

City of St. Catharines

2014 – 2019 Water and Wastewater Financial Plan



City of St. Catharines
Water Systems Financial Plan
Statement of Projected Financial Position - Water Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Assets | | | | | | |
| Financial Assets | | | | | | |
| Cash - Note 1. | 4,743,000 | 4,023,870 | 3,455,072 | 3,087,085 | 3,168,790 | 3,569,274 |
| Accounts Receivable - Note 2. | 5,700,000 | 5,814,000 | 5,930,280 | 6,048,886 | 6,169,863 | 6,293,261 |
| Total Financial Assets | 10,443,000 | 9,837,870 | 9,385,352 | 9,135,971 | 9,338,654 | 9,862,535 |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Current Portion of Debentures Payable - Note 3. | 866,635 | 897,189 | 870,549 | 593,821 | 444,571 | 358,058 |
| Accounts Payable - Note 4. | 919,767 | 924,924 | 930,060 | 934,101 | 938,185 | 943,041 |
| Long Term Liabilities | | | | | | |
| Long Term Portion of Debentures Payable - Note 3. | 3,139,650 | 3,169,461 | 2,478,912 | 1,885,091 | 1,494,519 | 1,136,461 |
| Total Liabilities | 4,926,052 | 4,991,574 | 4,279,521 | 3,413,012 | 2,877,276 | 2,437,561 |
| Net Financial Assets | 5,516,947 | 4,846,295 | 5,105,831 | 5,722,958 | 6,461,378 | 7,424,974 |
| Non-Financial Assets | | | | | | |
| Inventory - Note 5. | 185,000 | 196,234 | 208,150 | 220,790 | 234,197 | 248,418 |
| Tangible Capital Assets - Note 6. | 117,141,667 | 127,354,087 | 137,111,917 | 146,601,559 | 156,409,729 | 166,426,547 |
| Accumulated Amortization - Note 6. | (27,227,893) | (29,096,674) | (31,186,818) | (33,487,928) | (35,999,873) | (38,713,576) |
| Total Non-Financial Assets | 90,098,773 | 98,453,647 | 106,133,250 | 113,334,421 | 120,644,053 | 127,961,389 |
| Accumulated Surplus, End of Period | 95,615,721 | 103,299,942 | 111,239,081 | 119,057,379 | 127,105,431 | 135,386,363 |

