

TOWNSHIP OF CHALEAU

Water and Wastewater Financial Plan

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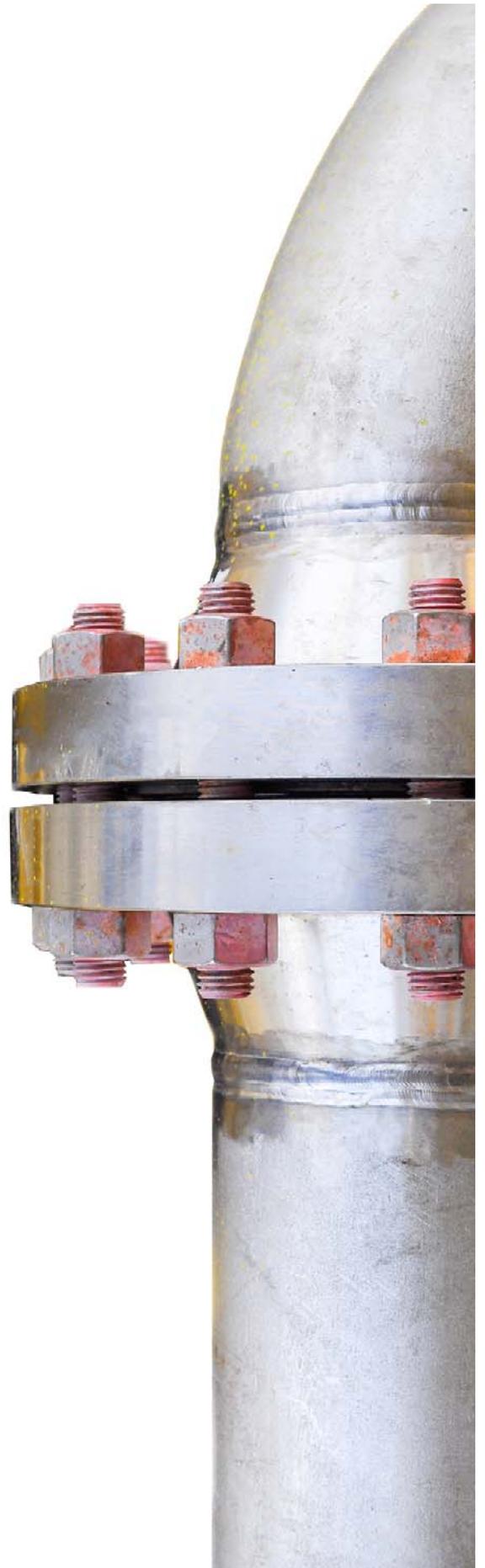




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I Introduction

1.1 Financial Plan Update

The original financial plan for the Township of Chapleau (the “Township”) was prepared on August 20, 2015 and included a financial forecast for water and wastewater services for ten year period ended December 31, 2025. At the request of the Township, the financial plan has been updated for the inclusion of an additional fiscal year (2026), with the updated financial plan reflecting assumptions and other data that is consistent with the original plan.

The Township intends to undertake the preparation of a new financial plan, including updated assumptions reflecting current operating costs and capital investment requirements.

1.2 Provincial reporting requirements

Pursuant to Section 31(1) of the *Safe Drinking Water Act, 2002* (the “SDWA”), Provincial licenses are required for the operation of municipal drinking water systems in Ontario. In obtaining these licenses, the Corporation of the Township of Chapleau (the “Township”) 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 Township is required to prepare a financial plan that:

- i. Is approved through a Council resolution 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. 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
- iv. 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

- 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 six year financial plan for water. However, to be consistent with the principle of adopting an integrated approach to financial planning, the financial plan for the Township incorporates both water and wastewater services to 2026. The development of a combined water and wastewater financial plan over the period chosen was viewed as preferable given the interrelation of operations and capital planning, the linkage between the wastewater surcharge and water rates, the tradition of viewing rate increases on a combined water and wastewater basis and the timing of anticipated major capital reinvestment requirements for the Township's water and wastewater infrastructure.

