

Town of Erin Financial Plan Town of Erin Water System

Presentation to Council
on May 5, 2015

GSS-15-001-03-23

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Background Information

- An approved Financial Plan is required under Financial Plans Regulation O. Reg. 453/07
- Under the Safe Drinking Water Act, R.S.O. 2002, c32, a Financial Plan is a condition of the municipal drinking water license.

General Requirements

- The Financial Plan must be for a period of at least **six years** starting with the year the Municipal Drinking Water Licence expires.
- The Financial Plan must be made **available** upon request and **without charge** and available on the website to the members of the public that are served by the water system.
- Notice advising the **Public** of the availability of the Financial Plan should be given in a manner to bring the notice to the attention of the public.

General Requirements *cont'd*

- A **Council Resolution** approving the Financial Plan must be passed by Council.
- The Financial Plan and resolution must be submitted to the Ministry of **Municipal Affairs and Housing**.
- The Financial Plan should be updated and approved prior to applying for a **license renewal** (i.e. every five years). However, the Regulation does not prevent the Plan from being amended more regularly.

Financial Plan Guidelines

The following **9 Principles** should be applied when developing a Financial Plan:

1. **Ongoing public engagement** and transparency to build support for, and confidence in the Financial Plan and the system(s) to which it relates.
2. An **integrated approach** to planning among water, wastewater and stormwater systems, given the inherent relationship among these services.

Financial Plan Guidelines

3. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.

4. Life-cycle planning with **mid-course corrections** is preferable to planning over the short-term or no planning at all.

5. The **Asset Management** Plan is a key component to the development of the Financial Plan.

Financial Plan Guidelines (Cont'd)

6. A **sustainable level of revenue** allows for reliable service that meets or exceeds environmental protection standards, while ensuring sufficient resources for future rehabilitation and replacement needs.

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.

Financial Plan Guidelines (Cont'd)

8. This Financial Plan is a “**living document**” that requires continuous updates and improvements. Improved planning for the future can be achieved by comparing the accuracy of financial projections with actual results.

9. Financial Plans can benefit from the **close collaboration** of various groups, including engineers, accountants, auditors, utility staff and municipal staff.

Financial Plan Guidelines (Cont'd)

Long term financial planning and asset management can have environmental benefits, such as the enhancement of conservation through reduced leakage rates from aging watermains.

Financial Plan Requirements:

- **Statement of Operation** - summary of revenue and expenses
- **Statement of Cash Flow** - summary of how the water system is expected to generate and use cash resources
- **Statement of Financial Position** - summarizes information for assets, liabilities, financial assets and tangible capital assets.

Financial Statement(s) Preparation Includes:

- Total Financial Assets, Total Liabilities, Net Debt, Tangible Capital Assets (TCA) under construction, inventories and prepaid, as well as TCA additions, donations from developers and disposals.
- Total Operating Revenues, Expenses including Amortization and Interest expense.

Financial Statement(s) Preparation Includes:

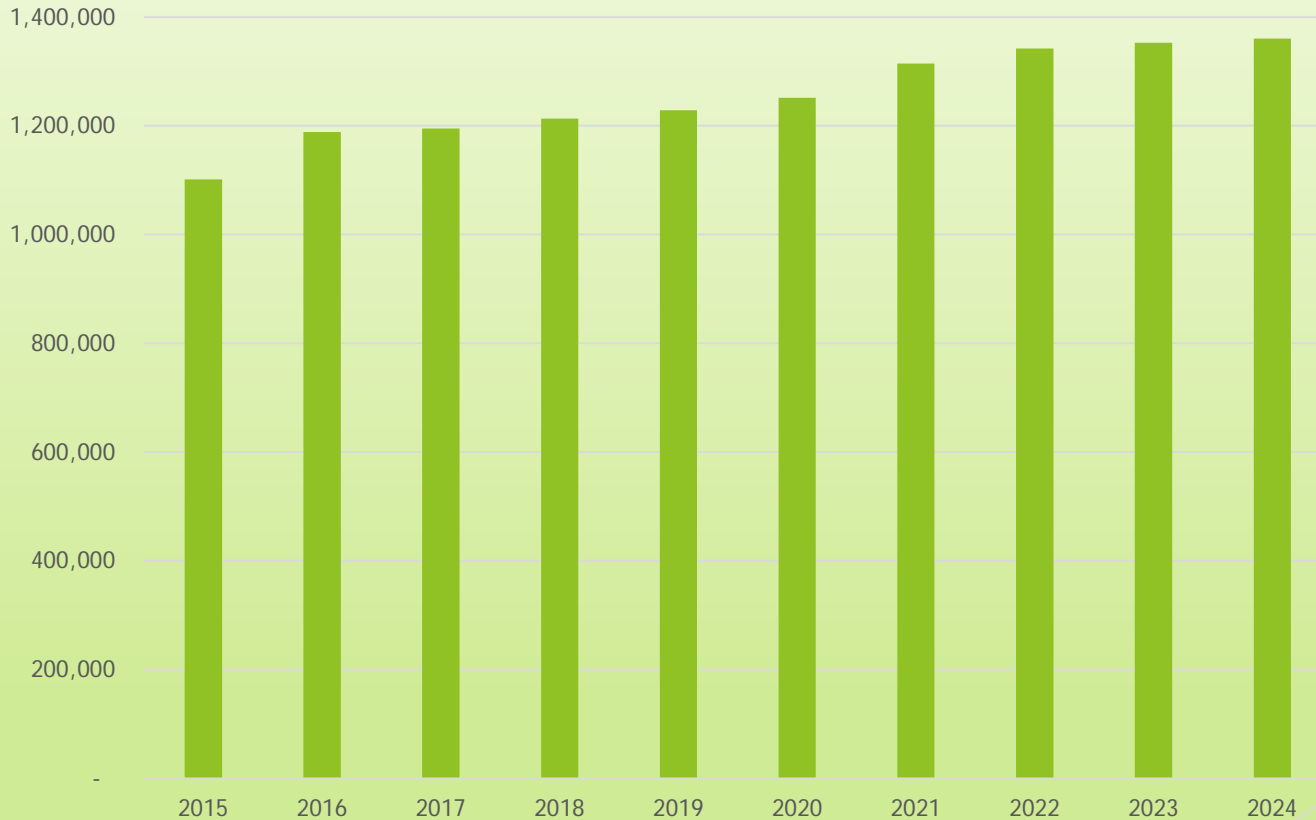
- Annual Surplus or Deficit and the Accumulated Surplus or Deficit.
- Details of the projected Cash i.e. cash used for operating, cash received on the sale of Tangible Capital Assets (TCA), cash used for the acquisition of TCA and the change in cash during the year.
- Issuance of Debt and amount of Debt repayment.

Operating Expenses

- Are ongoing costs that relate to providing goods and services for the Water systems operations.
- Keep **the service functioning on a day to day basis** and includes:
 - wages and benefits
 - materials and supplies
 - Equipment, fuel, utilities, etc.
 - Interest payment
 - **Does not include capital upgrade costs**
- All expenses have been indexed by 2% annually to reflect anticipated inflation.

Operating Expenses

Operating Expenses Summary (2015-2024)



