

The Corporation of the Town Of Spanish Financial Plan



September 2011

**The Corporation of the Town of Spanish
Water Treatment and Distribution System
Financial Plan**

Executive Summary	1
Expected Achievements	1
Operating Plan	1
Funding Plan	2
Financial Plan	2
Introduction	3
Ministry of the Environment Plans regulation 453/07	3
Ontario Clean Water Agency	3
Operating Plan	4
Operations	4
Capital Costs	5
Debt Management	6
Total Cash Expenditures	6
Funding Plan	6
Operating Revenues	6
Consumption	7
Water Rates	7
Summary of Revenues	7
New Debt	8
Financial Plan	8
Overview of Financial Position	9
Overview of Operations	10
Overview of Cash Flow	11
Summary	12
Feedback and Continuous Improvement	12

Executive Summary

In 2007, the Ministry of the Environment released Regulation 453/07 requiring all municipalities to complete a financial plan for their drinking water system. The Town of Spanish encloses its Financial Plan herein. It is prepared in accordance with the MOE Financial plans Regulation. (O. Reg 435/07)

In preparing the financial plan, the financial impacts of the drinking water system have been considered. Based on the Projected Financial Statements and the assumptions herein, The Town of Spanish will be financially viable and will provide safe drinking water for both the short and long term. This plan will be based primarily on the following projections:

- 1) Town of Spanish Funding Plan (Projected Revenue) for the time period 2011 – 2031 Appendix A
- 2) Town of Spanish Projected Cash Expenditures for the time period 2011 – 2031 Appendix B
- 3) Asset Management Plan for the Water System Assets completed in 2010 – Appendix C
- 4) OCWA 6 year Capital Forecast 2011 – 2017 (live document) – Appendix D

Expected Achievements

Through the process of developing this Financial Plan, The Town of Spanish set out to achieve the following:

- Financial Viability;
- Limit overall water costs and remain affordable;
- Provide safe drinking water in short and long term;
- Enable the long term plan for capital renewal to be realized;
- Achieve full cost recovery over the long term; and
- Maintain current service levels.

Operating Plan

The operating plan includes its day to day operations maintaining and administering the drinking water system, the capital plan that will incur to renew and replace its existing capital infrastructure and debt management, being the resulting debt repayments and interest charges that are incurred to achieve the above. Key highlights from the operating plan include:

- Operating Costs are projected to increase 3.0% in 2011, 3.0% in 2012, decrease 4.0% in 2013 and maintain an inflationary increase of 3.0% thereafter;
- Total Capital Infrastructure investment for the drinking water system up to 2031 is expected to be around \$1,800,000;

- Although on an annual basis, recommended capital renewal becomes deferred, the Financial Plan will allow for capital investment as recommended in the capital forecasted plan and Asset Management Plan, ensuring the water system will be able to provide safe, sustainable drinking water for both the short and long term;
- there is currently no existing debt;

Funding Plan

Appendix A, The Town of Spanish Projected Revenues, was developed to determine the most appropriate balance of operating revenues, short term government funding programs, Town reserves and debt financing.

The achievements of the funding plan include:

- Through annual budgeting processes, operating revenues will increase over time to cover operating, capital, debt and interest costs;
- Water rates will continue to be affordable over the long term;
- Water consumption is assumed to decrease by 2% 2011, 3% 2012 and in 2013 maintain consistent levels with a 1-2% variance.
- The plan does not rely on municipal tax dollars to run the water system;
- Government funding is expected to be utilized for portions of some capital upgrades throughout the duration of this plan;
- There will be minimal requirement to finance capital renewal for the duration of this plan;
- Through a combination of operating revenues, one time government funding programs and new debt, it is projected The Town of Spanish will achieve sufficient cash receipts to cover its annual cash expenditures.
- Revenue levels will be annually evaluated and gradually increased to allow The Town of Spanish to invest in a reserve fund for significant future capital investments, if necessary.

Financial Plan

Appendix B is the Projected Cash Expenditures for the time period 2011 – 2031, for The Town of Spanish. This statement includes a projection of operational expenses, a projection of cash flow and a projection for capital investment for the periods of 2011 to 2031.

