
*City of Dryden
Water Long Range Financial Plan
Forecast*

*O. Reg. 453/07 Financial Plan 2021-2026
May 2020*



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Introduction

Review of Regulatory and Legislative Requirements

The City of Dryden, along with other Ontario municipalities that are responsible for the provision of drinking water, are required to meet the requirements set out in the Financial Plans Regulations O.Reg.453/07.

The City of Dryden is taking a proactive approach and has recognized the need for a long-term financial planning process that assesses the financial implications of current and proposed policies as well as Council approved decisions in its water operations. The goal is to ensure that the City's water operations are in a sound financial position and services can be provided on a sustainable basis.

Ontario Reg. 453/07 provides the following parameters with regards to s.30 (1) part b of the Safe Drinking Water Act for licence renewals:

- The financial plans must be approved by a resolution that is passed by,
 - i. the council of the municipality, if the owner of the drinking water system is a municipality, or
 - ii. the governing body of the owner, if the owner of the drinking water system has a governing body and is not a municipality.

- The financial plans must apply to a period of at least six years.
- 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 the financial plans available to members of the public without charge through publication on the Internet, if the owner maintains a website on the Internet, and
 - iii. provide notice advising the public of the availability of the financial plans under subparagraphs i and ii, if applicable, 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.

There are three statements that must be completed, in accordance with the O. Reg. 453/07. These include:

Statement of Operations

The **Statement of Operations** summarizes the revenues and operating expenses for a given period.

Statement of Cash Flows

The **Statement of Cash Flows** reports on how activities were financed for a given period which provides a measure of the changes in cash for that period.

Statement of Financial Position

The **Statement of Financial Position** reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities.

The categories of financial information have been developed to ensure:

- that they provide a sound picture of the financial position of a drinking water system;
- that they are aligned with municipal financial statements prepared on a full accrual accounting basis, and
- consistent financial planning for municipal water services.

The goal is to provide the City with a realistic and informed view of operating and capital expenditures needed over time to maintain the integrity and health of its physical infrastructure and to accommodate growth and new environmental standards. As such, a Long Range Financial Plan (LRFP) creates a more purposeful approach to long-term financial management and helps align short term actions with long term financial strategies.

This document puts the City's water financial condition in perspective, discusses the current challenges and risks and provides a sustainable financial forecast. The plan also provides a framework for guiding the annual budget and the financial planning over a longer horizon. The LRFP helps to understand the implications that today's decisions have on future budgets. The LRFP has been prepared to meet the regulatory requirements. It does not represent a formal multi-year budget. The approval of the budget is undertaken annually. The LRFP is a living document that needs to be updated as assumptions and economic conditions change.

Principles of Financial Sustainability

The Ministry of the Environment released a guideline (“Towards Financially Sustainable Drinking-Water and Wastewater Systems”) that provides possible approaches to achieving sustainability. The Province’s Principles of Financially Sustainable Water and Wastewater Services are provided below:

- **Principle #1:** Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
- **Principle #2:** An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.
- **Principle #3:** Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
- **Principle #4:** Life-cycle planning with mid-course corrections is preferable to planning over the short-term, or not planning at all.
- **Principle #5:** An asset management plan is a key input to the development of a financial plan.

- **Principle #6:** A sustainable level of revenue allows for reliable service that meets or exceeds environmental protection standards, while providing sufficient resources for future rehabilitation and replacement needs.
- **Principle #7:** Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
- **Principle #8:** Financial Plans are “living” documents that require continuous improvement. Comparing the accuracy of financial projections with actual results can lead to improved planning in the future.
- **Principle #9:** Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

The LRFP will be instrumental in the City’s ability to meet the Provincial reporting requirements included in O.Reg. 453/07 for water operations and has been developed in recognition of the above noted principles.



Importance of a Long Range Financial Plan

A LRFP is a framework to guide the City in planning and decision-making:

- Examines fiscal trends (past and future);
- Identifies fiscal issues and opportunities;
- Increases communication & awareness;
- Stimulates long-term thinking;
- Helps establish fiscal policies and goals;
- Reasonable degree of stability and predictability in the rate burden;
- A fair sharing in the distribution of resources between current and future ratepayers;
- Sustainable cash flows;
- Maximizes its financial flexibility; and
- Minimizes financial vulnerability during economic downturns.

