Town of Espanola

Municipal Drinking Water Licence

Financial Plan

for

2025 - 2031

Prepared Pursuant to Ontario Regulation 453/07

Approved via resolution #_____________
on ________________ (Date)

1. Introduction

Provincial reporting requirements

Pursuant to Section 31(1) of the *Safe Drinking Water Act, 2002*, Provincial licenses are required for the operation of municipal drinking water systems in Ontario. Under Ontario Regulation 453/07, the Town is required to prepare a financial plan that is approved by council, applies to a period of at least six years, and contains the required information as outlined in Section 3 (1) 4 and is made available to the public without charge.

A brief description and analysis of the required statements of the financial plan are provided below. It is important to note that the financial plan that follows is a forward look at the financial position of the Town's water system. It is not an audited document[1] and contains various estimates as detailed in the Notes to the Financial Plan section below.

2. Approval and Reporting

As stipulated by Ontario Regulation 453/07, subsection (1), the financial plan must gain approval from the municipal council through a resolution process. Documentation of this approval is included on the title page of this plan.

Ontario Regulation 453/07 subsection 2 required that the financial plans covers a period of at least six years, ensuring comprehensive and strategic financial oversight of the drinking water system.

For this specific plan, the first year of applicability is determined in accordance with Ontario Regulation 453/07 subsection 3. The initial year corresponds with the expiration year of the existing municipal drinking water licence, namely 2025. This temporal structure ensures that our financial strategies are aligned precisely with licence terms and regulatory expectations, facilitating diligent planning and resource allocation over the stipulated period.

In accordance with Ontario Regulation 453/07, subsection (5), once the financial plan is approved, it must be made publicly accessible. This is achieved by disseminating it across various public platforms, including the municipal website, thus ensuring transparency and public accessibility. The plan can be accessed at the following link: {Insert Link}.

Per Ontario Regulation 453/07, subsection (6), after obtaining approval, a copy of the financial plan is submitted to the Ministry of Municipal Affairs and Housing.

[1] O.Reg. 453/07 does not require an audited financial plan.

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3. Existing Infrastructure

Data for this section of the water financial plan is based on our 2024 Asset management plan located **here**.

The source of raw water for the Espanola Drinking Water System is Lake Apsey where the intake is located 135 m from shore at a depth of 20m.

Drinking water infrastructure encompasses linear assets:

- 3.4 km Trunk Watermain
- 39 km of water mains
- 2.5 km of service lines
- 247 Valves
- 146 hydrants

There is also our water facilities (water treatment plant) of 22,921 sqf containing the following major components:

- 2 clarifiers
- 3 filtration tanks
- 1 reservoir with 3 high lift pumps

Finally, the elevated water storage tank ensures a stable water pressure across the supply network, which is crucial for the efficient functioning of plumbing systems and effective firefighting. It provides an emergency water supply during peak demand periods or unforeseen outages, such as power failures or maintenance of pumping systems. By utilizing gravity for water distribution, it reduces energy costs associated with pumping, thereby enhancing distribution efficiency. Additionally, the tank supports water quality control by minimizing stagnation with proper flow dynamics, and enables effective water distribution across different zones with varying elevations.

4. Financial Plan Summary

I. Projected financial position

The projected financial position of the drinking water system over the next six years reveals concerning stability, with the accumulated surplus stubbornly fixed around $23 million, indicating limited financial growth or adaptability.

The accumulated surplus is comprised of several key components:

- Net Book Value of Tangible Capital Assets - the depreciated worth of essential infrastructure
- Unfunded Long-Term Debt - financial obligations that have not yet been balanced by current assets or anticipated revenues
- Asset Retirement Obligations - future liabilities related to dismantling outdated facilities
- Reserves - funds for unforeseen incidents and future projects

Notably, reserves remain unfunded until the later stages of the financial plan, specifically not until the fifth or sixth year. This delay in reserve funding underscores a precarious financial strategy that prioritizes immediate financial stability over long-term resilience, raising concerns about the system's capacity to manage emergencies or critical future investments.

A. Total financial assets

In the financial asset portion of the water financial plan, it is important to clarify that water does not maintain its own distinct fund; instead, water and sewer are jointly managed under a singular fund. However, this combined water and sewer fund lacks a segregated cash allocation. Consequently, the financial asset section remains straightforward, detailing only the cash equivalent amount due from the Town of Espanola during positive cash flow periods, projected to occur in 2030 and 2031, when a small reserve balance is anticipated to begin accumulating.