City of St. Catharines
Water Systems Financial Plan
Statement of Projected Operations - Water Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenues | | | | | | |
| Water Rates - Note 7. | 22,616,648 | 23,068,981 | 23,530,361 | 24,000,968 | 24,480,987 | 24,970,607 |
| Other Revenue | 380,000 | 387,600 | 395,352 | 403,259 | 411,324 | 419,551 |
| Grants & Funding - Note 8. | 150,000 | 2,431,000 | 2,566,982 | 2,250,000 | 2,250,000 | 2,250,000 |
| Total Revenue | <u>23,146,648</u> | <u>25,887,581</u> | <u>26,492,695</u> | <u>26,654,227</u> | <u>27,142,311</u> | <u>27,640,158</u> |
| Cost of Water Sold - Note 9. | | | | | | |
| Fixed Costs | 2,928,504 | 2,966,575 | 3,005,140 | 3,038,197 | 3,071,617 | 3,108,476 |
| Purchase of Water | 8,108,700 | 8,132,516 | 8,155,581 | 8,171,010 | 8,186,602 | 8,208,022 |
| Total Cost of Water Sold | <u>11,037,204</u> | <u>11,099,091</u> | <u>11,160,721</u> | <u>11,209,206</u> | <u>11,258,219</u> | <u>11,316,498</u> |
| Gross Profit | <u>12,109,444</u> | <u>14,788,490</u> | <u>15,331,974</u> | <u>15,445,020</u> | <u>15,884,093</u> | <u>16,323,660</u> |
| Expenditures - Note 10. | | | | | | |
| General Administration | 1,340,817 | 1,351,619 | 1,345,983 | 1,322,920 | 1,281,402 | 1,229,026 |
| Engineering Overhead | 1,131,122 | 1,153,744 | 1,176,819 | 1,200,356 | 1,224,363 | 1,248,850 |
| Mains, Valves, Hydrants | 1,736,670 | 1,771,403 | 1,806,831 | 1,842,968 | 1,879,827 | 1,917,424 |
| Water Service Lines - Note 11. | 366,580 | 373,912 | 381,390 | 389,018 | 396,798 | 404,734 |
| Replacement of lead service pipes | 50,000 | 51,000 | 52,020 | 53,060 | 54,122 | 55,204 |
| Meters | 364,310 | 371,596 | 379,028 | 386,609 | 394,341 | 402,228 |
| Interest on Debenture Debt - Note 3. | 182,148 | 162,214 | 160,620 | 130,681 | 93,243 | 71,559 |
| Annual amortization - Note 6. | 1,807,443 | 1,868,781 | 2,090,144 | 2,301,111 | 2,511,945 | 2,713,703 |
| Total Expenditures | <u>6,979,090</u> | <u>7,104,269</u> | <u>7,392,835</u> | <u>7,626,722</u> | <u>7,836,041</u> | <u>8,042,728</u> |
| Net Surplus - Note 12. | 5,130,354 | 7,684,221 | 7,939,139 | 7,818,298 | 8,048,052 | 8,280,932 |
| Accumulated Surplus, Beginning of Period | <u>90,485,367</u> | <u>95,615,721</u> | <u>103,299,942</u> | <u>111,239,081</u> | <u>119,057,379</u> | <u>127,105,431</u> |
| Accumulated Surplus, End of Period | <u>95,615,721</u> | <u>103,299,942</u> | <u>111,239,081</u> | <u>119,057,379</u> | <u>127,105,431</u> | <u>135,386,363</u> |

City of St. Catharines
Water Systems Financial Plan
Statement of Projected Cash Flows - Water Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------------------|---------------------|--------------------|--------------------|--------------------|---------------------|
| Operating Transactions | | | | | | |
| Cash received from: | | | | | | |
| Revenues | 23,146,648 | 24,187,581 | 26,492,695 | 26,654,227 | 27,142,311 | 27,640,158 |
| Gas Tax Funding | - | 1,700,000 | - | - | - | - |
| Grants | - | - | - | - | - | - |
| Cash paid for: | | | | | | |
| Operating Expenses | (17,834,146) | (18,041,146) | (18,392,936) | (18,705,247) | (19,001,016) | (19,287,666) |
| Finance charges | (182,148) | (162,214) | (160,620) | (130,681) | (93,243) | (71,559) |
| Adjustment for Non-Cash items: | | | | | | |
| Addback of amortization | 1,807,443 | 1,868,781 | 2,090,144 | 2,301,111 | 2,511,945 | 2,713,703 |
| Change in non cash balances | - | (120,077) | (123,060) | (127,205) | (130,301) | (132,762) |
| Cash Provided by Operating Transactions | <u>6,937,797</u> | <u>9,432,925</u> | <u>9,906,222</u> | <u>9,992,204</u> | <u>10,429,697</u> | <u>10,861,873</u> |
| Capital Transactions | | | | | | |
| Cash required to acquire tangible capital assets | (6,771,000) | (10,212,420) | (9,757,830) | (9,489,642) | (9,808,170) | (10,016,818) |
| Cash Required by Capital Transactions | <u>(6,771,000)</u> | <u>(10,212,420)</u> | <u>(9,757,830)</u> | <u>(9,489,642)</u> | <u>(9,808,170)</u> | <u>(10,016,818)</u> |
| Investing Transactions | - | - | - | - | - | - |
| Cash Provided (Required) by Investing Transactions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financing Transactions | | | | | | |
| Proceeds on debt issuance | 0 | 927,000 | 180,000 | 0 | 54,000 | 0 |
| Cash required for debt repayment | (891,698) | (866,635) | (897,189) | (870,549) | (593,821) | (444,571) |
| Cash Provided (Required) by Financing Transactions | <u>(891,698)</u> | <u>60,365</u> | <u>(717,189)</u> | <u>(870,549)</u> | <u>(539,821)</u> | <u>(444,571)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | (724,901) | (719,130) | (568,798) | (367,987) | 81,706 | 400,484 |
| Cash and Cash Equivalents, Beginning of Year | 5,467,901 | 4,743,000 | 4,023,870 | 3,455,072 | 3,087,085 | 3,168,790 |
| Cash and Cash Equivalents, End of Year | <u>4,743,000</u> | <u>4,023,870</u> | <u>3,455,072</u> | <u>3,087,085</u> | <u>3,168,790</u> | <u>3,569,274</u> |

