



Water Financial Plan

In Accordance with Ontario
Regulation 453/07

Financial Plan # 070-301A

June 28, 2024

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1. Executive Summary

1.1 Background

Norfolk County provides drinking water to approximately 16,547 customers through its five municipal drinking water systems. The major objective in operating water systems is to provide a continuous supply of potable water to the County's water customers. In doing so, all quality, quantity, and environmental standards put forth by Norfolk County Council and the provincial and federal agencies must be adhered to.

The County recovers both the operating and capital expenditure requirements from the water system users. The costs are recovered through user fees and rate revenues charged to water customers. The primary sources of rate revenues include a monthly basic charge based on water meter size and an additional consumption charge for metered consumption. The County also recovers costs for fire protection from the property tax levy, and levies miscellaneous user fees and charges for items such as bulk water usage and connection inspections and permits.

Under the *Safe Drinking Water Act, 2002, Ontario Regulation 188/07, Licensing of Municipal Drinking Water Systems*, Norfolk County is required to obtain a Municipal Drinking Water Licence (hereinafter, "licence"), for each system, which is valid for a five-year period. The current licences are set to expire on February 12, 2025. An application for renewal must be received by the Ministry of Environment by August 12, 2024. There are a number of requirements for the renewal of the licence, as explained in the attached Council Report; one of these requirements is the provision of a Council-Approved Water System Financial Plan. This document outlines the Water System Financial Plan, in accordance with *Safe Drinking Water Act, 2002, Ontario Regulation 453/07, Financial Plan*.

1.2 Purpose

The primary purpose of the Water System Financial Plan is to consider the financial impacts of supporting the water system infrastructure in Norfolk County over the forecasted period. Outlining the financial impacts will provide a preview of the anticipated future financial position of Norfolk County's water system.

It is important to note that the Financial Plan has been constructed by using various estimates, which are detailed below in Section 3, Key Considerations and Assumptions. The main sources of these estimates are the Final 2024-2033 Capital Plan for infrastructure related costs, and the Approved 2024 Rate Supported Operating Budget for projected operating costs. Additionally, note that this is not an audited document, as this is not required by the *Safe Drinking Water Act, 2002, Ontario Regulation 453/07, Financial Plan*.

2. Regulatory Requirements

The regulatory requirements for the Water System Financial Plan are set out in the *Safe Drinking Water Act, 2002, Ontario Regulation 453/07, Financial Plan* (hereinafter, “O.Reg 453/07”). These requirements and an outline of how the requirements will be met have been summarized below:

A. The financial plans must be approved by a resolution by the council of the municipality.

- The Water System Financial Plan will be presented to Norfolk County’s Council on July 9th, 2024.

B. The financial plans must apply to a period of at least six years.

- The Water System Financial Plan has been developed for a period of six years, from 2025 to 2030.

C. The first year of the plan must be the year in which the drinking water system’s existing municipal drinking water licence would otherwise expire.

- The existing municipal drinking water licence expires in 2025, therefore this is the first year of the Water System Financial Plan presented. For reference the approved 2024 budget has also been presented in the statements.

D. Each year to which the financial plans apply, the financial plans must include the projected financial position of the drinking water system, the projected cash receipts and gross payments of the drinking water system, and the projected financial operations of the drinking water system:

- See the Sections 4.3: Statement of Financial Position, 4.2: Statement of Cash Flow, and 4.1: Statement of Operations, respectively.

E. Details on the extent to which the financial information relates to directly to the replacement of lead service pipes, if applicable.

- Some of the County's distribution systems are suspected to contain lead piping, particularly for service connections. Through the lead testing program implemented under Ontario Regulation 170/03, each system has been sampled for lead based on population numbers. Currently, all Norfolk County distribution systems are on a reduced sampling schedule due to sampling results received under the program (minimal exceedances). The County's current approach for lead service pipe removal involves replacement to property line upon discovery of service material.

F. The owner of the drinking water system must make the financial plans available to members of the public without charge through publication on the Internet.

- The Financial Plan will be posted on Norfolk County's website at no charge for members of the public.

G. Notice must be provided to the public regarding the availability of the financial plans in a manner that will bring the notice to the attention of members of the public who are served by the drinking water system.

