

Water and Wastewater
Long-Range Financial Plan
In Accordance with O.Reg. 453/07

April 2019

City of Greater Sudbury



Long Range Financial Plan - Background

- Long Range Financial Plan (LRFP) - last prepared in 2011 covering a 10 year period and submitted to the Province in accordance with O. Reg. 453/07
- Requirement to update the plan and resubmit as part of the licensing process – April 2020 licence renewal, with application to be filed in Oct 2019
- City's is taking an integrated approach:
 - Staff from Finance and Water and Wastewater Services working together to provide input
 - Includes both water/wastewater even though the Regulation is only for water – not all Northern municipalities currently prepare financially sustainable plans for wastewater
 - Plan covers a 10 year period from 2019 to 2029

Guiding Principles

- Maintain Water/WW assets in a state of good repair
- To ensure a reasonable degree of stability and predictability in the rate burden
- Fair sharing in the distribution of resources between current and future ratepayers
- Sustainable cash flows
- Maximize financial flexibility
- Maintain programs and services at their current levels



Sources of Data Utilized

- 2019 Operating Budget
- 2019-2023 Year Capital Budget
- Reserve Ending Balances
- Consumption and Flows
- 2019 Water/WW Rates
- Asset Management Information
- Debt schedules
- # of accounts and meters by size
- Water/WW Master Plan
- 2018 Comparative Analysis for Cost of Service



This is an appropriate right time to update the financial plans with a complete data set available of recent master plans and asset management plans.

Water/WW Affordability

Residential 200 m3	2018 Water/WW Costs	2018 Household Income	Water/WW Costs as a % of Income
Timmins	\$ 876	\$ 96,423	0.9%
Sault Ste. Marie	\$ 779	\$ 82,955	0.9%
Greater Sudbury	\$ 1,189	\$ 97,604	1.2%
North Bay	\$ 1,063	\$ 82,330	1.3%
Thunder Bay	\$ 1,151	\$ 87,350	1.3%

Differences in the cost of service is impacted by:

- overall age of the system
- condition of the infrastructure
- complexity of the system
- strategies used to address infrastructure gaps
- Not all plans may be at the financially sustainable level

Strategy

- Keep the Water/WW cost of service for a typical residential home 1.5%-3.0% of household income
- 2018 water bill represented 1.2% of estimated income, which is in line with the provincial average

Capital Strategies

Water and WW Master Plan - 2018

- Identify long term replacements and/or expansion to the water and wastewater servicing networks.
- Master Plan defines the water and wastewater infrastructure required to service existing and future development to 2041.
- Consistent with the 2011 Financial Plan, is a need to increase contributions to the capital program.

Recommendation

- A recommended target is for the City to make annual contributions to the capital program based on replacement cost requirements, as outlined in the Master Plan.

Water/WW Capital Strategies – Annual Funding Gap

2018 Capital Contributions (000's)	Water	WW
Current Capital Contribution for		
Asset Replacement	\$ 15,379	\$ 15,414
Debt Principal Payment	\$ 226	\$ 1,788
Recommended Annual Average		
Contribution (Master Plan)	\$ 56,884	\$ 60,145
Estimated Annual funding Gap	\$ (41,279)	\$ (42,943)

- 2019 annual contribution to the capital program which includes contributions to the capital reserves and the payment of debt principal is lower than the recommended target contributions as identified in the Master Plan.
- Annual funding shortfall in the water capital program of approximately \$41.3 million and, in the wastewater program, the annual shortfall is estimated to be \$42.9 million.
- A phase-in strategy is required to close the annual funding gap and maintain ratepayer affordability

