

DECEMBER 22, 2015

REPORT TO FINANCE & ADMINISTRATION & OPERATIONS COMMITTEE –
JANUARY 19, 2016

2016-010-01
WATER FINANCIAL PLAN #152-301

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FILE: E08-01

RECOMMENDATION

THAT Council approve the Water Financial Plan #152-301 in accordance with O. Reg. 453/07 – Section 3 as it pertains to an existing water system. [Attachment 1 to Report # 2016-010-01]

PURPOSE

Council's approval of the City of Brockville's Water Financial Plan is necessary to fulfill all of the requirements of the *Safe Drinking Water act*, 2002 to obtain a drinking water license.

BACKGROUND

The Ontario government enacted the *Safe Drinking Water Act*, 2002 (SDWA) in response to Justice Dennis O'Connor's recommendations in the Part Two Report of the Walkerton Inquiry. As articulated by Justice O'Connor, the objective of the SDWA is to gather in one place all legislation and regulations relating to the treatment and distribution of drinking water.

The SDWA expanded upon existing policy and practice and introduced new features to protect drinking water in Ontario. As per Section 1 of the SDWA, its purpose is "to provide for the protection of human health and the prevention of drinking water health hazards through the control and regulation of drinking water systems and drinking water testing".

Requirements of Municipal Drinking Water Systems are established in Part V of the SDWA. Section 31 (1) states that:

No person shall,

- (a) Establish a new municipal drinking water system or replace or carry out an alteration to a municipal drinking water system except under the authority of and in accordance with an approval under this Part or a drinking water works permit; or

(b) Use or operate a municipal drinking water system that was established before or after this section comes into force except under the authority of and in accordance with an approval under this Part or municipal drinking water license.

In order to obtain a drinking water license, a municipality must meet the following requirements:

- to have been issued a drinking water works permit
- to have an approved operational plan, in compliance with the Drinking Water Quality Management Standards
- to be an accredited operating authority
- to have an approved financial plan for the system
- to have been issued a permit to take water under section 34 of the *Ontario Water Resources Act*

ANALYSIS

The attached financial statements show that the water system is self-sustaining in the years analyzed.

POLICY IMPLICATIONS

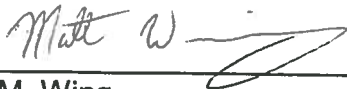
The preparation of a sustainable Water Services Financial Plan incorporates an objective of the City's Community Strategic Plan, as consideration must be given to ensure that costs are fully recovered; rates are affordable; rate structures are efficient and have the ability to finance long-term capital needs. All of these considerations reinforce the fact that a financial plan needs to be reviewed and amended as required on a regular basis.

FINANCIAL CONSIDERATIONS

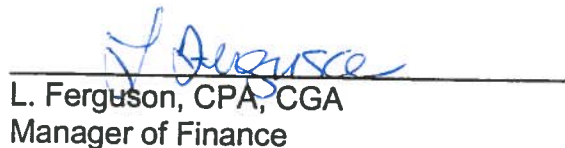
There are no financial considerations associated with this report.

CONCLUSION

Council's approval of the Water Finance Plan #152-301 will fulfill all of the financial requirements of the *Safe Drinking Water Act, 2002* to renew the drinking water license.



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B. Casselman,
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Statement of Financial Position
Appendix # 1

	2015	2016	2017	2018	2019	2020	2021
Financial Assets							
Cash	1,808,563	1,673,141	1,499,815	1,589,055	1,840,374	2,198,163	2,565,697
Accounts Receivable	635,260	667,023	700,375	735,393	772,163	810,771	826,986
Total cash and accounts receivables	2,443,823	2,340,164	2,200,190	2,324,448	2,612,536	3,008,934	3,392,683
Liabilities							
Debt	846,193	1,101,568	902,270	1,434,151	1,176,168	992,923	804,503
Net financial assets (debt)	1,597,630	1,238,596	1,297,920	890,297	1,436,368	2,016,011	2,588,180
Non financial assets							
Tangible capital assets	11,230,129	11,919,320	12,608,498	13,256,781	13,867,033	14,435,201	15,006,002

Actual results will differ and these differences may be material.

