



PORT COLBORNE WATER DISTRIBUTION SYSTEM FINANCIAL PLAN

2024-2033



PORT COLBORNE

App A 2024-88

April 9, 2024

Executive Summary

The City of Port Colborne is mandated to develop a Water Financial Plan (WFP) for its Drinking Water System, in accordance with the requirements of the Municipal Drinking Water Licence program and under Ontario Regulation 453/07 of the Safe Drinking Water Act. This WFP is strategically designed to ensure the financial viability of Port Colborne's drinking water infrastructure, thereby safeguarding the provision of safe drinking water now and in the future.

The WFP must include a statement that the financial impacts associated with operating and maintaining the drinking water system have been considered, apply for a minimum of six (6) years and outline details of the proposed or projected revenues and expenses while identifying all assets and liabilities.

As opposed to other conventional approaches, this Plan outlines specific capital initiatives scheduled for implementation throughout the plan's duration. This includes the ambitious undertaking to replace 15 kilometers of aging watermain pipes, which will vastly improve our water distribution infrastructure from costly maintenance repairs and water loss. Council's Strategic Plan goal is to maintain all water assets at a minimum remaining asset life of 20% (i.e. above the 'very poor' condition) by 2040. This Plan was developed to achieve this goal and put us on path to the successful implementation of that goal. To meet this goal the City requires significant capital investment.

While the water rate projections indicate notable increases in the foreseeable future of 10-12%, it is imperative to underscore that the capital investments will significantly improve the system, notably through reductions in water loss and therefore are poised to stabilize water rates by 2038, even with conservative estimates. It is anticipated that water rate increases can be curtailed to below 4% by 2038.

The rate pressure forecasted is directly correlated to the need to increase capital asset investment in the system. Table 4 highlights the percentage of the budget related to capital and related projects growing from 28% in 2024 to 57% in 2033. This rate pressure will not be isolated to the City of Port Colborne going forward. Municipalities across the Niagara Region and Province are also anticipating rate pressure as the aging infrastructure of city water systems is addressed out of necessity by the Council's of today.

Currently, the focus remains fixed on addressing critical capital needs and takes a conservative approach to prioritize a fully funded capital program. Only upon the completion of these essential capital replacements can we transition to a more sustainable rate adjustment framework, aligning with the City's long-term objectives and aspirations.

This Plan serves as a blueprint for funding rather than a detailed budget outline. The proposed initiatives will be subject to periodic reassessment in alignment with our annual budgetary deliberations, but the overarching strategic direction outlined herein will guide our financial decisions moving forward.

Table of Contents

Executive Summary	i
1 Introduction	1
1.1 Purpose.....	1
1.2 WFP Requirements	1
1.3 Port Colborne Drinking Water System Background.....	2
2 Approach	2
2.1 Overview	3
2.2 Statement of Financial Position - Table 1	3
2.3 Debt - Table 2.....	4
2.4 Tangible Capital Assets - Table 3	4
2.5 Statement of Operations and Accumulated Surplus - Table 4	5
2.6 Statement of Cash Flow - Table 5	5
2.7 Assumptions.....	5
2.8 Risks	6
2.9 Summary.....	6

List of Tables:

Table 1: Projected Schedule of Financial Position.....	8
Table 2: Projected Schedule of Debt	9
Table 3: Projected Schedule of Tangible Capital Assets (TCA)	9
Table 4: Projected Schedule of Statement of Operations.....	10
Table 5: Projected Schedule of Cash Flow.....	12

1 Introduction

1.1 Purpose

In 2007, the Province issued Ontario Regulation 453/07 under the Safe Drinking Water Act (SDWA) which requires all municipalities with Drinking Water Systems to complete a WFP as part of their licensing. The intent of the regulation is to ensure municipalities plan for the long-term financial sustainability of their drinking water systems.