B. Total liabilities

The financial liabilities section of the water financial plan reflects a positive trajectory, as long-term debt associated with the 2010-2011 water and sewer projects—specifically phases 1B and 1C—is progressively being repaid through water rates. This strategic repayment plan is steadily diminishing the reliance on cash flow from the Town's general account. As the debt is reduced, the financial health of the water and sewer fund strengthens, facilitating improved fiscal stability and enhanced autonomy for future financial planning and infrastructure investments. The debt is projected to be reduced by $856,000 over the forecast period.

C. Net debt

The net debt section of the water financial plan shows an encouraging trend of improvement, closely mirroring the reduction in total liabilities as described in the financial liabilities section. This improvement is largely attributed to the systematic repayment of long-term debt from the 2010-2011 water and sewer projects, which reduces the overall debt burden and enhances the financial solidity of the system. As total liabilities decrease, the net debt position likewise improves, reflecting the plan's success in leveraging water rates and reducing reliance on general account cash flow, thus strengthening the fiscal resilience of the water and sewer fund.

D. Non-financial assets

In the non-financial asset section of the water financial plan for the Town of Espanola, the focus is on tangible capital assets (TCA) and tangible capital assets under construction, as no inventories are held and prepaid expenses are considered immaterial. These immaterial prepaids are consolidated into the Town's general prepaids and managed through the due to/from Town of Espanola's general account. The report provides an account of opening balances, additions, amortization, and disposals for TCAs and assets under construction. Notably, over the projected period, TCA renewals are negative, with annual depreciation surpassing additions, leading to a decrease in net book value (NBV) of the assets from $26 million to $23 million over six years. This reflects an ongoing challenge in maintaining asset value against depreciation, underscoring the need for strategic planning in capital asset renewal and investment to sustain infrastructure integrity.

E. Changes in tangible capital assets

The changes in the tangible capital assets section of the report describe adjustments to the assets that encompass additions, donations, write-downs, and disposals, as defined by the Ontario Regulation. For the Town of Espanola, over the six-year projection period, we do not anticipate any donations, write-downs, or disposals of assets. However, it is important to note that there might be missed additions due to ongoing work to complete a comprehensive inventory of assets, aligning with our Asset Management Plan. Additionally, new assets may be acquired to comply with evolving legislative requirements, such as adhering to updated contact time mandates. These factors highlight the dynamic nature of asset management and the influence of regulatory changes on capital asset planning and reporting.

II. Projected financial operations

A. Revenues

In this plan, the revenues are derived solely from user water fees, diverging from the Ontario Regulation's requirement, which mandates revenues to be further itemized into water rates, user charges, and other revenues. This consolidation is due to the fact that user charges and other revenues are considered immaterial for the Town of Espanola's financial context, and therefore, only user water fees comprise the substantial portion of revenue. This approach simplifies the financial planning and focuses on the most significant income stream supporting the water infrastructure.

Revenues from user water fees are projected to increase at an average annual rate of 4.6%, growing from $1.68 million in 2025 to $2.21 million by 2031. This upward trajectory underscores a strategic enhancement in revenue generation, driven by adjustments in water rates. This projected increase represents the minimum required to maintain current operations and service levels. However, the Town Council is encouraged to consider implementing higher increases to adequately fund asset replacements. As noted in the changes in the tangible capital assets section, annual depreciation currently exceeds additions, leading to a decline in net asset value. A greater investment in asset replacement is essential for ensuring long-term sustainability and infrastructure resiliency.

B. Expenses

Expenses in the plan adhere to the Regulation, which requires total expenses to be itemized into categories such as amortization expenses, interest expenses, and other expenses. These expenses are projected to increase at an average rate of 5.75%. The disparity between the rate of expense increases and revenue increases arises from the cash requirements for the repayment of long-term debt, which is classified as a financing activity rather than an expense activity. As the cash requirement for debt repayment decreases, more cash becomes available for operating expenses, supporting further operational stability and investment in asset management.

C. Annual surplus or deficit

Aligned with the financial dynamics, the annual surplus is experiencing a declining trend. This trend is influenced by expenses increasing at an average rate of 5.75%, outpacing the 4.6% average increase in revenues. This indicates a need for strategic adjustments, such as examining potential revenue enhancements or operational efficiencies, to stabilize and improve the financial balance over the long term.

D. *Accumulated surplus or deficit*

The accumulated surplus is projected to increase by only $76,000 over the six-year period, reflecting a stagnant trajectory. This restrained increase highlights the financial challenges faced in balancing ongoing operational costs with debt repayment obligations. The minimal growth in surplus underscores the need for strategic financial planning to enhance revenue streams or optimize expenditures, thereby ensuring sufficient resources for future infrastructure investments and maintaining fiscal sustainability. This scenario calls for a careful evaluation of potential avenues for improving the financial outlook and supporting long-term objectives.

