



Public Utilities Commission of the City of Sault Ste. Marie

Financial Plan for Water
Supply Services

Prepared Pursuant to
Ontario Regulation 453/07
Financial Plan # 216-301

October 11, 2019

kpmg.ca



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I Introduction

1.1 Provincial reporting requirements

Pursuant to Section 31(1) of the *Safe Drinking Water Act, 2002* (the “SDWA”), Provincial licences are required for the operation of municipal drinking water systems in Ontario. In obtaining this licence, the Sault Ste. Marie Public Utilities Commission (the “PUC”) is required to meet five conditions under Section 44(1) of the SDWA, including the preparation of a financial plan for the water system. The form and content of financial plans for municipal water systems are prescribed under Ontario Regulation 453/07 (the “Regulation”). Under the terms of the Regulation, the PUC is required to prepare a financial plan that:

- i. Is approved through a resolution of the Commissioners that indicates that the drinking water system is financially viable
- ii. Extends over a minimum of six years and includes a statement that the financial impacts of the drinking water system have been considered
- iii. Includes details of the proposed or projected financial position of the system, itemized by:
 - Total financial assets
 - Total liabilities
 - Net debt
 - Non-financial assets
 - Changes in tangible capital assets
- iv. For each year of the financial plan, includes details of the proposed or projected financial operations of the system itemized by:
 - Total revenues, further broken down into water rates, user charges and other revenues
 - Total expenses, further broken down into amortization expenses, interest expenses and other expenses
 - Annual surplus or deficit
 - Accumulated surplus or deficit
- v. Details the proposed or projected gross cash receipts and cash payments itemized by:
 - Operating transactions
 - Capital transactions
 - Investing transactions
 - Financing transactions
 - Changes in cash and cash equivalents during the year
 - Cash and cash equivalents at the beginning and end of year

The disclosure requirements prescribed in the Regulation are consistent with the financial statement requirements as outlined in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, which comprise:



- A statement of operating results
- A statement of financial position
- A statement of cash flows
- A statement of changes in net financial assets

The Regulation requires a minimum six year financial plan for water commencing on the date of license expiry. Accordingly, this financial plan for the PUC water supply has been prepared to include the budget year 2020 as well as the Financial Plan for the period from 2021 to 2026 in accordance with the Regulation.

In connection with its financial plan, the PUC is also required to ensure an appropriate level of public communication by:

- Making the financial plans available, on request, to members of the public at no charge;
- Making the financial plans available to members of the public at no charge through the internet (if the municipality maintains a website); and,
- Providing notice as deemed appropriate to advise the public of the availability of the financial plans.

1.2 Financial plan methodology

In order to assist municipalities with the preparation of financial plans required under the SDWA, the Ministry of the Environment released a document entitled *Toward Financially Sustainable Drinking-Water Systems* (the "Ministry Document") that outlines suggested principles of financial sustainability for water systems as well as possible approaches to implementing these principles.

1.2.1 Sustainability principles

As outlined in the Ministry Document, financial sustainability for water systems is intended to ensure that residents enjoy safe drinking water that is provided on a reliable basis over the long-term in a manner that maintains environmental protection. The attainment of financial sustainability, which the Ministry Document recognizes does not necessarily need to occur immediately but rather can involve a transition, can be supported by the adoption of the following nine principles that can be used to inform financial plans:

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 supply 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.

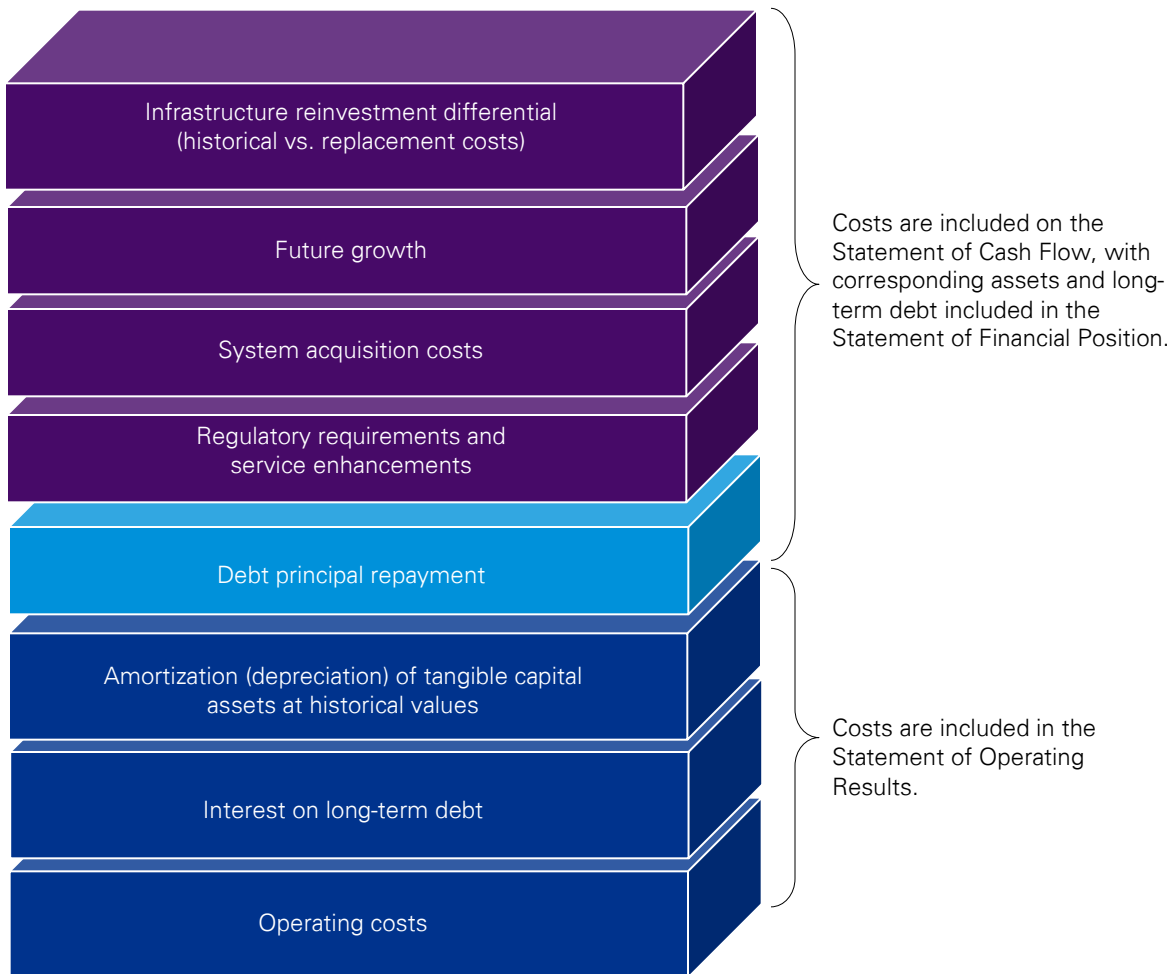
7. Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation. In general, metering and the use of rates can help ensure users pay for services received.
8. Financial plans are “living” documents that require continuous improvement. Comparing the accuracy 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 the municipal commission.

The financial plan developed by the PUC embodies each of these principles, as further discussed in Chapter III of this report.

1.2.2 Approach to the financial plan

In developing the financial plan, the PUC has adopted the “building-block” approach outlined in the Ministry Document, which considers both the current and anticipated operating and capital funding requirements for water supply services. A graphical depiction of the building-block approach utilized in the development of the PUC’s plan is provided below.