Closing the Infrastructure Gap

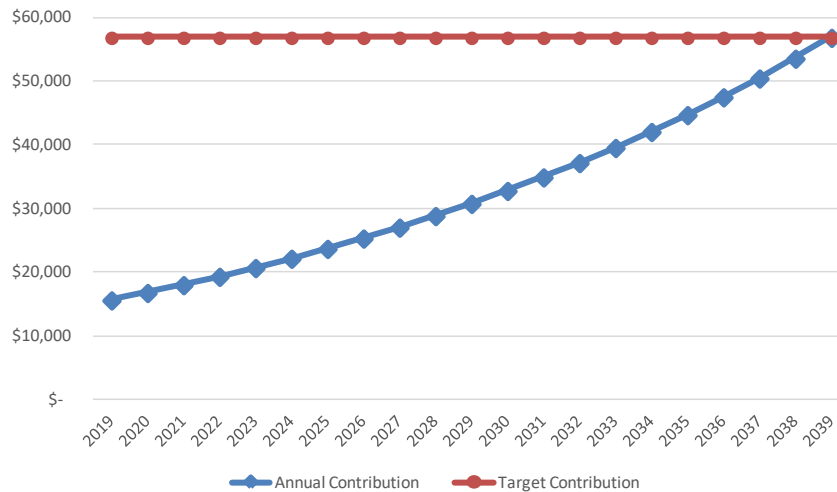
Four scenarios were run to close the annual infrastructure gap over various timeframes

Scenario	Annual Gap Closure	Annual Rate Increase
1	10 years	8.8%
2	15 years	6.2%
3	20 years	4.8%
4	25 years	4.1%

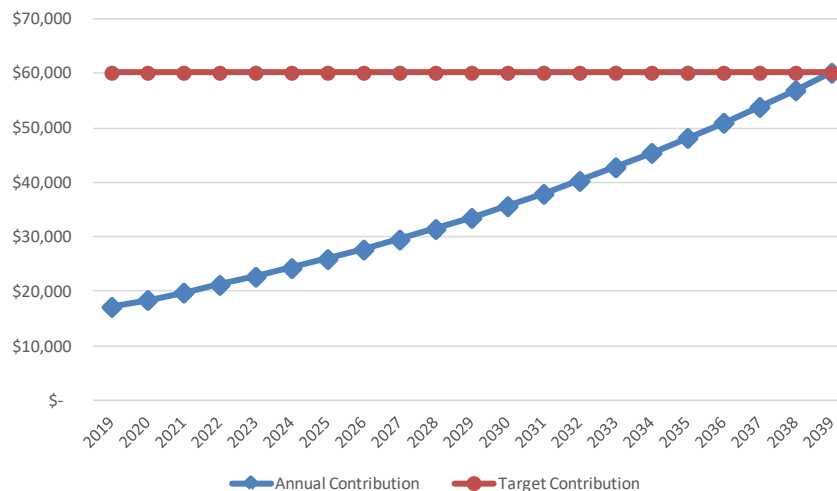
Scenario 3 was recommended to balance closing the infrastructure gap to support sustainability with rate payer affordability

Water/WW Strategies

Water Annual Contributions (000's)