City of St. Catharines
Water Systems Financial Plan
Notes to Financial Plan - Water Operations
2014 - 2019

Consumption Patterns

The City of St. Catharines has seen declining annual consumption of water by its citizens as a result of more efficient appliances and increased public awareness of environmental concerns such as conservation. It is difficult to project consumption patterns due to numerous outside factors such as annual precipitation, more efficient technology and public demand.

The 2014 Water and Wastewater Budget estimated consumption for 2014 at 15.1 million cubic metres. Consumption is projected to decline to 14.8 million cubic metres by 2016 and 14.4 million cubic metres by 2019.

Inflation

To project future operating and capital costs, it is assumed for Financial Plan purposes that inflation will be at 2%. The projected inflation figure was provided by the Bank of Canada which sets monetary policy in Canada.

Sustainability

Per discussions with engineers responsible for oversight of the Water system, the annual replacement rate for the Water system is 2%. The replacement rate is based on the current condition of the infrastructure, estimated useful lives of new infrastructure and maintaining an adequate level of pipe breakage.

The aggregate estimated replacement cost for the water system is \$460 million in 2014 dollars. With a replacement rate of 2%, this gives an annual capital requirement of \$9.2 million.

Accumulated Surplus

The majority of the opening accumulated surplus captures the net book value of the tangible capital assets which were accumulated in the past but recorded as a current year expense rather than deferred and amortized as per PSAB 3150.

1. Cash

The 2013 closing net surplus for the Water system was used as the 2014 opening cash balance.

2. Accounts Receivable

Based on actual receivable balances from 2009-2013, the 2014 receivable balance was projected to be \$12 million. As Water and Wastewater receivables are recorded in the same general ledger account, the projected 2014 balance of \$12 million was split based on the pro-ration of 2013 Water and Wastewater revenues. Water represented 48% and Wastewater represented 52% giving estimated receivable balances of \$5.7 million and \$6.3 million respectively.

The accounts receivable balances from 2014 – 2019 increase in line with the increase in revenues from 2014 – 2019.

3. Debentures

From 1999 – 2013 debenture rates have ranged from 2.717% to 5.3%

The actual rate used for the 2013 debenture issuance was 3.243%. As rates are projected to increase, an estimate of 4% was used for 2015 debentures and 4.5% for 2016 – 2019 debentures.

The City of St. Catharines funds 10% of project costs through operations and 90% of the remaining project costs after funding and grants have been applied.

The current portion of debentures payable represents the principal repayments to be paid in the next fiscal year.

The long term portion of debentures payable represents the principal repayments to be paid after the next fiscal year.

Interest on debenture debt represents the total interest paid on debenture debt in the current fiscal year.

4. Accounts Payable

The most significant cost for the Water system is the purchase of water from the Regional Municipality of Niagara (the Region). As the payables cycle for the City of St. Catharines is typically one month it is assumed that the accounts payable at year end is equal to 1/12th of the total cost of the water purchased.

City of St. Catharines
Water Systems Financial Plan
Notes to Financial Plan - Water Operations
2014 - 2019

5. Inventory

Per discussion with operations management, inventory levels are maintained at an estimated \$185,000 for Water. With the implementation of Radio Read Water Meters due to be completed in 2019, inventory levels will increase by approximately \$40,000 in 2014 dollars. Inflation indexed annually at 2% results in a 2019 balance of \$248,418.

