

2013 Drinking Water Leadership Summit

Financial Plans ...from a Financial Perspective

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Financial Plans...

a Financial Perspective

- Arising from the recommendations of the Walkerton Inquiry (Part 2), full cost pricing, including the goal of implementing long term asset management principles, was recommended
- Over the past 11+ years, this has been contemplated in varying ways though proposed and interim legislation
- A summary is provided herein...

Sustainable Water and Sewage Systems Act (SWSSA)

- Act passed Dec. 2002 and was subsequently repealed (2012)
- Act was to ensure that all costs for providing service was assessed
- Costs to include sustainable asset management (long term plan for asset replacement)

Sustainable Water and Sewage Systems Act (SWSSA)

Required Full Cost pricing which was defined as:

“source protection, operating costs, financing costs, renewal and replacement costs and improvement costs associated with extracting, treating or distributing water to the public and such other costs which may be specified by regulation.”

SWSSA Reporting Requirements

Two Reports were to be prepared:

- 1) “Full Cost Service” report
 - Must inventory all infrastructure
 - Prepare Infrastructure Management Plan
 - Identify all costs of providing the service(s) along with corresponding revenue for funding
 - Engineer must certify first two items
 - Municipal Auditor must provide written opinion

SWSSA Reporting Requirements

2) “Cost Recovery Plan” report

- Will identify how the municipality intends to pay for full costs of service(s)
- Reg.s may limit revenues
- Reg.s may limit increases to any customer or class (municipality may apply for higher increases)
- Municipal Auditor must provide written opinion prior to Council adoption of report

O. Reg 453/07 Replaced SWWSA

1. O. Reg 453/07 introduced (in 2007) to ensure licensing provisions (below) of Safe Drinking Water Act would be achieved as SWSSA not passed:
 1. Drinking Water Works Permit (DWWP)
 2. Accepted Operational Plan, based on the Drinking Water Quality Management Standard (DWQMS)
 3. Accreditation of the Operating Authority
 4. **Financial Plan**
 5. Permit to Take Water (PTTW)

Financial Plan Requirements – Initial Licence or Renewal

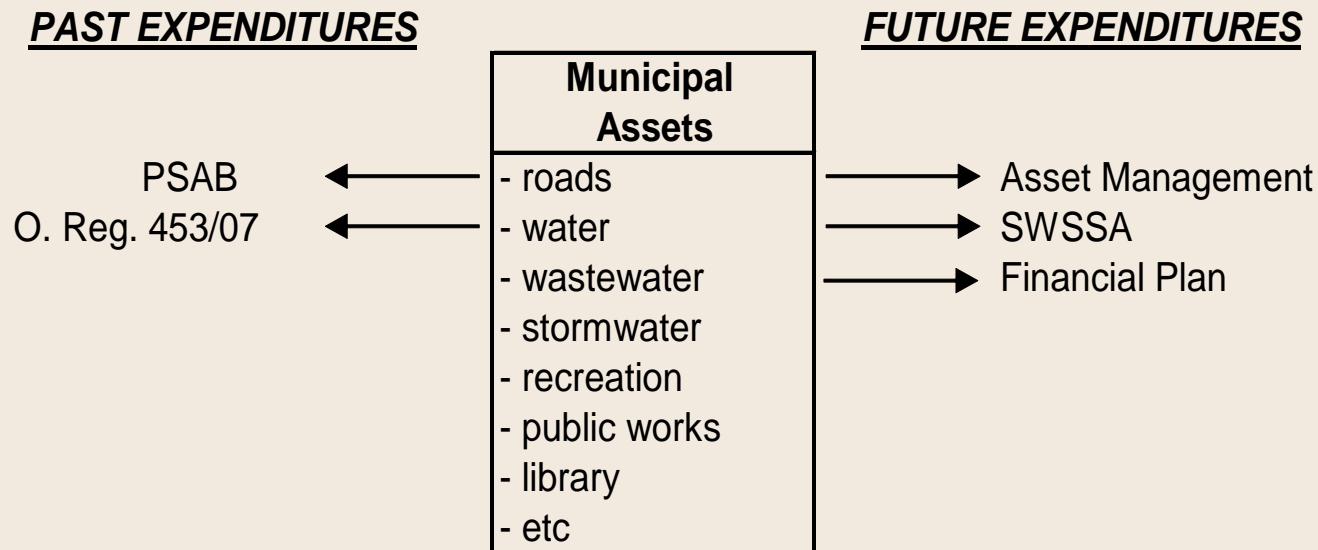
- s.3 requirements (cont'd):
 - s.3.4. – financial plan must include annual projections for:
 - Statement of Financial Position;
 - Statement of Operations;
 - Statement of Cashflows; and
 - Information relating to the replacement of lead service pipes within the above referenced statements.
 - s.3.5. & 3.6 – notice & reporting requirements
 - Financial plan to be made available upon request
 - Publication on the municipality's website
 - Provide notice of availability
 - Copy of financial plan to the Ministry