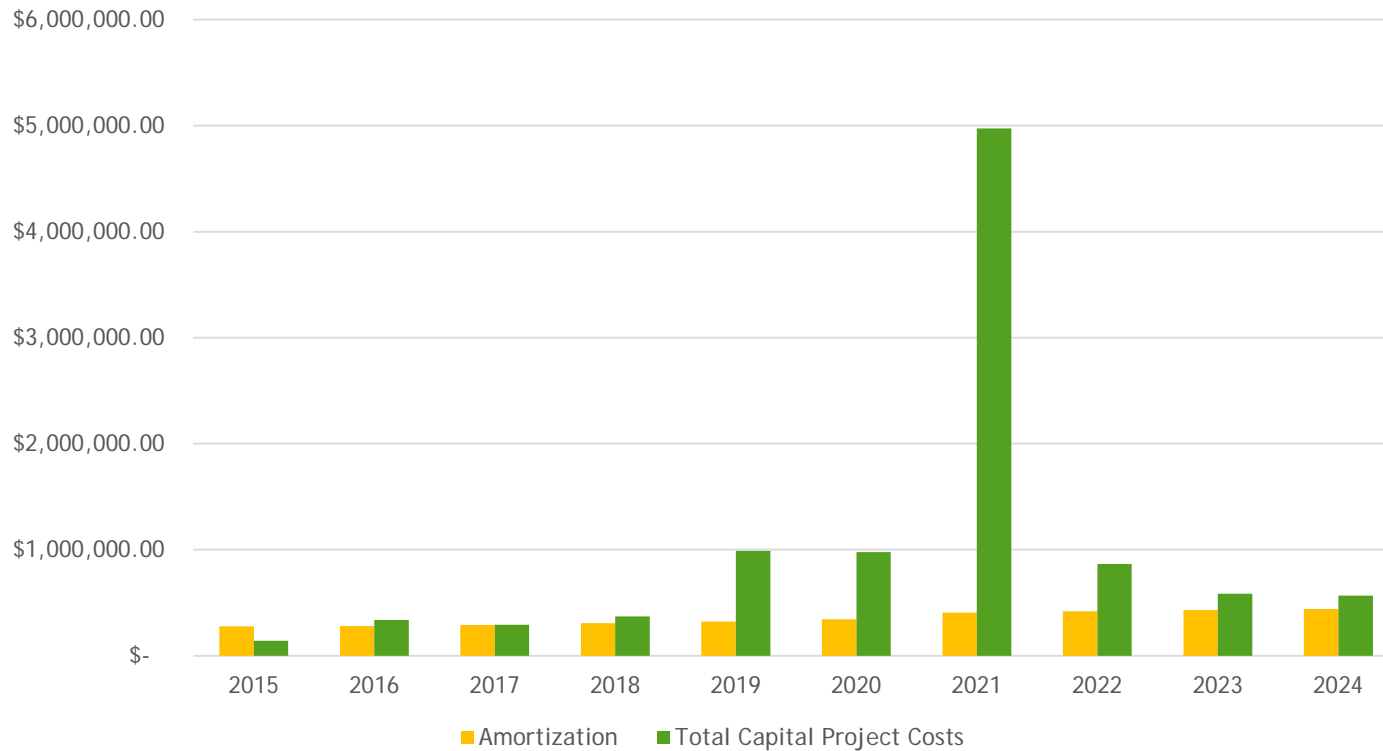
Includes Amortization expense

Amortization Expense

- Amortization is a **non-cash** expense.
- Measures gradual **wear and tear** of tangible capital asset in a systematic manner.
- The Amortization cost is based on **historic cost** and is apportioned over the estimated useful life of assets using a straight line depreciation.
- **Does not affect cash flow**, but affects the annual surplus/deficit and Statement of Operations.