Actual results will vary from the projection herein and the differences may be material.

This is a living document which will require continuous review and updates.

Introduction

This Financial Plan of the Town of Spanish's Water and Distribution System was prepared in accordance with regulation 435/07 as approved by the Ministry of Environment on August 14, 2007. The process in developing this plan was focused on achievement of balance between maintaining the water system in a safe and effective manner, while limiting expenditure and water rate increases. A flexible and gradual approach was utilized to achieve financial viability, recognizing that, the utilization of one-time funding sources for the purpose of sustaining the water system is limited, and the reliance on debt to support all future capital expenditures is unrealistic.

Considering historical trends and future needs, twenty year financial projections to the year 2031 have been prepared. These projections will allow the Town of Spanish to achieve financial viability, while providing safe drinking water over the short and long term.

Ministry of Environmental Financial Plans Regulation 435/07

Drinking water system owners are required to prepare a financial plan for their drinking water system as part of the new Municipal Drinking Water Licensing Program as set out in Part V of the Safe Drinking Water Act. (SWDA) The financial plan must be prepared in accordance with the Ministry of Environment Financial plans Regulation 453/07.

Regulation 453/07 requires the following:

- the financial plan be approved by resolution of Council that specifies that the drinking water system is financially viable;
- full-cost accounting be utilized to determine the true cost of the drinking water system; and
- projections be at least six years, but recommends a long term plan.

Ontario Clean Water Agency

The Ontario Clean Water Agency operates and maintains the water system infrastructure in conjunction with Office Administration and the Public Works Department of the Town of Spanish.

The Ontario Clean Water Agency in conjunction with the Town of Spanish's top priority is to provide a safe, sustainable supply of water, providing public health protection, fire protection and support for the local economy, all contributing to a high quality of life. Through OCWA's Quality Management System, the Agency is better able to manage risk, identify operational efficiencies, enhance staff knowledge and create public awareness of its commitment to provide safe drinking water.

Operating Plan

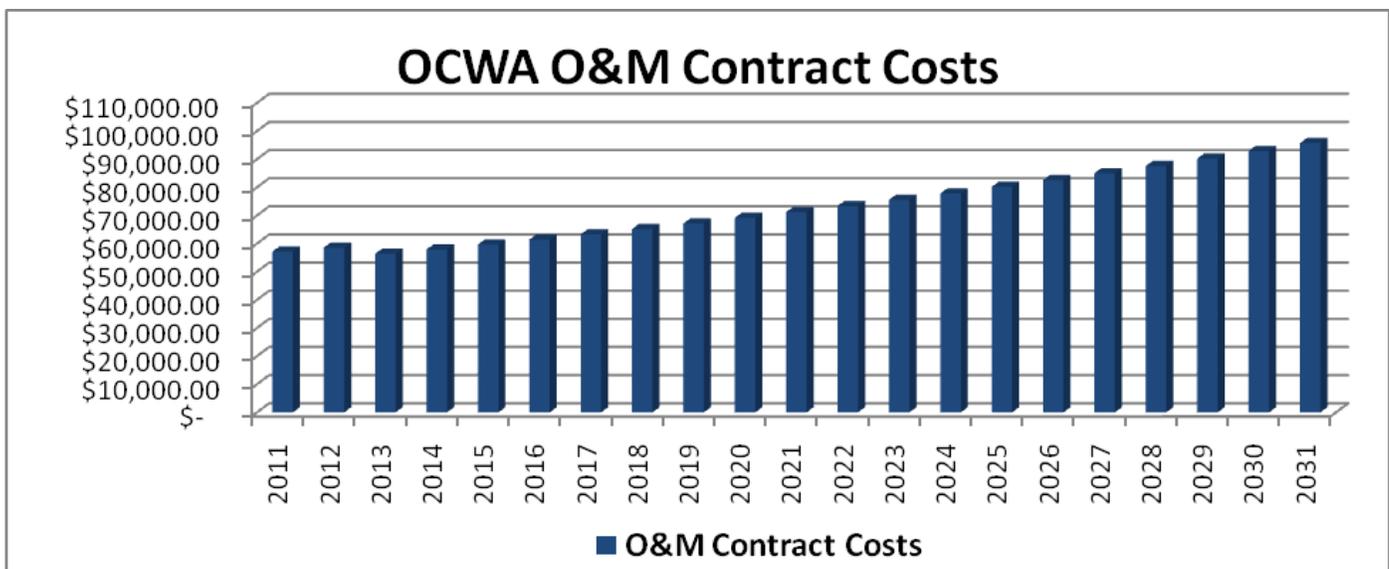
Through the achievement of its operational plan, The Ontario Clean Water Agency will provide safe drinking water in the short and long term. The operating plan includes its day to day operations maintaining and administering the drinking water system and capital investment forecasting that will incur to renew and replace its existing capital infrastructure. The Town of Spanish will manage the financial aspect of renewing and replacing its existing capital infrastructure, including debt and reserves management.

