

Union Water Supply System Restructuring Journey

*Presentation to
Tri-County Water Board of Management
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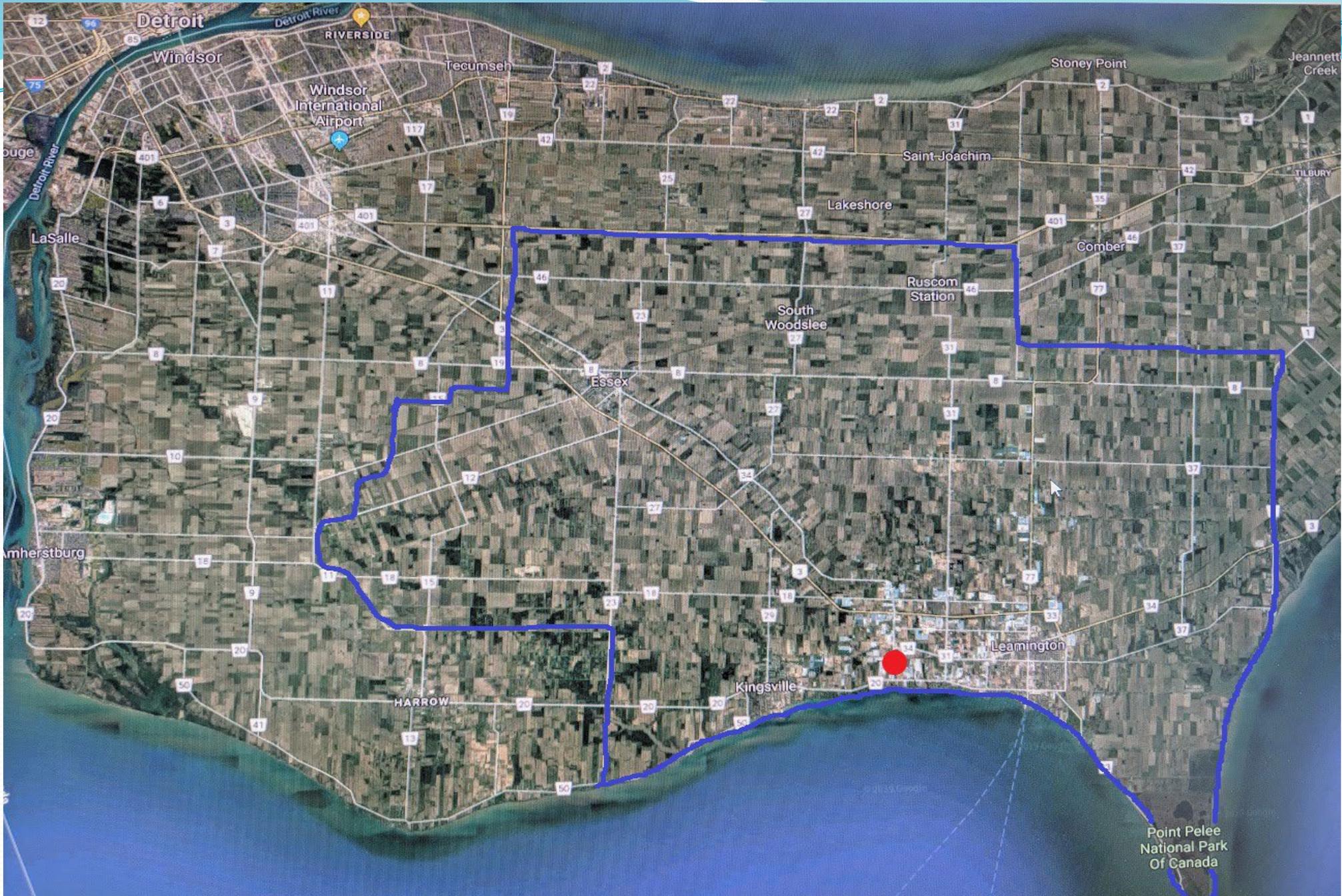