Projected Capital vs. Amortization Expenses

Town of Erin Capital Additions and Annual Amortization



Note: Includes amortization of planned capital projects

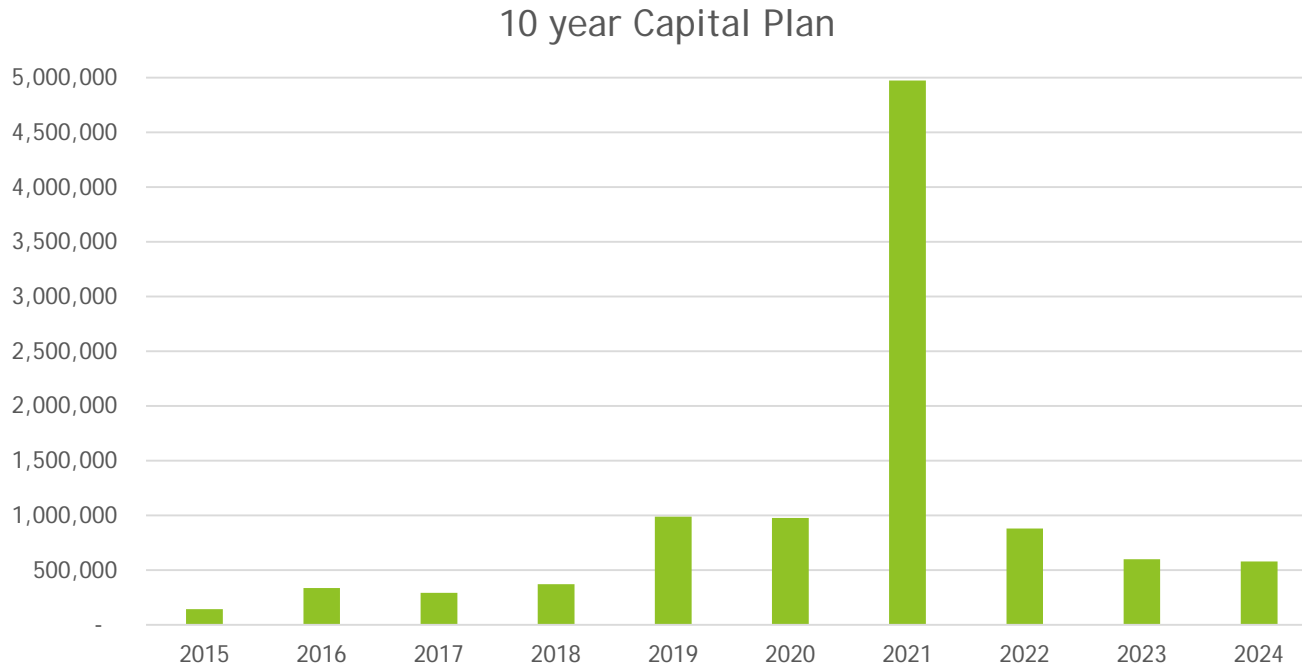
10 year Capital Plan

Covers Primarily:

- Water Tower Upgrades
- Improvements to Pumphouses
- Proposed new wells for both Erin & Hillsburgh.
- Old Watermain Replacements in Erin & Hillsburgh
- Meter Replacement continuity

10 year Capital Plan

Includes development project (\$5 million)



Revenues

- Budget information provided by the **Town** of Erin staff, **Asset Management Plan** and the **Development Charges** Background Study.
- Operating revenues based on:
 - User fees (Water Billings)
 - Grant funding
 - Development charges allocations:
assumed Developer's **commitment is available in the year the project is undertaken.**

Revenues (Cont'd)

- Development project in 2021
 - Project Cost \$5.0 million approx.
 - Developer Contribution \$2.5 million approx.
 - Developer Front End Commitment \$1.6 million approx.
Receives payment back from town through development charge revenue
 - Reserve Fund \$0.9 million approx.
- Development Charge Revenue from new lots considered at 500 lots in 2021, and 2 infill in Erin and 1 infill in Hillsburgh per year (after 2015).

Funding Models for Water Billing

1. Depreciation Model

- Contribute total average annual depreciation amount over 9 yrs. plus 15% to lifecycle reserve.

2. Capital Plan Model

- Contribute total average tangible capital assets purchases over 9 yrs. to life cycle reserve.

3. Roll Back Price Model

- Roll back water rate by 5 % to 2014 level.
- Keep water rates unchanged for 2016 to 2024.
- Direct all surplus to lifecycle reserve.

Funding Models (*Cont'd*)

4. CPI Model

- Increase water rates @ 2% per year for 2016 to 2024 per CPI
- Direct all surplus to lifecycle reserve.