Operations

The Ontario Clean Water Agency and its predecessors, has operated the water system without major incident, providing safe drinking water for over 27 years. The Town of Spanish has maintained stable operating costs for the treatment and supply of its drinking water over the past 10 years.

Some of the Town's key operating expenses include the contracting of operations and maintenance services (OCWA), utilities, materials, supplies, and administrative costs. Annual

Operating Expenses are projected to be approximately \$137,000 in 2011 with only slight increases in 2012 and a slight decrease in 2013. The costs are expected to increase by 3% thereafter.



Key Assumptions in Projections

The detailed operating expenses are outlined in Town of Spanish Projected Cash Expenditures as part of Appendix Two. In these projections, it is assumed that the operating expenses will increase by 3.0% in 2011, 3.0% in 2012 decrease by 4.0 % in 2013 and maintain an inflationary increase of 3.0% thereafter.

Capital Costs

To enable the delivery of safe drinking water to all, the water system holds several assets in three separate facilities including; The Goderich Well House, The Noranda Well House and an Elevated Water Tower. The Distribution System houses 12.886 km of distribution watermain, 54 distribution valves, 350 service connections, and 84 fire hydrants. These assets are considered capital.

The Ontario Clean Water Agency has developed a 6 year capital plan to forecast required or recommended activities within the water system in order to ensure that these existing assets are maintained, renewed or upgraded as required. Over the long term it is not believed that there will be a need for large upgrades to the water system. The 6 year forecast is a live document and updated annually.

The Town of Spanish had an Asset Management Plan completed in 2010 according to the PSAB Standards to further establish the need to renew or upgrade assets in the water system. The report, Appendix Three, clearly outlines the timelines for distribution asset renewal or replacement. The majority of water system upgrades will take place in the distribution system and concern the replacement or rehabilitation of watermains. The cost effective rehabilitation or replacement strategy will be based on watermain age, material of pipe, size, soil conditions, and pressure related issues. It will also be coordinated with road projects and other underground utility work. It is estimated that no rehabilitation of watermains will be required over the duration of this plan (20 years) with exception of emergency main break requirements. For further information please refer to the Asset Management Plan and OCWA 6 Year Capital Forecasting Spreadsheet.(Appendix D)

Future Significant Capital Costs

Looking beyond the 20 year cycle, this plan will be updated continuously to allow the town to predict and prepare for its significant capital investments, such as watermain replacement and well house upgrades.

Key Assumptions in Projections

Capital projects are planned approximately one year in advance with the exception of emergency repair/upgrade needs. Some projects are deferred for short periods of time, but for the most part incurred capital plans are from previously developed forecasts.