Sustainable Water and Wastewater Guideline

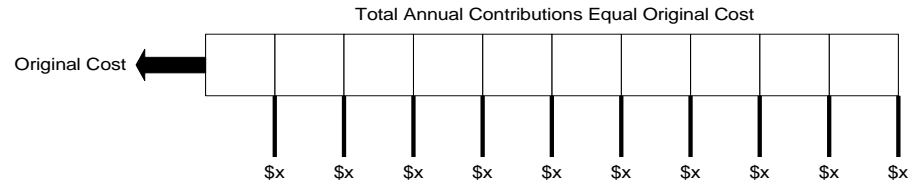
- ❑ It should be clarified that the O.Reg. 453/07 required that a municipality develop a financial plan...however it also required the reporting of this information in a full accrual PSAB format
- ❑ Reporting on an accrual vs. cash basis (i.e. modified accrual) would require communication strategy
- ❑ Financial plans do not address rate impact assessment
- ❑ Clarification between Financial Planning (cash basis) and PSAB (accrual basis) is provided as follows

PSAB, Asset Management and New Regs. (incl. SWSSA)

- Although Financial Planning and PSAB reporting include the reporting of assets, their approach to valuation and use are entirely different (examples to be shown subsequently)



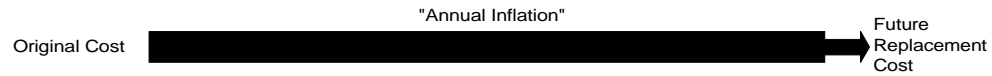
STRAIGHT LINE DEPRECIATION



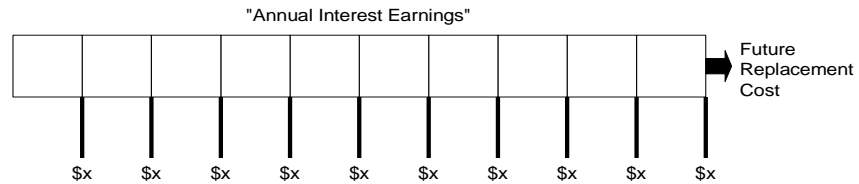
Formula:
$$\frac{\text{Original Cost} - \text{Salvage Cost}}{\text{Number of Years of Useful Life}}$$

SINKING FUND METHOD

1. "Estimate Future Replacement Cost"



2. "Estimate Annual Contribution which will Grow with Interest to Equal Future Replacement Cost"



Formula:
$$\frac{\text{Interest Rate}}{(1 + \text{Interest Rate})^{\text{Term}} - 1} \times \text{Original Cost}$$

Note: Interest Rate used would be the Investment Rate - Inflation Rate,
e.g. 4% - 2% = 2% and is presented as 0.02.

Financial Impact of Two Approaches

- ❑ Assume \$1 million watermain (today's cost) – it is 40 years old and has a remaining useful life of 10 years
- ❑ PSAB reporting would require estimating the original acquisition cost (using Stats Can Construction Index it would be \$132,000) and then dividing it by the estimated number of years useful life (e.g. 50 years) – annual amount to depreciate is approx. \$2,640 – recorded value on the books is \$26,400
- ❑ Lifecycle (asset management) approach will be to assess how much you need to start putting away in reserves to save for the replacement - assuming 2% inflation and a 4% investment rate would require \$98,000 annual payment (for inflated project costs of \$1.22 million)