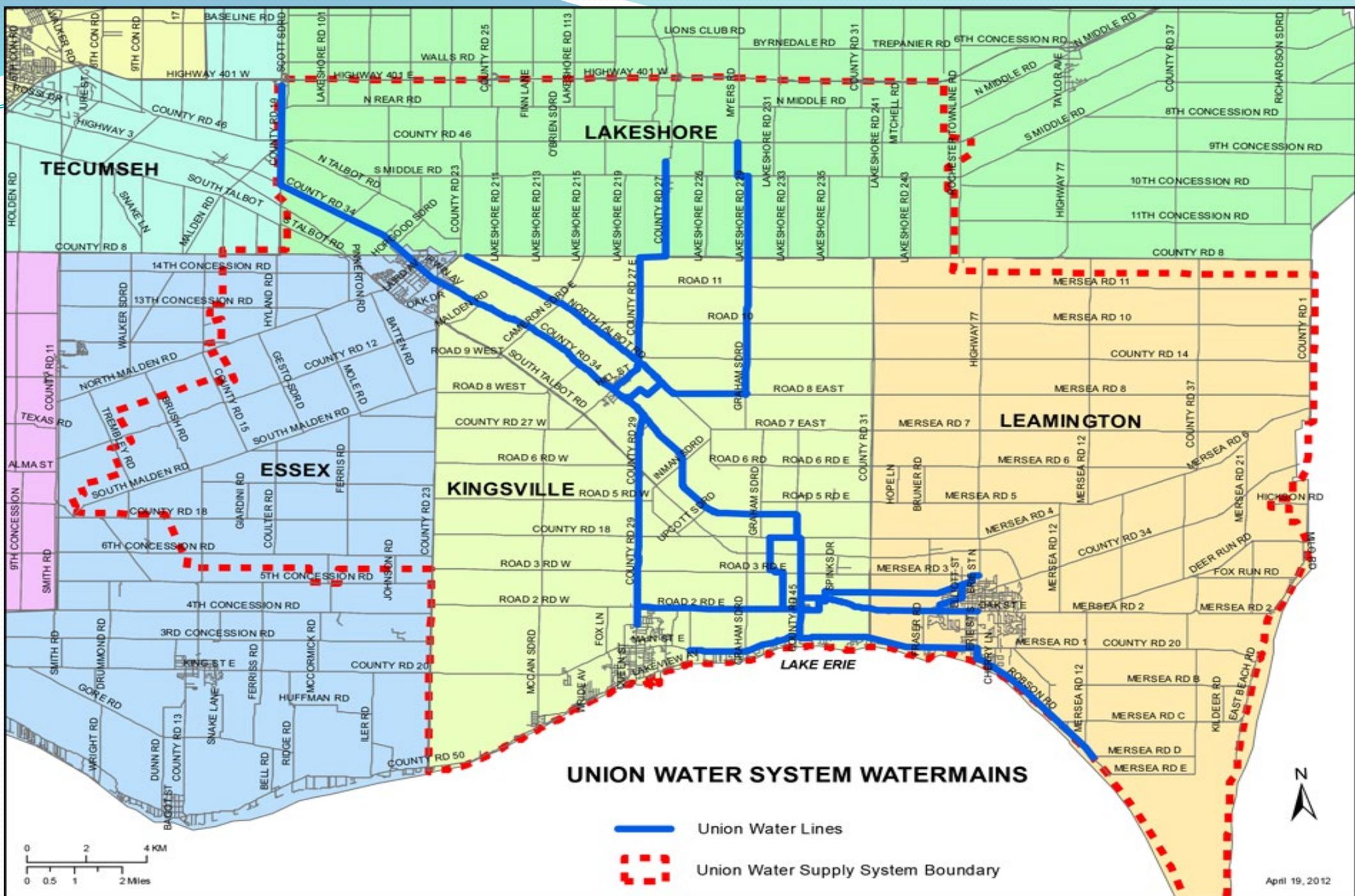
History

- The Union Water System (UWS) was commissioned in 1960 by the Ontario Water Resources Commission (OWRC).
- Original participants served by the UWS included numerous towns and townships.
- UWS facilities were owned and operated by various provincial government entities (i.e. OWRC, Ministry of Environment, Ontario Clean Water Agency) until 2001.
- As part of the *Municipal Water and Sewer Transfer Act, 1997* ownership of UWS was transferred from OCWA to newly amalgamated municipalities of Leamington, Kingsville, Essex and Lakeshore.
- The 2001 Transfer Order stipulated the creation of a Joint Board of Management that would oversee the management of the UWSS on behalf of the 4 owner municipalities

UWSS – Previous Ownership and Governance Structure

- As per Transfer Order, the interests of the Municipalities in UWSS was as tenants-in-common
- Ownership of the common system is based on each municipality's proportional consumption of the total flows of the system;
- The ownership interests were last set January 1, 2021 as:
 - Leamington – 53.00%
 - Kingsville – 38.72%
 - Essex – 4.92%
 - Lakeshore – 3.36%.
- The ownership interest is to be updated every four years.
- Board composition is based on % ownership interest as readjusted every 4 years, and currently consists of 12 appointed municipal councillors. Leamington-6; Kingsville-4; Essex-1; Lakeshore-1.





UNION WATER SYSTEM WATERMAINS

- Union Water Lines
- - - Union Water Supply System Boundary

UWSS Restructuring Business Case

- UWSS to be incorporated into a Municipal Services Corporation (UWSS Inc.) under O. Reg. 599/06 of the Municipal Act
- Shareholders to consist of existing municipalities; Town of Essex, Town of Kingsville, Municipality of Lakeshore, and Municipality of Leamington.
- Initial shares to be allocated based on existing ownership (as of Jan 2021)