6. Tangible Capital Assets

Opening balances for tangible capital assets were obtained from the 2013 year end balances for the draft Audited Financial Statements and draft FIR. Amortization is calculated on a straight line approach with the half year rule used in the year of acquisition. The basis for the straight line approach was taken from the working papers used to support the 2013 tangible capital assets reported in the FIR and draft Audited Financial Statements to ensure consistency.

For simplicity, it is assumed that there were no asset disposals from 2014 – 2019 where nominal cash considerations would be obtained. Note that this potential adjustment is immaterial to the Financial Plan.

7. Revenues

In December 2013, Council approved an Asset Management Plan which included a recommendation is to increase total revenues from user fees annually by 4.5% over the next ten years to increase replacement rates to sustainable levels.

8. Grants and Funding

Includes grants such as the Federal Gas Tax and funding from the Region

9. Cost of Water Sold

As part of the renewal process for their drinking water licences, the Region prepared and approved an update to their Water and Wastewater Financial Plan in January 2014. Per their Financial Plan, water revenues were projected to increased between 1.1 - 1.3% from 2015 - 2019. These increases were used to project the cost of water purchased from the Region.

10. Expenditures

All expenditures with the exception of interest on debenture debt and amortization have been indexed annually at 2% for inflation.

The 2014 expenditures were taken from the 2014 Water operating budget. The expenditures were reviewed with the finance management to identify capital expenditures which were removed.

Interest on debenture debt and amortization were calculated based on projected debentures and capital expenditures.

11. Replacement of Lead Service Pipes

Based on conversations with environmental services management, the replacement of lead service pipes has been budgeted at \$50,000 annually.

12. Net Surplus

Surplus as applied under Ontario Regulation 453/07 is not consistent with the usage of the term surplus for Municipalities. Surplus under O. Reg. 453/07 refers to the accrual net income which does not include the cash required to purchase capital expenditures or to pay down debenture principal. The Statement of Projected Cash Flows mirrors the budgeting process for Municipalities which considers the cash required to fund operating and capital activities.

City of St. Catharines
Wastewater Systems Financial Plan
Statement of Projected Financial Position - Wastewater Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Assets | | | | | | |
| Financial Assets | | | | | | |
| Cash (Bank Indebtedness) - Note 1. | (2,589,020) | (2,370,075) | (2,086,887) | (1,541,273) | (666,798) | 590,011 |
| Accounts Receivable - Note 2. | 6,300,000 | 6,520,500 | 6,748,718 | 6,951,179 | 7,159,714 | 7,374,506 |
| Total Financial Assets | <u>3,710,980</u> | <u>4,150,425</u> | <u>4,661,831</u> | <u>5,409,906</u> | <u>6,492,917</u> | <u>7,964,517</u> |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Current Portion of Debentures Payable - Note 3. | 776,187 | 811,977 | 659,170 | 413,870 | 103,923 | 107,396 |
| Accounts Payable - Note 4. | 1,621,147 | 1,669,781 | 1,731,563 | 1,783,510 | 1,837,016 | 1,892,126 |
| Long Term Liabilities | | | | | | |
| Long Term Portion of Debentures Payable - Note 3. | 2,217,973 | 1,405,996 | 746,826 | 332,956 | 229,033 | 121,638 |
| Total Liabilities | <u>4,615,307</u> | <u>3,887,755</u> | <u>3,137,559</u> | <u>2,530,336</u> | <u>2,169,972</u> | <u>2,121,159</u> |
| Net Financial Assets (Debt) | <u>(904,327)</u> | <u>262,670</u> | <u>1,524,271</u> | <u>2,879,570</u> | <u>4,322,945</u> | <u>5,843,358</u> |
| Non-Financial Assets | | | | | | |
| Inventory - Note 5. | 95,000 | 96,900 | 98,838 | 100,815 | 102,831 | 104,888 |
| Tangible Capital Assets - Note 6. | 121,073,084 | 123,706,644 | 126,356,546 | 129,164,204 | 132,064,169 | 135,560,132 |
| Accumulated Amortization - Note 6. | (40,640,788) | (42,455,825) | (44,304,536) | (46,187,700) | (48,106,635) | (50,069,388) |
| Total Non-Financial Assets | <u>80,527,296</u> | <u>81,347,719</u> | <u>82,150,848</u> | <u>83,077,318</u> | <u>84,060,365</u> | <u>85,595,632</u> |
| Accumulated Surplus, End of Period | <u>79,622,969</u> | <u>81,610,389</u> | <u>83,675,119</u> | <u>85,956,888</u> | <u>88,383,310</u> | <u>91,438,989</u> |

