



PETERBOROUGH UTILITIES COMMISSION

1867 Ashburnham Drive, PO Box 4125, Station Main
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WATER SYSTEM FINANCIAL PLAN

Prepared in accordance with the Safe Drinking Water Act

And

Ontario Regulation 453/07

PETERBOROUGH UTILITIES COMMISSION

DRINKING WATER SUPPLY SYSTEM

2016 – 2023 FINANCIAL PLAN

LICENCE # 145-101

Peterborough Utilities Commission endorsed and approved the Water Financial Plan for submission to the Ministry of Municipal Affairs and Housing on December 3, 2015.

OVERVIEW

The Peterborough Utilities Commission (“PUC”), per the Municipal Act 2001, operates as a municipal services board of the City of Peterborough. The PUC is governed by a 5 member Commission comprised of the Mayor of the City of Peterborough and 4 elected council members.

The PUC is responsible for providing Peterborough residents and businesses with a safe, clean and reliable supply of water. Peterborough has a plentiful supply of source water from the Otonabee River. This water is treated in a government-inspected facility before being distributed throughout the City. Each year the external and PUC labs test thousands of water samples to ensure that Peterborough's drinking water is safe and aesthetically pleasing. About twenty thousand tests are conducted each year to ensure the drinking water surpasses health-related standards.

The PUC must maintain and continually improve its infrastructure to ensure that its systems are capable of delivering safe, affordable and quality water to the residents of Peterborough for now and into the future and operates on a full cost recovery system.

BACKGROUND

The Ontario Ministry of the Environment introduced a new Municipal Drinking Water Licensing Program under the Safe Drinking Water Act (“SDWA”) 2002 as a result of a recommendation by Justice O’Connor’s Part II Report of the Walkerton Inquiry. Having met all the necessary initial filing requirements, the PUC was issued its Municipal Drinking Water License on June 23, 2011. Once received, this license is valid for 5 years provided the owner:

- Maintains its status as an accredited operating authority;
- Prepares a financial plan and has it approved by council;
- Has a valid permit to take water; and
- Operated the drinking water system according to the conditions in the license.

As the PUC has met each of the above criteria, its license is set to expire June 21, 2016, the end of the 5 year period. An application for renewal will need to be submitted by the PUC, and the Director will issue PUC a license renewal if the Director is satisfied that the following criteria are all met:

1. The system will continue to be operated by an accredited operating authority;
2. The Drinking Water Works Permit remains in force
3. Operation plans for the system satisfy the requirements of the Directors’ Directions for Operational Plans;
4. Financial plans have been prepared and approved;
5. The system has been and will continue to be operated in accordance with the requirements under the SDWA and the license; and
6. Any required permits to take water remain in force (if required).

This financial plan has been prepared to satisfy the above item number 4. Ontario Regulation 453/07 of the SDWA requires the owners of a drinking water system to submit their financial plans to the Ministry of Municipal Affairs and Housing for licensing. Per the regulations, the financial plan must;

- Be approved by Council resolution (or governing body, Commission);
- Apply for a period of at least six years, the first of which must be the year in which the drinking water system's existing municipal drinking water license would otherwise expire;
- Provide projected financial statements including a statement of financial position, statement of financial operations and statement of cash flows;
- Be available to the public without charge and available on the PUC website.

SUSTAINABLE FINANCIAL PLANNING

Achieving financial sustainability in Ontario's municipal water and wastewater sector is a long-term provincial goal. The overall guiding principle in the development of this Financial Plan is to ensure that both current operating needs and longer term infrastructure renewal planning are addressed.

The SDWA requires a declaration of the financial plan's sustainability but it does not give a clear definition of what would be considered sustainable. The Ministry of the Environment released a guideline entitled "Towards Financially Sustainable Drinking-Water and Wastewater Systems" that provides principles for achieving sustainability, to assist owners in preparing the Financial Plan. Listed below are nine principles developed by the Ministry which the PUC has reviewed in preparing its Water System Financial Plan.

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.

FINANCIAL PLAN

In accordance with the Ministry of the Environment's requirements, and the principles listed above, the PUC has prepared the requisite financial statements which are attached to this report. These financial statements have not been audited and comprise 2014 actual results, 2015 projected results and 2016 to 2023 forecasted results.

The 2014 figures are a summarized version of the audited financial statements. The 2015 projected results are management's best projection to the 2015 year end results, revised as of September 30, 2015. The future year assumptions originate from the ten year financial model maintained by the PUC that integrates data from the PUC asset management plan to forecast capital and operating costs and identify sources of funding to ensure long-term financial viability. These financial plans are living documents that are continuously updated based on actual results and managements best estimates for the future.

The attached financial statements include a statement of financial position, statement of operations and accumulated surplus, and statement of cash flow. The following summarizes key information from the forecasted financial statements presented.