City of Port Colborne staff have prepared the WFP as part of the five required elements to issue a municipal drinking water license as per the SDWA. These elements include:

1. **A drinking-water works permit (DWWP):** A permit to establish or alter a drinking-water system.
2. **An accepted operational plan:** The Operational Plan will be based on the Drinking-Water Quality Management Standard (DWQMS) and will document an operating authority's quality management system (QMS).
3. **An accredited operating authority:** A third-party audit of an operating authority's QMS is required for accreditation.
4. **A WFP:** This must be prepared in accordance with the prescribed requirements in the WFPs Regulation, including an indication that the drinking water system is viable.
5. **A permit to take water (PTTW):** Requirements as outlined in the Ontario Water Resources Act, as applicable.

The City has prepared and encloses the WFP herein in accordance with Ontario Regulation 453/07, under the SDWA. The financial impacts of the Port Colborne Distribution System (PCDS) have been considered. Based on the Projected Financial Statements and the assumptions herein, the Drinking Water System will be financially viable and will continue to provide safe drinking water to the consumer.

Considering historic results and future needs, financial projections to the year 2033 were prepared. These projections allow financial viability of the operation of the PCDS, while providing safe drinking water over the short and long term.

According to the Regulation, the report will require an update in 2029 which will incorporate updated information from the Water Master Plan and any additional infrastructure data at the time.

1.2 WFP Requirements

Regulation 453/07 provides details with regards to WFPs for existing systems. The requirements are summarized below:

- Must be approved by resolution of Council

- Must apply to a period of at least six years, the first year to which the WFP must apply must be the year the licence would otherwise expire (2024)
- Details of the proposed or project financial position
- Details of the proposed or projected financial operations
- Details of the drinking water system's proposed or projected gross cash receipts and payments
- Must indicate financial viability of the system
- Must be made available to the public
- Must be submitted to the Ministry of Environment, Conservation and Parks, and the Ministry of Municipal Affairs and Housing

1.3 Port Colborne Drinking Water System Background

The City of Port Colborne has identified the Public Works Department as the Operating Authority for the PCDS. The Operating Authority's top priority is to provide a safe, sustainable supply of water, providing public health protection, fire protection and support for the local economy.

The City of Port Colborne receives drinking water from the Niagara Region and distributes it to 6069 metered customers across the City. The system includes the following assets:

- 113 km watermains
- 6,139 service connections
- 6,069 water meters
- 1,193 valves
- 634 hydrants

The previous WFP was approved by Council in 2019 and a revised WFP is required six months prior to the expiration of the City's Municipal Drinking Water Licence. This WFP meets this requirement.

This long-term WFP details the commitment of the Operating Authority and Council, as the Owner of the PCDS, to ensuring that the distribution system is operated and maintained in a manner that not only meets and exceeds all regulatory requirements, but that these activities are accomplished in a prudent manner.

2 Approach

The approach taken to develop this plan focused on maintaining the water system in a safe and effective manner and increasing capital contributions to reduce the

infrastructure deficit. The plan includes major capital investments and recognizes that the use of one-time funding sources for the purposes of sustaining the water system is limited, and the reliance on debt to support all future capital expenditures is unrealistic. Through the process of developing this WFP, the Operating Authority set out to achieve the following:

- Financial viability;
- Provide safe drinking water
- Meet Strategic Plan objectives to maintain all water assets above the 'very poor' condition by 2040;
- Enable the long term plan for capital renewal to be realized;
- Achieve full cost recovery over the long term; and
- Maintain current service levels.

This WFP is meant to be a living document required to be regularly reviewed to continually improve future projections. This plan was completed as a joint effort across Departments, including Corporate Services and Public Works to ensure a self-sustaining drinking water system. Recommendations from the City's Asset Management Plan and Infrastructure Needs Study are included within this plan and as such, this plan is meant to guide the annual water operating and capital budget, but will be refined to reflect any changes in priority. To meet the City's Strategic Plan objectives, over 15km of watermain capital investments are needed over the duration of this Plan.

2.1 Overview

The 2024 Council approved water budget and 2023 audited financial statements have been used as the starting point to prepare the WFP. The budget was prepared on a modified cash basis, and therefore conversion to a full accrual WFP, in accordance with the Public Sector Accounting Standards is required for the purposes of this report. The following sections outlines the conversion process and key assumptions with the forecasting in the WFP.

Important to note is the WFP is forecasted based on information available and the assumptions they inform at the time of preparing the WFP. Actual financial results will vary from the projections herein and the differences may be material.