The Town of Spanish Water System Assets at a Glance

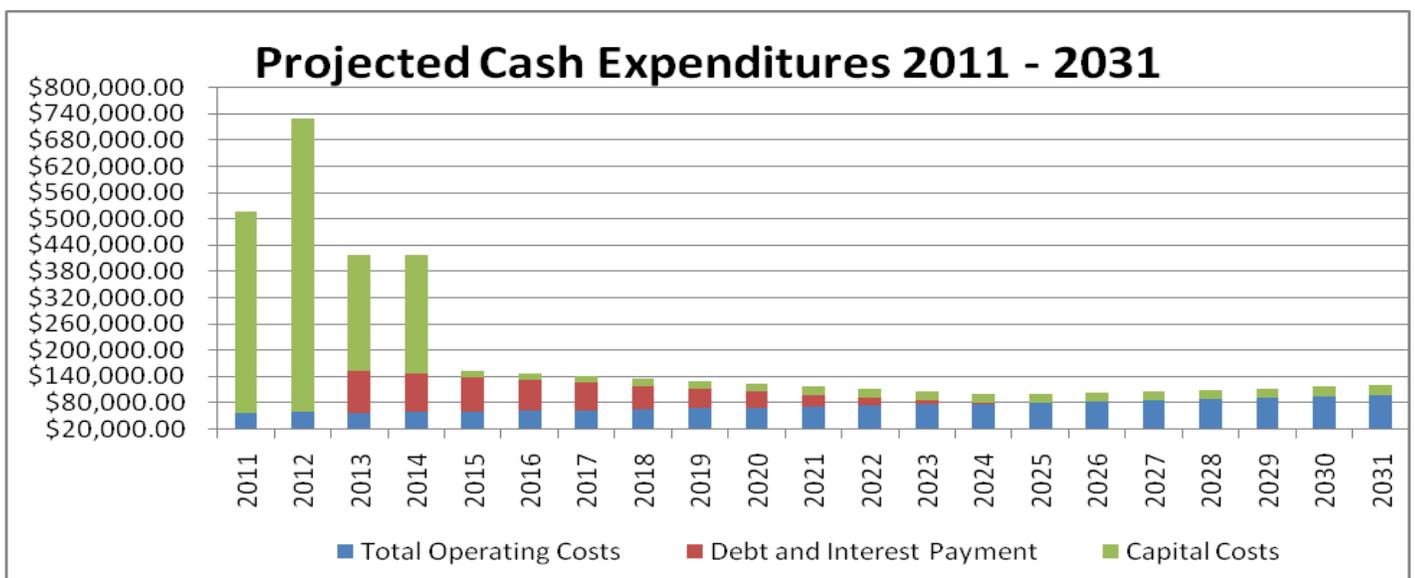
- 2 Full Treatment Well Houses
- 1 Elevated Tower
- 12.886 km of watermain
- 350 service connections
- 54 distribution valves
- 84 hydrants

Debt Management

Debt management is the ability to repay debt over time, including both principal payments and interest charges. Currently Spanish has no new debt, although it is projected that new debt may be required for future capital upgrades.

Total Cash Expenditures

The Town of Spanish has cash expenditures, including operating expenses, debt repayments and interest changes as well as capital costs. These expenditures are projected to be \$137,000 thousand per year in the short term and increase thereafter. All aggregate cash expenditures are highlighted in the chart below. The aggregate is not from one projected statement, but from various statements to illustrate the cash required to sustain a safe drinking water system.