General Approach to Preparing the City's LRFP

The LRFP identifies the key financial strategies that will influence the building of a sustainable long-term financial future and takes into account:

- Expected expenses and capital outlays for each year of the plan;
- Expected revenues for each year;
- Financial performance measures; and
- Sensitivity analysis on key assumptions.

The LRF is Dynamic—Regular Updates Will Be Undertaken

Great effort has been made to present accurate financial projections, based upon the data available at this time.

Financial plans are only required to be updated in conjunction with every application for licence renewal (i.e. every 5 years), however, there are many potential circumstances that could occur within the short to medium term that would affect the assumptions in the projections for operating and capital. Council priorities, planning policies, changes to service levels, consumption projections and infrastructure requirements, will certainly lead to changes and the LRF should be adjusted to reflect these changes as they occur.



It is well recognized that a Financial Plan is a **dynamic document** that should be updated and re-evaluated, on an **ongoing** basis to:

- Amend the assumptions, projections and strategies based on changes in the municipal environment;
- Continue building awareness of the results of projections of current operating and capital spending and funding levels;
- Assist the City in determining the extent of its financial challenges;
- Reconfirm the key financial goals and strategies that should guide future planning; and
- Spur the development of actions in future business plans that would respond to the long-term strategies.

Financial Plan Development

Financial Analysis

Asset Renewal/Replacement

Approximately 39% of the total expenditures for water operations support the replacement of infrastructure and assets.

The City has approximately \$16.7 million in water assets (based on historical costs) and on a replacement cost basis, this is estimated to be \$51.5 million. The transfers to the capital program are insufficient to achieve full lifecycle replacement of these assets. Recommendations have been made to support the timely replacement of existing assets.

The full cost of managing the City's water systems has been taken into consideration in calculating the revenue requirements for the supply of water. The approach undertaken in the analysis of lifecycle costing was to use the Asset Management Plan.

In general, this approach may not be reflective of the asset's actual condition and the true nature of its deterioration, which tends to accelerate toward the end of the asset's lifecycle. Actual field condition data is more representative of the City's state of infrastructure and should be used to make financial plans more meaningful. The value of condition data cannot be overstated as it provides a more accurate representation of the state of infrastructure and the financial plan should be updated once actual field condition data is incorporated in the City's AMP.

The following table provides a summary of the water assets.

(000's)	Estimated Replacement Cost (000s)
Buildings	\$ 5,700
Machinery and Equipment	\$ 13,500
Distribution	\$ 30,700
Meters	\$ 1,600
Total	\$ 51,500

As shown below, the annual funding gap for the water program is \$2.35 million based on the asset management plan which identifies the average annual replacement costs is \$2.35 million. This issue has been addressed in the long range financial plan to move the City toward financial sustainability whereby a gradual increase in the contributions will be made each year.

(000's)	2020 Budget
Available for Capital	\$ -
Average Annual Replacement	\$ 2,348
Funding Gap (Replacement An	\$ (2,348)

While actual spending will not match the replacement schedule identified above, it provides a basis upon which to determine future spending requirements and to establish the supporting financial resources to achieve financial sustainability. To close the annual funding gap, the water rates would require a substantial increase. This will require a phased approach over numerous years.

Asset Replacement Strategies

The City of Dryden, like other municipalities in Ontario, has to fund programs and services it provides within a limited funding framework. The City must address rising costs and aging infrastructure with relatively flat revenue streams and limited ability to modify the services it provides.

Often overlooked in the budgeting process are the long range costs of owning and maintaining the asset (the “full-life” cycle costs). Policies and plans will assist in managing capital asset acquisition, maintenance, replacement and retirement.

As was recommended in the last financial plan, the strategy is to gradually increase contributions to the reserves to develop a financially sustainable base upon which assets and infrastructure can be replaced on a timely basis.

Ratepayer affordability must be taken into consideration and therefore a 10-year phase-in strategy has been developed to gradually move toward a fully funded asset management financial plan to address the existing backlog and the annual underfunding of the capital program.