III. Projected cash flow

A. *Operating transactions*

The operating transactions are detailed through the breakdown of projected financial operations (Section II) across three key sections.

- Section A comprehensively covers cash received from revenues, capturing the primary income streams,
- Section B delves cash paid into expenses, delineating all operational expenses and finance charges.
- Section C reflects the annual surplus or deficit, indicating the net financial position after accounting for both revenues and expenses.

These detailed sections collectively provide a transparent and structured overview of the operating transactions that impact the cash flow dynamics.

B. *Capital transactions*

The projected cash flow related to capital transactions is outlined in item E - Changes in Tangible Capital Assets of the Projected Financial Position, found in Section I. This section details significant financial activities, including proceeds from the sale of tangible capital assets and cash utilized for acquiring new capital assets. It also highlights that amortization is deducted from the cash position, as it is a non-cash transaction. By clearly presenting these capital transactions, the plan offers a thorough understanding of how capital assets influence overall financial strategy and sustainability, ensuring that capital investments are aligned with long-term infrastructure goals.

C. *Investing transactions*

In this water financial plan, it is important to note that there are no projected investing transactions over the next six years. This is due to the absence of significant surplus funds that could be allocated for investment purposes. The financial strategy focuses primarily on managing operational and capital needs, given current revenue and expenditure patterns. Consequently, resources are prioritized for sustaining operations and supporting necessary infrastructure improvements, leaving limited scope for investment activities. This situation underscores the necessity for carefully balancing financial obligations with the pursuit of financial growth opportunities in future planning.

D. *Financing transactions*

This financial plan does not anticipate the incurrence of any new debt or debentures over the forecasted period. The absence of new borrowing reflects a strategy focused on managing existing liabilities and optimizing current financial resources. However, it is important to recognize that should new assets be required, particularly to meet emerging regulatory requirements or significant infrastructure upgrades, new debt would likely need to be considered to finance these acquisitions. This underscores the need for prudent financial planning and flexibility to adapt to changing asset needs.

E. *Changes in cash and cash equivalents (end)*

The cash balance at the end of each year remains stagnant, similarly hovering near zero. This consistent near-zero ending cash position highlights a balanced cash flow scenario where nearly all generated funds are utilized to cover operational costs and debt obligations, leaving minimal surplus. The end-of-year cash position underscores the importance of effective financial management to ensure that expenditures do not exceed revenues while allowing for potential strategic initiatives to build reserves for future stability and flexibility in dealing with unexpected expenditures or necessary asset investments.

F. *Cash and cash equivalents (beginning)*

Throughout the term of the projections in the financial plan, the cash balance at the beginning of each year remains stagnant, hovering near zero in line with cash at end of year. This persistent low cash position illustrates a tightly managed cash flow where revenues are closely matched by expenditures and debt obligations.

IV. Replacement of lead service pipes

There are no known lead service pipes in the community. Presently the municipality has relief from the requirement for lead testing.

5. Conclusion

In conclusion, while the project's financial outlook depicts stability characterized by an accumulated surplus and a reduction in net debt, there are pressing challenges such as the disproportionate growth rate of expenses over revenues. Water fees are projected to increase modestly; however, operational expenses are expected to grow at a higher rate, highlighting a need for strategic financial rebalancing. The consistently low cash balances necessitate careful financial oversight to meet obligations. Overall, enhancing revenue generation and operational efficiencies, alongside strategic fund allocation to reserves, will be vital in maintaining financial health.

Service delivery adjustments could be considered to refine operations and align services with user needs and expectations. Can user expectations be adjusted to be able to accept coloration in the water and / or increased risk in relation to safety of drinking water.

On the water rate setting front, a thorough review of current water rate setting methodologies for both commercial and residential users is essential. This includes evaluating commercial meter configurations and considering transitioning residential properties from flat-rate billing to a more equitable metered billing system to promote resource conservation and accurate billing.

APPENDIX A: FINANCIAL PLAN STATEMENTS

NOTE: THE FOLLOWING STATEMENTS ARE UNAUDITED AND FOR PLANNING PURPOSES ONLY.