FUNDING PLAN

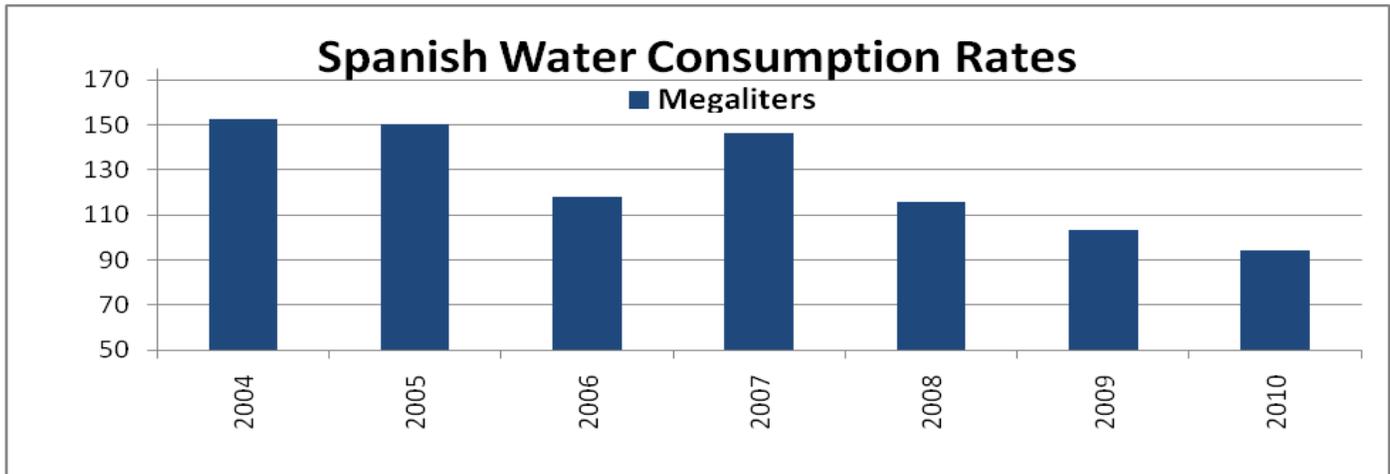
To fund critical expenditures, The Town of Spanish will rely on a blend of operating revenues, reserve funds, short term one-time government funding and new debt financing.

Operating Revenues

Operating revenues include user fees and other charges or receipts. The majority of the operating revenues are achieved as a result of water rates.

Consumption

Since 2004 water consumption has decreased 38 % from 152.38 Megaliters in 2004 to 93.958 Megaliters in 2010. The below chart illustrates the consumption rates in Megaliters from 2004 to 2010. As a result of the historical trends, and operating efficiencies, it is anticipated that consumption will continue to decrease before leveling off in 2013 at 90 Megaliters per year with 1-2 % variances thereafter.

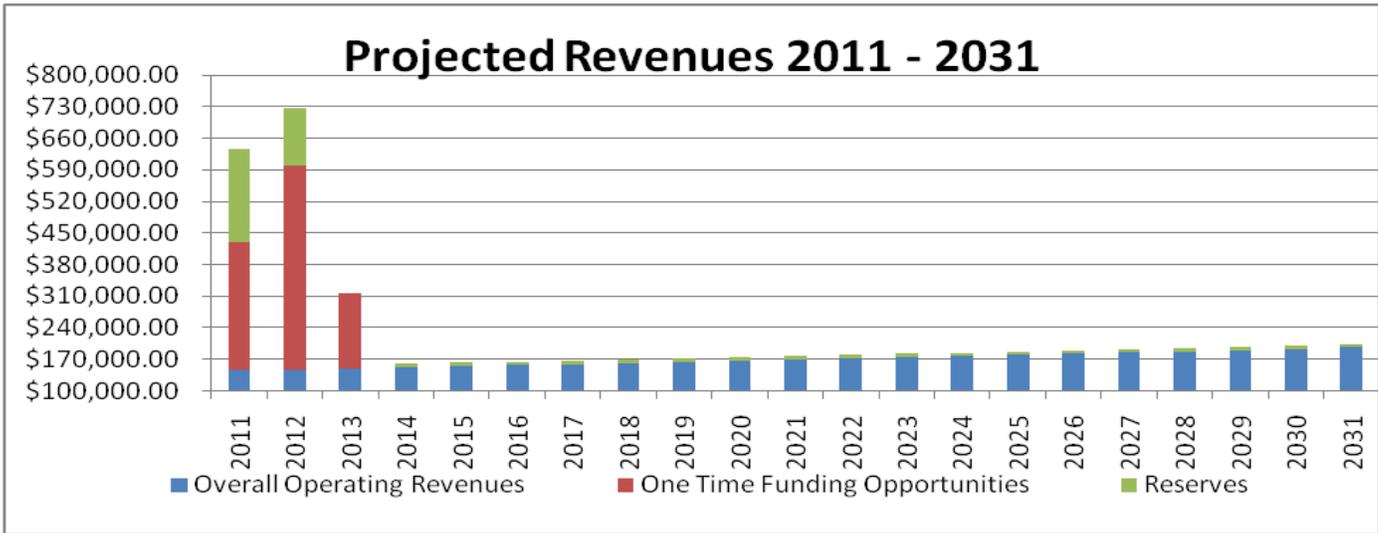


Water Rates

The current water rate structure is a flat rate billed monthly to users based on annual review by Town council. The system is fair and rates are expected to increase slightly over the years of this plan. The rate structure will be re-evaluated should water metering be implemented in the future.