Figure 1 – Building-block approach to developing the financial plan





1.3 Notice to reader

The financial plan outlined in this report represents a forecast of the financial performance of the PUC's water supply services under a series of assumptions that are documented within the plan. The financial plan (which has been prepared for the purposes of meeting regulatory requirements established by the Ministry) does not represent a formal, multi-year budget for water supply. The approval of operating and capital budgets for water supply is undertaken as part of the PUC's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of the PUC with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses. It is the intention of the PUC to adjust its financial plans on an annual basis to reflect the most recent budgetary decisions made by the PUC.

The information contained in this report has been compiled from information provided by the PUC. KPMG have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that this information may not be appropriate for their purposes.

KPMG reserves the right (but will be under no obligation) to amend this report and advise accordingly in the event that, in our opinion, new material information comes to our attention that may be contrary to or different from that which is set out in this document. Comments in this report should not be interpreted to be legal advice or opinion. The contents of this report reflect our understanding of the facts derived from the examination of documents provided to us.

This report includes or makes reference to future oriented financial information. KPMG have not audited or otherwise reviewed the financial information or supporting assumptions and as such, express no opinion as to the reasonableness of the information provided.

The individuals that prepared this report did so to the best of their knowledge, acting independently and objectively. KPMG LLP's compensation is not contingent on any action or event resulting from the use of this report.

This report, including the attached appendices, must be considered in its entirety by the reader.

II Overview of the Sault Ste. Marie Drinking Water System

2.1 Infrastructure

The Sault Ste. Marie Drinking Water System (SSM DWS) serves a population of approximately 74,000 (within the Urban Service Line area) of the City of Sault Ste. Marie and Batchewana First Nation. Recent typical annual water production is in the order of 10 to 12 million cubic meters per year.

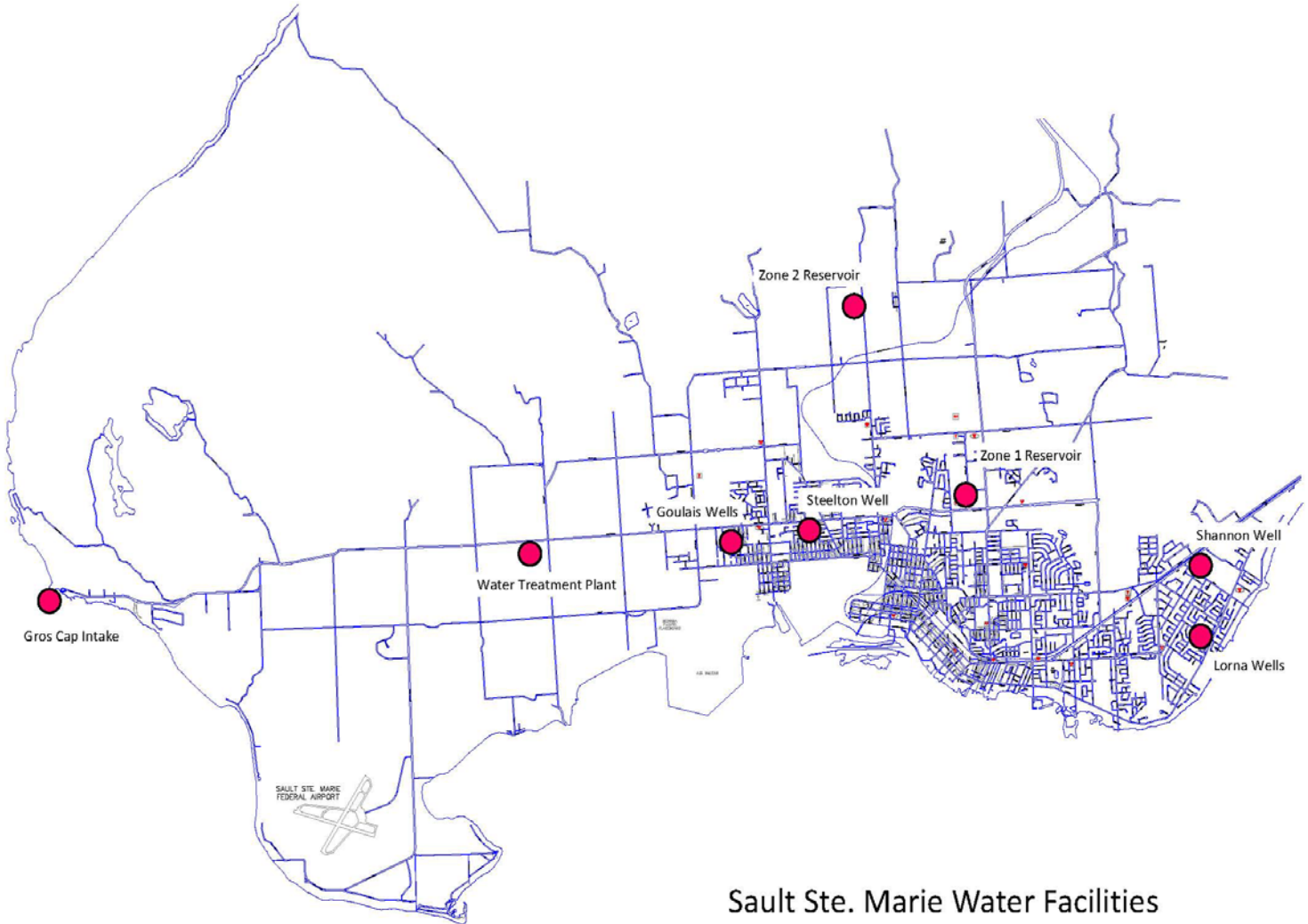
The table below summarizes the production, reservoir and pump station assets.

Production Assets	Associated Assets	Reservoirs and Booster Stations
Water Treatment Plant	<ul style="list-style-type: none"> Gros Cap Intake Gros Cap Pump Station Marshall Drive Tanks 	WTP Reservoir
Goulais Pump Station	<ul style="list-style-type: none"> Well #1 Well #2 	Zone 1 Reservoir / Zone 2 Booster
Steelton Pump Station	<ul style="list-style-type: none"> Steelton Well 	Zone 2 Reservoir
Shannon Pump Station	<ul style="list-style-type: none"> Shannon Well 	Coronation Drive Booster Pump Station
Lorna Pump Station	<ul style="list-style-type: none"> Well #1 Well #2 	Crimson Ridge Booster Pump Station Peoples Road Booster Pump Station

Sizes of mains vary from 900 mm diameter down to 50 mm diameter to provide a total length of approximately 470 km of distribution mains. Approximate breakdown of major pipe materials includes 51 % cast iron, 26% ductile iron, 14 % PVC and 9% concrete pressure pipe. The following figure illustrates the extents of the drinking water system.

PUC was established over 100 years ago to assume management and operation of the Sault Ste. Marie drinking water and electricity systems previously owned and operated by the Tagona Water and Light Company. The age of the City, historic growth periods and associated construction methods all contribute to the present age distribution of infrastructure. Age alone is not necessarily an indication of whether water mains or other infrastructure must be replaced. PUC considers additional asset information such as condition, water quality and capacity to determine the need for renewal. PUC has adopted a Strategic Asset Management Policy and is committed to formal asset management based on asset condition and levels of service.