- A notice will be issued following Council approval.

3. Key Considerations and Assumptions

Below presents the assumptions for the key items over the forecast period in order to prepare the financial plan.

3.1 Operating and Maintenance Assumptions:

Costs included in the operating budget include costs related to water systems operating and maintenance, the transfers to capital reserves, and debt servicing costs. These costs are funded through user fee charges, including the rate revenues.

The following assumptions were used to project the gross costs and non-rate revenues:

- i. Operating costs, including salaries and benefits, increase annually by 3% except for chemicals increasing at 5% and taxes increasing by 7%.
- ii. Annual debt interest costs over the forecast reflect the sum of actual interest on existing debt and interest costs on projected debt issuances required to fund capital needs. Proposed debt is issued over 25 years with interest rates of 4.5%.
- iii. Revenues from the Fire Protection Charge, and other miscellaneous non-rate fees and charges are projected to increase annually by 5.0%.
- iv. Revenues from Bulk Water Revenues are projected to remain constant over the forecast period based on current usage trends of use.
- v. Contributions to the Water Capital Replacement Reserve Fund are forecasted to increase annually by 4.0%.

3.2 Capital Budget Forecast:

The Approved 2024-2033 Capital Plan was used in determining the capital needs between 2024 and 2030. The project costs and proposed annual funding sources for the Water System were taken from the approved plan. It is assumed that capital projects will be completed within the year proposed in the Final 2024-2033 Capital Plan.

3.3 Tangible Capital Asset (TCA) Projections:

The TCA projections for the forecast period are based on the following assumptions:

- i. Amortization of existing is based on the current schedule of amortization for those assets. Amortization of new assets is based on estimated useful life for the period.
- vi. It is assumed there are no write downs or disposals within the forecast period.
 - a. At this time the decommissioning of currently active assets once the planned Inter-Urban Water System (IUWS) projects are projected to be constructed and active are not confirmed. For the purposes of this financial plan no disposals have been considered.

- vii. Fully depreciated assets continue to be used in service and therefore there are no asset removals.

3.4 Debt Projections

The Debt projections for the forecast period are based on the following assumptions:

- i. Debt will be issued in the year of completion of a capital project
- ii. Projected debt is based on the approved capital project financing within the Final 2024-2033 Capital Plan. Proposed debt is issued over 25 years with interest rates of 4.5% respectively.

4. Financial Statements

The following section provides the Financial Plan relating to Norfolk County's water system. The review and evaluation of financial information is displayed in three financial statements – the Statement of Operations, the Statement of Cash Flow, and the Statement of Financial Position – forecasting for the period 2024-2030 as required by *O.Reg. 453/07*. The projected financial statements are reported in accordance with Public Sector Accounting Board standards.

4.1 Statement of Operations

The Statement of Operations (also known as the Income Statement) is presented in Table 4.1. This statement summarizes the projected revenues and expenditures for each year of the forecasted period. The main revenue items that are reported on include water rate revenues, earned development charges revenues, interest income, and other sources (such as user fees and the fire protection charge). The main expenditures included are annual operational expenses, interest charges, and amortization on tangible capital assets.

The Statement of Operations includes the operating surplus/deficit. This calculation forecasts the ability of revenues to cover expenses. As the Statement of Operations is presented in accordance with the Public Sector Accounting Board (PSAB) standards, the surplus/deficit does not reflect a surplus/deficit of actuals versus budgeted amounts. An operating surplus is necessary to ensure that there will be a sufficient amount of revenue to fund non-expense items, such as the repayment of outstanding debt principal, capital purchases greater than amortization expense, and reserve contributions. If the Statement of Operations were to be redisplayed to match the budget presentation, instead of the shown PSAB format, the annual result would be a \$0 surplus/deficit.