2.2 Statement of Financial Position - Table 1

The Statement of Financial Position highlights the financial assets less financial liabilities and unamortized value of tangible capital assets (TCA) to determine the systems accumulated surplus.

For the purpose of this report and the exercise of forecasting a Statement of Financial Position, the WFP includes the following:

- **Cash:**

The cash value equates to the City's reserve and outstanding debt incorporates current and forecasted debt.

- **Accounts Receivable and Accounts Payable:**

Accounts receivable and accounts payable have historically been collected and paid as billed. The City bills monthly, is growing its pre-authorized payment model significantly (currently at 27%) and maintains collection processes, including the application of penalties and interest and transferring unpaid balances to the property tax role when uncollected to supported collection. In this respect and recognizing the immateriality of any timing differences regarding these balances, they have been forecasted as paid in the WFP.

2.3 Debt - Table 2

Water assets are long-term assets with long useful lives lending themselves to debt financing; this process incorporates the existing debt and forecasts new debt issuance.

Debt management activities are governed by the Municipal Act, 2001 as amended. Debt management, unless further limited by Council, shall be limited by Ontario Regulation 276/02 and Ontario Regulation 403/02 or as limited by subsequent provincial regulations. Provincial regulation establishes an annual repayment limit (ARL) referring to the amount of principal and interest payments a municipality can have as a percentage of their overall own source revenue to 25%. The City through its Debt Management Policy, FIN-03, has established a more conservative maximum ARL at 15% to ensure long-term financial flexibility. The City has further established that the City's consolidated Net Financial Assets move towards being positive by 2040.

The City's debt management policy coupled with needs of other City TCA classifications has guided the amount of debt and timing of debt included in this WFP.

2.4 Tangible Capital Assets - Table 3

As part of the PSAB 3150 process, municipalities are required to calculate their tangible capital assets (TCA) balances; this process incorporates the existing assets and forecasted new and/or replacement assets.

Future asset needs were assessed and included based on work on-going with respect to the City's INS. Assets that are contributed to the City by developers as part of development agreements, will form part of the City's infrastructure moving forward. At the time of writing this WFP the City is developing a new development charge framework. Development charges have not been incorporated in the WFP nor have the offsetting capital investments as the timing of future growth is neither linear or able to be estimated at the time of writing this report.

TCA balances are expensed in the forecast as budgeted and/or planned for simplicity of highlighting their reliance on funding. Actual timing may differ. TCA balances are amortized in accordance with the City's significant account policies identified in the audited financial statements as outlined in the City's TCA Policy, FIN-02.

2.5 Statement of Operations and Accumulated Surplus - Table 4

The statement summarizes the revenues and expenses created by the water system to determine the surplus/(deficit).

To convert the Statement of Operations from a modified cash to full accrual basis, a number of adjustments are required.

- Debt Repayment
 - The principal portion of the payment needs to be removed under the accrual basis
 - The principal payments are reported on the Statement of Financial Position and Cash Flow
- Transfers to and from Reserves
 - These transfers are represented by changes in cash and cash equivalents and accumulated surplus. Transfers to reserves fund the capital program
- Tangible Capital Asset related Transactions
 - Amortization and gains/losses on disposals are reported on the Statement of Operations in order to include the costs related to their operating activities over their useful lives

2.6 Statement of Cash Flow - Table 5

The Statement of Cash Flow summarizes how the City finances its activities. The statement relies on the Statement of Financial Position, the Statement of Operations and other available data. The cashflow highlights forecasted capital investment into the water system.

2.7 Assumptions

Key assumptions used as drivers in the preparation of the forecasting included in the WFP are as follows:

- Operational inflation = 3%
- Capital inflation = 5% of PY total capital and debenture costs
- Capital funding catch-up = 6.5% of PY total water budget
- City Efficiency within the system = 1%
- Regional water charges = 4.3% as per Niagara Region Water and Wastewater Financial Plan PW 45-2023
- Forward interest rates = 5%
- Growth ranging from 1.6% to 2.4% based on growth study work done with Development Charge work.