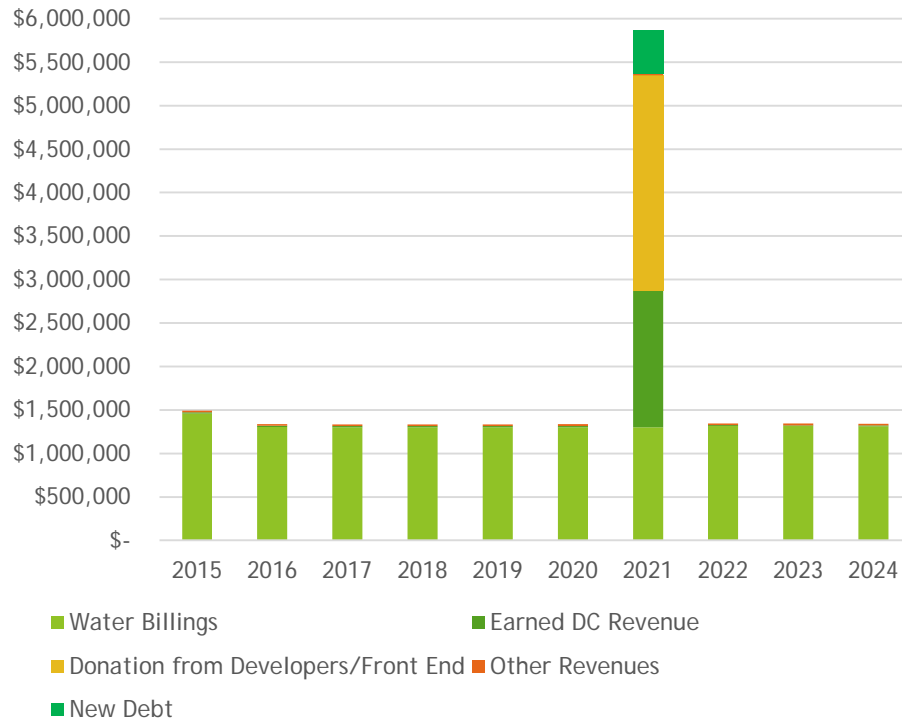
All Models

- Lifecycle reserve not to fall under \$400,000
- If needed, draw down loan @ 3% interest for 10 yr. term

Depreciation Model

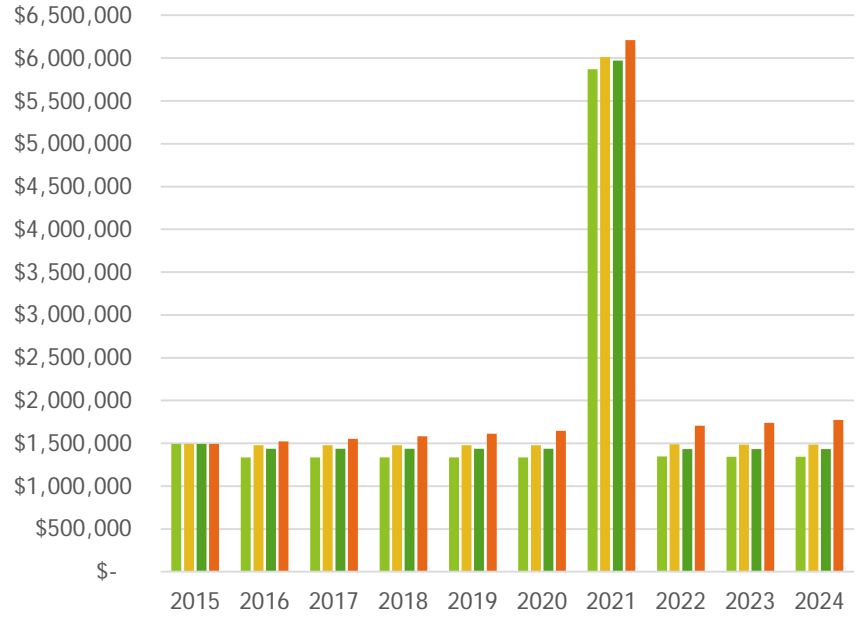
For Illustration – other models not shown