- Futures ownership shares to be revised every 4 years and based on water consumption;
- UWSS existing common assets to be transferred to UWSS Inc. (i.e. pumping plant, treatment plant, Cottam Booster, 4 water towers, reservoirs, common asset watermains and meter chambers)

UWSS Inc. Governance and Operation

The Governance and Operation of UWSS Inc. is established and directed through four primary documents:

- Articles of Incorporation - *Completed*
- UWSS Inc. General By-Law No. 1 - *Completed*
- Unanimous Shareholder Agreement – *Completed*
- Water Services Agreement - *Completed*

Other Restructuring Documents

A number of other documents have been prepared for the establishment, governance and operation of UWSS Inc. including but not limited to the following:

- UWSS Dividend Policy - *Completed*
- Asset Transfer Agreement – *Completed*
- Bill of Sale – *Completed*
- Real Property Transfer Agreement – *Completed*
- Municipal Access Agreement – *Completed*
- Novation Agreement – OCWA Operations and Maintenance Agreement - *Completed*
- Bulk Water Service Agreement – *Completed*
- Common Terms and Intercreditor Agreement – *Completed*

Assets were transferred on April 22, 2024

UWSS Inc. Board Composition

- Board composed of 12 directors appointed by shareholders
- Each shareholder can appoint one (1) director;
- Each Shareholder can appoint an additional director for each 10% water consumption.
- For shareholders that can appoint more than 1 director, no more than 50% of director appointees (and up to a maximum of 2 total), can be either an elected official or a municipal employee. Other director appointments are to be independent of the municipality.
- Appointment of “independent” directors shall consider competencies including, but not limited to accounting, engineering, legal, and information technologies
- As a result of the above, the Board of Directors will be more independent of the Municipalities