2.8 Risks

Risks to the Rates Budget and this WFP include:

- Changes to legislation, including rules and regulation;
- Decisions of other levels of government: i.e. Ministry of the Environment, Conservation and Parks;
- Unforeseen and/or unplanned environmental considerations related to approved projects;
- Economic weakness or other unforeseen factors impacting changes in past patterns of facility and service usage and/or goods purchased by users and customers;
- Inflation advancing more than anticipated;
- Interest rate changes, impacting investments and borrowing costs;
- Unexpected changes or usage in infrastructure;
- Unbudgeted and/or unexpected changes in needs or wants of residents resulting in Council approved changes in service levels or goods and service offerings;
- A resurgence in COVID-19 or other epidemics, pandemics, or other public health crisis event; and
- Weather conditions that impact operations, including storm surges.

2.9 Summary

The City of Port Colborne has developed this strategic WFP to ensure the financial sustainability of its drinking water infrastructure in compliance with Ontario regulations. This plan prioritizes replacing 15 kilometers of aging watermain pipes and aims to progress towards having a remaining asset life of 20% or greater for all water assets by 2040 to meet Council's strategic objectives. Despite projected water rate increases of 10-12% in the near term, the capital investments are expected to stabilize rates by 2038, with anticipated increases curtailed to below 4% by that year. Long-term rates

are not expected to achieve the current Bank of Canada's inflation target of 2% as capital infrastructure inflation is forecasted at 5%. The focus is currently on critical capital needs and transitioning to a sustainable rate adjustment framework once essential replacements are completed. This plan serves as a funding blueprint, guiding the city's financial decisions for the future, but will be subject to periodic reassessment and annual budget approval.

Table 1: Projected Schedule of Financial Position

City of Port Colborne Projected Schedule of Financial Position As at January 1, 2024, Projected 2024 to 2033										
	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Financial Assets										
Cash and cash equivalents	338,300	-628,415	1,499,905	611,307	283,300	-243,695	587,682	1,380,883	3,128,867	4,492,683
Accounts receivable	-	-	-	-	-	-	-	-	-	-
	338,300	-628,415	1,499,905	611,307	283,300	-243,695	587,682	1,380,883	3,128,867	4,492,683
Liabilities										
Accounts payable	-	-	-	-	-	-	-	-	-	-
Debt	1,459,108	8,531,351	12,725,588	12,406,276	12,090,423	11,778,210	11,451,662	11,110,090	10,752,784	10,378,999
	1,459,108	8,531,351	12,725,588	12,406,276	12,090,423	11,778,210	11,451,662	11,110,090	10,752,784	10,378,999
Net Financial Assets / (Debt)	-1,120,808	-9,159,766	-11,225,683	-11,794,969	-11,807,123	-12,021,906	-10,863,980	-9,729,207	-7,623,917	-5,886,316
Non-Financial Assets										
Tangible Capital Assets (TCA)	33,253,713	45,918,541	48,921,263	51,050,402	53,307,413	56,249,958	58,937,891	62,650,297	66,510,692	72,027,612
Accumulated Surplus	32,132,905	36,758,775	37,695,580	39,255,433	41,500,290	44,228,053	48,073,910	52,921,091	58,886,775	66,141,296
Change in Net Financial Assets / (Debt)		-8,038,958	-2,065,917	-569,286	-12,154	-214,783	1,157,926	1,134,773	2,105,290	1,737,600
Change in Tangible Capital Assets (TCA)		12,664,829	3,002,722	2,129,139	2,257,011	2,942,545	2,687,932	3,712,407	3,860,394	5,516,921
Change in Accumulated Surplus		4,625,870	936,805	1,559,853	2,244,857	2,727,762	3,845,858	4,847,180	5,965,684	7,254,521