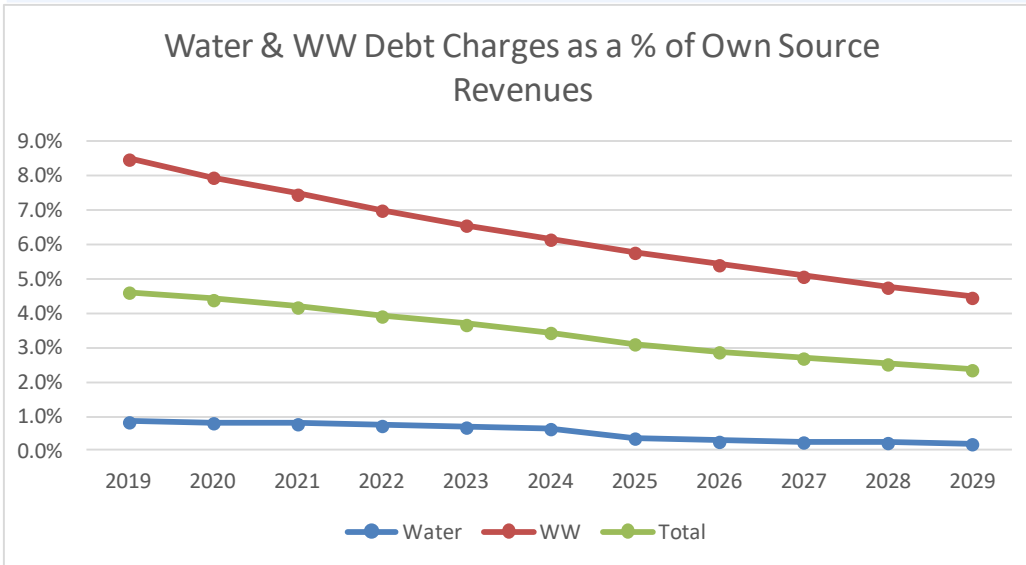


Wastewater Annual Contributions (000's)



- Strategy is to gradually increase contributions to the reserves to develop a financially sustainable base upon which assets and infrastructure can be replaced on a timely basis.
- Based on affordability, a 20 year plan is recommended.
- By 2039, the annual contribution will be equal to the required annual contributions, as identified in the Master Plan.
- Note the target contributions is a 27 year average with inflation built into the calculation

Water/WW Debt Strategies



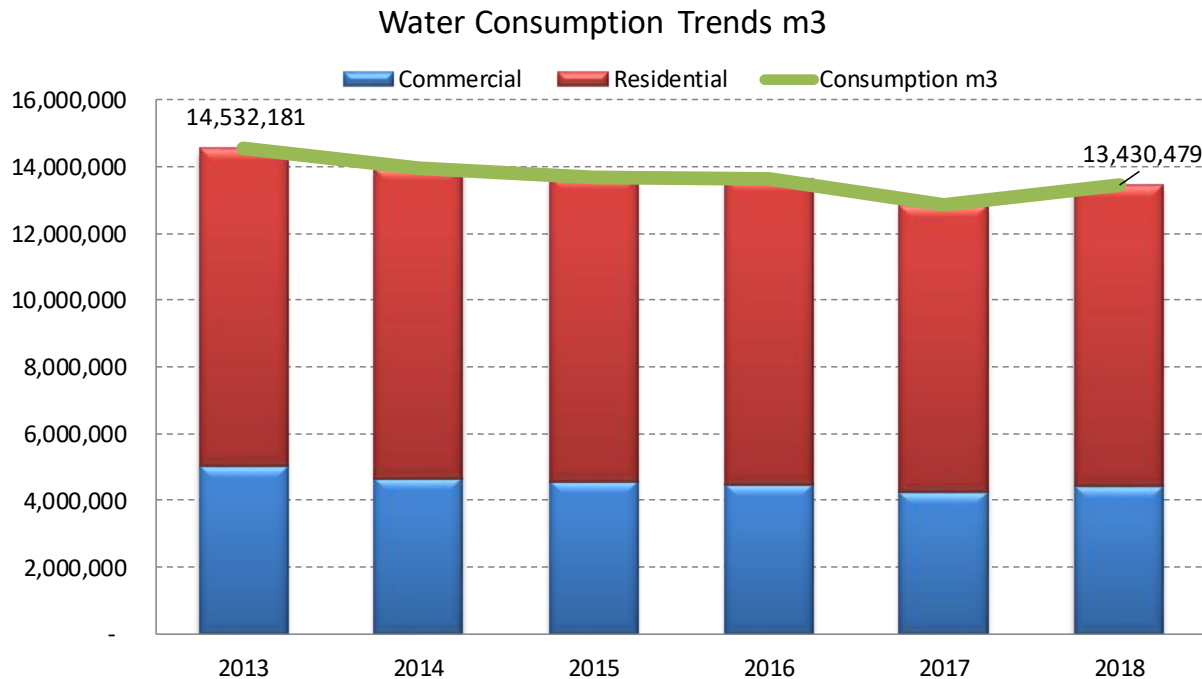
No new debt is forecast to be issued over the next 10 years.