Statement of Financial Position

The Statement of Financial Position describes the financial assets, liabilities, non-financial assets and accumulated surplus of the PUC.

Net Financial Assets

The attached Statement of Financial Position indicates that the net financial assets are forecast to be \$1.73 million at December 31, 2015, decreasing to a deficit position of \$1.56 million in 2023. The decrease is primarily attributed to increased debenture financing of \$18.50 million, required as follows: \$6 million in 2016, \$6 million in 2018 and \$6.5 million in 2022. After factoring in debenture repayments, the net result is a \$5.41 million increase in the debenture balance in 2023 compared to 2015.

Total Non-Financial Assets

Total Non-Financial Assets are expected to increase by \$20.22 million from \$115.87 million as of December 31, 2015 to \$136.09 million at December 31, 2023. The increase is the result of the additions in the PUC's tangible capital assets ("TCA"). The PUC's planned capital additions for the years 2016 to 2023 total \$71.72 million which is reduced by amortization of \$51.50 million resulting in the net increase in TCA of \$20.22 million.

Accumulated Surplus

The PUC Accumulated Surplus is expected to increase by \$16.93 million from the December 31, 2015 forecasted amount of \$117.60 million to a December 31, 2023 forecast amount of \$134.53 million

Statement of Operations and Accumulated Surplus

The Statement of Operations summarizes the PUC revenues and expenses for a specific period. The Annual Surplus measures whether the revenues generated were sufficient to cover operating expenses incurred, including the ability to fund the interest payments on debentures. The Annual Surplus is expected to increase consistently throughout the Financial Plan, starting at \$1.48 million for the year ending December 31, 2016 and increasing to \$2.95 million by December 31, 2023. It is important to note that the annual surplus is beneficial to ensure funding is available to non-expense costs, such as TCA additions and debt principal repayments.

For 2017 through 2018 the rate increase is projected to be 1.3% higher than the increase in operating and administrative expenditures, with this spread decreasing to 0.8% from 2018 to 2022 and eliminated in 2023. This additional revenue in excess of operating cost increase is allocated to the restricted cash reserves to fund future large scale capital projects.

Statement of Cash Flow

The Statement of Cash Flow summarizes changes in cash resulting from operations and indicates how the PUC financed its activities. In simple terms it is a summary of how the PUC generates and used its cash resources during a specific period.

Cash Provided by/(Used in) Operation

The PUC is expected to generate cash from operations in the amount of \$66.36 million from 2015 to 2023. The amount is comprised of cash generated from annual surplus of \$18.72 million net of amortization, a non-cash expenditure, of \$57.10 million. These amounts are reduced by revenue maintained in reserve funds and changes in non-cash working capital of \$10.26 million.

Investing Activity

During the period 2015 to 2023 the PUC has planned capital expenditures of \$82.05 million. The PUC capital program is driven by the PUC's asset management plan ("AMP") that is based upon a Linear Asset Management Plan ("LAMP") developed by the Peterborough Utilities Services Inc. engineering department and a Capital Prioritization Plan provided by an outside consultant in 2006. This plan is reviewed and updated annually based on current year activity and projected future needs.

Financing Activities

During the 2015 to 2023 planning period the PUC Financial Plan forecasts \$18.50 million in new debentures.

The PUC has been able to manage an extensive capital program while incurring minimal debt, and at the same time managing moderate rate changes to avoid extreme fluctuations. Long-term borrowing is confined to capital improvements or similar projects with an extended life when it is not practical to be financed from current revenues. Financing does not extend beyond the estimated useful life of the projects being financed and is typically limited to 15 years.

Cash Position

Unrestricted cash is anticipated to decrease from a December 31, 2015 projected balance of \$5.66 million to \$5.39 million as at December 31, 2023. The December 31, 2023 balance provides a reasonable working capital reserve and therefore there are no cash flow concerns for the PUC.

In addition to the unrestricted cash, PUC also maintains restricted cash accounts maintained for large capital projects. Amounts in the restricted account are projected to increase from \$6.28 million forecast for December 31, 2015 to \$9.24 million in 2023.

SUMMARY

The PUC is well prepared to be able to meet the challenges ahead and continue delivering safe, affordable and quality water to the residents of Peterborough for now and into the future. Operating under a full cost recovery system, the financial plan utilizes long-term planning in developing an understanding of the City of Peterborough's infrastructure needs and creating a financial structure that ensures resources are used in an efficient and effective manner. The PUC recognizes that the integrity of its finances is critical to the successful operation of the Utility and to its reputation and trust by ratepayers.

The Financial Plan has been prepared using the most accurate financial and technical information available at the time of publication. Actual results could differ from these estimates, the materiality of which is undeterminable at this time.