City of St. Catharines
Wastewater Systems Financial Plan
Statement of Projected Operations - Wastewater Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues | | | | | | |
| Wastewater - Note 7. | 26,188,917 | 27,105,529 | 28,054,223 | 28,895,849 | 29,762,725 | 30,655,607 |
| Grants & Funding - Note 8. | 605,000 | 500,000 | 431,000 | 500,000 | 500,000 | 1,000,000 |
| Total Revenue | <u>26,793,917</u> | <u>27,605,529</u> | <u>28,485,223</u> | <u>29,395,849</u> | <u>30,262,725</u> | <u>31,655,607</u> |
| Cost of Water Sold - Note 9. | | | | | | |
| Regional Wastewater | 19,453,764 | 20,037,377 | 20,778,760 | 21,402,123 | 22,044,186 | 22,705,512 |
| Total Cost of Water Sold | <u>19,453,764</u> | <u>20,037,377</u> | <u>20,778,760</u> | <u>21,402,123</u> | <u>22,044,186</u> | <u>22,705,512</u> |
| Gross Profit | <u>7,340,153</u> | <u>7,568,152</u> | <u>7,706,463</u> | <u>7,993,727</u> | <u>8,218,538</u> | <u>8,950,095</u> |
| Expenditures - Note 10. | | | | | | |
| Sewers - General costs | 512,440 | 522,689 | 533,143 | 543,805 | 554,682 | 565,775 |
| FLAP Program | 213,008 | 217,268 | 221,614 | 226,046 | 230,567 | 235,178 |
| Lateral Replacement | 597,090 | 609,032 | 621,212 | 633,637 | 646,309 | 659,236 |
| Drain Clearing | 185,630 | 189,343 | 193,129 | 196,992 | 200,932 | 204,951 |
| Overhead | 1,304,246 | 1,330,331 | 1,356,938 | 1,384,076 | 1,411,758 | 1,439,993 |
| Pollution Control | 739,357 | 754,144 | 769,227 | 784,612 | 800,304 | 816,310 |
| Interest on Debenture Debt - Note 3. | 157,246 | 142,889 | 97,759 | 59,625 | 28,631 | 10,220 |
| Annual amortization - Note 6. | 1,818,516 | 1,815,037 | 1,848,711 | 1,883,165 | 1,918,934 | 1,962,753 |
| Total Expenditures | <u>5,527,533</u> | <u>5,580,732</u> | <u>5,641,732</u> | <u>5,711,958</u> | <u>5,792,116</u> | <u>5,894,415</u> |
| Net Surplus - Note 11. | 1,812,620 | 1,987,420 | 2,064,730 | 2,281,769 | 2,426,422 | 3,055,679 |
| Accumulated Surplus, Beginning of Period | <u>77,810,349</u> | <u>79,622,969</u> | <u>81,610,389</u> | <u>83,675,119</u> | <u>85,956,888</u> | <u>88,383,310</u> |
| Accumulated Surplus, End of Period | <u>79,622,969</u> | <u>81,610,389</u> | <u>83,675,119</u> | <u>85,956,888</u> | <u>88,383,310</u> | <u>91,438,989</u> |

City of St. Catharines
Wastewater Systems Financial Plan
Statement of Projected Cash Flows - Wastewater Operations
2014 - 2019