Figure 2 - Municipal water facilities



Sault Ste. Marie Water Facilities

2.2 Water rates

One of the most critical factors in shaping water use is the price. While recovery of the full revenue requirement in a fair and equitable manner is a key objective of a utility using a cost-of-service rate-making process, it is often not the only objective. The following list contains the typical objectives in establishing cost-based rates:

- Effectiveness in yielding total revenue requirements (full cost recovery)
- Revenue stability and predictability
- Stability and predictability of the rates themselves from unexpected or adverse changes
- Promotion of efficient resource use (conservation and efficient use)
- Fairness in the apportionment of total costs of service among different ratepayers



The PUC rate structure contains a basic monthly charge and a three tiered block of rates. The monthly charge applies regardless of the amount of water used, reflecting the fact that a portion of the cost to operate the system is fixed.

Figure 3 - 2019 Metered Water Rates

2019 Metered Water Rates	
15 cubic metres	66.2 cents per cubic metre
250 cubic metres	1.95 dollars per cubic metre
Remainder of consumption	1.53 dollars per cubic metre

The block structure, as illustrated in Figure 3, provides a significant incentive primarily to the residential and small commercial consumer to keep their consumption below 15 m³/month. Water consumption above that level is significantly more expensive. The rate decrease in the third block is for very large water consumers, recognizing that simply being a large user does not mean they are using water inefficiently. Large water consumers should not have to carry an unreasonable cost burden that may affect their competitive position. The rate for the third block is still significantly above that of the first block. The rate structure provides a clear incentive to reduce consumption to all but the lowest water users.

2.3 Sustainable capital asset management

In order to ensure long term viability of the water supply on a full user pay basis, the PUC reviewed its capital asset management practices to ensure its funding for capital expenditures would be gradually increased to approximately 1.3% of the estimated replacement value of water assets. This level of funding was considered necessary to support the continuous replacement and rehabilitation of the PUC's water infrastructure at the end of its useful life (overall system average of approximately 75 years)¹.

The PUC has estimated the replacement value of its water infrastructure to be in the order of \$868 million in 2019, which would require \$11.5 million in annual capital funding under a sustainable model as compared to the 2019 budgeted capital funding of \$6.6 million. This level of capital funding will provide for the replacement of current infrastructure and the traditional level of additions, extension and system reliability improvements.

¹ In determining the level of capital funding required to achieve sustainability, the financial plan considers a number of factors, including the replacement value and useful lives of the PUC's water assets, the potential impacts of growth and regulatory changes on capital investment requirements, the traditional practice of funding some infrastructure-related operating costs through capital envelopes and the potential for grant revenues to offset some portion of capital expenditures. After consideration of these items, the calculated financial requirement for sustainability in the financial plan is 1.3% of the replacement value of tangible capital assets.

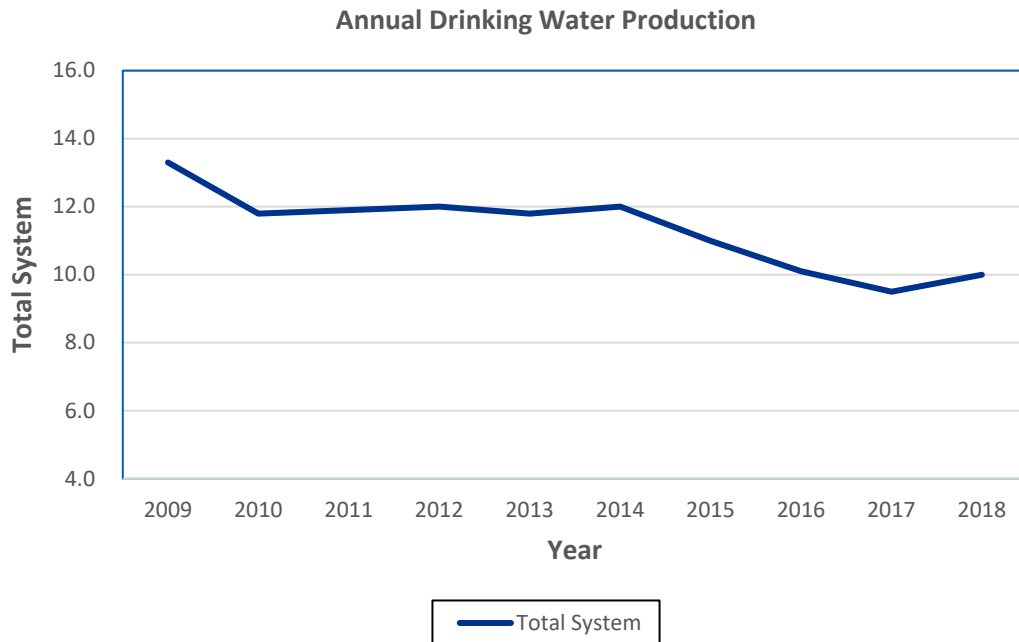
III Key Financial Plan Assumptions

The preparation of a six year financial plan for water supply necessarily requires the use of assumptions concerning future events. This chapter highlights the key assumptions that have formed the basis of the forecasted financial performance of the PUC’s water supply.

3.1 Water production and sales

Figure 4 provides a summary of annual drinking water production since 2009. The highest annual water production occurred in 2009.

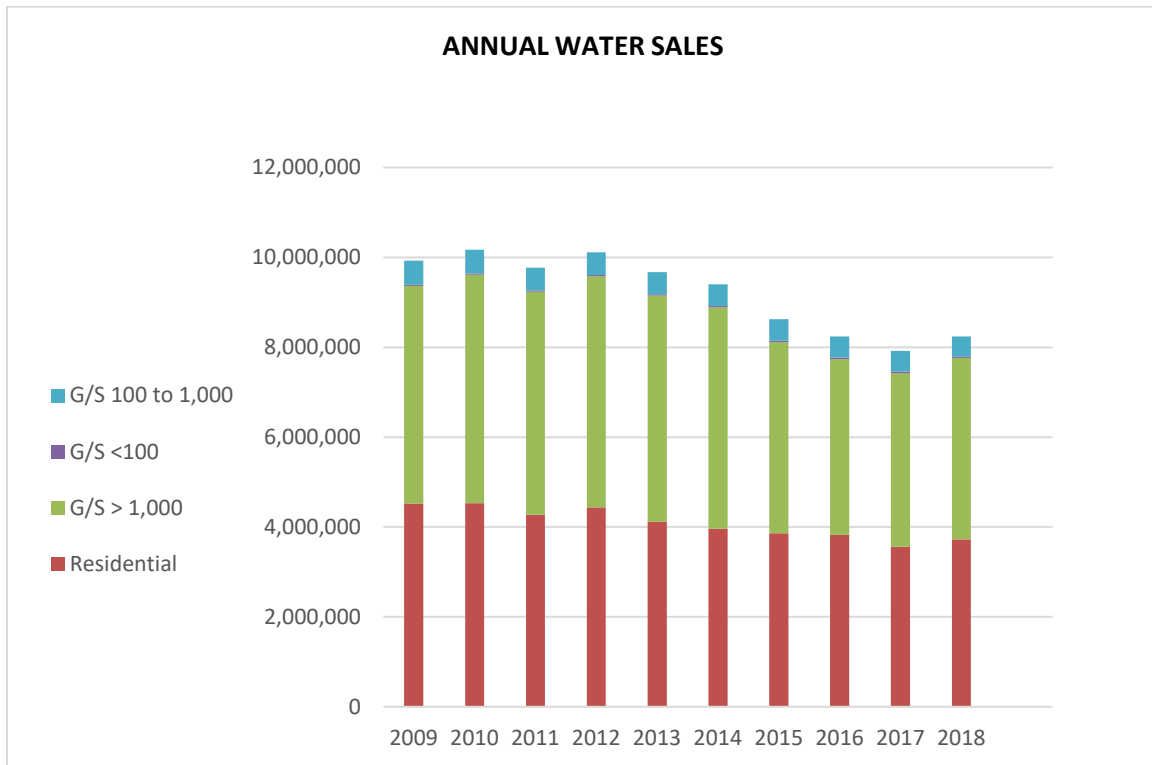
Figure 4– Annual drinking water production



Water sales are influenced by population and the type of industry in the community. The most recent 10 years are of greatest relevance for trends in water sales. Recently, total water sales has fluctuated between 8 and 10 million m³ annually. The population served has stabilized and is not expected to grow significantly over the next 5 years. Many water conserving fixtures and appliances, such as low flush toilets and low water use washers, have been available for a number of years and are gaining market share and reducing water consumption.