Total debt charges as a percentage of own source revenues was 4.6% in 2019 and reduces to 2.4% in 2029.

Strategies

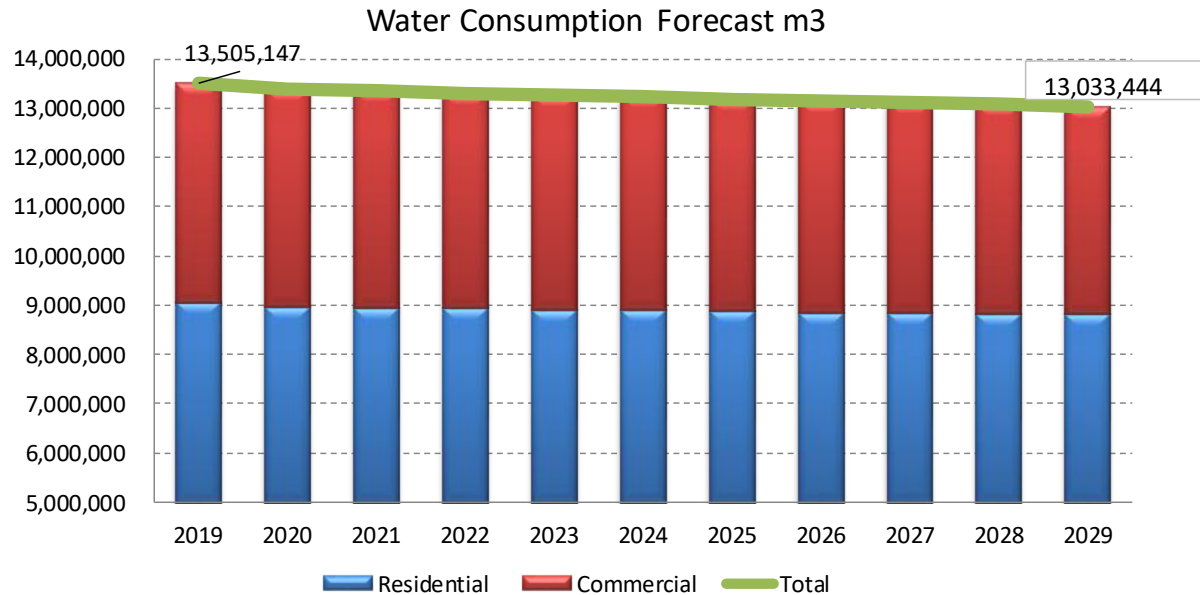
- The City has not relied on borrowings as a means of funding infrastructure investments, with the City adopting a pay-as-you go strategy for most capital expenditures.
- As debt charges decline due to retirement of debt, the City will apply the savings to accelerate achievement of full life cycle costing for City infrastructure.

Water/WW Management Strategies



- Consumption in the City, consistent with the trend experienced across Ontario has been declining on a per household basis. The City actively monitors trends to build into rates
- Many costs are fixed – with declining consumption, there is an enhanced need to reduce non-revenue losses through preventative maintenance and new technologies
- Over the past 5 years, the residential consumption declined annually by 1%; ICI declined by 2.4% and the total consumption declined by 1.5%.