Forecast Statement of Financial Position

		2025	2026	2027	2028	2029	2030	2031
Forcasted Statement of Financial Position								
Financial Assets								
	Cash Equivalent: Due from Town of Espanola Fund						374,778	947,211
Financial Liabilities								
	Long Term Debt	(1,917,066)	(1,786,691)	(1,651,594)	(1,511,603)	(1,366,541)	(1,216,225)	(1,060,464)
	Due to Town of Espanola Fund	(791,456)	(767,784)	(1,048,290)	(582,239)	(98,360)		
Net Financial Assets		(2,708,522)	(2,554,475)	(2,699,884)	(2,093,842)	(1,464,901)	(841,447)	(113,253)
Non Financial Asset								
	Tangible Capital Assets							
	Opening Balance	26,318,932	26,277,281	26,144,581	26,299,176	25,693,191	25,078,286	24,470,281
	Additions							
	Water Treatment Plant (New Equipment)	145,300	201,800	726,000	17,800	57,800	51,300	50,800
	WTP- Maintenance Capital (repairs, etc)	291,650	210,000	22,100	17,200	13,150	67,700	7,850
	Distribution/Storage and Collection/Lagoon							
	Less: Amortisation	-478,601	-544,500	-593,505	-640,985	-685,854	-727,006	-770,626
	Disposals							
		26,277,281	26,144,581	26,299,176	25,693,191	25,078,286	24,470,281	23,758,305
Accumulated Surplus		23,568,760	23,590,106	23,599,293	23,599,349	23,613,385	23,628,834	23,645,051

		2025	2026	2027	2028	2029	2030	2031
Represented by:								
Equity in Tangible Capital Assets								
	Tangible Capital Assets	26,277,281	26,144,581	26,299,176	25,693,191	25,078,286	24,470,281	23,758,305
	Less: Unfunded LTD	(2,708,522)	(2,554,475)	(2,699,884)	(2,093,842)	(1,464,901)	(1,216,225)	(1,060,464)
	Less: ARO	-	-	-	-	-	-	-
		23,568,760	23,590,106	23,599,293	23,599,349	23,613,385	23,254,056	22,697,840
Reserves								
	Committed Capital projects							
	Infrastrucure Reserve						374,778	947,211
		-	-	-	-	-	374,778	947,211
Accumulated Surplus		23,568,760	23,590,106	23,599,293	23,599,349	23,613,385	23,628,834	23,645,051

Forecasted Statement of Operations

		2025	2026	2027	2028	2029	2030	2031
Forcasted Statement of Operations								
Revenues		1,688,900	1,715,538	1,801,315	1,891,381	2,004,863	2,105,107	2,210,362
	% Change over prior year		1.58%	5.00%	5.00%	6.00%	5.00%	5.00%
Expenses								
	Sch40 - Salaries, Wages and Employee Benefits	195,134	207,941	218,338	229,255	240,717	252,753	265,391
	Sch40 - Interest on Long Term Debt	99,019	95,058	91,256	87,606	84,101	80,737	77,508
	Sch40 - Materials	342,525	375,401	394,171	413,880	434,574	456,303	479,118
	Sch40 - Contracted Services	393,290	412,955	433,602	455,282	478,046	501,949	527,046
	Sch40 - Rents and Financial Expenses	55,560	58,338	61,255	64,318	67,534	70,910	74,456
	Sch40 - External Transfers							
	Sch40 - Amortization	478,601	544,500	593,505	640,985	685,854	727,006	770,626
	Sch40 -Inter-Functional Adjustments							
		1,564,129	1,694,193	1,792,127	1,891,326	1,990,827	2,089,658	2,194,144
	% Change over prior year		8%	6%	6%	5%	5%	5%
Annual Surplus (Deficit)		124,771.00	21,345.32	9,187.83	55.10	14,036.47	15,448.88	16,217.63
Accumulated Surplus, Beginning of year		23,443,989	23,568,760	23,590,106	23,599,293	23,599,349	23,613,385	23,628,834
Accumulated Surplus, End of year		23,568,760	23,590,106	23,599,293	23,599,349	23,613,385	23,628,834	23,645,051

Forecasted Statement of Cash Flows

	2025	2026	2027	2028	2029	2030	2031
Forcasted Statement of Cash Flows							
Annual Surplus	124,771	21,345	9,188	55	14,036	15,449	16,218
Less: Acquisition of TCA	(436,950)	(411,800)	(748,100)	(35,000)	(70,950)	(119,000)	(58,650)
Plus: Amort of TCA	478,601	544,500	593,505	640,985	685,854	727,006	770,626
Less: Loss on Sale of TCA							
Change in prepaids and Inventories of supplies							
Less: Cash used in investments							
Add: Cash Drawn From Investments							
Less: Repayment of LTD	(125,817)	(130,375)	(135,097)	(139,991)	(145,062)	(150,316)	(155,761)
	(233,464)	(23,672)	280,506	(466,051)	(483,879)	(98,360)	-
Add: New Debt							
Cash and cash Equivalent beginning of year	192,859	(0)	(2)	(0)	(2)	(1)	374,777
Cash and cash Equivalent end of year	(0)	(2)	(0)	(2)	(1)	374,777	947,210