All Funding Sources to Meet Spending Plans
:Depreciation Model



All Funding Sources to Meet Spending Plans

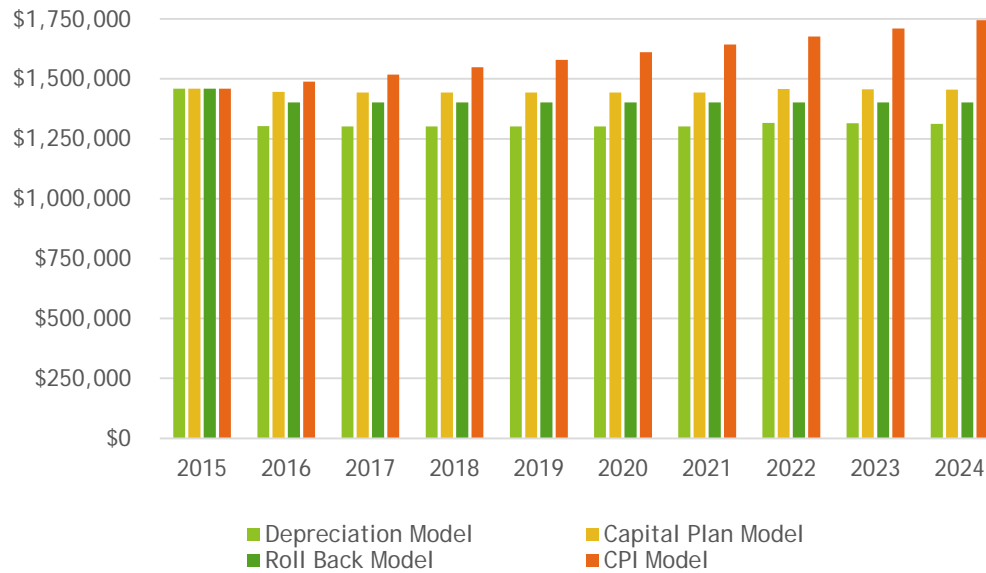
DC Revenue,
Developer
contributions & debt
is same in all models