Water Consumption Forecast



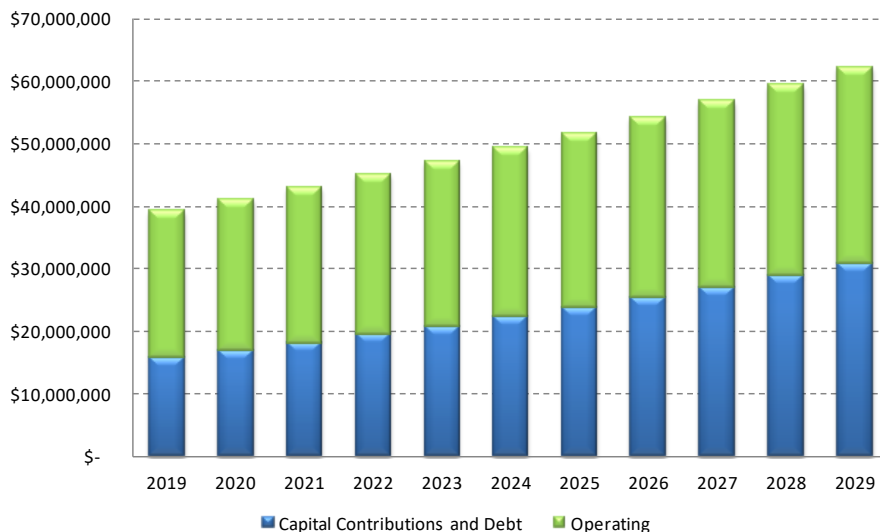
- Assumption for reduction in consumption is expected to continue although to a lesser extent than has occurred over the past 10 years as opportunities to realize further conservation savings will eventually reduce.
- New annual net anticipated reduction in water consumption is in the range of 0.3%.

Long Range Financial Plan Forecast Assumptions

- Inflation 3.0%
- No new debt
- Other Revenues— 2% annually
- Capital Budget— 5 year capital budget provided
- Year end reserve balances
- Council removed the Fire Protection Levy costs from the operating budget in 2019 to the water rates
- Annual 4.8% rate revenue requirement increase for water, 4.6% for wastewater to close the infrastructure gap

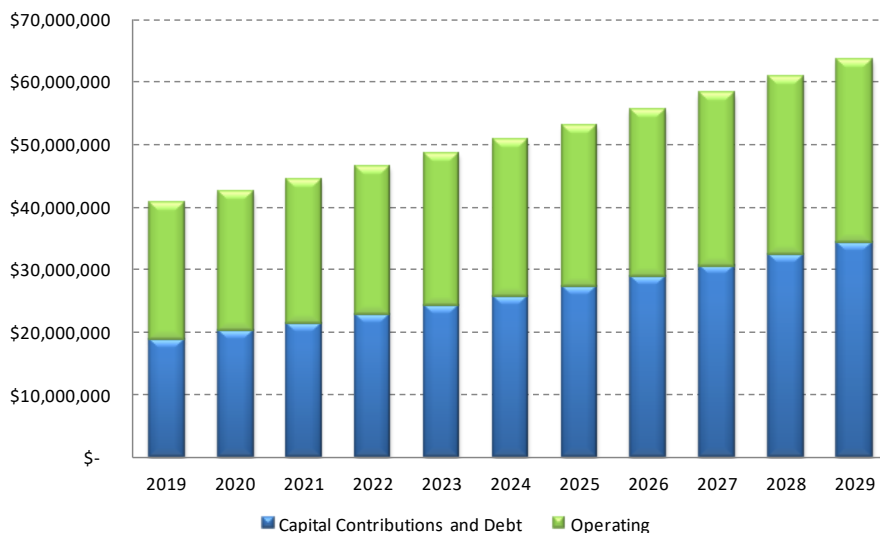
Summary of Water and Wastewater Operating Budget Breakdown

Water Operating and Capital Contributions



- Water—in 2019, 40% of the water operating budget supported capital replacement, compared with 49% in 2029.

Wastewater Operating and Capital Contributions



- WW—in 2019, 46% of the water operating budget supported capital replacement, compared with 54% in 2029.