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Operating Transactions | | | | | | |
| Cash received from: | | | | | | |
| Revenues | 26,188,917 | 27,105,529 | 28,054,223 | 28,895,849 | 29,762,725 | 30,655,607 |
| Gas Tax Funding | 605,000 | 500,000 | 431,000 | 500,000 | 500,000 | 1,000,000 |
| Grants | - | - | - | - | - | - |
| Cash paid for: | | | | | | |
| Operating Expenses | (24,824,051) | (25,475,221) | (26,322,733) | (27,054,455) | (27,807,672) | (28,589,707) |
| Finance charges | (157,246) | (142,889) | (97,759) | (59,625) | (28,631) | (10,220) |
| Adjustment for Non-Cash items: | | | | | | |
| Addback of amortization | 1,818,516 | 1,815,037 | 1,848,711 | 1,883,165 | 1,918,934 | 1,962,753 |
| Change in non cash balances | - | (173,766) | (168,374) | (152,491) | (157,046) | (161,738) |
| Cash Provided by Operating Transactions | <u>3,631,136</u> | <u>3,628,691</u> | <u>3,745,068</u> | <u>4,012,442</u> | <u>4,188,310</u> | <u>4,856,695</u> |
| Capital Transactions | | | | | | |
| Cash required to acquire tangible capital assets | (2,801,500) | (2,633,560) | (2,649,902) | (2,807,658) | (2,899,965) | (3,495,963) |
| Cash Required by Capital Transactions | <u>(2,801,500)</u> | <u>(2,633,560)</u> | <u>(2,649,902)</u> | <u>(2,807,658)</u> | <u>(2,899,965)</u> | <u>(3,495,963)</u> |
| Investing Transactions | | | | | | |
| Cash Provided (Required) by Investing Transactions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financing Transactions | | | | | | |
| Proceeds on debt issuance | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash required for debt repayment | (747,311) | (776,187) | (811,977) | (659,170) | (413,870) | (103,923) |
| Cash Provided (Required) by Financing Transactions | <u>(747,311)</u> | <u>(776,187)</u> | <u>(811,977)</u> | <u>(659,170)</u> | <u>(413,870)</u> | <u>(103,923)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 82,325 | 218,945 | 283,188 | 545,614 | 874,475 | 1,256,809 |
| Cash and Cash Equivalents, Beginning of Year | (2,671,345) | (2,589,020) | (2,370,075) | (2,086,887) | (1,541,273) | (666,798) |
| Cash and Cash Equivalents, End of Year | <u>(2,589,020)</u> | <u>(2,370,075)</u> | <u>(2,086,887)</u> | <u>(1,541,273)</u> | <u>(666,798)</u> | <u>590,011</u> |

City of St. Catharines
Water Systems Financial Plan
Notes to Financial Plan - Water Operations
2014 - 2019

Consumption Patterns

The City of St. Catharines has seen declining annual consumption of water by its citizens as a result of more efficient appliances and increased public awareness of environmental concerns such as conservation. It is difficult to project consumption patterns due to numerous outside factors such as annual precipitation, more efficient technology and public demand.

The 2014 Water and Wastewater Budget estimated consumption for 2014 at 15.1 million cubic metres. Consumption is projected to decline to 14.8 million cubic metres by 2016 and 14.4 million cubic metres by 2019.

Inflation

To project future operating and capital costs, it is assumed for Financial Plan purposes that inflation will be at 2%. The projected inflation figure was provided by the Bank of Canada which sets monetary policy in Canada.

Sustainability

Per discussions with engineers responsible for oversight of the Wastewater system, the annual replacement rate for the Wastewater system is 1%. The replacement rate is based on the current condition of the infrastructure, estimated useful lives of new infrastructure and maintaining an adequate level of pipe breakage.

The aggregate estimated replacement cost for the wastewater system is \$357 million in 2014 dollars. With a replacement rate of 1%, this gives an annual capital requirement of \$3.57.