In connection with its financial plan, the Township 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)
- Providing notice as deemed appropriate to advise the public of the availability of the financial plans

1.3 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 and Wastewater Systems* (the "Ministry Document") that outlines suggested principles of financial sustainability for water and wastewater systems as well as possible approaches to implementing these principles.

1.3.1 Sustainability principles

As outlined in the Ministry Document, financial sustainability for water and wastewater 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:

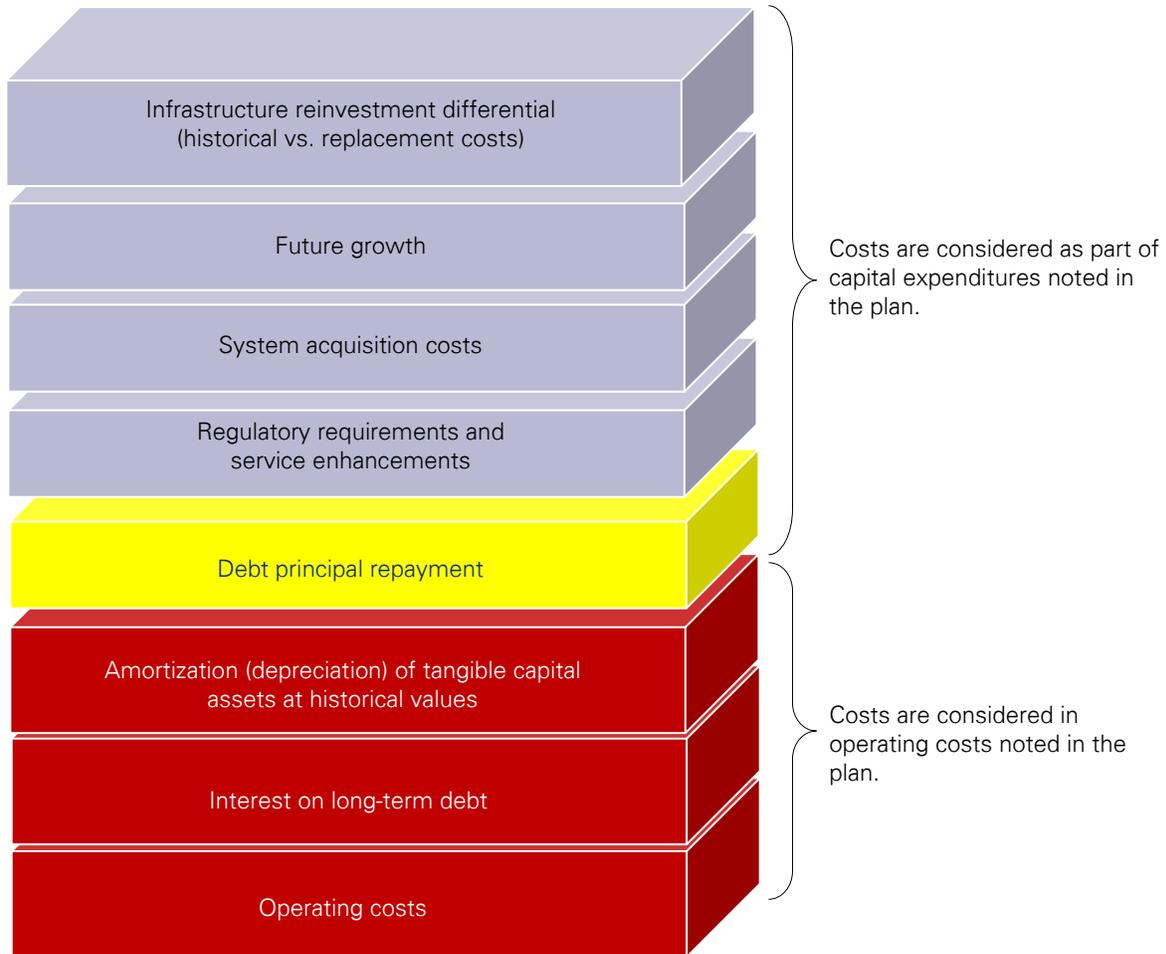
1. Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
2. An integrated approach to planning among water, wastewater and storm water systems is desirable given the inherent relationship among these services.
3. Revenues collected for the provision of water and wastewater 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 municipal council.