UWSS Inc. Financial Goals

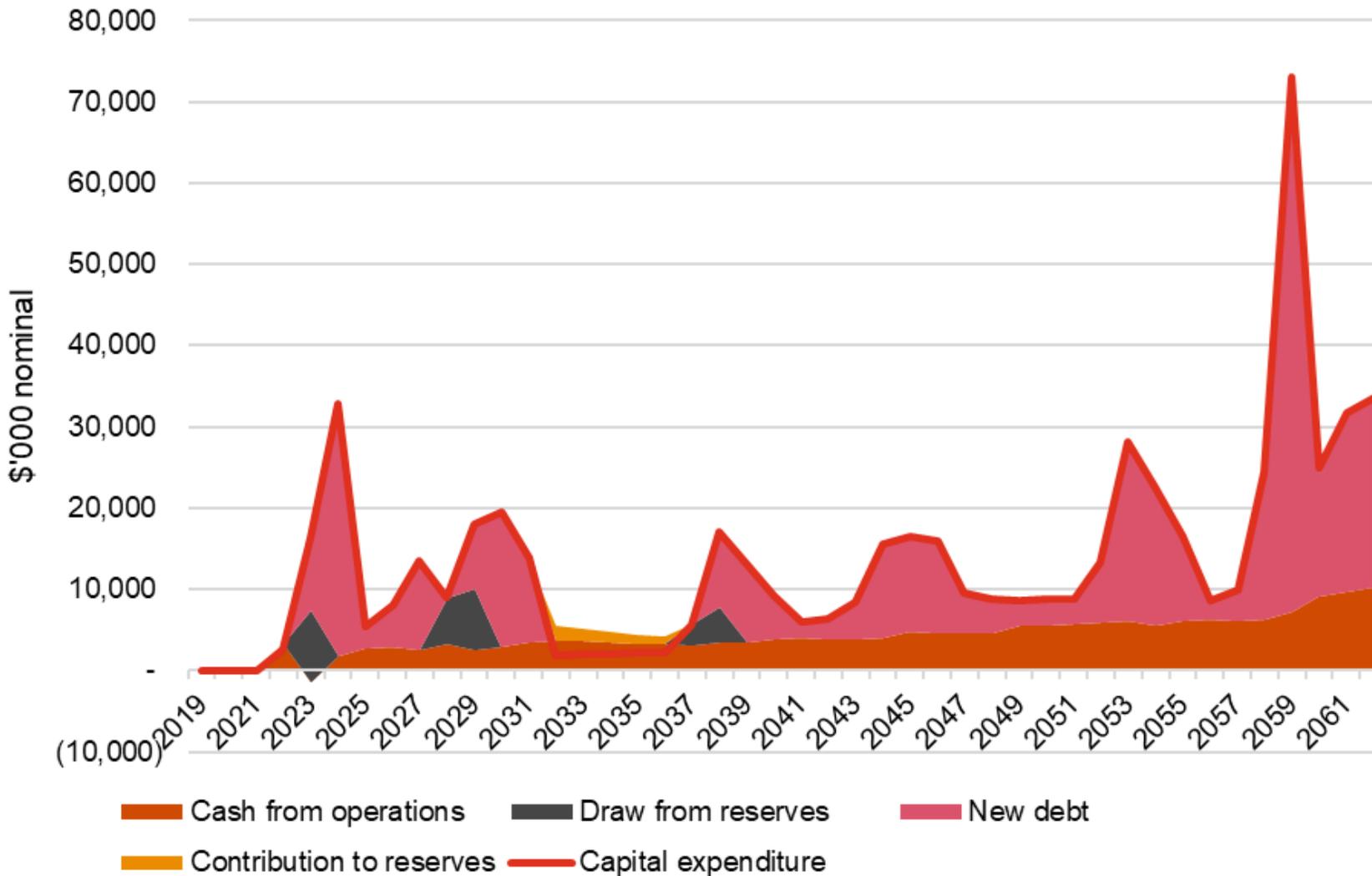
- Access to grant funding at the UWSS level
- Access to debt capital at the UWSS level
- Accounting for new UWSS debt as recourse only to UWSS and not to the owner municipalities
- Ratepayer value and avoidance of “rate shock”