Reserves and Revenue Stability Strategies

A Reserve is a financial provision or amount that is designated for a future purpose that extends beyond the current fiscal year. While its balance may vary over the course of a year, the Reserve is carried forward from one fiscal year to the next to facilitate multi-year financial planning. Reserves can be established to meet specific liabilities such as the replacement/acquisition of capital assets or to protect against known risks or unforeseen circumstances that may create financial difficulties.

The purpose for maintaining reserves includes:

- To provide rate stabilization;
- To provide financing for one-time or short term requirements;
- To make provisions for replacements/renewals/acquisitions of assets/infrastructure that are currently being consumed;
- To avoid spikes in funding requirements for large capital projects by reducing their reliance on long-term debt borrowings;
- To provide a source of internal financing;
- To ensure adequate and sustainable cash flows; and
- To provide **financial sustainability**.

The City's Water Reserve is used for rate stabilization and capital expenditures. The balance at the end of 2019 is approximately \$37,600 and has decreased significantly from the 2015 reserve balance of \$981,000.

Deferred maintenance and the timely replacement of assets also carries associated health and public safety risks, higher utility consumption and other operating costs, and a higher number of unforeseen repairs and replacement work. As such, asset management plans take into consideration how assets will be replaced and what sources of financing to use. The following summarizes the existing policies and strategies:

- ***The City will maintain all Water infrastructure in a state of good repair by implementing life cycle costing and providing adequate annual contributions to the replacement reserves to fund the future rehabilitation/replacement of assets.***
- ***The City will target setting aside the annual amortization based on the replacement cost of assets over time. These funds will be transferred to the City's Water Capital Reserve. A phase-in strategy will be implemented.***

Key Assumptions

The following provides the key assumptions in the Forecast:

- ***Expenditure & Revenue Increases***—based on:
 - Salary, wage and benefit increase of 2.0% annually;
 - Miscellaneous expenses increase of 2.0% annually;
 - Rate revenue requirement increase of 6.3% annually;
 - Miscellaneous revenues increase of 2.0% annually.
- ***Capital Projects***—Water Capital Forecast is based on the funds available using a phase-in strategy. The plan includes \$6 million for water capital expenditures over the next six years (2021-2026). It is noted that the City only approves a one year capital budget and adjustments may be required to the forecast to reflect Council approved budgets.

- **Water Reserve**—The opening balance for 2020 Water Reserve is based on the year-end balance for 2019. Each year in the forecast annual contributions to the Reserve for use in the capital program increases until the annual contribution is approximately equal to the average annual investment required as shown in the Asset Management Plan.
- **Sources of Financing**—Capital Reserves were used as the sole source of financing for capital replacement. No debt is required, based on the forecast reserve contributions and the proposed capital plan.
- **Disposals**—The forecast assumes no disposals of tangible capital assets.
- **Service Standards**—Water programs are maintained at their current service levels.

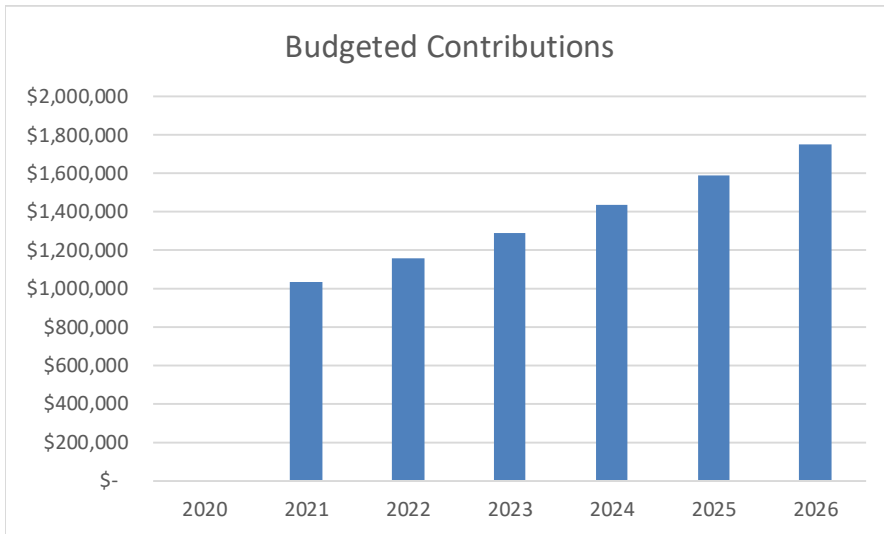
Summary of Operating Budget Forecast

The City's objective in establishing the Water rates is to avoid large fluctuations from year to year and to ensure rates are set at a level to adequately cover current operating costs, maintain and repair the City's existing asset base and replace assets where appropriate. The following table reflects the forecast rate revenue requirements.

