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Date: April 4, 2018

To: Mayor and Council

Author: G.A. Plancke / Director of Municipal Services

RE: UWSS Business Case for Restructuring UWSS into a
Municipal Service Corporation.

Report No.: MS-2018-15

AIM

To provide administrative support for the proposed governance restructuring as defined by the General Manager for the Union Water Supply System (UWSS) Joint Board of Management and endorsed by PwC and Willis Business Law, LLP.

BACKGROUND

The legal ownership of the UWSS is vested in the four (4) municipalities as tenants in common with ownership share being in proportion to the volume of water they take from the system. 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.

This proportional ownership currently has consequences for the financial administration of the system and the municipalities.

The UWSS 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 however, 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.

DISCUSSION

There are limitations to the existing governance structure for the UWSS. The proposed development of a Municipal Service Corporation (MSC) would provide the UWSS with the ability to:

- Apply for grant funding separately from the Municipalities – no “competition” between UWSS and Municipal priorities
- 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.
- 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.

If the proposal to create a MSC is approved, the result would be a resilient and sustainable corporate water utility that is municipally owned, able to self-finance and incur debt; can obtain senior government grants for water related works; and provides increased liability protection to its shareholder municipalities, Board Directors, and UWSS staff.

LINK TO STRATEGIC PLAN

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

FINANCIAL CONSIDERATIONS

Provided Council endorses the decision to form a Municipal Service Corporation the following financial benefits could be realized:

- UWSS would have the ability to independently obtain grants from senior governments.
- Become a credit worthy entity with the ability to secure its own debt.
- Become financially independent from the owner municipalities.
- Develop a financial planning structure that would address future capital requirements without creating “rate shock” to the end users customers.

The PwC report details a financial structure for UWSS that can achieve the above criteria and outlines an implementation plan and schedule for the structure. It should be noted that the PwC report stipulates that the recommended financial structure and associated benefits can only be achieved if the UWSS legally restructures into a corporate entity first.

CONSULTATIONS

Director of Financial Services
Chief Administrative Officer
General Manager / Union Water Supply System Joint Board of Management

RECOMMENDATION

That the Council of the Town of Kingsville as a shared owner in the Union Water Supply System endorse and adopt the Business Case for Restructuring of the Union Water Supply System into a Municipal Services Corporation as outlined by the report prepared by the General Manager of the Union Water Supply System dated March 28th, 2018.

Respectfully submitted,

G.A. Plancke

G. A. Plancke Civil Eng Tech (Env)
Director of Municipal Services

Peggy Van Mierlo-West

Peggy Van Mierlo-West, C.E.T.
Chief Administrative Officer