The annual water sales chart of Figure 5 shows annual consumption of the four customer billing groups for the period 2009 to 2018. Approximately half of water use is by residential consumers. The next largest consumer group is commercial/industrial activities whose monthly consumption exceeds 1,000 m³/month, followed by those with monthly consumption between 100 m³ and 1,000 m³ and lastly by commercial customers consuming less than 100 m³/month. The relatively hot summer of 2010 generated the highest peak consumption and the cool wet summer of 2017 saw the lowest peak.

Figure 5- Annual water sales



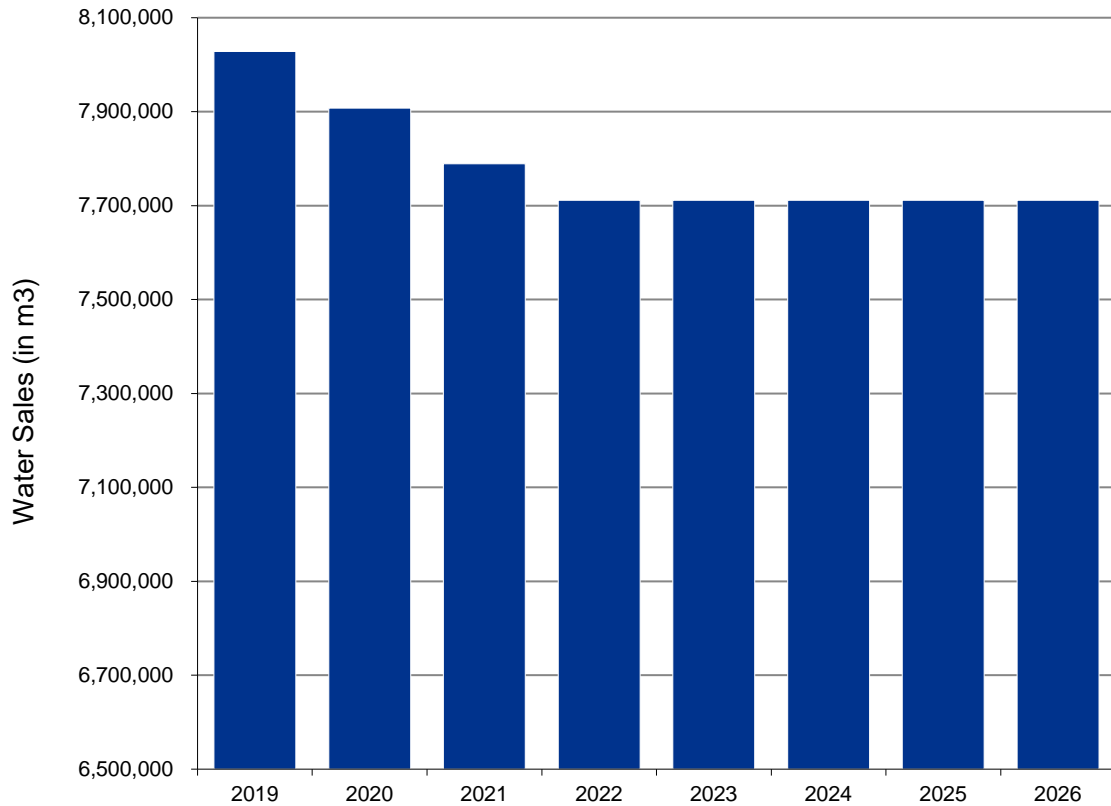
Records over the past ten years indicate a decline in water sales. Customer water use is highly variable depending on summer weather and the greatest amount of variation is by the residential consumer.

The decrease in water sales likely reflects a combination of factors, including:

- price elasticity (i.e. reduced consumption in response to higher water rates)
- continued focus on conservation, including the increased use of water saving technologies (e.g. low flow showerheads, low flush toilets)
- increased levels of rainfall during summer months, which would reduce water demand associated with lawn watering
- effect of economy on discretionary use

The 2019 budget and financial plan assume that this historical declining trend in water consumption will continue during the projection period, although at a decreasing rate. The projected water consumption levels considered in the financial plan are calculated on a twelve-month basis with consideration given to the historical trend in decreasing consumption (see Figure 6). Overall, the financial plan considers a decrease in consumption from 2019 to 2026.

Figure 6– Forecasted annual water sales (2019 to 2026)



3.2 Capital funding

The financial plan phases in increases to capital funding over a 6 year planning period to a level sufficient to provide for:

- Sustainable reinvestment in the PUC’s water infrastructure
- Minimal anticipated growth in the PUC’s water system
- A provision for future capital needs arising from regulatory changes or unavoidable service level enhancements

Overall, funding for infrastructure requirements should increase from the 2019 budgeted level of \$6.6 million to \$12.5 million in 2026, at which point capital expenditures will approximate 1.3% of the projected replacement value of the PUC’s water assets (see Figure 7). This increase will reduce its replacement cycle (i.e. the number of years required to fully replace its infrastructure) from the current 130 years on a path to an overall 75 year replacement cycle.



Figure 7 – Projected replacement value of water infrastructure and annual capital funding (in millions)

Year	Replacement Value of Capital Assets	Forecasted Capital Funding	Funding Percentage	Replacement Cycle (in years)
2019	\$868	\$6.6	0.8%	130
2020	\$875	\$7.6	0.9%	115
2021	\$883	\$8.3	0.9%	106
2022	\$892	\$8.9	1.0%	100
2023	\$902	\$10	1.1%	90
2024	\$913	\$11.2	1.2%	81
2025	\$925	\$12.3	1.3%	75
2026	\$937	\$12.5	1.3%	75

The significant increase in capital spending required to achieve sustainability reflects in large part the current infrastructure deficit facing the PUC and the magnitude of change required to close the gap between infrastructure requirements and available funding.

3.3 Capital expenditures

Recently the PUC has begun the process of developing an asset management plan for water supply that will identify and quantify infrastructure requirements over the mid to long term. The asset management plan will provide for the prioritization of projects requiring consideration in the annual budgeting process. The Financial Plan will provide the funding envelope for annual spending based on the average asset replacement cycle. Both asset management plans and financial plans are intended to be living documents. As the asset management plan is completed and periodically updated, the Financial Plan should be adjusted to ensure forecasted capital investments based on specific projects for the six year projection period meets expected levels of service. Future updates of the financial plan will reflect projected capital expenditures identified upon completion of the asset management plan for water supply.

The financial plan assumes that all funds for capital projects raised through user fees will be expended by the PUC in the year that they are collected or held as a reserve to meet future capital spending. The financial plan forecasts building of cash for a future capital reserve fund.