Table 2: Projected Schedule of Debt

City of Port Colborne Projected Schedule of Debt As at January 1, 2024, Projected 2024 to 2033										
	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Opening Debt Outstanding	1,766,899	1,459,108	8,531,351	12,725,588	12,406,276	12,090,423	11,778,210	11,451,662	11,110,090	10,752,784
Additions	-	7,500,000	4,500,000	-	-	-	-	-	-	-
Principal Payments	-307,791	-427,757	-305,763	-319,312	-315,854	-312,212	-326,548	-341,572	-357,306	-373,784
Ending Debt Outstanding	1,459,108	8,531,351	12,725,588	12,406,276	12,090,423	11,778,210	11,451,662	11,110,090	10,752,784	10,378,999
Interest Paid	56,980	420,335	628,562	615,013	600,842	586,866	572,519	557,495	541,762	525,284
Annual Repayment Limit (ARL)	6.1%	12.6%	12.4%	11.2%	9.8%	8.6%	7.7%	6.9%	6.2%	5.6%

Table 3: Projected Schedule of Tangible Capital Assets (TCA)

City of Port Colborne Projected Schedule of Tangible Capital Assets (TCA) As at January 1, 2024, Projected 2024 to 2033										
TCA	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Opening NBV	25,711,973	33,253,713	45,918,541	48,921,263	51,050,402	53,307,413	56,249,958	58,937,891	62,650,297	66,510,692
New Addition	8,355,700	13,669,415	4,045,896	3,218,198	3,379,107	4,140,895	3,961,323	5,047,599	5,290,116	7,025,684
Disposal/Transfer (NBV)	-	-	-	-	-	-	-	-	-	-
Amortization Expense (Projected)	-813,960	-1,004,586	-1,043,174	-1,089,059	-1,122,097	-1,198,350	-1,273,391	-1,335,192	-1,429,722	-1,508,763
Ending NBV	33,253,713	45,918,541	48,921,263	51,050,402	53,307,413	56,249,958	58,937,891	62,650,297	66,510,692	72,027,612

Table 4: Projected Schedule of Statement of Operations

City of Port Colborne Projected Schedule of Statement of Operations As at January 1, 2024, Projected 2024 to 2033										
	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Revenue										
Rate	5,910,413	6,666,258	7,488,622	8,325,364	9,291,321	10,367,294	11,565,344	12,900,569	14,398,272	16,064,424
Grant	-	4,000,000	-	-	-	-	-	-	-	-
Interest	23,000	7,000	4,000	6,100	2,800	-2,400	5,800	13,700	31,000	44,500
Fees	28,700	33,534	37,651	41,867	46,704	52,085	58,146	64,896	72,509	80,949
A	5,962,113	10,706,792	7,530,273	8,373,331	9,340,825	10,416,979	11,629,291	12,979,164	14,501,781	16,189,873
Expense										
Niagara Region	2,572,900	2,677,900	2,796,800	2,924,900	3,057,900	3,196,000	3,339,400	3,488,300	3,645,300	3,808,300
People	589,900	616,800	649,300	685,400	723,100	762,400	803,400	846,100	891,800	939,500
Services	655,013	731,100	769,700	812,500	857,100	903,700	952,300	1,003,000	1,057,200	1,113,700
Repair and Maintenance	311,500	331,900	356,100	383,000	411,700	442,300	474,900	509,700	547,400	587,600
Interest - Previous General Administration	57,000	420,335	628,562	615,013	600,842	586,866	572,519	557,495	541,762	525,284
Grants	71,800	75,100	79,100	83,500	88,100	92,900	97,900	103,100	108,700	114,500
Subject Matter Experts	50,000	52,300	55,100	58,200	61,400	64,700	68,200	71,800	75,700	79,700
DC Exemption Grants	537,000	111,600	139,100	75,300	83,700	348,400	104,200	116,300	129,800	145,000
Training	-	30,000	45,732	54,106	55,729	57,401	59,123	60,897	66,413	68,406
Hydro	21,800	24,700	26,000	27,400	28,900	30,500	32,100	33,800	35,700	37,600
Disposal of Capital Assets	4,400	4,600	4,800	5,100	5,400	5,700	6,000	6,300	6,600	7,000
Amortization	-	-	-	-	-	-	-	-	-	-
B	813,960	1,004,586	1,043,174	1,089,059	1,122,097	1,198,350	1,273,391	1,335,192	1,429,722	1,508,763
Revenue over expense	5,685,273	6,080,922	6,593,468	6,813,478	7,095,968	7,689,217	7,783,433	8,131,984	8,536,097	8,935,352
Accumulated Surplus, Beginning of Year	276,840	4,625,870	936,805	1,559,853	2,244,857	2,727,762	3,845,858	4,847,180	5,965,684	7,254,521
Accumulated Surplus, End of Year	31,856,065	32,132,905	36,758,775	37,695,580	39,255,433	41,500,290	44,228,053	48,073,910	52,921,091	58,886,775
	32,132,905	36,758,775	37,695,580	39,255,433	41,500,290	44,228,053	48,073,910	52,921,091	58,886,775	66,141,296