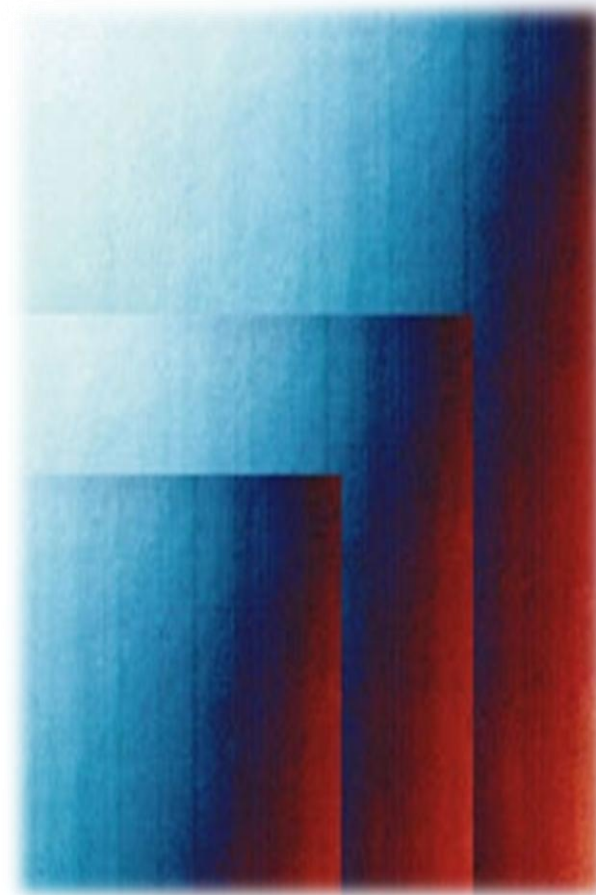
Operating Budget Forecast

200 m ³ residential impact - 5/8"									
		Water		WW		Cost of service			
Year	Annual Consumption m3	Fixed Monthly	Volumetric	WW Surcharge	Water	WW	Total	Percentage Increase From Prior Year	
2019	200	\$ 21.46	\$ 1.728	111.8%	\$ 603	\$ 674	\$ 1,277		
2020	200	\$ 22.17	\$ 1.835	111.4%	\$ 633	\$ 705	\$ 1,338	4.8%	
2021	200	\$ 23.16	\$ 1.930	111.3%	\$ 664	\$ 739	\$ 1,403	4.8%	
2022	200	\$ 24.21	\$ 2.029	111.2%	\$ 696	\$ 775	\$ 1,471	4.8%	
2023	200	\$ 25.30	\$ 2.133	111.2%	\$ 730	\$ 812	\$ 1,542	4.8%	
2024	200	\$ 26.43	\$ 2.243	111.1%	\$ 766	\$ 851	\$ 1,616	4.8%	
2025	200	\$ 27.62	\$ 2.358	111.0%	\$ 803	\$ 891	\$ 1,694	4.8%	
2026	200	\$ 28.87	\$ 2.479	111.0%	\$ 842	\$ 934	\$ 1,776	4.8%	
2027	200	\$ 30.17	\$ 2.606	110.8%	\$ 883	\$ 979	\$ 1,862	4.8%	
2028	200	\$ 31.53	\$ 2.740	110.8%	\$ 926	\$ 1,026	\$ 1,952	4.8%	
2029	200	\$ 32.95	\$ 2.880	110.7%	\$ 971	\$ 1,075	\$ 2,047	4.8%	

- Combined annual rate revenue requirement increase is 4.8%
 - Provides sufficient revenue stability
 - Addresses capital replacement requirements over the next 10 years
 - Maintain ratepayer affordability (1.7% by end of 10 years, assuming household incomes annual increase of 2%)
 - No new debt

Summary – Financial Sustainability

- City's plan supports ***financial sustainability***:
 - Able to meet financial obligations throughout the forecast
 - Sufficient flexibility to respond to changing circumstances
 - Positive reserve balances
 - Low level of debt
 - Sustainable cash flows



Summary

Better Information = Better Decisions

- City should ***continue to monitor*** the financial and operational environment and report back to Council changes that impact the Water and Wastewater Financial Plan
- Overall position for water and wastewater is healthy based on existing and known changes that will drive funding needs over the forecast period



Questions & Answers

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& Answers

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