Table 4.1 Statement of Operations

Statement of Operations
Unaudited: For Financial Planning Purposes Only
2024 to 2030

	2024 APPROVED BUDGET	2025 PROJECTED BUDGET	2026 PROJECTED BUDGET	2027 PROJECTED BUDGET	2028 PROJECTED BUDGET	2029 PROJECTED BUDGET	2030 PROJECTED BUDGET
Water Revenues							
Rate Revenues	13,205,400	15,054,200	16,258,600	17,559,200	18,788,300	20,103,400	21,510,700
Earned Development Charge Revenue	7,102,555	541,045	721,045	352,045	503,045	447,045	422,045
Other Revenue	7,465,671	73,059,416	5,388,263	3,652,763	14,346,906	9,898,430	4,101,316
Total Water Revenues	27,773,626	88,654,661	22,367,908	21,564,008	33,638,251	30,448,875	26,034,061
Water Expenses							
Operating Expenses	9,372,500	9,696,900	10,056,100	10,430,100	10,819,900	11,226,300	11,650,000
Amortization Expense	2,803,133	3,427,335	4,815,915	6,139,468	6,995,676	7,388,920	7,418,848
Interest Expense	1,956,287	3,450,975	3,360,807	3,315,126	3,689,872	3,575,593	3,734,880
Total Water Expenses	14,131,920	16,575,210	18,232,822	19,884,694	21,505,448	22,190,813	22,803,728
Surplus/(Deficit)	13,641,706	72,079,451	4,135,086	1,679,314	12,132,803	8,258,062	3,230,333
Accumulated Surplus/(Deficit), Beginning of Year	140,534,699	154,176,405	226,255,856	230,390,942	232,070,256	244,203,059	252,461,121
Accumulated Surplus/(Deficit), End of Year	154,176,405	226,255,856	230,390,942	232,070,256	244,203,059	252,461,121	255,691,454

When reviewing the projected annual surpluses over the forecast, the significant variation of this figure, year over year, is apparent. The main reason for this is the significant funds required for capital needs during the period. As the Water Development Charges Reserve Fund is a liability, when funds are used for the purchase of tangible capital assets, the amount used is brought into revenue. Additionally, the planned grant funding is also brought into revenue when funds are used for the purchase of tangible capital assets, this amount is included in other revenue.

Note that the Statement of Operations has been forecasted using status quo operating service levels. Based on Council discussions at the 2024 Rate Supported Operating Budget deliberations and other Council meetings, it is likely there will be changes to service or staffing levels throughout this period. These potential changes have been excluded from this analysis due to the uncertainty of actual amounts.

When reviewing the Rate Revenues line, it is apparent that there are increases planned for each year of the forecast. These increases are required to meet the planned debenture requirement needs related to completing the work identified in the Final 2024-2033 Capital Plan over the forecast period.

The increases in interest payments are reflected in the Interest Expenses line on the Statement of Operations and the increase in debt principal payments is reflected on the Statement of Cash Flows in the Repayments of Long-Term Debt line.

The increase in amortization expense corresponds to the increase in tangible capital assets planned to be occurring over the forecast period.

4.2 Statement of Cash Flow

The Statement of Cash Flow is presented in Table 4.2. Inflows and outflows of cash during the forecasted period are projected in this statement. The Statement of Cash Flow presents cash activities separated into three sections:

1. Operating Activities
2. Financing Activities
3. Capital Activities

The Operating Activities section begins with the annual surplus/deficit that was calculated in the Statement of Operations. Then non-cash inflows and outflows included in the Statement of Operations are removed, and an adjustment is made for changes in working capital (in this case the change in accounts receivable). The Financing Activities section includes the inflow of cash from development charges collections, proceeds from long-term debt, as well as the outflow of cash used to make debt principal repayments. The Capital Activities section includes the outflow of cash to purchase Tangible Capital Asset items.

