



**WINDSOR
UTILITIES
COMMISSION**

2019 to 2024 Water System Financial Plan

No. 025-101

In Accordance with O. Reg. 453/07

April 2018

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Background

The Windsor Utilities Commission (“WUC”) operates the drinking water system for the City of Windsor and provides drinking water to the neighbouring municipalities of LaSalle and Tecumseh. WUC operates water treatment facilities and provides potable water to all parts of Windsor through an extensive water distribution network. Water is provided to the neighbouring communities through WUC’s water transmission and distribution system at designated metered points from which the neighbouring communities distribute the water to their own local residents.

Objective

The purpose of this document is to update the Water System Financial Plan (“WSFP”) in order to fulfill the license renewal requirements defined in O.Reg. 453/07.

The WSFP incorporates the most recent operating, capital and cash flow forecasts contained in WUC’s 2017 rate review and 2018 (plus 5 year) operating budget.

Regulatory Requirements

In 2007, as part of the Municipal Drinking Water Licensing Program, the Ministry of Environment and Climate Change (MOECC) released Ontario Regulation 453/07 that requires the preparation of a Financial Plan for all municipal drinking water systems.

Financial Plan requirements for license renewals defined under O.Reg 453/07 require that the plans:

- Be approved by Council or the applicable governing body (WUC)
- Apply to a period of at least six years.
- Include the year in which the license expires as part of the forecasted period (2019).
- Provide details of the projected financial position.
- Provide details of the projected statement of operations including total revenues, expenses, annual surplus and accumulated surplus.
- Provide projections of gross cash receipts and payments as included in a typical statement of cash flows, which include operating, capital and investing and financing transactions.
- Provide details of expenditures directly related to the replacement of lead service pipes.
- Be made available to the public without charge
- Be made available to the public on the internet, if the owner maintains a website on the internet.
- Be provided to the Ministry of Municipal Affairs and Housing.

It is noted that the “description of disclosures” required in the financial plan under O. Reg. 453/07 were written for municipalities subject to Canadian Public Sector Accounting Standards. WUC is subject to International Financial Reporting Standards (“IFRS”) and accordingly the description of some required disclosures in WUC’s financial plan may differ from the regulation where the equivalent IFRS terminology has been applied.

Guidelines for the Plan

The Ministry of the Environment and Climate Change provided principles of financial stability to be utilized in preparation of the financial plans in its report in its 2007 guide “Toward Financially Sustainable Drinking –Water and Wastewater systems”. The principles provided are summarized below:

1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
2. An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.
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 not planning at all.
5. An asset management plan is a key input to the development of a financial plan.
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.
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.
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.
9. Financial plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

Replacement of Lead Service Pipes

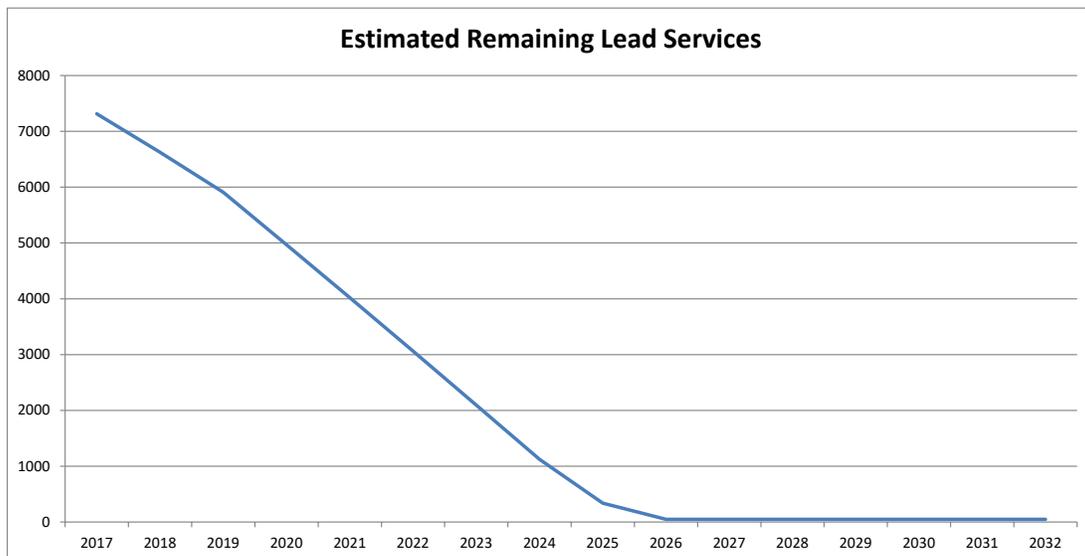
In 2007 the MOE implemented a regulated lead testing program which required municipalities and systems operators to undertake mandatory testing for lead in drinking water to ensure lead levels met the Ontario Drinking Water Standard. WUC has performed

all required lead testing and continues to meet or exceed the testing requirements of the province.