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

1.3.2 Approach to the financial plan

In developing the financial plan, the Township 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 and wastewater services. A graphical depiction of the building-block approach utilized in the development of the Township’s plan is provided below.

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



1.4 Restrictions

The financial plan outlined in this report represents a forecast of the financial performance of the Township's water and wastewater 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 and wastewater services. The approval of operating and capital budgets for water and wastewater services is undertaken as part of the Township's overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of Council with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses. It is the intention of the Township to adjust the financial plan on an annual basis to reflect the most recent budgetary decisions made by Council.

The information contained in this report has been compiled from information provided by the Township. We 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.

We reserve 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. We 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 Township's Water and Wastewater System

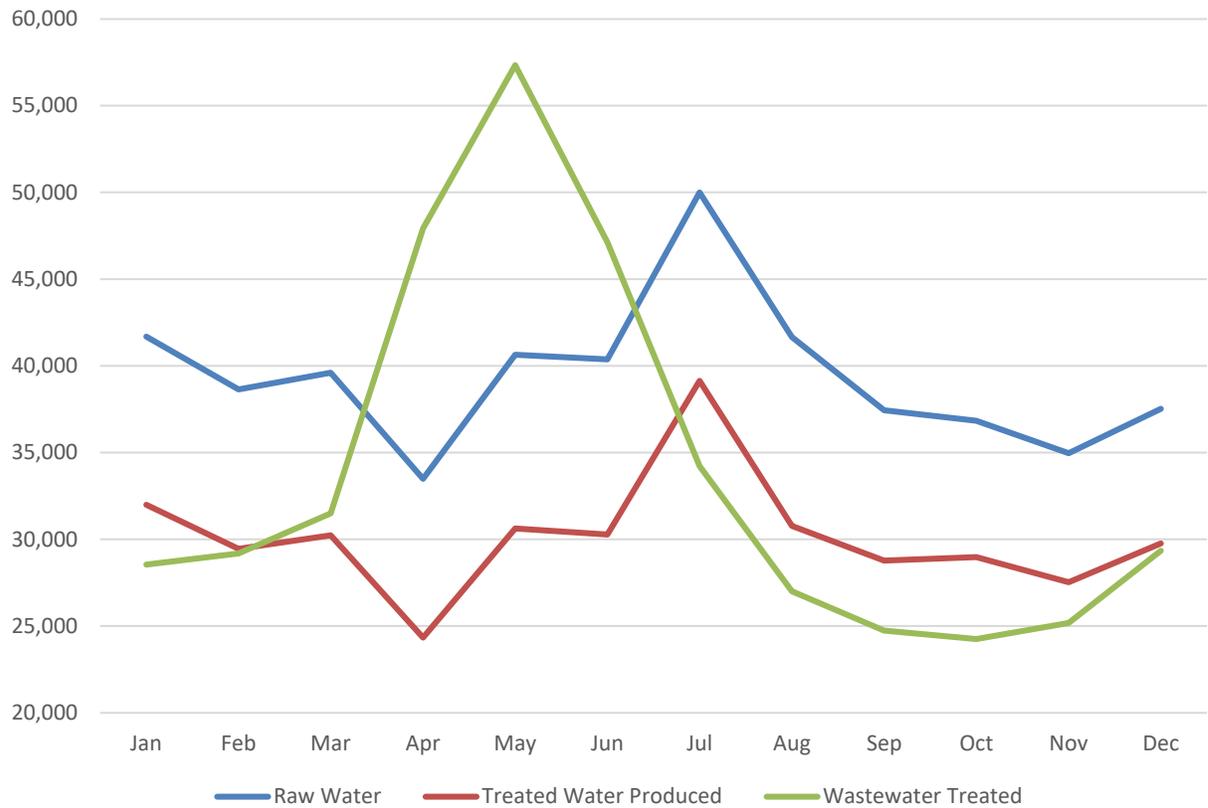
2.1 Infrastructure

The Township maintains a significant investment in water and wastewater services, with the replacement value of its infrastructure estimated to be in excess of \$25.1 million. Major components of the Township's water and wastewater infrastructure include:

- A water treatment plant with the capacity to treat 6,300 m³ per day of water drawn from the Kepsquasheshing River;
- A water distribution network that consists of more than 15 kilometers of water mains and 76 fire hydrants;
- A wastewater collection network comprised of more than 13 kilometers for sewer mains; and
- A wastewater treatment plant that discharges treated water into the Nebskwashi River with a design capacity of 4,500 m³ per day.