Table 4.2 Statement of Cash Flow

Statement of Cash Flow Unaudited: For Financial Planning Purposes Only 2024 to 2030							
	2024 APPROVED BUDGET	2025 PROJECTED BUDGET	2026 PROJECTED BUDGET	2027 PROJECTED BUDGET	2028 PROJECTED BUDGET	2029 PROJECTED BUDGET	2030 PROJECTED BUDGET
Operating Transactions							
Annual Surplus/(Deficit) excl. LTD Repayments	13,641,706	72,079,451	4,135,086	1,679,314	12,132,803	8,258,062	3,230,333
Add: Amortization	2,803,133	3,427,335	4,815,915	6,139,468	6,995,676	7,388,920	7,418,848
Less: Earned Deferred Revenue	(7,102,555)	(541,045)	(721,045)	(352,045)	(503,045)	(447,045)	(422,045)
Change in: AR (Increase)/Decrease	(108,225)	(154,067)	(100,367)	(108,383)	(102,425)	(109,592)	(117,275)
Cash Provided by Operating Transactions	9,234,059	74,811,674	8,129,589	7,358,354	18,523,009	15,090,345	10,109,861
Financing Transactions							
Add: Development Charge Collections	1,114,192	1,164,753	1,210,907	1,274,189	1,334,756	1,400,693	1,471,008
Add: Proceeds from Debentures	37,577,000	34,647,000	-	1,081,000	10,577,000	-	6,209,000
Less: Repayments of Long-Term Debt (Principal)	(1,500,752)	(2,317,814)	(2,294,555)	(2,402,345)	(2,726,795)	(2,830,277)	(3,076,948)
Cash Provided by Financing Transactions	37,190,440	33,493,939	(1,083,648)	(47,156)	9,184,961	(1,429,584)	4,603,060
Capital Transactions							
Capital Purchases	(50,391,375)	(108,580,000)	(3,744,000)	(9,255,000)	(21,133,000)	(9,584,000)	(8,307,000)
Cash Used by Capital Transactions	(50,391,375)	(108,580,000)	(3,744,000)	(9,255,000)	(21,133,000)	(9,584,000)	(8,307,000)
Net Increase/(Decrease) in Cash & Cash Equivalents	(3,966,876)	(274,387)	3,301,941	(1,943,802)	6,574,970	4,076,761	6,405,921
Cash & Cash Equivalents, Beginning of Year	27,710,308	23,743,432	23,469,045	26,770,986	24,827,184	31,402,154	35,478,915
Cash & Cash Equivalents, End of Year	23,743,432	23,469,045	26,770,986	24,827,184	31,402,154	35,478,915	41,884,836

Over the forecast, cash and cash equivalents fluctuates until 2028 when it is projected to remain in the incline to the end of the period. The fluctuations in the cash balance

are attributed to the change in the forecasted balance of the Water Development Charges Reserve Fund and the Water Reserve. During the forecast the rate of cash spending for capital requirements funded from the Water Development Charges Reserve Fund and the Water Reserve is faster than the anticipated inflow of cash from Development Charges and the operating fund.

Based on the current capital forecast, debt is planned to be issued for projects funded from the Water Development Charges Reserve Fund, which helps lessen the fluctuations. Note that the Water Development Charge Reserve Fund capital funding and anticipated receipt of water development charges funds is based on the 2018 Development Charges Background Study. A new Development Charges Background Study is planned within the next two years and changes anticipated in the study will affect the Water System Financial Plan.

Another area to note is the Proceeds from Debentures line which highlights the amount of debt being issued annually. Debenture proceeds are significantly high in 2024, 2025 and 2028. For these years, a listing of the large dollar value projects has been included below:

- 2024 debenture issue includes \$12.4 million Port Rowan WTP and Intake Upgrades and \$16.5 million Port Dover Clarifier Replacement and WTP Upgrade
- 2024 to 2030 debenture issues include approximately \$147.4 million for the multiple phases of the IUWS projects as currently approved by Council. Note that any changes to this project would affect the Water System Financial Plan

4.3 Statement of Financial Position

The Statement of Financial Position (also known as the Balance Sheet) is presented in Table 4.3. This statement summarizes the County's water-related financial and non-financial assets, liabilities, net financial asset position, and accumulated surplus in regard to the water system's operations.

Table 4.3 Statement of Financial Position

Statement of Financial Position
Unaudited: For Financial Planning Purposes Only
2024 to 2030