Statement of Operations
Appendix # 2

	2015	2016	2017	2018	2019	2020	2021
Revenue							
Water Revenue	(3,856,211)	(3,977,237)	(3,884,919)	(4,301,243)	(4,474,306)	(4,654,383)	(4,737,539)
Miscellaneous Revenue	(54,302)	(55,388)	(56,496)	(57,625)	(58,778)	(59,954)	(61,153)
	<u>(3,910,513)</u>	<u>(4,032,624)</u>	<u>(3,941,414)</u>	<u>(4,358,868)</u>	<u>(4,533,084)</u>	<u>(4,714,337)</u>	<u>(4,798,692)</u>
Expenses							
Operating costs	3,044,291	3,180,629	3,107,544	3,092,399	3,231,937	3,183,782	3,178,354
Amortization	275,623	337,756	381,947	424,947	465,080	509,269	555,676
Interest	31,865	31,956	31,002	36,023	39,844	32,477	-
	<u>3,351,780</u>	<u>3,550,341</u>	<u>3,520,493</u>	<u>3,553,369</u>	<u>3,736,861</u>	<u>3,725,527</u>	<u>3,734,031</u>
Annual (surplus)/deficit	(558,734)	(482,284)	(420,921)	(805,500)	(796,223)	(988,810)	(1,064,661)
Surplus, beginning of period	2,227,180	1,769,096	1,186,084	668,771	404,110	316,554	232,930
Dedicated Capital	1,016,818	1,065,295	938,234	1,070,160	883,779	1,072,434	989,151
Surplus, end of period	<u>1,769,096</u>	<u>1,186,084</u>	<u>668,771</u>	<u>404,110</u>	<u>316,554</u>	<u>232,930</u>	<u>308,440</u>

Actual results will differ and these differences may be material.

Statement of Cash Flow
Appendix # 3

	2015	2016	2017	2018	2019	2020	2021
Operating Transactions							
Cash received from:							
Water Rates	3,828,307	3,917,866	4,064,786	4,217,216	4,375,361	4,539,437	4,709,666
Other revenues (PILS, Interest)	36,492	37,221	37,966	38,725	39,500	40,290	41,095
	<u>3,864,798</u>	<u>3,955,088</u>	<u>4,102,752</u>	<u>4,255,941</u>	<u>4,414,861</u>	<u>4,579,727</u>	<u>4,750,762</u>
Cash paid for:							
Operating costs							
Salaries and Benefits	(1,807,185)	(1,827,956)	(1,864,515)	(1,901,805)	(1,939,842)	(1,978,638)	(2,018,211)
Materials, Supplies and Contracted Services	(1,237,106)	(1,352,673)	(1,243,029)	(1,190,593)	(1,292,095)	(1,205,143)	(1,160,143)
Finance Charges	(31,865)	(31,956)	(31,002)	(36,023)	(39,844)	(32,477)	(27,302)
	<u>(3,076,156)</u>	<u>(3,212,585)</u>	<u>(3,138,546)</u>	<u>(3,128,422)</u>	<u>(3,271,781)</u>	<u>(3,216,258)</u>	<u>(3,205,656)</u>
Cash provided from operating transactions	<u>788,642</u>	<u>742,503</u>	<u>964,206</u>	<u>1,127,519</u>	<u>1,143,080</u>	<u>1,363,468</u>	<u>1,545,105</u>
Capital Transactions							
Acquisition of Tangible Capital Assets	(545,000)	(1,133,299)	(938,234)	(1,070,160)	(883,779)	(1,072,434)	(989,151)
Cash applied to capital transactions	<u>(545,000)</u>	<u>(1,133,299)</u>	<u>(938,234)</u>	<u>(1,070,160)</u>	<u>(883,779)</u>	<u>(1,072,434)</u>	<u>(989,151)</u>
Finance Transactions							
Proceeds from debt issuance	0	447,798	0	250,000	250,000	250,000	0
Debt repayment	(166,752)	(192,424)	(199,298)	(218,119)	(257,983)	(183,245)	(188,420)
Cash applied to financing transactions	<u>(166,752)</u>	<u>255,374</u>	<u>(199,298)</u>	<u>31,881</u>	<u>(7,983)</u>	<u>66,755</u>	<u>(188,420)</u>
Increase/(decrease) in cash and cash equivalents	<u>76,890</u>	<u>(135,422)</u>	<u>(173,326)</u>	<u>89,240</u>	<u>251,319</u>	<u>357,789</u>	<u>367,534</u>
Cash and cash equivalents, beginning of period	<u>1,731,673</u>	<u>1,808,563</u>	<u>1,673,141</u>	<u>1,499,815</u>	<u>1,589,055</u>	<u>1,840,374</u>	<u>2,198,163</u>
Cash and cash equivalents, end of period	<u>1,808,563</u>	<u>1,673,141</u>	<u>1,499,815</u>	<u>1,589,055</u>	<u>1,840,374</u>	<u>2,198,163</u>	<u>2,565,697</u>
Cash as percentage of net fixed assets	16.10%	14.04%	11.90%	11.99%	13.27%	15.23%	