PETERBOROUGH UTILITIES COMMISSION
Statement of Financial Position
(\$'s in thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Financial Assets										
Cash	9,510	5,656	6,208	4,354	6,386	4,186	3,492	2,158	4,537	4,259
Restricted Cash	6,158	6,276	6,341	7,368	8,444	9,478	10,561	10,181	10,343	10,368
Accounts receivable	4,679	4,726	4,545	4,590	4,636	4,682	4,729	4,776	4,824	4,872
	20,347	16,658	17,094	16,312	19,466	18,346	18,782	17,115	19,704	19,499
Liabilities										
Accounts payable and deposits	6,018	6,198	5,622	5,791	5,964	6,143	6,328	6,517	6,713	6,914
Debentures	9,760	8,734	13,623	12,282	16,357	14,405	12,426	11,078	15,885	14,147
	15,778	14,932	19,245	18,073	22,321	20,548	18,754	17,595	22,598	21,061
Net financial assets	4,569	1,726	(2,151)	(1,761)	(2,855)	(2,202)	28	(480)	(2,894)	(1,562)
Non-financial assets										
Tangible capital assets	110,951	115,682	121,042	121,971	124,576	125,818	125,902	129,134	134,290	135,903
Inventory	192	192	191	191	191	191	191	191	191	191
Prepaid expenses	98	-	-	-	-	-	-	-	-	-
	111,241	115,874	121,233	122,162	124,767	126,009	126,093	129,325	134,481	136,094
Accumulated Surplus	115,810	117,600	119,082	120,401	121,912	123,807	126,121	128,845	131,587	134,532

PETERBOROUGH UTILITIES COMMISSION
Statement of Operations and Accumulated Surplus
(\$'s in thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Revenues										
Sale of water	16,071	15,654	16,299	16,977	17,684	18,419	19,186	19,983	20,811	21,509
Other	3,765	3,085	2,806	2,791	2,875	2,914	2,899	2,921	2,964	2,987
Total revenues	19,836	18,739	19,105	19,768	20,559	21,333	22,085	22,904	23,775	24,496
Expenses										
Operating	7,186	7,524	7,817	8,012	8,213	8,459	8,713	8,974	9,244	9,521
Administrative	3,476	3,495	3,594	3,684	3,776	3,890	4,006	4,127	4,250	4,378
Interest	362	330	362	522	737	669	598	540	785	724
Amortization	5,295	5,600	5,850	6,231	6,322	6,420	6,454	6,539	6,754	6,928
Total expenses	16,319	16,949	17,623	18,449	19,048	19,438	19,771	20,180	21,033	21,551
Annual surplus	3,517	1,790	1,482	1,319	1,511	1,895	2,314	2,724	2,742	2,945
Opening Accumulated Surplus	112,293	115,810	117,600	119,082	120,401	121,912	123,807	126,121	128,845	131,587
Closing Accumulated Surplus	115,810	117,600	119,082	120,401	121,912	123,807	126,121	128,845	131,587	134,532

PETERBOROUGH UTILITIES COMMISSION
Statement of Cash Flow
(\$'s in thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Cash provided by (used in) Operations										
Annual Surplus	3,517	1,790	1,482	1,319	1,511	1,895	2,314	2,724	2,742	2,945
Add: Non cash charges										
Amortization	5,295	5,600	5,850	6,231	6,322	6,420	6,454	6,539	6,754	6,928
Less: Reserve fund revenue in surplus	(1,004)	(1,393)	(957)	(1,224)	(1,280)	(1,244)	(1,299)	(1,342)	(1,391)	(1,261)
	7,808	5,997	6,375	6,326	6,553	7,071	7,469	7,921	8,105	8,612
Changes in non-cash working capital										
	89	232	(394)	123	128	133	137	143	148	153
	7,897	6,229	5,981	6,449	6,681	7,204	7,606	8,064	8,253	8,765
Investing Activity										
Net additions to tangible capital assets	(10,797)	(10,331)	(11,211)	(7,160)	(8,928)	(7,662)	(6,537)	(9,773)	(11,910)	(8,541)
Financing Activities										
Proceeds from debenture debt	-	-	6,000	-	6,000	-	-	-	6,500	-
Debenture repayment	(1,015)	(1,027)	(1,110)	(1,341)	(1,925)	(1,952)	(1,979)	(1,348)	(1,693)	(1,738)
Transfers from reserves	1,200	1,275	892	198	204	210	216	1,723	1,229	1,236
	185	248	5,782	(1,143)	4,279	(1,742)	(1,763)	375	6,036	(502)
Net change in unrestricted cash for the year	(2,715)	(3,854)	552	(1,854)	2,032	(2,200)	(694)	(1,334)	2,379	(278)
Cash Position, beginning of year	12,225	9,510	5,656	6,208	4,354	6,386	4,186	3,492	2,158	4,537
Cash Position, end of year	9,510	5,656	6,208	4,354	6,386	4,186	3,492	2,158	4,537	4,259