On a monthly basis, the Township treats between 25,000 m³ and 35,000 m³ of water and wastewater, except during the spring months when wastewater treatment levels rise due to infiltration caused by the spring run-off (see Figure 2).

Figure 2 – Monthly water and wastewater treatment levels (in m³)



2.2 Water and wastewater customers and rates

The Township utilizes a mix of fixed water and wastewater rates for residential and smaller non-residential customers and variable consumption charges for larger non-residential customers (15 in total). The Township’s fixed rates will vary depending on the type of property involved, with different rates established for businesses based on the nature of the commercial activity (restaurant, office, churches, etc.).

As summarized in Figure 3, both water and wastewater rates have increased consistently since 2007, with water rates rising by an average of 5.8% per year and wastewater rates rising by an average of 5.3% per year since 2007. In 2015, residential customers will pay a total of \$1,063.46 for water and wastewater services or just under \$3.00 per day.

Figure 3 – Annual water and wastewater rates (residential customers)

	2007	2015	Total Increase	Average Annual Increase
Water	\$461.59	\$721.97	\$260.38	5.8%
Wastewater	\$225.53	\$341.49	\$115.96	5.3%
Total	\$687.12	\$1,063.46	\$376.34	5.6%



Figure 4 – Metered water and wastewater rates per 1,000 gallons of water consumed (non-residential customers)

	2007	2015	Total Increase	Average Annual Increase
Water	\$5.34	\$8.36	\$3.02	5.8%
Wastewater	\$1.80	\$2.73	\$0.93	5.3%
Total	\$7.14	\$11.09	\$3.95	5.6%

III Financial Plan Overview

3.1 Key assumptions

The preparation of the financial plan for water and wastewater services necessarily requires the use of assumptions concerning future events. Significant assumptions considered in the financial plan include the following:

- Annual inflationary increases of 3% are expected over the duration of the projection period.
- The number of residential customers is expected to remain constant during the projection period
- Water and wastewater rates will increase by 10% per year over the projection period, representing a continuation of the Township’s current approach to rate increases
- Capital investment for water and wastewater will be financed through available revenue sources, with the assumption that the Township will not receive any capital grants with respect to water and wastewater infrastructure during the projection period
- The Township will not expand water metering to residential and small commercial customers during the duration of the projection period

3.2 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:

- 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 (including Federal Gas Tax revenue) for operating and/or capital purposes.
- Unforeseen capital expenditure projects such as sewer and 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.