	2024 APPROVED BUDGET	2025 PROJECTED BUDGET	2026 PROJECTED BUDGET	2027 PROJECTED BUDGET	2028 PROJECTED BUDGET	2029 PROJECTED BUDGET	2030 PROJECTED BUDGET
Financial Assets							
Cash	23,743,432	23,469,045	26,770,986	24,827,184	31,402,154	35,478,915	41,884,836
Accounts Receivable	1,100,450	1,254,517	1,354,883	1,463,267	1,565,692	1,675,283	1,792,558
Total Financial Assets	24,843,882	24,723,562	28,125,869	26,290,451	32,967,846	37,154,198	43,677,394
Financial Liabilities							
Long-term Liabilities (Debt)	45,122,228	77,451,414	75,156,859	73,835,514	81,685,719	78,855,442	81,987,494
Development Charges Reserve Fund	491,655	1,115,363	1,605,225	2,527,370	3,359,081	4,312,729	5,361,692
Total Financial Liabilities	45,613,883	78,566,777	76,762,084	76,362,884	85,044,800	83,168,171	87,349,186
Net Financial Assets/(Debt)	(20,770,001)	(53,843,215)	(48,636,215)	(50,072,433)	(52,076,954)	(46,013,973)	(43,671,792)
Non-Financial Assets							
Tangible Capital Assets	174,946,406	280,099,071	279,027,156	282,142,688	296,280,012	298,475,092	299,363,244
Total Non-Financial Assets	174,946,406	280,099,071	279,027,156	282,142,688	296,280,012	298,475,092	299,363,244
Accumulated Surplus/(Deficit)	154,176,405	226,255,856	230,390,941	232,070,255	244,203,058	252,461,119	255,691,452
Tangible Capital Asset Reconciliation:							
Beginning Net Book Value	127,358,164	174,946,406	280,099,071	279,027,156	282,142,688	296,280,012	298,475,092
Add: Additions	50,391,375	108,580,000	3,744,000	9,255,000	21,133,000	9,584,000	8,307,000
Less: Amortization	(2,803,133)	(3,427,335)	(4,815,915)	(6,139,468)	(6,995,676)	(7,388,920)	(7,418,848)
Ending Net Book Value	174,946,406	280,099,071	279,027,156	282,142,688	296,280,012	298,475,092	299,363,244

The majority of financial assets are cash balances in the Water Reserve and Water Development Charges Reserve Fund. As commented on in Section 4.2, the fluctuation in the cash balance shown in years 2025 to 2027 is driven by the balance in the capital spending requirements combined with the slower replacement of those funds to the reserve.

Financial liabilities include long-term debt balances and the Water Development Charges Reserve Fund Balance. Total financial liabilities are \$45.6 million in 2024, increasing to \$87.3 million in 2030, the majority of which is debt related. The projects resulting in the large increases in debt financing have been outlined in Section 4.2. Net financial assets/net debt is calculated by taking the presented financial assets less the liabilities. This calculation approximates the level of future revenue that will be necessary to fund prior spending decisions. It is noted that the entirety of the financial plan the net financial assets are in the negative. This is driven largely by IUWS projects outlined in the capital plan, changes to the order or scope of these projects will affect the Water Financial Plan.

Non-financial assets include the physical assets related to water operations, such as the water facilities and infrastructure. New Tangible Capital Asset items are added in the year the assets will be received or constructed, then amortized over the asset's useful life. Note that all other non-financial assets are assumed to be zero. Total net assets increase by approximately \$172 million, which represents a significant capital investment over this period.

The Accumulated Surplus represents the accumulation of prior and current year surpluses and deficits, which is reflected in the balances of the reserve funds; in addition, it includes the total cost of tangible capital assets less the amortization that has occurred to date, and debt principal payments outstanding. In other words, the Accumulated Surplus is an indication of what resources are expected to be available for the water system in future years. The accumulated surplus is projected to increase from approximately \$154.2 million in 2024 to approximately \$255.7 million by 2030.

5. Summary

The following chart outlines the main conclusions of the Water Systems Financial Plan:

	2024 Millions \$	2030 Millions \$
Net Rate Requirement	13,205	21,511
Debentures (growth and non-growth)	45,122	81,987
Tangible Capital Asset - Net Book Value	174,946	299,363
Water Reserve Balance	19,844	12,295
Development Charge Reserve Fund Balance	492	5,362

Throughout this time period the financial outlook is constrained, as outlined in the chart above, Norfolk County has some significant challenges in financing the capital both for growth and non-growth projects. The increases in the net rate requirement are significant over the period.

Norfolk County recognizes the difficulty in balancing the needs of maintaining an effectively operating water system with financial sustainability. Staff will continue developing long-term planning to ensure the County's affordability in the future. The Financial Plan is a living document, and as mentioned earlier changes to forecasts or assumptions will affect the financial results of the water system.