■ Depreciation Model ■ Capital Plan Model ■ Roll Back Model ■ CPI Model

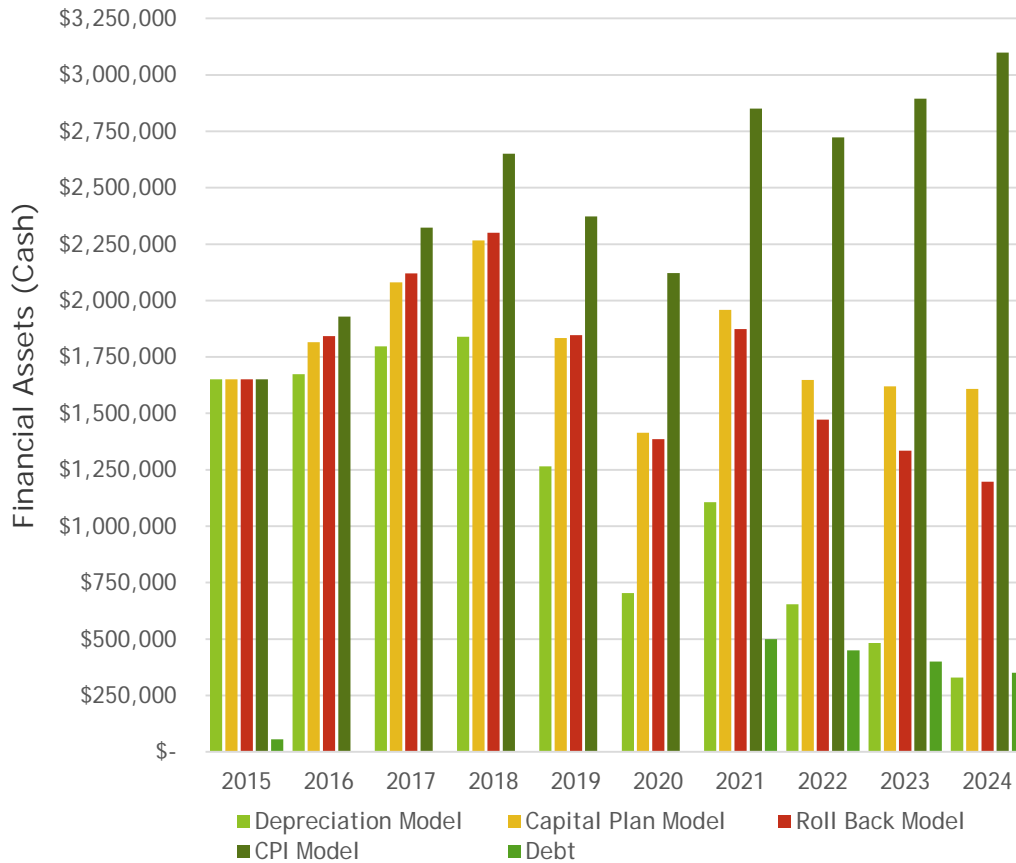
GSS Engineering - Erin Water System Financial Plan