Water Opportunities Act, 2010 Introduced

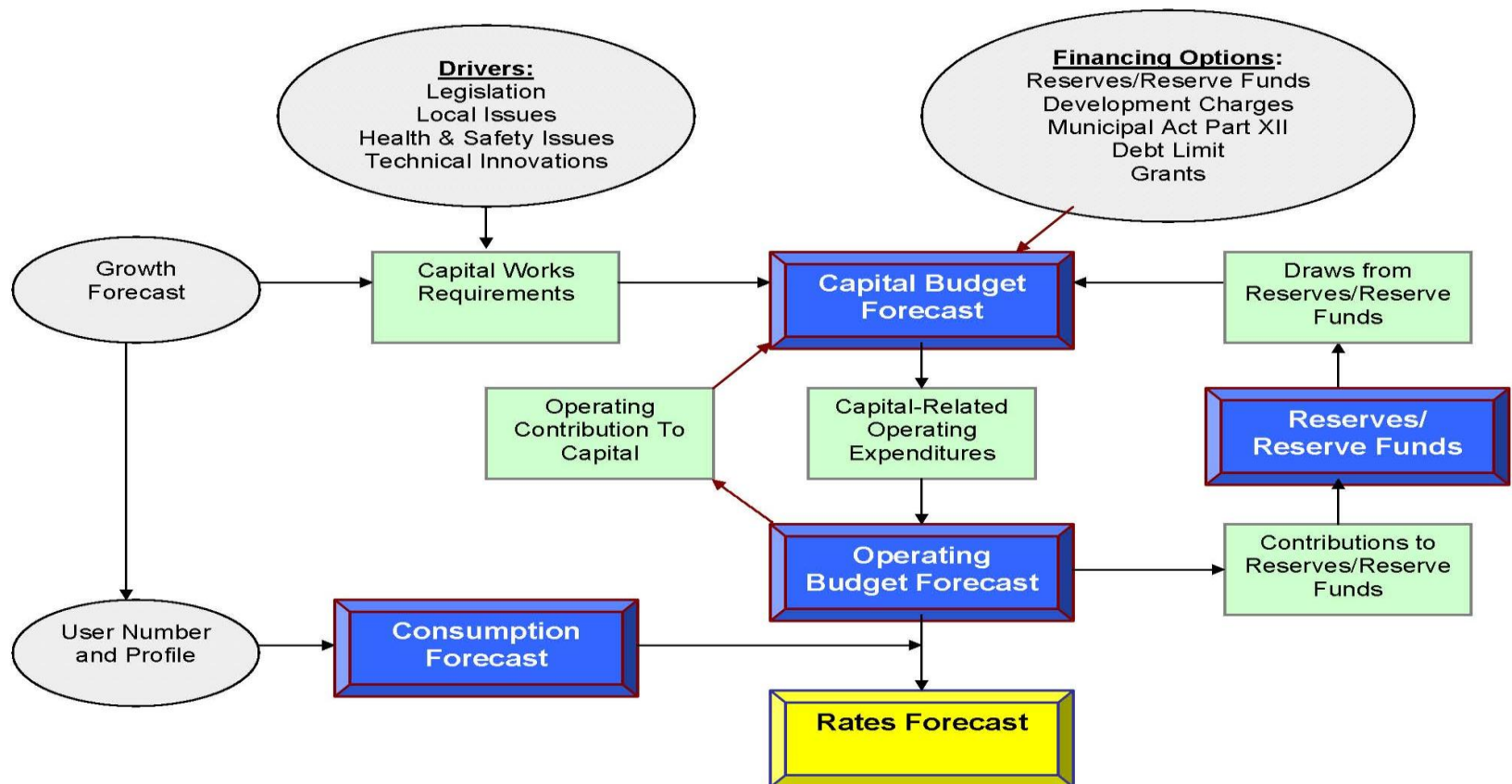
- The Sustainability Plan shall include:
 - An asset management plan for the physical infrastructure;
 - Financial Plan;
 - For water, a conservation plan
 - Assessment of risks that may interfere with the future delivery of the municipal service, including, if required by the regulations, the risks posed by climate change and a plan to deal with those risks;
 - Strategies for maintaining and improving the municipal service to ensure future demand can be satisfied, consider technologies to improve the service and potential increased co-operation with other municipal service providers.

Water Opportunities Act, 2010

- It is unclear at this time what the requirements will be for the Asset Management Plan and the Financial Plan, however it appears that the WOA is moving towards a similar plan envisaged by SWSSA...i.e. the assessment of long term asset management plan which is integrated with cost recovery plan
- The following identifies the process already in use by municipalities which establishes the basis for implementation

Elements to a Financial Plan...a Financial Perspective

THE WATER AND WASTEWATER RATE CALCULATION PROCESS



Questions/Comments?