Financial Projection - Selected Assumptions

- Projection - Set out for 50 years
- Inflation – 3 % for 2024 and 2025; 2% long-term
- Bulk water rates – 3% increase for 2024-2025; 2% annual increase thereafter.
- Volume growth – 1.5% through 2027; 1.7% from 2028-2031; 1% thereafter
- Capital Program – Based on 6-year capital plan (\$140+ million) for 2023-2028 and includes allowance of \$40 million for works through 2032
- Operating Costs – Based on identified operation costs through 2028 then escalated at inflation
- Grant Funding – None assumed in projection
- Existing Debt – Sun Life debt retires in 2026
- Investments – Rate Stabilization fund (\$11 million)
- Cash on hand – Based on bank account at start of 2024 (\$14 million)

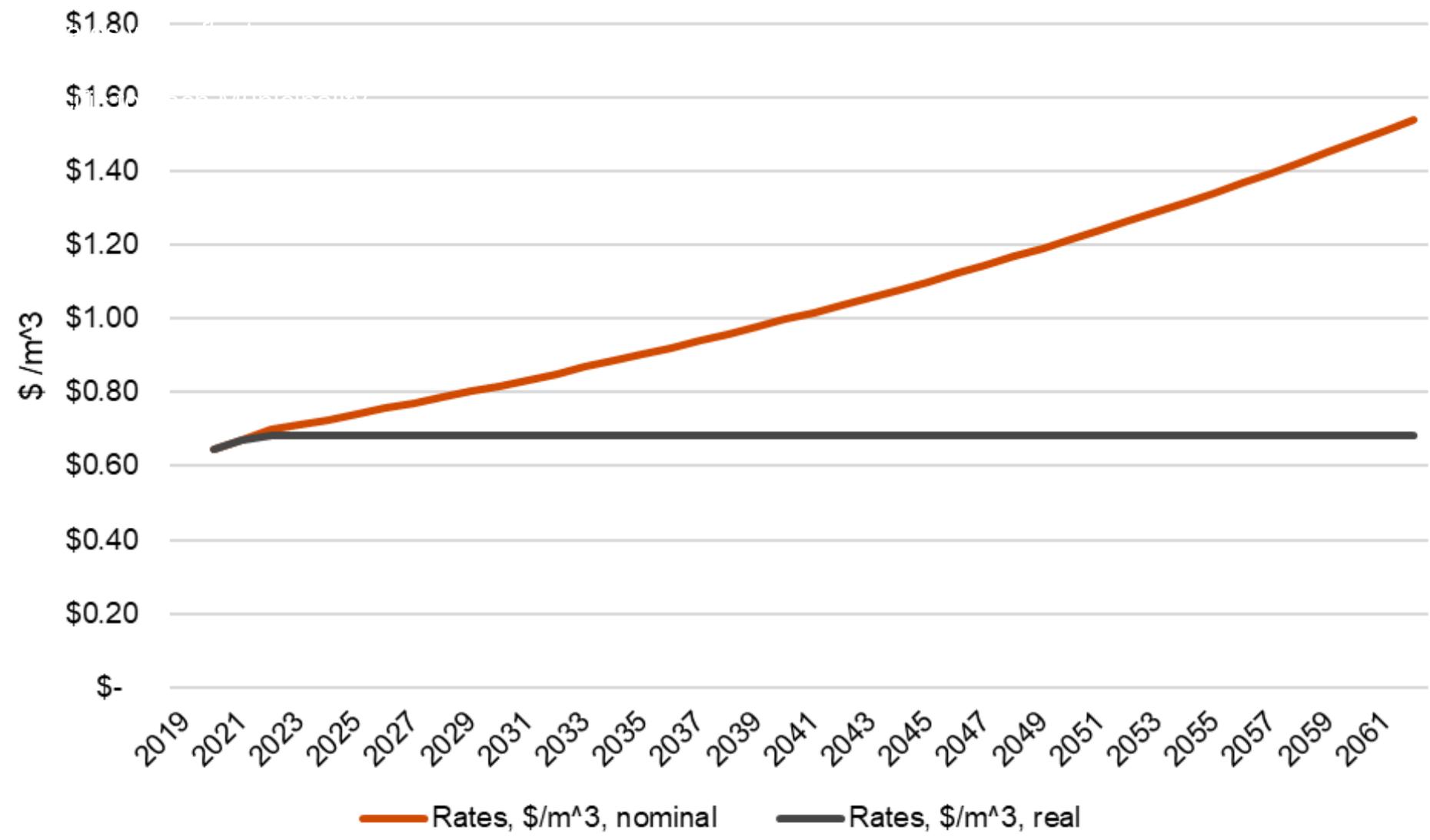
Financial Projections (1)