3.3 Forecasted water and wastewater rates

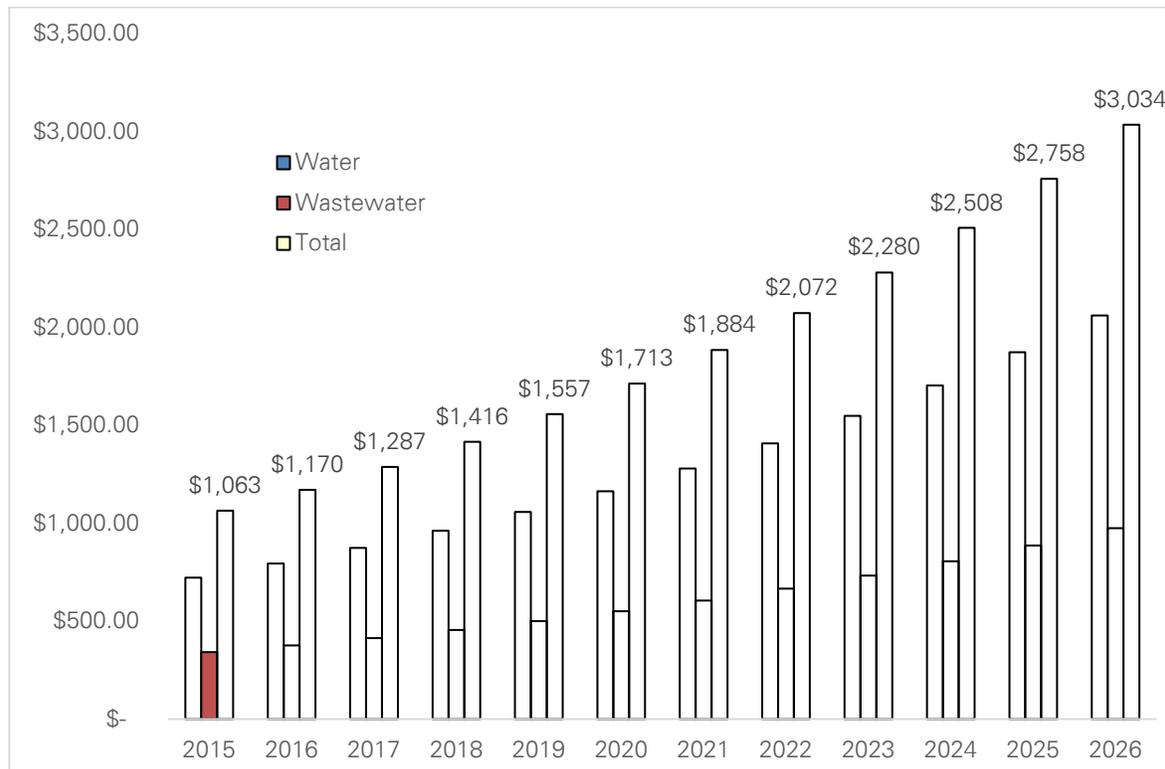
Included as Appendix A is the financial plan for water and wastewater services, which provides a financial forecast of water services from 2016 to 2026. The development of 10-year financial projections, updated for an additional year (2026), is intended to allow the Township to plan for major capital reinvestments over the medium-term future.

In order to moderate increases in water and wastewater rates, the financial plan assumes a consistent rate increase over the projection period. Capital expenditures are also forecasted to be spread over the projection period and where capital projects are deferred to future years, the amount of associated funding will be transferred to the Township’s water and wastewater reserves.

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 and wastewater services. The approval of operating and capital budgets for water and wastewater services is undertaken as part of the Township’s overall annual budgeting process. Accordingly, the financial performance outlined in this document is subject to change based on future decisions of Council with respect to operating and capital costs, rate increases, consumption changes and unforeseen revenues and expenses. It is the intention of the Township to update the financial plan on a regular basis to reflect budgetary decisions made by Council.

We have summarized in Figure 5 the projected water and wastewater rates as forecasted for 2016 to 2026. These rates reflect the anticipated total cost of water and wastewater services, including debt servicing and capital reinvestment requirements. Over the eleven year projection period, water and wastewater rates are expected to increase by an average of 10% per year.

Figure 5 – Residential water and wastewater rates and average annual costs



3.4 Congruence with sustainability principles

At the onset of the financial plan, the nine sustainability principles developed by the Ministry were outlined. Figure 5 (see next page) provides an indication as to the degree of congruence between the Township’s financial plan and the guidance provided by the Ministry.

Figure 5 – Congruence with suggested sustainability principles

Principle	How Addressed	Conclusion
1. Public engagement and transparency	<ul style="list-style-type: none"> ▪ Financial plan has be presented at public council 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 extends beyond water services and includes wastewater services 	Achieved
3. Revenues should be used to meet water and wastewater needs	<ul style="list-style-type: none"> ▪ Financial model is full user pay with no excess cash flow 	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 Township has undertaken 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 and wastewater services by non-users with the exception of a small portion of funding for wastewater capital that benefits users and non-users. 	Achieved
8. Financial plans are living documents	<ul style="list-style-type: none"> ▪ Township 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