Actual results will differ and these differences may be material.

	2015	2016	2017	2018	2019	2020
Cash provided from operating transactions	871,617	794,587	928,920	1,011,496	940,044	1,056,620
Cash applied to capital transactions	(545,000)	(575,000)	(938,234)	(1,320,160)	(1,133,779)	(1,322,434)
Cash applied to financing transactions	(166,752)	255,374	(199,298)	(185,685)	(191,647)	(114,905)
Increase/(decrease) in cash and cash equivalents	159,865	474,962	(208,612)	(494,349)	(385,382)	(380,719)
Cash and cash equivalents, beginning of period	1,731,673	1,891,538	2,366,499	2,157,887	1,663,538	1,278,156
Cash and cash equivalents, end of period	<u>1,891,538</u>	<u>2,366,499</u>	<u>2,157,887</u>	<u>1,663,538</u>	<u>1,278,156</u>	<u>897,437</u>

Ontario Regulation 453/07 – Section 3

In order to meet the requirements of the SDWA, the City must prepare its financial plan in accordance with O. Reg. 453/07 – Section 3 as it pertains to an existing water system. The requirements are as follows:

1. The financial plans must be approved by Council resolution
2. The financial plans must apply to a period of at least six (6) years
3. The first year to which the financial plans must apply must be the year in which the drinking water system's existing municipal drinking water licence would otherwise expire
4. The financial plans must include the following
 - I. Details of the proposed or projected financial position of the drinking water system itemized by,
 - A. Total financial assets,
 - B. Total liabilities,
 - C. Net debt,
 - D. Non-financial assets that are tangible capital assets, tangible capital assets under construction, inventories of supplies and prepaid expenses, and
 - E. Changes in tangible capital assets that are additions, donations, write downs and disposals.
 - II. Details of the proposed or projected financial operations of the drinking water system itemized by,
 - A. Total revenues, further itemized by water rates, user charges and other revenues
 - B. Total expenses further itemized by amortization expenses, interest expenses and other expenses,
 - C. Annual surplus or deficit, and
 - D. Accumulated surplus or deficit
 - III. Details of the drinking water system's proposed or projected gross cash receipts and gross cash payments itemized by,
 - A. Operating transactions that are cash received from revenues, cash paid for operating expenses and finance charges,
 - B. Capital transactions that are proceeds on the sale of tangible capital assets and cash used to acquire capital assets,
 - C. Investing transactions that are acquisitions and disposal of investments,
 - D. Financing transactions that are proceeds from the issuance of debt and debt repayment
 - E. Changes in cash and cash equivalents during the year, and
 - F. Cash and cash equivalents at the beginning and end of the year.

- IV. Details of the extent to which the information described in subparagraphs I, ii, and iii relates directly to the replacement of lead service pipes as defined in section 15. 1-3 of schedule 15.2 to Ontario Regulation 170.03 (Drinking Water Systems), made under the Act.
5. The owner of the drinking water system must,
 - I. Make the financial plans available on request, to members of the public who are served by the drinking water system without charge,
 - II. Make financial plans available to members of the public without charge through publication on the City's website, and
 - III. Provide notice advising the public of the availability of the financial plans, in a manner that, in the opinion of the owner, will bring the notice to the attention of members of the public who are served by the drinking water system.
6. The owner of the drinking water system must give a copy of the financial plans to the Ministry of Municipal Affairs and Housing.