Capital Expenditures and Funding

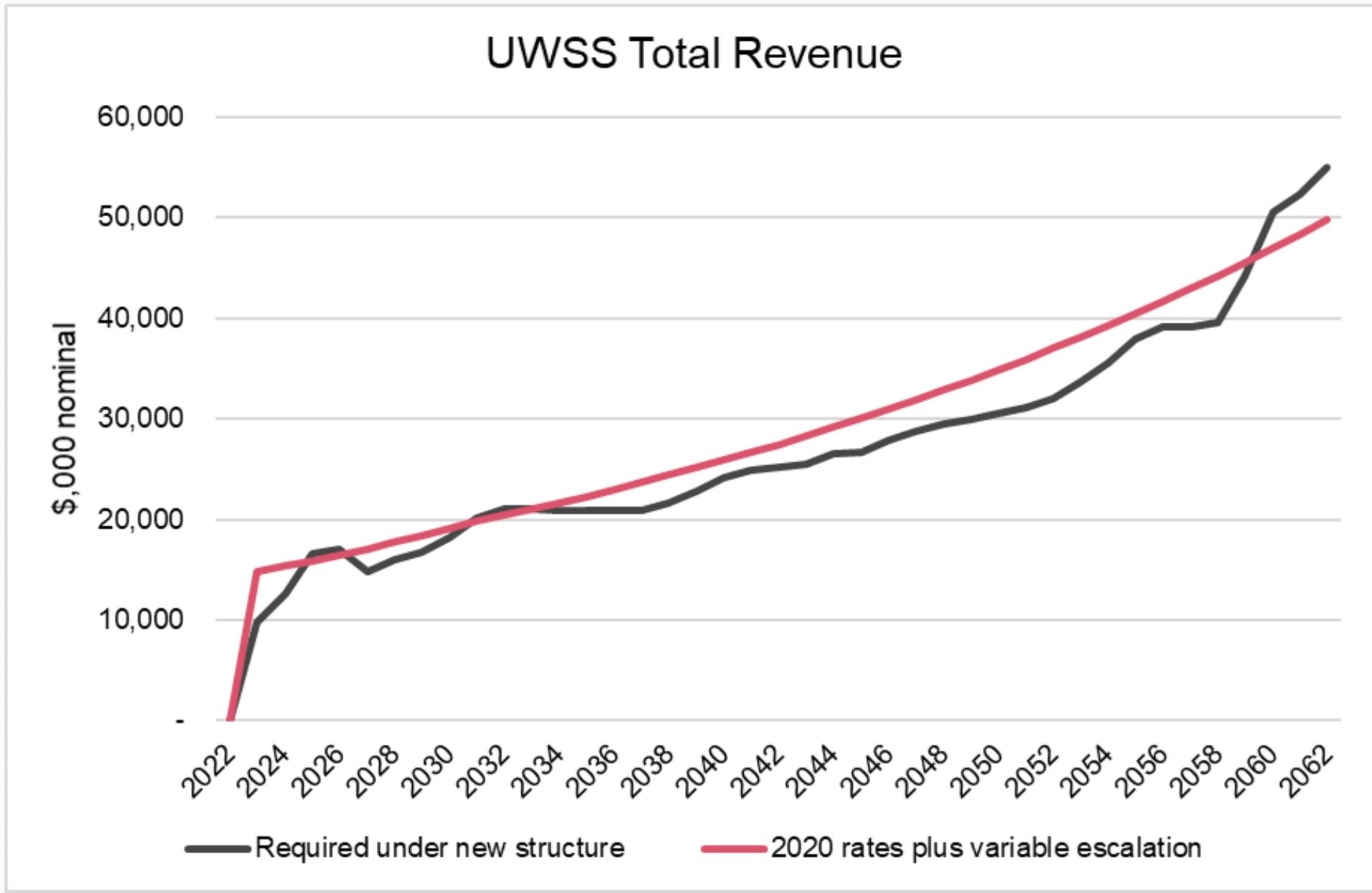


Financial Projections (2)

Bulk Water Rates



Financial Projections (3)



Summary – UWSS Restructuring

What didn't change:

- Municipal ownership % interest in UWSS Inc. to continue to be based on consumption
- Sufficient capital to meet volume and quality demands
- No rate shock – uniform increases in bulk rates
- Rate structure – essentially uniform underlying bulk water rates;
- No privatization
- Cost recovery model – not a Return on Equity/shareholder profit model like electrical utilities. Any profit is re-invested into UWSS Inc.
- UWSS Inc. manages its cash reserves and investments on Board direction;
- No “Source to Tap”. Municipal distribution systems remains the responsibility of the municipalities
- OCWA contract unaffected by the new structure

What did change:

- More independent Board of Directors;
- UWSS Inc. can apply for grant funding separately from the Municipalities
- UWSS Inc. can borrow on its own to finance Board-approved capital expenditures
- New UWSS Inc. debt is not attributed to the Municipalities and does not affect Municipal debt capacity
- Customers will see the UWSS Inc. portion (treatment and transmission) of their water cost separately on their bill
- UWSS Inc. will bear the initial risk of system losses, volume fluctuations and uncollectible accounts; these will be recovered in rates
- UWSS Inc. will pay a service fee to the Municipalities for work done by the Municipalities as agents of UWSS Inc.(billing, collection, and associated accounting)