Summary of Operating Revenues

Over the projected period, operating revenues are expected to increase 31% to 195,293.98 in 2031 from \$145,500 in 2011. Although one time government funding has not been assumed in creating a sustainable model, it has been projected in the short term as a cash expenditure. The graph below illustrates the projected operating revenues.



New Debt

While gradual rate increases will be required to increase operating revenues, there may still be monies required to cover expenditures for capital improvement to the drinking water system. In this financial plan, through careful consideration, it is projected that new debt will be required.

Over the time period 2011 – 2013, new debt of \$166,000 is projected to cover \$1,200,000 in capital investment. Based on these projections, there will be minimal requirements to finance annual ongoing capital renewal beyond 2031 however it may be prudent to finance a portion of significant capital infrastructure investments.

FINANCIAL PLAN

“As a general principle, municipalities should plan to raise adequate resources for their water systems from local revenue sources, barring exceptional circumstances”
 Recommendation 48 – Report of the Walkerton Inquiry

The financial impacts of the drinking water system has been taken into consideration through the projected cost and revenue statements produced for this report. The intent of these statements is to include a full cost recovery strategy , which will include all associated costs of the drinking water system including operations, financial and capital.

1. Overview of Financial Position
2. Overview of Revenues
3. Overview of Cash Flow

These overviews reflect The Town of Spanish estimates and assumptions, related to the operations of the water system and are derived from historical data and future expectations of the drinking water system requirements.

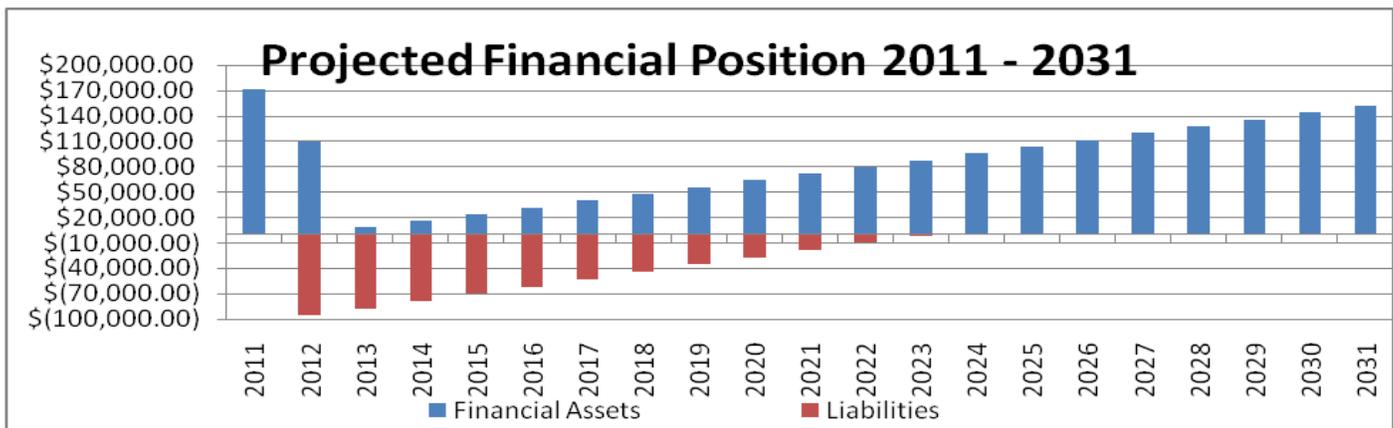
Actual results may vary from these projections and the difference may be material. The financial plan will be updated as accounting policies and key assumptions change.

Overview of Financial Position

The projected financial position reflects both the financial and non-financial assets of the Town of Spanish water system.