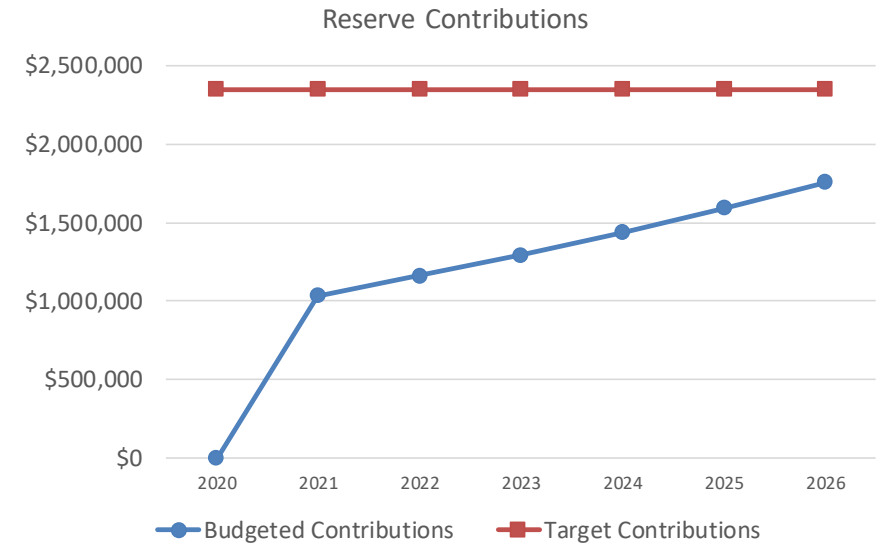
Water	2020 Budget	2021	2022	2023	2024	2025	2026
Revenues							
Water Sales	\$ 2,275,600	\$ 2,418,963	\$ 2,571,357	\$ 2,733,353	\$ 2,905,554	\$ 3,088,604	\$ 3,283,186
Waterworks Misc Revenue	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946	\$ 66,245	\$ 67,570
Total Revenues	\$ 2,335,600	\$ 2,480,163	\$ 2,633,781	\$ 2,797,025	\$ 2,970,500	\$ 3,154,849	\$ 3,350,756
Expenditures							
Salaries/Wages	\$ 681,274	\$ 694,899	\$ 708,797	\$ 722,973	\$ 737,433	\$ 752,182	\$ 767,225
Benefits	\$ 31,909	\$ 32,547	\$ 33,198	\$ 33,862	\$ 34,539	\$ 35,230	\$ 35,935
Contracted Services	\$ 197,100	\$ 201,042	\$ 205,063	\$ 209,164	\$ 213,347	\$ 217,614	\$ 221,967
Utilities	\$ 139,700	\$ 142,494	\$ 145,344	\$ 148,251	\$ 151,216	\$ 154,240	\$ 157,325
Other	\$ 111,548	\$ 113,779	\$ 116,055	\$ 118,376	\$ 120,743	\$ 123,158	\$ 125,621
Materials & Equipment	\$ 255,400	\$ 260,508	\$ 265,718	\$ 271,033	\$ 276,453	\$ 281,982	\$ 287,622
Interdepartmental Transfer	\$ 918,669						
Transfer to Reserve	\$ -	\$ 1,034,893	\$ 1,159,606	\$ 1,293,367	\$ 1,436,768	\$ 1,590,443	\$ 1,755,061
Total Expenses	\$ 2,335,600	\$ 2,480,163	\$ 2,633,781	\$ 2,797,025	\$ 2,970,500	\$ 3,154,849	\$ 3,350,756
Rate Revenue Requirements % Change		6.3%	6.3%	6.3%	6.3%	6.3%	6.3%

Reserves

The following graph provides the annual contributions to the reserves to meet the capital program and provide sufficient revenue stability.