Restructuring Timeline

What has been completed

- Adoption of UWSS Restructuring Business Case by Councils of Essex, Kingsville, Lakeshore and Leamington
- Incorporation of UWSS Inc.
- Appointment of UWSS Inc. Board of Directors
- Adoption of UWSS Inc. General By-Law No. 1
- Election of UWSS Inc. Board Chair and Vice Chair
- Appointment of UWSS Inc. Officers
- Appointment of Auditor
- Adoption of Various Policies for Board of Director Roles and Conduct
- Adoption of Delegated Authority Policy
- Adoption of Dividend Policy
- Selection of Banking Institution and opening bank accounts

Restructuring Timeline (cont'd)

What has been completed:

- Proposals requested and received from Financial Institutions
- Retained firm to provide Virtual CFO and accounting related services
- Adoption of Various Staff Related Policies
- Approval of all restructuring agreements by Shareholders
- Establish and implement billing and revenue recovery procedures between UWSS and municipalities
- Adoption of Procurement Policy, Board of Directors Compensation Policy, UWSS Inc. Staff Salary Review and Pay Policy
- New OMERS plan and benefits plan for employees
- Approval of 2024 UWSS Inc. Budget - *January 2024*
- Transfer of UWSS JBM Tangible Capital Assets to UWSS Inc.

Restructuring Timeline (cont'd)

What remains to be completed:

- Approval of financing/credit facilities
- Re-negotiation of O&M agreement with OCWA
- Staff recruitment