Net Financial Assets

Net financial assets are the financial assets, including cash and accounts receivable, offset by liabilities (debt) of the Town of Spanish water system. Net financial assets are projected as follows:



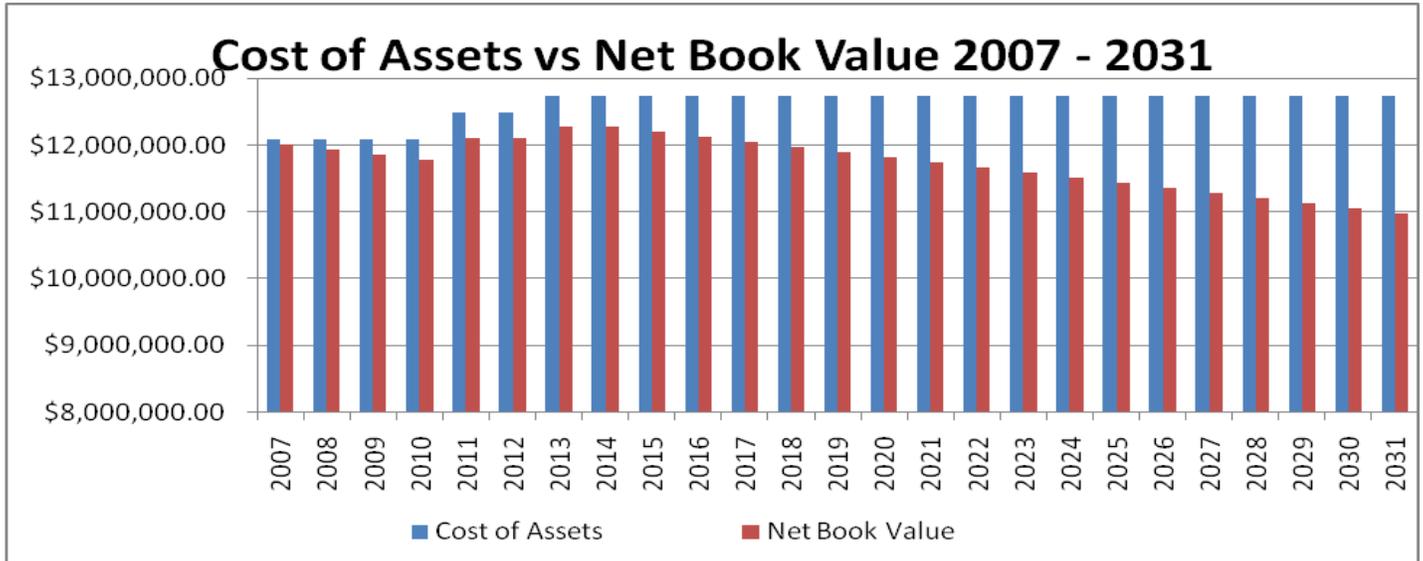
In 2011 the Town of Spanish currently has no debt. By 2031, it is projected that the Town of Spanish will have eliminated any new debt acquired during the duration of this plan

Non-Financial Assets

Non-financial assets include inventory and capital assets. The capital assets represent the infrastructure required to provide safe drinking water to the community. Capital assets are broken down as well houses and contents, elevated water tower and contents, remote control monitoring equipment, and distribution equipment including water mains, valves, and hydrants and fleet vehicles.

These capital assets are recorded at net book value and, which is their original cost, less accumulated amortization.

Below, the costs and net book value of the capital assets has been illustrated. It is projected that in 2007, the original cost of the capital assets to provide safe drinking water was \$12 million, through upgrades, the net capital assets are expected to be a value of 12.7 million in 2013. The net book value or the net cost remaining in its useful life, of those same assets is \$10.9 million in 2031.



Overview of Operations

The overview of operations includes the revenues less the expenses, arriving at the excess or net revenues over expenses, which is applied to the reserves to cover future capital expenditures.

Revenues

Revenues include both operating revenues and one time government funding received. A chart illustrating the revenues earned over time is shown on page 8.