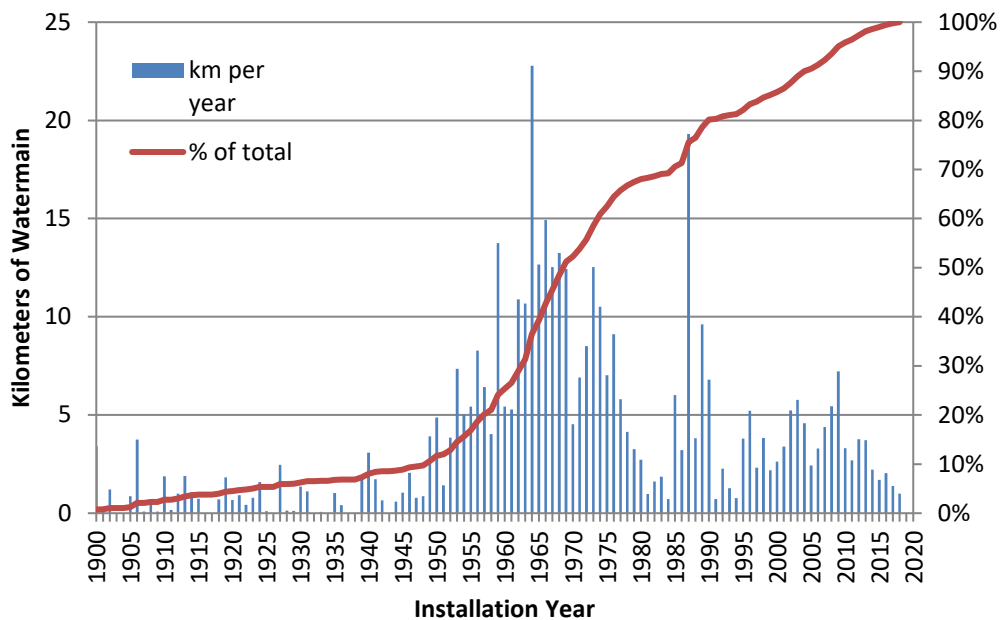
3.3.1 Vertical Infrastructure Renewal

Vertical infrastructure includes water supply and treatment facilities, pump stations and reservoirs. Projects undertaken to renew vertical infrastructure are driven by factors such as condition and criticality to sustaining or improving service levels consistent with asset management principles. In large facilities such as a water treatment plant, it is typical that various subsystems such as controls, pumps, and motors may be replaced one or more times over the life of the facility. Asset management principles are applied to optimize life-cycle costs relative to the desired service levels.

3.3.2 Linear Infrastructure Renewal

The PUC’s linear infrastructure involves the water distribution system. The bulk of the value of the drinking water system is found in the water distribution system – the system of watermains, services and hydrants supplying customers in Sault Ste. Marie. Figure 8 outlines the number of kilometers of watermains in service by construction date and the cumulative age of the distribution system.

Figure 8 - PUC Watermain Age Distribution



Expected service life for watermains reported by American Water Works Association, National Research Council of Canada and other authorities typically ranges from approximately 40 to 120 years and is widely reported to be a function of pipe material and installation conditions. PUC implements four general programs for the purpose of renewal of the water distribution system. (Individual projects are prioritized using the Asset Management planning principles.)

3.3.3 Coordinated Watermain Reconstruction

PUC collaborates with the City Road Reconstruction Program to most cost-effectively replace watermains in tandem with sewer and road reconstruction projects. Levels of service include minimized costs, less disruption to traffic and residents, improved reliability, capacity and water quality.

3.3.4 PUC Watermain Replacement Program

Watermain breaks affect levels of service for business owners and residents and contribute to variances in operating costs, both for the initial control of water and the pipe repair, and later for road restoration. Watermain breaks also divert resources from capital and operating programs supporting water quality and preventive maintenance. Replacement watermains may be of



increased diameter to improve capacity for fire protection. Factors such as watermain condition, lead services and lack of capacity for fire protection on existing watermains make watermain replacement a better value than lining when the City has no foreseeable reconstruction plans. PUC advances projects under this program to sustain continuous improvement in service levels.

3.3.5 Watermain Rehabilitation

Advances in Trenchless Technology have enabled a cost-effective alternative to the replacement of watermain. Trenchless watermain rehabilitation can involve installing non-structural or structural linings in existing watermains to extend service life up to 50 years. Lining may be suitable when there are no foreseeable plans for road reconstruction, there are no known lead service pipes, existing pipe is of adequate capacity and existing watermain are otherwise adequately installed and not subject to factors such as freezing.

3.3.6 Lead Water Service Replacement

Lead water services are known to have been installed in Sault Ste. Marie through the Federal Wartime Housing Corporation during the 1940s. PUC replaces lead service pipes in the municipal right of way at no charge to customers and offers interest free loans for customers replacing lead services on private property. PUC also works with local government and non-government organizations to provide other assistance to homeowners, including free point of use filters for lead reduction.

The PUC has included approximately \$250,000 annually as part of the capital spending for the replacement of lead service pipes for residential customers.

3.4 Operating cost increases

Planned operating costs are based on the 2019 budget with provisions for future inflationary increases. Additional costs associated with new requirements; including source water protection for water supply has been included in the financial plan. Generally, inflation is expected to average 2% per annum for water costs for the forecasted period ended December 31, 2026.

3.5 Contingencies

In addition to the key assumptions noted above, there are a number of other variables that have not been reflected in the financial plan. In the event that these variables materialize, whether in whole or in part, the potential exists for significant impacts (either positive or negative) on the projected financial plan.

Contingencies that were identified but not incorporated into the financial plan due to uncertainty as to quantum or probability of occurrence include:

- The acquisition of private water systems currently in operation.
- Potential operating savings resulting from the projected increase in capital spending. For example, the frequency and cost of repairing water main breaks may decrease as capital funding increases and reduces the overall age of the water main system.
- Potential operating savings related to on-going process reviews and technology enhancements.
- Senior government grant revenues for operating and/or capital purposes above the level of grant revenue noted in the financial plan.

- Unforeseen capital expenditure projects such as water extensions and development of cost sharing initiatives that exceed the financial resources identified in this plan.
- New Ministry regulations that would have a significant impact on operating costs in excess of cost increases provided for in the financial plan.