In accordance with O. Reg. 453/07 the WSFP must include the financial implications directly related to the replacement of lead services. As part of WUC’s ongoing water main capital replacement program, WUC has targeted the replacement of lead services in every year of the current plan. Annual expenditures associated with the replacement of lead services included in the “Watermain Renewal and Improvements” line in Schedule 2 are summarized as follows:

Lead Services Replacement Cost - Projected						
	(\$000's)					
	2019	2020	2021	2022	2023	2024
Annual cost	2,028	2,105	2,185	2,268	2,354	2,443

As a result of these efforts it is estimated the number of lead services will decrease as outlined in the chart below:



Water System Financial Plan

The detailed water system financial plan is provided in Schedule 1 and 2 of this report. A summary of the key statements and assumptions for each is summarized as follows:

a. Projected Statement of Financial Position

The projected statement of financial position indicates projected cash and investments of \$11.8 million at the end 2019 will grow to approximately \$18.9 million by 2022. The projected growth in cash and reserves is required to facilitate larger than normal capital expenditures projected for 2023 through 2025 associated with the construction of a central feeder main.

Debt of \$51.4 million is without annual repayments and due in 2042. To facilitate repayment of this debt, WUC contributes annually to a sinking fund investment intended to pay off this debt in full in 2042. The sinking fund is projected to grow from \$8.0 million at the end of 2018 to \$17.0 million at the end of 2024.

b. Projected Statement of Income and Operations

Water revenue is expected to grow at a rate of approximately 3.8% over the early years of the projected and by 2.8% in 2024. The increase in revenue is required to fund the capital program of WUC which includes the water main and lead renewal programs noted earlier in this report.

Operating expenditures are expected to increase by 2.2% on average over the period of projection.

Net income is projected to grow from \$13.1 million in 2019 to \$17.2 million in 2024 as is needed to fund the capital expenditures and systematically fund repayment of WUC's long term debt as described above.

c. Projected Statement of Cash flows

Cash flow from operations is projected to increase from \$22.8 million in 2019 to approximately \$29.7 million in 2024. This increase provides the necessary funding for capital expenditures of \$146 million from 2019 to 2024 as well as investment in the sinking fund of \$9.0 million over the same period to reduce WUC's net debt.

The water system financial plan as provided in Schedule 1 and 2 is a key tool in ensuring the long term financial stability and sustainability of WUC's drinking water system. The plan is a living document updated annually as part of WUC's annual budget and rate setting process to improve its accuracy and compliance with O. Reg. 453/07.

**Windsor Utilities Commission
Projected Statement of Financial Position
Unaudited (\$ 000's)**

	2017	2018	2019	2020	2021	2022	2023	2024
Assets								
Cash and Reserve Investments	22,250	15,945	11,840	12,436	13,984	18,916	17,439	16,091
Receivables and other current Investment - Sinking Fund	11,415	11,735	12,063	12,401	12,748	13,105	13,472	13,742
	6,604	7,986	9,401	10,850	12,333	13,852	15,406	16,998
Total Financial Assets	40,269	35,665	33,305	35,687	39,066	45,873	46,317	46,831
Property Plant and Equipment	279,242	296,979	311,659	322,814	333,556	342,635	359,362	375,940
Total Assets	319,511	332,645	344,964	358,501	372,621	388,507	405,680	422,771
Liabilities								
AP and other current liabilities	13,219	13,589	13,698	13,807	13,918	14,029	14,141	14,141
Deposits and deferred revenue	7,278	7,278	7,278	7,278	7,278	7,278	7,278	7,278
Total Current Liabilities	20,497	20,867	20,976	21,085	21,196	21,307	21,419	21,419
Loan due to related party	3,698	2,877	2,056	1,235	414	-	-	-
Long Term Borrowings	51,350	51,350	51,350	51,350	51,350	51,350	51,350	51,350
Employee Future Benefits	6,286	6,186	6,086	5,986	5,886	5,786	5,686	5,586
Total Liabilities	81,831	81,280	80,468	79,656	78,846	78,443	78,455	78,355
Equity								
Contributed Surplus	61,854	61,854	61,854	61,854	61,854	61,854	61,854	61,854
Retained Earnings or Accumulated Surplus	175,826	189,511	202,642	216,991	231,922	248,210	265,370	282,561
Total Equity or Accumulated Surplus	237,680	251,365	264,496	278,845	293,776	310,064	327,224	344,415
Total Liabilities and Equity	319,511	332,645	344,964	358,501	372,621	388,507	405,680	422,771
Current Ratio	2.0	1.7	1.6	1.7	1.8	2.2	2.2	2.2
Debt / Equity	23%	22%	20%	19%	18%	17%	16%	15%