Table 4 (continued): *Projected Schedule of Statement of Operations*

City of Port Colborne Projected Schedule of Statement of Operations As at January 1, 2024, Projected 2024 to 2033										
	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Expense	5,685,273	6,080,922	6,593,468	6,813,478	7,095,96	7,689,217	7,783,433	8,131,984	8,536,097	8,935,352
Adjustments to Cash Budget										
Non-Cash Adjustments										
Amortization C	-813,960	-1,004,586	-1,043,174	-1,089,059	-1,122,09	-1,198,350	-1,273,391	-1,335,192	-1,429,722	-1,508,763
Cash Adjustments										
Transfer to Reserve*	1,285,000	5,254,700	1,706,216	2,329,600	3,051,10	3,868,900	4,792,700	5,840,800	7,038,100	8,389,500
Debt Payments	307,800	427,757	305,763	319,312	315,854	312,212	326,548	341,572	357,306	373,784
Subject Matter experts budgeted in capital	-502,000	-52,000	-32,000	-	-	-255,000	-	-	-	-
D	5,962,113	10,706,79	7,530,273	8,373,331	9,340,825	10,416,979	11,629,291	12,979,164	14,501,781	16,189,873
Balanced Budget Funding (A-(B+C+D))	-	-	-	-	-	-	-	-	-	-
% of Budget Related to Capital and Related Projects	28%	57%	35%	39%	42%	46%	49%	52%	55%	57%

* Transfer to reserve ultimately funds capital and related projects.

Table 5: Projected Schedule of Cash Flow

City of Port Colborne Projected Schedule of Cash Flow As at January 1, 2024, Projected 2024 to 2033										
	Forecast									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Operating										
Projected excess of revenue over expense	276,840	4,625,870	936,805	1,559,853	2,244,857	2,727,762	3,845,858	4,847,180	5,965,684	7,254,521
Change in non- cash items										
Amortization	813,960	1,004,586	1,043,174	1,089,059	1,122,097	1,198,350	1,273,391	1,335,192	1,429,722	1,508,763
Disposal	-	-	-	-	-	-	-	-	-	-
Change in working capital										
Accounts receivable	-	-	-	-	-	-	-	-	-	-
Accounts payable	-	-	-	-	-	-	-	-	-	-
Net Change in Operating	813,960	1,004,586	1,043,174	1,089,059	1,122,097	1,198,350	1,273,391	1,335,192	1,429,722	1,508,763
Capital										
Tangible capital asset purchase	-8,355,70	-13,669,41	-4,045,896	-3,218,198	-3,379,107	-4,140,895	-3,961,323	-5,047,599	-5,290,116	-7,025,684
Financing										
Long-term debt issued		7,500,000	4,500,000							
Long-term debt principal payments	-307,800	-427,757	-305,763	-319,312	-315,854	-312,212	-326,548	-341,572	-357,306	-373,784
Net change in Financing	-307,800	7,072,243	4,194,237	-319,312	-315,854	-312,212	-326,548	-341,572	-357,306	-373,784
Net increase / (decrease) in cash	-7,572,70	-966,715	2,128,320	-888,598	-328,007	-526,995	831,377	793,201	1,747,984	1,363,816
Cash and cash equivalents, beginning of year	7,911,000	338,300	-628,415	1,499,905	611,307	283,300	-243,695	587,682	1,380,883	3,128,867
Cash and cash equivalents, end of year	338,300	-628,415	1,499,905	611,307	283,300	-243,695	587,682	1,380,883	3,128,867	4,492,683