As shown below, the annual reserve contributions will be gradually increased and by 2030 will be at the target contribution.



Reporting Requirements—O.Reg. 453/07



Water Financial Plan—O.Reg. 453/07—Introduction

The Financial Plan has been prepared in accordance with the regulation (O.Reg. 453/07) made under the Safe Drinking Water Act. The Financial Plan regulation requires that the plans be updated every five years along with the request for the renewal of the drinking water licence. This ongoing update will assist in revisiting the assumptions made to develop the operating and funding plans as well as reassessing the needs for capital renewal and major maintenance expenses. The following provides a summary of the three statements:

- **Statement of Financial Operations**—This statement summarizes the revenues and expenditures. The expenditures include ongoing operating costs plus asset amortization. This statement indicates that the system and its asset base are projected to be maintained with funds being available each year for future capital renewal or major maintenance. As shown in the statements of financial operations, the City is generating excess revenues over expenses including amortization for water throughout the forecast period.
- **Cash Receipts or Gross Cash Payments (Cash Flows)** —The cash flow statement summarizes how the water system is expected to generate and utilize cash resources. The transactions that generate and use cash include the projection of cash to be received from revenues, cash to be used for operating expenditures and financing charges, cash projected to be used to acquire capital assets and projected financial transactions that are the proceeds from debt or debt principal repayment.
- **Financial Position —Highlights:**
 - **Net Financial Assets**—An important feature of a water system is its net financial assets. A positive number indicates that the system has the resources to deal with future capital and other needs. A negative number indicates that past capital and other investments must be financed from future revenues. Water net financial assets are in a positive position throughout the forecast. No debt was required throughout the term.
 - **Tangible Capital Assets (Net Book Value)** - Water systems have a great deal of resources tied up in tangible capital assets and managing these assets is critical to maintaining current and future levels of service. An increase in net book value of tangible capital assets is an indication that assets have been renewed faster than they were used. A decrease in net book value indicates that assets are being used, or amortized, faster than they are renewed. The net book value is projected to increase for water indicating that assets are being renewed faster than they are being used, as substantiated in the water capital renewal plan.
 - **Accumulated Surplus**—A third financial indicator that is reflected in the financial position statement is the accumulated surplus. This indicator represents cash on hand plus the net book value of tangible capital assets less debt. The accumulated surplus is forecast to increase from 2021 to 2026.

Statement of Financial Operations—Water

	Budget	Projected						
		2020	2021	2022	2023	2024	2025	2026
Revenues								
Water Sales	\$ 2,275,600	\$ 2,418,963	\$ 2,571,357	\$ 2,733,353	\$ 2,905,554	\$ 3,088,604	\$ 3,283,186	
Waterworks Misc Revenue	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946	\$ 66,245	\$ 67,570	
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Transfer from Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Transfer from Working Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Revenues	\$ 2,335,600	\$ 2,480,163	\$ 2,633,781	\$ 2,797,025	\$ 2,970,500	\$ 3,154,849	\$ 3,350,756	
Operating Expenses								
Salaries, Wages, Benefits	\$ 713,183	\$ 727,447	\$ 741,996	\$ 756,836	\$ 771,972	\$ 787,412	\$ 803,160	
Contracted Services	\$ 197,100	\$ 201,042	\$ 205,063	\$ 209,164	\$ 213,347	\$ 217,614	\$ 221,967	
Utilities	\$ 139,700	\$ 142,494	\$ 145,344	\$ 148,251	\$ 151,216	\$ 154,240	\$ 157,325	
Other	\$ 111,548	\$ 113,779	\$ 116,055	\$ 118,376	\$ 120,743	\$ 123,158	\$ 125,621	
Interdepartmental Transfer	\$ 918,669							
Materials & Equipment	\$ 255,400	\$ 260,508	\$ 265,718	\$ 271,033	\$ 276,453	\$ 281,982	\$ 287,622	
Total Operating expenses	\$ 2,335,600	\$ 1,445,270	\$ 1,474,175	\$ 1,503,659	\$ 1,533,732	\$ 1,564,406	\$ 1,595,694	
Debt Charges								
Debt Charges - Interest Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Amortization Expense								
Amortization of tangible capital assets	\$ 332,843	\$ 335,076	\$ 351,743	\$ 368,409	\$ 385,076	\$ 401,743	\$ 418,409	
Total Expenses	\$ 2,668,443	\$ 1,780,346	\$ 1,825,918	\$ 1,872,068	\$ 1,918,808	\$ 1,966,149	\$ 2,014,104	
Annual Surplus/Deficit	\$ (332,843)	\$ 699,817	\$ 807,864	\$ 924,958	\$ 1,051,692	\$ 1,188,700	\$ 1,336,652	

