



TOWNSHIP OF PERTH EAST

ITEM # 8.4.4

REPORT

TO: Council
PREPARED BY: Rhonda Fischer, Treasurer
Wes Kuepfer, Public Works Manager
DATE: August 12, 2015
SUBJECT: **Ontario Regulation 453/07 – Water Financial Plans**
ATTACHMENTS: Water Financial Plan 2015-2020

RECOMMENDATION:

That the Council of the Township of Perth East receive the report prepared by the Treasurer and Public Works Manager, titled Ontario Regulation 453/07 – Water Financial Plan, and that the Township of Perth East Water Financial Plan for 2015-2020 be approved as presented.

BACKGROUND:

As a result of the recommendations made by the Walkerton Inquiry Part II Report, the Safe Drinking Water Act (SDWA) was passed in 2002. One of the main requirements of the Act is the mandatory licensing of municipal water providers. The Township of Perth East water licence was approved in 2010 and is up for renewal.

COMMENTS:

A successful licence renewal application must meet the following requirements;

1. The system is being operated by an accredited operating authority.
2. A drinking water works permit remains in force.
3. The operational plans for the system is in place.
4. The financial plans for the system satisfy the requirements under the SDWA.
5. The system will continue to be operated in accordance with the requirements under the SDWA
6. A permit to take water has been issued.

The Township water system meets all the requirements and a Financial Plan has been prepared for Council review and approval. The financial plan term must be for a minimum of six years and approved by Council. BM Ross provided a quote of \$11,050 to prepare the Financial Plan. As the Township analyzes water rates on an annual basis, taking into account lifecycle, operating and capital project costs, and in an effort to obtain efficiencies, it was decided to prepare the Financial Plan in house.

The requirements under Regulation 453/07 for the Water Financial Plan are as follows;

1. The financial plan is mandatory for water systems and encouraged for wastewater systems.
2. The financial plans shall be for a period of at least six years (starting in the year of licence renewal) but longer planning horizons are encouraged.
3. The plan must include information on projected financial position (assets, liabilities and net debt), projected financial operations (revenues, expenses, annual surplus and accumulated surplus) and projected cash flow (from operations, capital, investing and financing transactions).
4. Financial plans may be amended and additional information beyond what is prescribed can be included if deemed necessary.
5. Council-approved financial plans are to be submitted with licence renewal applications.
6. Plans must be made available to the public at no charge.

The Financial Plan must demonstrate sustainability. Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services. Life-cycle planning with mid-course corrections is preferable to planning over the short-term or not planning at all.

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.

The Financial Plan must ensure that the users pay for the services they are provided.

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.

The Financial Plan submitted in 2010 covered the years 2010 to 2015. The highlights from the analysis for the years 2010 to 2013 are as follows; (2013 is last full calendar year completed)

The submitted plan projected a cash reserve of \$332,120 by the end of 2013. The actual cash reserve balance was \$155,060 – difference of \$177,060. Grant driven capital projects such as the water meter replacement program and the Milverton Iron Study Project increased the capital program. The added investment in the capital program reduces the cash reserve which is countered by upgraded assets. The Revenue projections were within 2.14%. Operational expenses were under budget by 6.86%. Overall the capital plan submitted is on track. Plan results are reviewed by Council on an annual basis prior to rate approval at budget time. In February of 2014 Council approved a capital surcharge increase at CPI, which was higher than amortization costs in order to move towards full lifecycle replacement funding.

The 2015 to 2020 Financial Plan includes projected capital projects of \$37,000 and increases to operational expenditures at the estimated CPI of 2%. The capital surcharge is budgeted at an annual increase of 2% CPI as well. These projections bring the total water cash reserve to \$686,456 at the end of 2020. The water capital plan does not include large infrastructure projects between 2015-2020. The capital surcharge will build the reserves in order to fund future water system projects post 2020. The Township currently has 15,414 metres of watermain or approximately 140 village blocks (Milverton and Shakespeare).

Based on the 2014 watermain project budget for Grosch Street, the replacement cost for one metre of watermain is \$830. Therefore the 2014 cost to replace all watermains in the Township is \$12,790,904.

To put the reserve balance in perspective, the balance of \$686,456 at the end of 2020 will enable the Township to replace approximately seven village blocks or 734 metres of watermain after applying a 2% annual index. This represents approximately 5% of the total water distribution system.

The net book value of water assets is projected at \$4,986,501 as depreciated to 2020. (Historical cost less depreciation). Therefore the net book value of water assets in 2020 is \$4,986,501, but the future replacement cost for watermains (does not include other water assets such as pump stations) is \$12,790,904. This illustrates the gap between the current book value shown on the financial statements versus the actual future cost to replace the water assets. This also demonstrates the case to budget more than annual amortization in order to meet the future replacement costs.

The Township annually reviews wastewater rates under the same premise as water. Wastewater Financial Plans are not required to be submitted under the Township of Perth East Water Licence renewal application.

BUDGETARY IMPACT

Approval of the recommendation as outlined in this report will have no impact on the current approved Annual Corporate Budget.

CORPORATE VISION, MISSION, AND CORE VALUES

The information and responses provided in this report are consistent with and in keeping with the Municipality's stated Corporate Vision, Mission, and Core Values.

CORPORATE STRATEGIC PLAN

The information and responses provided in this report are consistent with and in keeping with the Municipality's approved Strategic Plan.


Rhonda Fischer, Treasurer


Glenn Schwendinger, CAO


Wes Kuepfer, Public Works Manager