Comparison of "Water Revenue ONLY" All Models



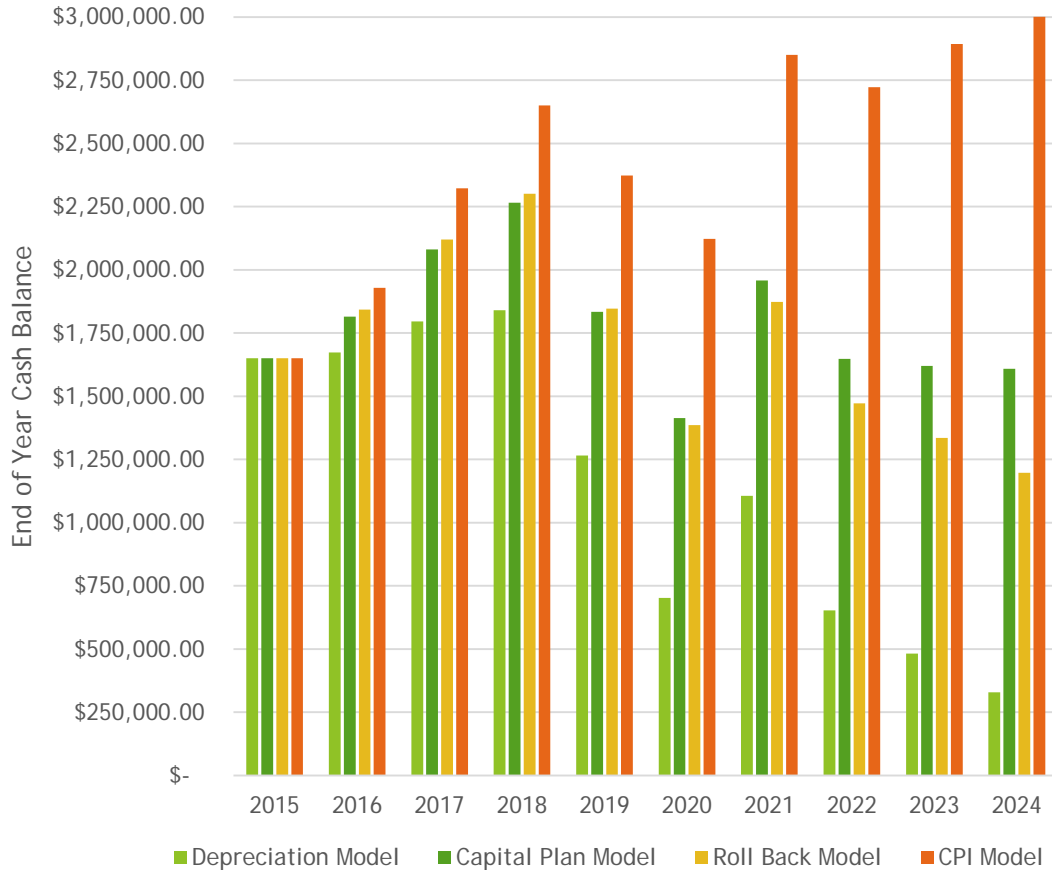
Financial Statements

Financial Position: All Models



Financial Statements

Cash Flow: All Models



CASH FLOW ANALYSIS FINDING

- Grants, New Debt, Developer Contributions, Contribution from Reserves, surplus from Operating Rates/Revenues affect the cash flow.
- **Sufficient Cash balances** are available to fund the Capital requirements for all funding models.
- Depreciation Model provides least healthy cash flow.

Analysis of Funding Models

- All models meet cash flow objectives
- All models maintain Lifecycle reserve of \$400,000
- Depreciation Model has drawbacks:
 - Provides the most reduced cash flow
 - Provides the least wealthy financial position
- Capital Plan & Roll Back Models:
 - Both generate similar cash flow and financial position
- CPI Model generates highest cash flow and healthy financial position

Conclusion

CPI model is most appropriate

Rate Study Finding(s)

Scenario	Base Rate	Lifecycle Reserve + Water (\$/m ³)
2014		4.08
2015	-	4.29
(2016) Depreciation Model	Same as 2015	3.49
(2016) Capital Plan Model		3.99
(2016) Roll Back Model		4.08
(2016) CPI Model		4.38

Rate Study Finding(s) (Cont'd)

Base Rate Summary

Service Type	Monthly Base Rate (2015)
Regular Residential Customers	\$15.39
Flat Rate Customers	\$40.62
2" Service various	\$30.77
4" Service 2005 & 2140	\$55.45
Senior Apt - Church St 60010	\$169.29
Senior Apt - Centre St 2130	\$246.24
Apts, Guelph Rd. 60391 60390	\$307.80
Seniors, Spruce Street a/c 907259	\$446.31
Stanley Park 60880 & 60881	\$1,662.12

Water Rates Comparison with Other Cities

Orangeville (2014)

Base Rate (15 mm & 19 mm)	\$7.05/mo
(25 mm)	\$9.40/mo
<u>Water Consumption Rate</u>	
(15 mm & 19 mm)	\$1.73/m ³ up to 50m ³ /mo
	\$2.34/m ³ >51m ³ /mo
(25 mm)	\$1.73/m ³ up to 100 m ³ /mo
	\$2.34/m ³ >101 m ³ /mo

Sauble Beach (2015)

Base Rate (15 mm)	\$84/mo
(19 mm)	\$92/mo
(25 mm)	\$118/mo
Reserve Water Charge	\$25/mo
Water Consumption Rate	\$1.36/m ³

Water Rates Comparison with Other Cities

Guelph-Eramosa

Base Rate	\$4.20/mo
Water Consumption Rate	\$1.87/m ³ (Rockwood)
	\$2.37/m ³ (Hamilton Dr.)

Centre Wellington (2015)

Base Rate (19 mm or less)	\$10.17/mo (\$7.26+\$2.91)
(25 mm)	\$16.01/mo (\$11.43+\$4.58)
Water Consumption Rate	\$2.14/m ³
Un-metered Properties	\$56.95/mo (flat)

Next step(s)

- Finalize the funding model & rate study and consequently report.
- Council Resolution passed accepting the study
- Financial Plan report to be made available to Public without charge.
- Submit final report to Minister of Municipal Affairs & Housing