City of Brockville – Water Systems

The City of Brockville's Department of Environmental Services – Water Systems Division operated and maintains the water system infrastructure which services approximately 22,000 City Residents, about 350 residents in the Township of Elizabethtown-Kitley and nearly 740 Industrial, Commercial and Institutional sector customers.

One of the City's most important responsibilities is to provide its residents with clean, safe drinking water. Routine water quality testing and continuous monitoring of the water quality and quantity is completed by certified staff at the Water Treatment Plant and throughout the distribution systems to demonstrate that the City consistently meets or exceeds the standards set by the Ministry of Environment (MOE).

The City of Brockville has established a Drinking Water Quality Management Standard committee that meets semi-annually to discuss management and infrastructure of Brockville water systems.

Elements of the Financial Plan

In the preparation of a sustainable financial plan, consideration must be given to ensure that costs are fully recovered; rates are affordable; rate structures are efficient and to have the ability to finance long-term capital needs. All of these considerations reinforce the fact that a financial plan needs to be reviewed and amended as required on a regular, if not annual, basis. As legislated, the financial plans must be updated prior to applying for a licence renewal.

The City of Brockville's Water Financial Plan has been developed as per MOE guidelines.

Projected Statement of Financial Position – Appendix #1

The projected Statement of Financial Position reflects the financial position of the water services division at a specific reporting date. In conjunction with the requirements of the Public Sector Accounting Board (PSAB), the projected Statement of Financial Position is based upon full accrual accounting and requires that tangible capital assets (TCA) be presented on the City's financial statements. The inclusion of the TCA illustrates the investment which the City has in physical infrastructures.

A 10 year capital program for water assets is developed based upon the necessary upgrades and improvements to address the City's needs and requirements to provide a safe and reliable water treatment and distribution system. The water capital program is comprised of three components:

- Projects related to the treatment of water
- Projects related to the distribution of water
- Projects related to the full and/or partial reconstruction as it pertains to roads, water and wastewater.

The projected capital expenditures over the six year period are \$6,087,057. The highlights of these expenditures are:

- Lifecycle replacement of equipment and fleet vehicles
- Reconstruction/distribution projects for Stewart Boulevard, Front Avenue, Rivers Avenue, King Street West and Fairknowe Drive
- Building improvements

Projected Statement of Financial Operations – Appendix #2

The projected statement of Finance Operations illustrates the surplus or deficit from the operations within the accounting period. Similar to the projected Financial Position, the projected Statement of Financial Operations is based upon full accrual accounting and includes amortization expense on TCA – to allocate the cost of using an asset to provide services over its useful life.

The projected Statement of Financial Operations illustrates revenue increases in years 2016 – 2021 of 5%.

Consideration has also been given to an estimated annual decrease in consumption of 1% as water users continue to limit the amount of water being used.

Operating expenses are based upon a 2% increase per year.

Interest payments will remain fairly consistent in out years as the City continues to manage debt schedules.

Projected Statement of Cash Flow – Appendix #3

The projected Statement of Cash Flow is an important component of a financially sustainable plan as it reflects how the Water Division finances its activities and meets its cash requirements. It shows the change in cash and cash equivalents within the accounting period.

Based upon current projections, the cash balance is anticipated to rise from its 2015 opening balance of \$1,808,563 to 2,565,697 in 2021.

Areas that significantly impact cash requirements are:

- Fluctuations in capital project requirements – high of \$1,133,299 in 2016 to a low of 883,779 in 2019.
- City's overall debt management plan – to be managed within the financial capacity of the City
- Water rate structure
- Accounts Receivable – the ability to collect outstanding accounts

Changes to the Financial Plan

The Water Service's Financial Plan is a "living document" and requires updating on a regular basis to reflect:

- Official changes made with Council's approval in respect of capital and operating expenditures, debt issuance and rate changes.
These adjustments would normally occur as a result of the annual budget process or additional changes presented to Council during the fiscal year.
- Un-official changes in out years which are based on new information which has been obtained – for example, growth within the municipality; loss of manufacturing clients; timeframe change in capital project requirement due to increase/decrease of life expectancy; change in consumption patterns

It is anticipated that the Water Services Financial Plan be reviewed and amended as required on a regular, if not annual, basis. As legislated, the financial plans must be updated prior to applying for a licence renewal.