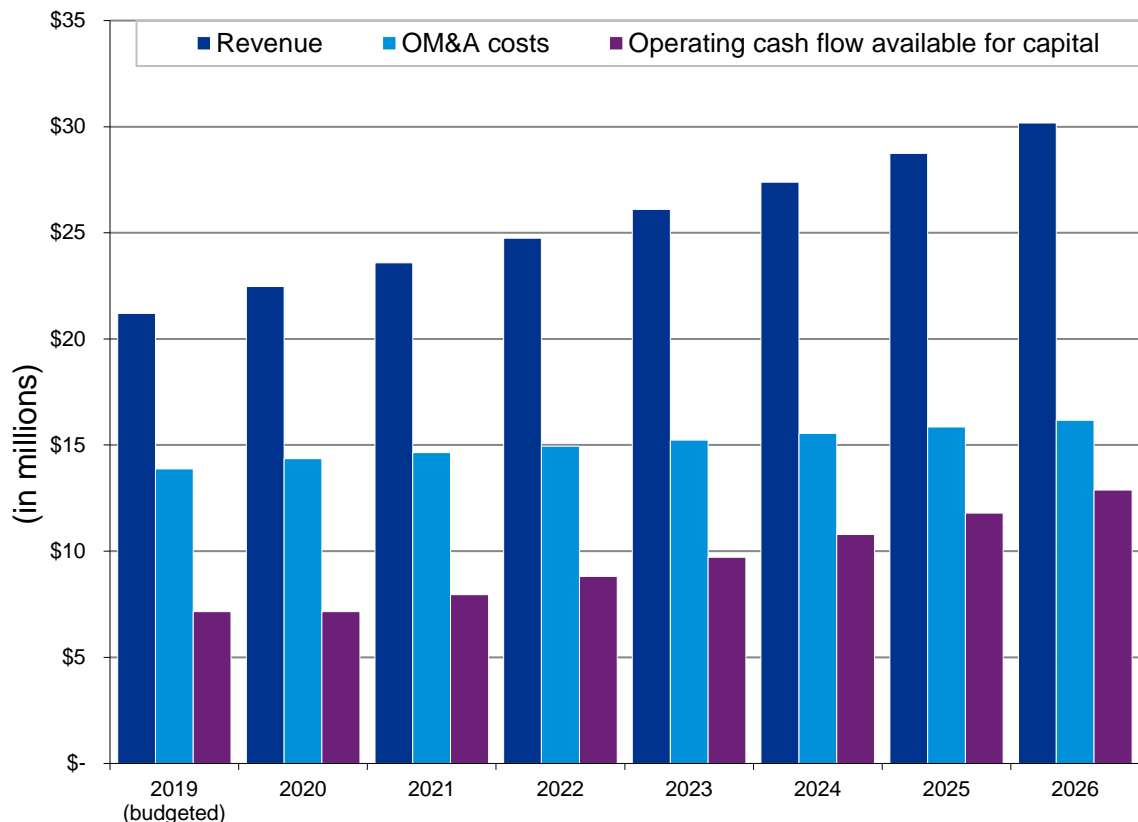
IV Financial Plan Highlights

Included as the Appendix, is the consolidated financial plan schedules for water supply, which provides a financial forecast of water supply from 2019 to 2026, based on the proposed 2019 budget. The financial plan schedules are comprised of:

- A Statement of Projected Financial Position
- A Statement of Projected Operating Results
- A Statement of Cash Flow
- A Statement of Changes in Net Financial Assets

As noted in the financial plan, total revenues are projected to increase from the budgeted level of \$21.2 million in 2019 to \$30.2 million in 2026, providing \$14 million in operating cash flows to support debt servicing obligations and infrastructure renewal (see Figure 9). The level of revenue projected at the end of the forecast period is considered sufficient to attain sustainability of the water supply.

Figure 9 – Projected revenues, operating, maintenance and administration costs (excluding amortization) (OM&A) and operating cash flow available for capital



4.1 Projected water rates

In order to moderate increases in water rates, the financial model reflects a transitional approach to items such as capital reinvestment whereby changes are phased in over time. However, other factors such as consumption decreases and operating cost elements have not been phased in but rather projected based on the anticipated timing of their occurrence. The projected water rate increases, as indicated in Figure 10 have been smoothed over a number of years to reach the funding level necessary to replace capital assets to the level required to achieve sustainability.

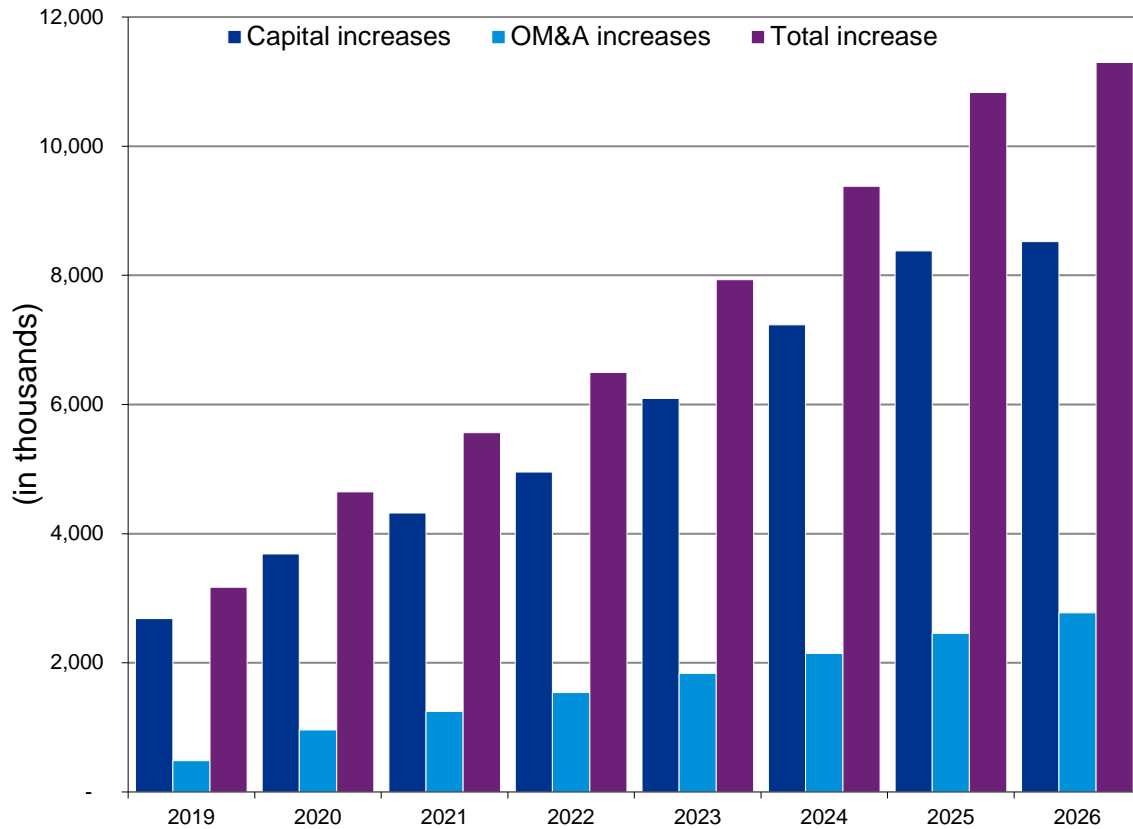
As indicated in the Introduction, the financial plan (which has been prepared for the purposes of meeting regulatory requirements established by the Ministry) does not represent a formal, multi-year budget for water services. The approval of operating and capital budgets for water services is undertaken as part of the PUC’s overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of the PUC with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses. It is the intention of the PUC to update the financial plan on a regular basis to reflect budgetary decisions made by the PUC.

Figure 10 summarizes the actual variable and fixed water rates for 2019 as well as the projected rates for 2020 to 2026. These rates reflect the anticipated total cost of water services, other revenue sources and projected consumption levels, as well as the continuation of the PUC’s past policy of escalating fixed and variable water rates by the same percentage increase.

Figure 10– Residential projected water rates

Year	Water Rate		Average Residential Cost (Annual)	Annual Increase
	Variable (per m ³)	Fixed (monthly)		
2019 (actual)	\$0.66	\$28.92	\$458.26	5.0%
2020	\$0.71	\$31.09	\$492.63	7.5%
2021	\$0.76	\$33.11	\$524.65	6.5%
2022	\$0.80	\$35.10	\$556.12	6.0%
2023	\$0.85	\$37.03	\$586.71	5.5%
2024	\$0.89	\$38.88	\$616.05	5.0%
2025	\$0.93	\$40.82	\$646.85	5.0%
2026	\$0.98	\$42.86	\$679.19	5.0%

Figure 11 – Annual increases in cumulative expenditures component (in thousands)



As summarized in Figure 11, the total amount of annual capital expenditures (excluding debt servicing) is projected to increase from \$4 million in 2018 to \$12.5 million in 2026. Additionally, annual operating costs are projected to increase from \$13.4 million in 2018 to \$16.1 million in 2026.

