



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

2019 – 2028 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 March 25, 2021.

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 Ministry of the Environment Conservation and Parks 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 April 15, 2016. 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 owner;
- 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 April 14, 2021, 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 Environment, Conservation and Parks requirements, and the principles listed above, the PUC has prepared the required financial statements which are attached to this report. These financial statements have not been audited and comprise 2019 actual results, 2020 projected results and 2021 to 2028 forecasted results.

The 2019 figures are a summarized version of the audited financial statements. The 2020 projected results are management’s best projection the year end results, the audit of which has yet to be finalized. 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 \$8.06 million at December 31, 2020, decreasing to \$5.74 million in 2028. Total cash is expected to decrease from \$23.50 million at December 31, 2020 to \$18.38 million at December 31, 2028 as the PUC has a net repayment of \$4.29 million in debenture financing over that period.

Total Non-Financial Assets

Total Non-Financial Assets are expected to increase by \$25.54 million from \$119.94 million as of December 31, 2020 to \$146.00 million at December 31, 2028. 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 2021 to 2028 total \$81.40 million which is reduced by amortization of \$55.33 million resulting in the net increase in TCA of \$26.07 million.

Accumulated Surplus

The PUC Accumulated Surplus is expected to increase by \$23.75 million from the December 31, 2020 forecasted amount of \$128.00 million to a December 31, 2028 forecast amount of \$151.75 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 fluctuate throughout the Financial Plan, starting at \$2.77 million for the year ending December 31, 2021 and increasing to \$3.62 million by December 31, 2028, with a low of \$2.05 forecast for 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.

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 \$72.49 million from 2020 to 2028. The amount is comprised of cash generated from annual surplus of \$25.21 million net of amortization, a non-cash expenditure, of \$61.53 million. These amounts are reduced by revenue maintained in reserve funds and changes in non-cash working capital of \$14.25 million.

Investing Activity

During the period 2020 to 2028 the PUC has planned capital expenditures of \$84.88 million. The PUC capital program is driven by the PUC's asset management plan ("AMP") that is based upon an internally developed Linear Asset Management Plan ("LAMP") and a Long Term Water Utility Master Plan provided by an outside consultant in 2019. This plan is reviewed and updated annually based on both current year activity and projected future needs.

Financing Activities

During the 2020 to 2028 planning period the PUC Financial Plan includes \$6 million in new debentures that were taken in 2020, and an additional \$6 million forecast to be drawn in 2023.

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 20 years.

Cash Position

Unrestricted cash is anticipated to decrease from a December 31, 2020 projected balance of \$13.34 million to \$10.09 million as at December 31, 2028. The December 31, 2028 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 decrease from \$10.17 million forecast for December 31, 2020 to \$8.28 million in 2028 with restricted funds expected to be utilized in 2022-2024 to fund significant capital projects.

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)

	2019 Actual	2020 Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Financial Assets										
Cash	5,650	13,335	8,907	6,453	12,819	15,610	15,395	11,310	10,737	10,093
Restricted Cash	9,459	10,161	11,017	7,947	4,909	3,882	4,902	5,971	7,095	8,283
Accounts receivable	4,808	5,077	5,450	5,505	5,560	5,615	5,671	5,728	5,785	5,843
	19,917	28,573	25,374	19,904	23,288	25,107	25,968	23,010	23,618	24,219
Liabilities										
Accounts payable and deposits	6,608	6,295	6,950	7,159	7,373	7,594	7,822	8,057	8,299	8,548
Debentures	9,605	14,216	12,914	11,598	16,268	14,922	13,561	12,183	10,789	9,930
	16,213	20,511	19,864	18,757	23,641	22,516	21,383	20,240	19,088	18,478
Net financial assets	3,704	8,062	5,510	1,148	(353)	2,590	4,585	2,770	4,530	5,741
Non-financial assets										
Tangible capital assets	122,125	119,409	124,728	131,508	135,059	135,197	135,529	140,964	143,077	145,479
Inventory	423	530	530	530	530	530	530	530	530	530
Prepaid expenses	291	-	-	-	-	-	-	-	-	-
	122,839	119,939	125,258	132,038	135,589	135,727	136,059	141,494	143,607	146,009
Accumulated Surplus	126,543	128,001	130,768	133,186	135,236	138,317	140,644	144,264	148,137	151,750

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Forecast	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Revenues										
Sale of water	17,539	18,121	18,321	18,999	19,786	20,437	21,176	21,940	22,785	23,853
Other	2,891	2,002	3,840	3,491	2,971	4,097	3,007	4,088	4,107	3,328
Total revenues	20,430	20,123	22,161	22,490	22,757	24,534	24,183	26,028	26,892	27,181
Expenses										
Operating	8,735	8,422	8,679	8,939	9,208	9,484	9,768	10,061	10,363	10,674
Administrative	3,824	3,769	4,018	4,139	4,263	4,391	4,522	4,658	4,798	4,942
Interest	326	277	417	424	401	648	624	599	574	553
Amortization	6,185	6,197	6,280	6,570	6,835	6,930	6,942	7,090	7,283	7,399
Total expenses	19,070	18,665	19,394	20,072	20,707	21,452	21,856	22,408	23,018	23,568
Annual Surplus	1,360	1,458	2,767	2,417	2,050	3,082	2,327	3,620	3,874	3,613
Opening Accumulated Surplus	125,183	126,543	128,001	130,768	133,186	135,236	138,317	140,644	144,264	148,137
Closing Accumulated Surplus	126,543	128,001	130,768	133,186	135,236	138,317	140,644	144,264	148,137	151,750

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

	2019 Actual	2020 Forecast	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2028 Budget
Cash provided by (used in) Operations										
Annual Surplus	1,360	1,458	2,767	2,417	2,050	3,082	2,327	3,620	3,874	3,613
Add: Non cash charges										
Amoritzation	6,185	6,197	6,280	6,570	6,835	6,930	6,942	7,090	7,283	7,399
Less: Reserve fund revenue in surplus	(1,165)	(981)	(2,293)	(1,618)	(1,062)	(2,180)	(1,120)	(2,233)	(2,287)	(1,553)
	6,380	6,674	6,754	7,369	7,823	7,831	8,148	8,476	8,870	9,459
Changes in non-cash working capital	(22)	(398)	282	154	160	166	172	178	184	191
	6,358	6,276	7,036	7,523	7,983	7,997	8,320	8,654	9,055	9,650
Investing Activity										
Net additions to tangible capital assets	(6,730)	(3,481)	(11,599)	(13,350)	(10,386)	(7,068)	(7,273)	(12,525)	(9,397)	(9,801)
Financing Activities										
Proceeds from debenture debt	-	6,000	-	-	6,000	-	-	-	-	-
Debenture repayment	(1,376)	(1,389)	(1,302)	(1,316)	(1,331)	(1,346)	(1,361)	(1,377)	(1,394)	(859)
Transfer from reserves	219	279	1,437	4,688	4,100	3,208	100	1,163	1,163	365
	(1,157)	4,890	135	3,372	8,769	1,862	(1,261)	(214)	(231)	(494)
Net change in unrestricted cash for the year	(1,529)	7,685	(4,428)	(2,454)	6,366	2,791	(214)	(4,085)	(573)	(644)
Cash position, beginning of year	7,179	5,650	13,335	8,907	6,453	12,819	15,610	15,395	11,310	10,737
Cash position, end of year	5,650	13,335	8,907	6,453	12,819	15,610	15,395	11,310	10,737	10,093