UWSS notwithstanding the legal ownership of the system. It does so on behalf of the municipalities but has the autonomy to make decisions without requiring municipal approval. The UWSS Board is ultimately responsible for operating, maintaining, repairing, constructing and expanding the system.

One very important area in which the UWSS does not have any authority is for borrowing/incurring debt. The UWSS cannot borrow on its own authority. Any borrowing on behalf of the UWSS must be done by the four municipalities. This also includes obtaining grant funding from senior levels of government. Any UWSS debt must be carried on the municipal balance sheets in proportion to the system ownership share described above.

In order to streamline governance of the UWSS, several Governance reviews have been completed including the 2008-2009 Governance Review, 2012 Governance Review, 2014-2015 Governance Work - Legal Review of UWSS Structure, and the 2017 - 2018 Governance Work - Financial and Legal Business Case for Restructuring with the intention of developing a platform to restructure appropriately and provide some autonomy to UWSS.

The proposed solution as identified in the March 28, 2018 report recommended a UWSS Municipal Services Corporation be created wherein UWSS Inc. would be owned by the Municipalities as shareholders and governed by an unanimous shareholders agreement.

A new corporate structure as proposed could consist of the following:

- Four owner municipalities become shareholders of UWSS Inc. instead of tenants in common. Ownership shares will be determined by water demand from each municipality.
- Ownership shares will be reviewed every 4 years based on water demand from each municipality
- Board of Directors will initially consist of municipal elected councillors from the four municipal shareholders. The process to appoint Board members will remain the same as it is currently; 1) Each municipality will appoint 1 Board member as a shareholder member; 2) Additional members will be appointed based on water consumption with each municipality appointing one member for every 10 percent water demand; and 3) No municipality will have more than half of the Board representation. Thus with a Board of 12 directors, no municipality will have more than 6 Board representatives.
- Existing UWSS assets will be transferred from municipal ownership to UWSS Inc ownership through an agreed upon Asset Transfer Policy. A New Asset Policy will be developed between UWSS Inc and municipal shareholders on any new future watermain/ transmission infrastructure in regards to finance and ownership.

If created, the new corporate structure of UWSS Inc. could also include the following changes to the existing commercial and financial structure:

- UWSS can apply for grant funding separately from the Municipalities – no “competition” between UWSS and Municipal priorities
- UWSS can borrow on its own to finance Board-approved capital expenditures
- New UWSS debt is not attributed to the Municipalities, and does not affect Municipal debt capacity

Customers will see the UWSS portion of their water cost separately on their bill Water rates will continue to be set by the Board, in accordance with Board policies and provisions of Board-approved lending agreement(s)”.

- UWSS, not the Municipalities, will bear the risk of volume fluctuations and uncollectible accounts



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- UWSS will pay a service fee to the Municipalities for work done by the Municipalities as agents of UWSS (billing, collection, and associated accounting)
- A corporate UWSS would be liable for itself and provide better liability protection to municipal shareholders

LINK TO STRATEGIC PLAN

Effectively manage corporate resources and maximize performance in day-to-day operations.

To become a leader in sustainable infrastructure renewal and development.

FINANCIAL CONSIDERATIONS

None at this time

CONSULTATIONS

Rodney Bouchard – Union Water Supply System Manager
John Norton C.A.O – Town of Kingsville

RECOMMENDATION

That Council receive the covering report and,

That Council receive the verbal information provided by the Union Water Supply System Manager, and Chair of the Joint Board of Management as a sufficient update to the recent Moratorium and ongoing governance discussions.

G.A. Plancke

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