**Windsor Utilities Commission
Projected Statement of Income and Operations
Unaudited (\$ 000's)**

	2017	2018	2019	2020	2021	2022	2023	2024
Revenue								
Water - Fixed	17,391	17,519	18,185	18,876	19,593	20,338	21,110	21,701
Water - Consumption	15,437	15,881	15,761	16,360	16,982	17,627	18,297	18,809
Wholesale / Suburban	3,192	2,863	2,920	2,978	3,038	3,099	3,161	3,249
Water main Levy	14,772	15,030	15,276	15,856	16,459	17,084	17,733	18,230
Total water revenue	50,792	51,293	52,141	54,070	56,071	58,147	60,301	61,989
Other Revenue								
District Energy (net)	1,364	1,276	1,302	1,317	1,325	1,382	1,398	1,437
Other	1,300	1,144	1,144	1,144	1,144	1,144	1,144	1,144
Total Revenue	53,456	53,713	54,587	56,531	58,540	60,673	62,843	64,570
Expenses								
Operating Expenses	27,637	28,710	29,358	29,734	30,803	31,105	31,851	32,743
Annual Change		3.9%	2.3%	1.3%	3.6%	1.0%	2.4%	2.8%
Interest expense - net	1,858	2,065	2,065	2,065	2,065	2,065	2,065	2,065
Interest (income) - sinking fund	(199)	(157)	(190)	(224)	(258)	(294)	(330)	(367)
Other - (gain) loss	1,176	250	250	250	50	50	50	50
Depreciation	8,591	9,160	9,972	10,357	10,949	11,458	12,046	12,888
Total Expenses	39,063	40,028	41,455	42,182	43,609	44,385	45,683	47,379
Net Income or Annual Surplus	14,393	13,685	13,131	14,348	14,931	16,288	17,160	17,191

**Windsor Utilities Commission
Projected Statement of Cashflows
Unaudited (\$ 000's)**

	2017	2018	2019	2020	2021	2022	2023	2024
Cashflow from Operating Activities								
Net income for the year	14,393	13,685	13,131	14,348	14,931	16,288	17,160	17,191
Adjust for :								
Depreciation	8,715	9,160	9,972	10,357	10,949	11,458	12,046	12,888
Change in working capital	3,827	(49)	(320)	(328)	(337)	(346)	(355)	(369)
Cashflow from operations	26,935	22,795	22,784	24,377	25,543	27,401	28,852	29,710
Investing Activities								
Investment in PPE	(30,310)	(26,897)	(24,652)	(21,511)	(21,691)	(20,537)	(28,774)	(29,465)
Sinking fund investment	(1,474)	(1,382)	(1,415)	(1,449)	(1,483)	(1,519)	(1,555)	(1,592)
Financing Activities								
Repayment of related party loan	(822)	(821)	(821)	(821)	(821)	(414)	-	-
Net increase in cash	(5,671)	(6,305)	(4,105)	596	1,548	4,931	(1,477)	(1,348)
Cash, beginning of year	27,921	22,250	15,945	11,840	12,436	13,984	18,916	17,439
Cash, End of year	22,250	15,945	11,840	12,436	13,984	18,916	17,439	16,091

**Windsor Utilities Commission
2019 to 2024 Water System Financial Plan No. 025-101
Schedule of Capital Expenditures
(\$ 000's)**

Schedule 2

	2017	2018	2019	2020	2021	2022	2023	2024
<u>Capital Expenditures</u>								
Watermain Renewal and Improvements	11,628	16,206	15,938	16,384	16,843	17,315	17,800	18,298
Rehabilitation of Reservoir D	-	300	3,200					
Completion of new reservoir	12,958	4,788						
Central Corridor Transmission Main								
JF Cook upgrades							6,500	6,500
Master Plan Update			250				600	250
GPS Survey Equipment	-	28	28	28	28	28	28	28
Hydrants, Valves, Services and tools	517	571	582	593	604	616	633	651
Water Treatment Facilities	1,898	2,023	1,252	1,885	2,017	565	1,355	1,665
Meter Replacement Program	2,493	2,592	2,422	1,793	1,438	1,443	1,482	1,523
Vehicles		339	770	738	681	500	296	500
District energy	15	50	210	90	80	70	80	50
Total Capital Expenditures	29,509	26,897	24,652	21,511	21,691	20,537	28,774	29,465