The annual surplus increases from deficit of \$0.33 million in 2020 to \$1.3 million in 2026.

Statement of Cash Flow/Cash Receipts—Water

	Budget	Projected					
	2020	2021	2022	2023	2024	2025	2026
Total Revenues	\$ 2,335,600	\$ 2,480,163	\$ 2,633,781	\$ 2,797,025	\$ 2,970,500	\$ 3,154,849	\$ 3,350,756
Cash Paid For							
Operating Costs	\$ 2,335,600	\$ 1,445,270	\$ 1,474,175	\$ 1,503,659	\$ 1,533,732	\$ 1,564,406	\$ 1,595,694
Debt Repayment - Debt Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Provided from Operating Transactions	\$ -	\$ 1,034,893	\$ 1,159,606	\$ 1,293,367	\$ 1,436,768	\$ 1,590,443	\$ 1,755,061
Capital Transactions							
Acquisition of TCA	\$ 134,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Finance Transactions							
DC Exemptions							
Proceeds from Debt Issuance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from DCs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Principal Repayment							
Increase/(Decrease) in Cash Equivalents	\$ (134,000)	\$ 34,893	\$ 159,606	\$ 293,367	\$ 436,768	\$ 590,443	\$ 755,061
Cash and Cash Equivalents at Beginning Balance	\$ 37,465	\$ (96,535)	\$ (61,642)	\$ 97,965	\$ 391,332	\$ 828,100	\$ 1,418,543
Cash and Cash Equivalents at Ending Balance	\$ (96,535)	\$ (61,642)	\$ 97,965	\$ 391,332	\$ 828,100	\$ 1,418,543	\$ 2,173,604

Statement of Financial Position—Water

	Budget	Projected					
	2020	2021	2022	2023	2024	2025	2026
Financial Assets							
Cash	\$ (96,535)	\$ (61,642)	\$ 97,965	\$ 391,332	\$ 828,100	\$ 1,418,543	\$ 2,173,604
Liabilities							
Debt - Principal Outstanding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Financial Assets	\$ (96,535)	\$ (61,642)	\$ 97,965	\$ 391,332	\$ 828,100	\$ 1,418,543	\$ 2,173,604
Non-Financial Assets							
Tangible Capital Assets	\$ 16,626,487	\$ 16,760,487	\$ 17,760,487	\$ 18,760,487	\$ 19,760,487	\$ 20,760,487	\$ 21,760,487
Additions to Tangible Capital Assets	\$ 134,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Accumulated Amortization	\$ 10,260,027	\$ 10,595,103	\$ 10,946,846	\$ 11,315,255	\$ 11,700,331	\$ 12,102,074	\$ 12,520,483
Total Non-Financial Assets	\$ 6,500,460	\$ 7,165,384	\$ 7,813,641	\$ 8,445,232	\$ 9,060,156	\$ 9,658,413	\$ 10,240,004
Accumulated Surplus	\$ 6,403,925	\$ 7,103,742	\$ 7,911,606	\$ 8,836,564	\$ 9,888,256	\$ 11,076,956	\$ 12,413,608
Cash as a % of Non-Financial Assets	-1.5%	-0.9%	1.3%	4.6%	9.1%	14.7%	21.2%
Debt as a % of Non-Financial Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The accumulated surplus increases from \$6.4 million to \$12.4 million due to an increase in tangible capital assets.