CORPORATION OF THE TOWNSHIP OF CHAPLEAU

**Summary of Projected Water Operating Results
For the Years Ending December 31
Annual Inflation Rate - 3%**

	Budget		Projected										Total
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2026
Revenue													
Revenue generated from user fees	\$ 732,500	805,800	886,400	975,000	1,072,500	1,179,800	1,297,800	1,427,600	1,570,400	1,727,400	1,900,100	2,090,100	14,932,900
Non-user fee revenue:													
Capital funding	152,800	-	-	-	-	-	-	-	-	-	-	-	-
Costs funded through taxation	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	6,000	6,200	6,400	6,600	6,800	7,000	7,200	7,400	7,600	7,800	8,000	8,200	79,200
Total projected revenue	891,300	812,000	892,800	981,600	1,079,300	1,186,800	1,305,000	1,435,000	1,578,000	1,735,200	1,908,100	2,098,300	15,012,100
Expenditures													
(1) Operating costs:													
Wages and employee benefits	58,200	59,900	61,700	63,600	65,500	67,500	69,500	71,600	73,700	75,900	78,200	80,500	767,600
Utilities, materials and other costs	203,200	209,300	215,600	222,100	228,800	235,700	242,800	250,100	257,600	265,300	273,300	281,500	2,682,100
OCWA contract	248,500	256,000	263,700	271,600	279,700	288,100	296,700	305,600	314,800	324,200	333,900	343,900	3,278,200
	509,900	525,200	541,000	557,300	574,000	591,300	609,000	627,300	646,100	665,400	685,400	705,900	6,727,900
(2) Debt servicing	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	695,200
(3) Capital and reserves:													
Capital investment	133,500												
Reserve contributions	184,700												
	318,200	223,600	288,600	361,100	442,100	532,300	632,800	744,500	868,700	1,006,600	1,159,500	1,329,200	7,589,000
Total expenditures	891,300	812,000	892,800	981,600	1,079,300	1,186,800	1,305,000	1,435,000	1,578,000	1,735,200	1,908,100	2,098,300	15,012,100
Net surplus (deficit)	\$ -	-	-	-	-	-	-	-	-	-	-	-	-
Residential water rate (flat rate per year)	\$ 721.97	794.22	873.66	960.99	1,057.09	1,162.85	1,279.15	1,407.08	1,547.83	1,702.57	1,872.79	2,060.06	

CORPORATION OF THE TOWNSHIP OF CHAPLEAU

**Summary of Projected Wastewater Operating Results
For the Years Ending December 31
Annual Inflation Rate - 3%**

	Budget		Projected										Total
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2026
Revenue													
Revenue generated from user fees	\$ 329,900	362,900	399,200	439,100	483,000	531,300	584,400	642,800	707,100	777,800	855,600	941,200	6,724,400
Non-user fee revenue:													
Capital funding	570,200	-	-	-	-	-	-	-	-	-	-	-	-
Costs funded through taxation	109,600	109,600	109,600	109,600	109,600	109,600	109,600	109,600	109,600	109,600	109,600	109,600	1,205,600
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total projected revenue	1,009,700	472,500	508,800	548,700	592,600	640,900	694,000	752,400	816,700	887,400	965,200	1,050,800	7,930,000
Expenditures													
(1) Operating costs:													
Wages and employee benefits	35,000	36,100	37,200	38,300	39,400	40,600	41,800	43,100	44,400	45,700	47,100	48,500	462,200
Utilities, materials and other costs	127,100	130,900	134,800	138,800	143,000	147,300	151,700	156,300	161,000	165,800	170,800	175,900	1,676,300
OCWA contract	97,700	100,600	103,600	106,700	109,900	113,200	116,800	120,100	123,700	127,400	131,200	135,100	1,288,100
	259,800	267,600	275,600	283,800	292,300	301,100	310,100	319,500	329,100	338,900	349,100	359,500	3,426,600
(2) Debt servicing	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	63,200	695,200
(3) Capital and reserves:													
Capital investment	602,800												
Reserve fund contributions	83,900												
	686,700	141,700	170,000	201,700	237,100	276,600	320,700	369,700	424,400	485,300	552,900	628,100	3,808,200
Total expenditures	1,009,700	472,500	508,800	548,700	592,600	640,900	694,000	752,400	816,700	887,400	965,200	1,050,800	7,930,000
Net surplus (deficit)	\$ -	-	-										
Residential wastewater rate (flat rate per year)	\$ 341.49	375.65	413.23	454.53	499.97	549.97	604.94	665.39	731.95	805.13	885.66	974.27	