4.2 Comparison to other municipalities

In the past, the PUC has undertaken a comparison of its water rates against other Ontario municipalities for the purposes of assessing the reasonableness of proposed rate increases. While the preparation of financial plans for water services would appear to afford the opportunity for a detailed comparison of the PUC’s operations from a financial perspective, the ability to undertake this type of analysis is limited by a number of factors:

- Municipalities are in different stages with respect to their financial plans, with the timing for completion depending on their specific licensing situation.
- The Ministry disclosure requirements are relatively high level and as such, municipalities are not required to provide detailed information concerning water rates, consumption levels or operating cost categories.
- The financial plans for municipalities with high rates of population growth do not form reasonable comparisons given significant increases in consumption and capital investment, both of which impact on revenues, rates and operating costs.

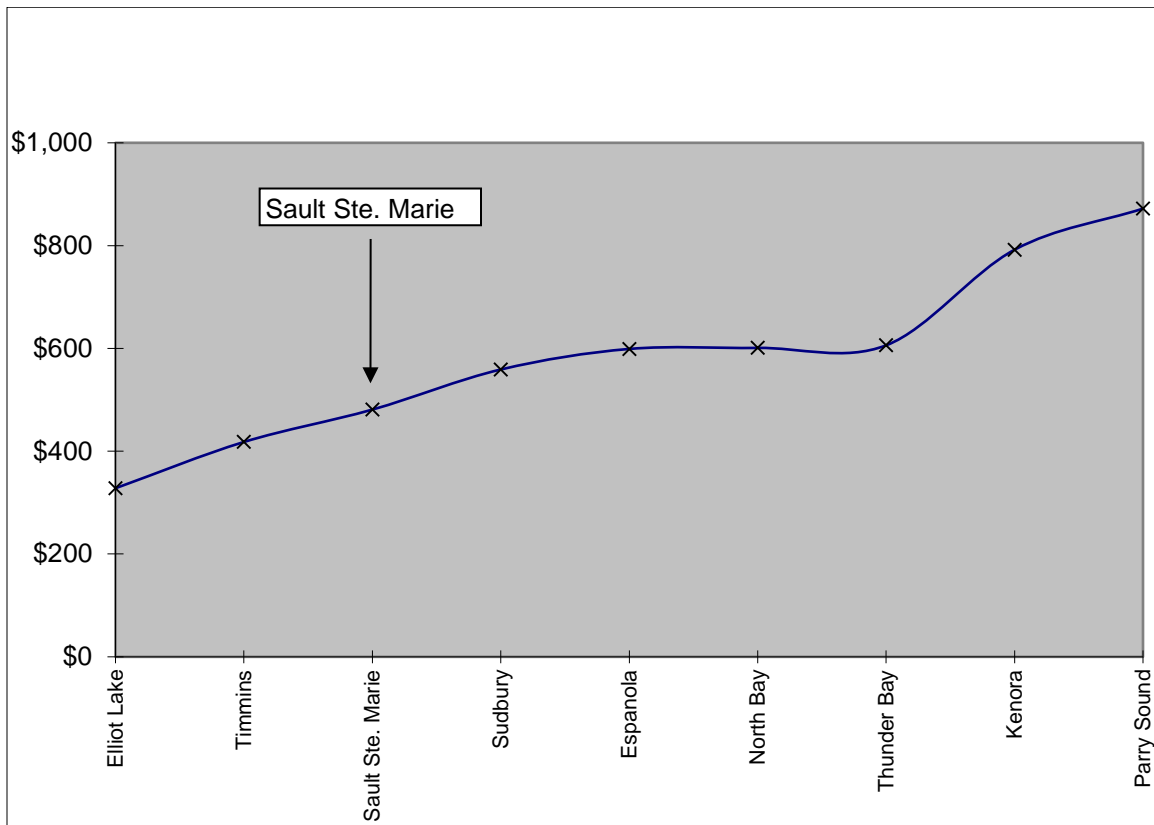
In light of these factors, the comparison of the PUC’s financial plan is limited to:

- Municipalities that have relatively low rates of projected population increases
- An analysis of water user fee revenue, as opposed to water rates, was undertaken as municipalities are not required to disclose projected water rates.

PUC residential customers enjoy lower than average annual water costs when compared to other Ontario municipalities, as determined by BMA Management Consulting Inc. in their Municipal Study 2018. As noted in Figure 12, the average 2018 cost to a household in Sault Ste. Marie for water service is among the lowest in Northern Ontario municipalities.

Figure 12 – 2018 Actual water costs (per annum based on 200 m³ of consumption)

(Source BMA Management Consulting Inc., Municipal Study 2018)



4.3 Congruence with sustainability principles

At the onset of the financial plan, the nine sustainability principles developed by the Ministry were outlined. Figure 13 provides an indication as to the degree of congruence between the PUC's financial plan and the guidance provided by the Ministry.

Figure 13 – Congruence with suggested sustainability principles

Principle	How Addressed	Conclusion
1. Public engagement and transparency	<ul style="list-style-type: none"> ▪ Financial plan was presented at a public PUC meeting ▪ Public access to financial plan will be provided consistent with the Regulation 	Achieved
2. Integrated approach to planning	<ul style="list-style-type: none"> ▪ Financial plan for capital expenditures is integrated with the City of Sault Ste. Marie planned capital projects for road reconstruction that includes replacement of sanitary and storm sewers. PUC and the City commit in their respective AMP strategies to have consideration for coordination of capital projects 	Achieved
3. Revenues should be used to meet water needs	<ul style="list-style-type: none"> ▪ Financial model is full user pay 	Achieved
4. Life cycle planning with mid-course corrections is preferable	<ul style="list-style-type: none"> ▪ Planning is a long-term forecast based on the useful life of infrastructure assets 	Achieved
5. Asset management plan is a key input	<ul style="list-style-type: none"> ▪ The PUC adopted a Strategic Asset Management Policy and has initiated asset management planning with consideration given to the useful life of assets 	Achieved
6. Sustainable level of revenue considers operating and capital requirements	<ul style="list-style-type: none"> ▪ Revenue is sufficient to fund all operating costs as well as ongoing capital asset replacement, growth and regulatory changes 	Achieved
7. Users pay for services they receive	<ul style="list-style-type: none"> ▪ No subsidization of water services by non-users 	Achieved
8. Financial plans are living documents	<ul style="list-style-type: none"> ▪ PUC intends to regularly update the financial plan 	Achieved
9. Financial plans benefit from close collaboration	<ul style="list-style-type: none"> ▪ Preparation included involvement from infrastructure and finance groups, as well as external advisors 	Achieved