Accumulated Surplus

The majority of the opening accumulated surplus captures the net book value of the tangible capital assets which were accumulated in the past but recorded as a current year expense rather than deferred and amortized as per PSAB 3150.

1. Cash

The 2013 closing net deficit for the Wastewater system was used as the 2014 opening cash balance.

2. Accounts Receivable

Based on actual receivable balances from 2009-2013, the 2014 receivable balance was projected to be \$12 million. As Water and Wastewater receivables are recorded in the same general ledger account, the projected 2014 balance of \$12 million was split based on the pro-ration of 2013 Water and Wastewater revenues. Water represented 48% and Wastewater represented 52% giving estimated receivable balances of \$5.7 million and \$6.3 million respectively.

The accounts receivable balances from 2014 – 2019 increase in line with the increase in revenues from 2014 – 2019.

3. Debentures

From 1999 – 2013 debenture rates have ranged from 2.717% to 5.3%

The actual rate used for the 2013 debenture issuance was 3.243%.

The City of St. Catharines funds 10% of project costs through operations and 90% of the remaining project costs after funding and grants have been applied.

The current portion of debentures payable represents the principal repayments to be paid in the next fiscal year.

The long term portion of debentures payable represents the principal repayments to be paid after the next fiscal year.

Interest on debenture debt represents the total interest paid on debenture debt in the current fiscal year.

4. Accounts Payable

The most significant cost for the Wastewater system is the purchase of Wastewater services from the Regional Municipality of Niagara (the Region). As the payables cycle for the City of St. Catharines is typically one month it is assumed that the accounts payable at year end is equal to 1/12th of the total cost of wastewater services purchased.

City of St. Catharines
Water Systems Financial Plan
Notes to Financial Plan - Water Operations
2014 - 2019

5. Inventory

Per discussion with operations management, inventory levels are maintained at an estimated \$95,000 for Wastewater. As inventory turns over within the current fiscal year and assuming that inventory will continue to be maintained at current levels, the Financial Plan allows for 2% inflation annually.

6. Tangible Capital Assets

Opening balances for tangible capital assets were obtained from the 2013 year end balances for the draft Audited Financial Statements and draft FIR. Amortization is calculated on a straight line approach with the half year rule used in the year of acquisition. The basis for the straight line approach was taken from the working papers used to support the 2013 tangible capital assets reported in the FIR and draft Audited Financial Statements to ensure consistency.

For simplicity, it is assumed that there were no asset disposals from 2014 – 2019 where nominal cash considerations would be obtained. Note that this potential adjustment is immaterial to the Financial Plan.

7. Revenues

As per the 2014 Wastewater Budget, the revenues generated are not sufficient to cover the costs of the system. Rate adjustments are necessary to eliminate the deficit. As the increase in one year would be substantial, it was recommended that the deficit be addressed over a 5-10 year period.

8. Grants and Funding

Includes grants such as the Federal Gas Tax.

9. Cost of Water Sold

As part of the renewal process for their drinking water licences, the Region prepared and approved an update to their Water and Wastewater Financial Plan in January 2014. Per their Financial Plan, wastewater revenues were projected to increase between 3.0 - 3.7% from 2015 - 2019. These increases were used to project the cost of wastewater services purchased from the Region.

10. Expenditures

All expenditures with the exception of interest on debenture debt and amortization have been indexed annually at 2% for inflation.

The 2014 expenditures were taken from the 2014 Wastewater operating budget. The expenditures were reviewed with the finance management to identify capital expenditures which were removed.

Interest on debenture debt and amortization were calculated based on projected debentures and capital expenditures.

11. Net Surplus

Surplus as applied under Ontario Regulation 453/07 is not consistent with the usage of the term surplus for Municipalities. Surplus under O. Reg. 453/07 refers to the accrual net income which does not include the cash required to purchase capital expenditures or to pay down debenture principal. The Statement of Projected Cash Flows mirrors the budgeting process for Municipalities which considers the cash required to fund operating and capital activities.