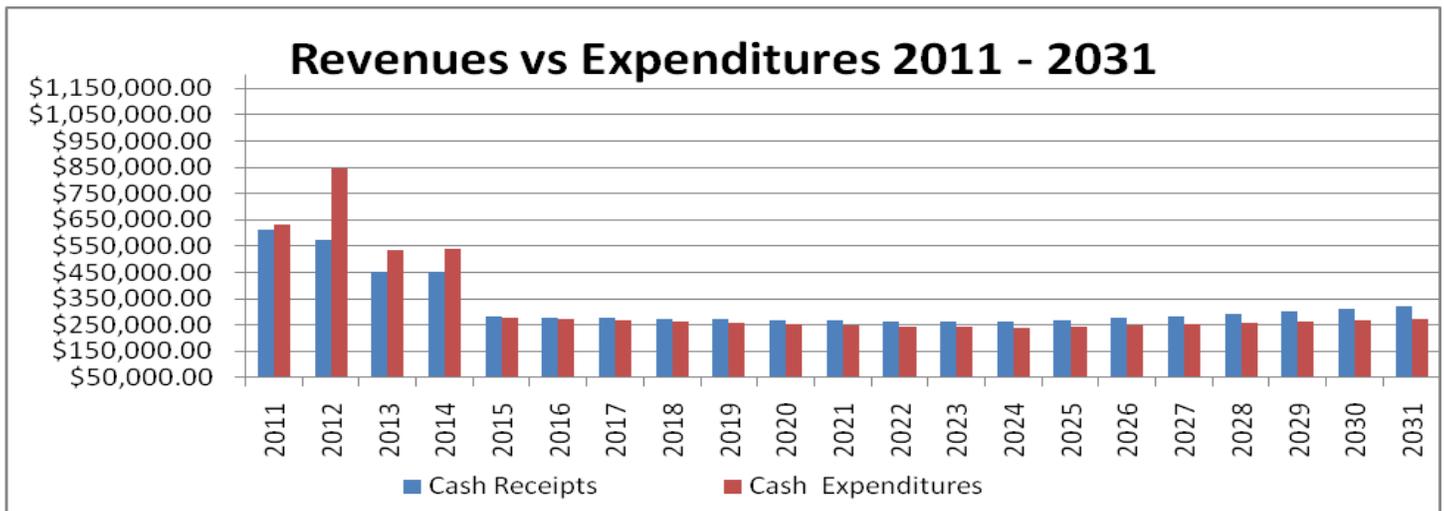
Expenses

Expenses include a list of detailed projected expenses, including operating expenses, interest on debt and amortization. Amortization is the write off of the capital assets or the water system infrastructure over their useful life. It does not represent a cash expenditure.

Overview of Cash Flow

The overview of cash flow is a very useful tool for a projected capital renewal program. It is laid out in three sections: operating transactions being projected net revenues over expenses, capital transactions being capital additions and asset sales, if any and financing transactions being new debt and the amount of that debt that will be repaid each year.

The chart below draws on the Operating Plan of this Financial Plan where cash expenditures were highlighted such as operating expenses, debt repayments and capital costs. It compares against the section in the Funding Plan, where the cash receipts or funds required to cover the cash expenditures were discussed. These funds include operating revenues, one time funding and new debt.



As it shows on the above chart, the Town of Spanish will begin to accumulate substantial reserves for capital renewal programs in the future due to a better than average ratio of cash receipts to cash expenditures.

SUMMARY

This financial plan has been developed in accordance with the MOE Financial plans Regulation (O.Reg 435/07). The process in developing this plan has focused on the achievement of a balance between maintaining the water system in a safe and effective manner, while limiting expenditure and water rate increases. A flexible and gradual approach has been utilized to achieve financial viability.

FEEDBACK AND CONTINUOUS IMPROVEMENT

The financial plan must be updated every five years but it is recommended to be updated more frequently to reflect changes in operations, economic climate, financing costs, consumption and pricing.

- **Achieve financial viability**
- **Limits overall water costs to consumers**
- **Provides safe drinking water in short term and long term**
- **Develops a long term plan for capital renewal**
- **Achieves full cost recovery over the long term**
- **Maintains current service levels**