APPENDIX

Financial Plan Schedules
Water Supply Services



PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement A

Statement of Projected Financial Position

As at December 31

	2018	2019	2020	2021	2022	2023	2024	2025	2026
	----- Projected -----								
Financial Assets									
Cash	\$ 4,044,383	\$ 3,796,986	\$ 3,330,824	\$ 3,057,505	\$ 3,024,078	\$ 2,902,171	\$ 2,628,287	\$ 2,257,995	\$ 3,704,101
Accounts receivable	2,532,046	2,532,046	2,532,046	2,532,046	2,532,046	2,532,046	2,532,046	2,532,046	2,532,046
Unbilled service revenue	707,707	707,707	707,707	707,707	707,707	707,707	707,707	707,707	707,707
Total financial assets	7,284,136	7,036,739	6,570,577	6,297,258	6,263,831	6,141,924	5,868,040	5,497,748	6,943,854
Financial Liabilities									
Accounts payable and accrued liabilities	2,895,959	2,895,959	2,895,959	2,895,959	2,895,959	2,895,959	2,895,959	2,895,959	2,895,959
Long Term Loans	5,917,394	5,158,807	4,376,289	3,569,084	2,736,414	1,877,477	991,442	77,455	0
Total financial liabilities	8,813,353	8,054,766	7,272,248	6,465,043	5,632,374	4,773,436	3,887,401	2,973,414	2,895,959
Net financial assets	(1,529,217)	(1,018,027)	(701,671)	(167,785)	631,457	1,368,488	1,980,639	2,524,334	4,047,895
Non-Financial Assets									
Inventory	315,146	315,146	315,146	315,146	315,146	315,146	315,146	315,146	315,146
Tangible capital assets	89,145,831	93,262,835	98,226,999	103,658,506	109,547,303	116,373,336	124,116,550	132,756,888	141,294,292
Total non-financial assets	89,460,977	93,577,981	98,542,145	103,973,652	109,862,449	116,688,482	124,431,696	133,072,034	141,609,438
Accumulated surplus (deficit)	\$ 87,931,760	\$ 92,559,954	\$ 97,840,474	\$ 103,805,867	\$ 110,493,907	\$ 118,056,970	\$ 126,412,335	\$ 135,596,368	\$ 145,657,333

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement B

Statement of Projected Operating Results
For the Years Ending December 31

	Actual	Projected							
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenues									
Residential	11,123,565	11,463,718	12,151,541	12,759,118	13,397,074	14,133,913	14,840,609	15,582,640	16,361,772
General	7,884,644	8,018,431	8,499,537	8,924,514	9,370,740	9,886,131	10,380,437	10,899,459	11,444,432
Hydrant	1,325,372	1,392,991	1,476,570	1,550,399	1,627,919	1,717,454	1,803,327	1,893,493	1,988,168
Other revenues	412,002	333,500	339,870	346,367	352,995	359,755	366,650	373,683	380,856
Total revenues	20,745,583	21,208,640	22,467,519	23,580,399	24,748,728	26,097,253	27,391,023	28,749,274	30,175,228
Expenses:									
Operating expenses	8,587,407	8,730,512	9,105,122	9,287,224	9,472,969	9,662,428	9,855,677	10,052,790	10,253,846
General and administration expenses	4,812,129	5,151,656	5,254,690	5,359,783	5,466,979	5,576,319	5,687,845	5,801,602	5,917,634
Interest on long-term debt	196,532	173,279	149,347	124,661	99,196	72,928	45,831	17,879	201
Amortization of tangible capital assets	2,492,717	2,525,000	2,677,840	2,843,337	3,021,544	3,222,515	3,446,305	3,692,971	3,942,571
Total expenses	16,088,785	16,580,447	17,186,999	17,615,006	18,060,688	18,534,189	19,035,658	19,565,242	20,114,252
Gain on sale of building	-	-	-	-	-	-	-	-	-
Annual surplus	4,656,798	4,628,194	5,280,520	5,965,393	6,688,040	7,563,064	8,355,365	9,184,032	10,060,976
Accumulated surplus, beginning of year	83,274,962	87,931,760	92,559,954	97,840,474	103,805,867	110,493,907	118,056,970	126,412,336	135,596,368
Accumulated surplus, end of year	87,931,760	92,559,954	97,840,474	103,805,867	110,493,907	118,056,970	126,412,336	135,596,368	145,657,344

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations- Statement C

Statement of Projected Cash Flows

For the Years Ending December 31

	2018	2019	2020	2021	2022	2023	2024	2025	2026	
					----- Projected -----					
Cash provided by (used in) operating activities:										
Annual surplus (deficit)	\$ 4,656,798	\$ 4,628,194	\$ 5,280,520	\$ 5,965,393	\$ 6,688,040	\$ 7,563,064	\$ 8,355,365	\$ 9,184,032	\$ 10,060,976	
Items not involving cash:										
Amortization of tangible capital assets	2,492,717	2,525,000	2,677,840	2,843,337	3,021,544	3,222,515	3,446,305	3,692,971	3,942,571	
Developers contribution	-	-	-	-	-	-	-	-	-	
Gain on sale of building	-	-	-	-	-	-	-	-	-	
Changes in working capital	-	-	-	-	-	-	-	-	-	
Net change in cash from operating activities	7,149,515	7,153,194	7,958,360	8,808,730	9,709,584	10,785,578	11,801,670	12,877,004	14,003,547	
Cash provided by (used in) financing activities:										
Debt financing obtained	-	-	-	-	-	-	-	-	-	
Principal repayments on net long-term liabilities	(735,388)	(758,587)	(782,518)	(807,205)	(832,670)	(858,938)	(886,035)	(913,987)	(77,466)	
Net change in cash from financing activities	(735,388)	(758,587)	(782,518)	(807,205)	(832,670)	(858,938)	(886,035)	(913,987)	(77,466)	
Capital activities:										
Cash used to acquire tangible capital assets	(3,956,132)	(6,642,004)	(7,642,004)	(8,274,844)	(8,910,341)	(10,048,548)	(11,189,519)	(12,333,309)	(12,479,975)	
Proceeds from disposal of tangible capital assets	-	-	-	-	-	-	-	-	-	
Net change in cash from capital activities	(3,956,132)	(6,642,004)	(7,642,004)	(8,274,844)	(8,910,341)	(10,048,548)	(11,189,519)	(12,333,309)	(12,479,975)	
Net change in cash	2,457,995	(247,397)	(466,162)	(273,319)	(33,427)	(121,907)	(273,883)	(370,292)	1,446,106	
Cash and cash equivalents, beginning of year	1,586,388	4,044,383	3,796,986	3,330,824	3,057,505	3,024,078	2,902,171	2,628,287	2,257,995	
Cash and cash equivalents, end of year	\$ 4,044,383	\$ 3,796,986	\$ 3,330,824	\$ 3,057,505	\$ 3,024,078	\$ 2,902,171	\$ 2,628,287	\$ 2,257,995	\$ 3,704,101	

PUBLIC UTILITIES COMMISSION OF THE CITY OF SAULT STE. MARIE

Water Operations - Statement D

Statement of Projected Changes in Net Financial Assets

For the Years Ending December 31

	Actual	Projected							
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual surplus (deficit)	\$ 4,656,798	\$ 4,628,194	\$ 5,280,520	\$ 5,965,393	\$ 6,688,040	\$ 7,563,064	\$ 8,355,365	\$ 9,184,032	\$ 10,060,976
Acquisition of tangible capital assets	(3,765,115)	(6,642,004)	(7,642,004)	(8,274,844)	(8,910,341)	(10,048,548)	(11,189,519)	(12,333,309)	(12,479,975)
Amortization of tangible capital assets	2,492,717	2,525,000	2,677,840	2,843,337	3,021,544	3,222,515	3,446,305	3,692,971	3,942,571
Loss on disposal of tangible capital assets	-	-	-	-	-	-	-	-	-
	3,384,400	511,190	316,356	533,886	799,243	737,031	612,152	543,694	1,523,572
Change in inventory	7,188	-	-	-	-	-	-	-	-
Change in net financial assets	3,391,588	511,190	316,356	533,886	799,243	737,031	612,152	543,694	1,523,572
Net financial assets (net debt), beginning of year	(4,920,805)	(1,529,217)	(1,018,028)	(701,671)	(167,786)	631,457	1,368,488	1,980,639	2,524,334
Net financial assets (net debt), end of year	\$ (1,529,217)	\$ (1,018,028)	\$ (701,671)	\$ (167,786)	\$ 631,457	\$ 1,368,488	\$ 1,980,639	\$ 2,524,334	\$ 4,047,905