

City of Dryden - Water Financial Plan O. Reg. 453/07

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BMA MANAGEMENT CONSULTING INC.

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Water Financial Plan Forecast

Water Financial Plan

Introduction

The Ministry of Environment, Conservation and Parks (MECP) passed the Safe Drinking Water Act, 2002 (SDWA) which requires owners of municipal drinking water systems to renew their Municipal Drinking Water Licence every 5 years. A Financial Plan is a legislated requirement under the SDWA for licence renewal.

The Financial Plan must:

- Be approved Council resolution indicating that the drinking water system is financially viable.
- Include a statement that the financial impacts are considered and apply for a minimum six-year period.
- Provide detail regarding proposed or projected financial operations itemized by total revenues, total expenses, annual surplus/deficit and accumulated surplus/deficit (i.e. the components of a “Statement of Operations” as per PSAB) for each year in which the Financial Plans apply.
- Be available to the public upon request and at no charge.

- Include a website version of the report through publication on the Internet at no charge; and
- Be submitted to the Ministry of Municipal Affairs and Housing.

The categories to be included in the Financial Plan can be found in three statements: Statement of Operations, Statement of Cash Flows and Statement of Financial Position.

These categories of financial information provide a sound picture of the financial position of the drinking water system and are aligned with municipal financial statements prepared on a full accrual accounting basis.

This Financial Plan fulfills the requirements of the Safe Drinking Water Act and provides the City with a realistic and informed view of operating and capital expenditures needed to maintain the integrity and health of its physical infrastructure.

This Financial Plan is not binding on Council; however, it provides a framework for guiding future operating and capital budgets.

Sustainable Financial Planning

The Province's *Principles of Financially Sustainability Water and Wastewater services* are found in the MECP Financial Planning Guideline and provided below.

- **Principle #1:** Ongoing public engagement and transparency.
- **Principle #2:** An integrated approach to planning among water, wastewater, and storm water systems is desirable given the inherent relationship among these services.
- **Principle #3:** Revenues collected for the provision of water and wastewater services should ultimately be used to meet the needs of those services.
- **Principle #4:** Lifecycle planning with mid-course corrections is preferable to planning over the short-term or not planning at all.
- **Principle #5:** An asset management plan is a key input to the development of a Financial Plan.
- **Principle #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.

- **Principle #7:** Ensuring users pay for the services they are provided leads to equitable outcomes and can improve conservation.
- **Principle #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.
- **Principle #9:** Financial Plans benefit from the close collaboration of various groups, including engineers, accountants, auditors, utility staff, and municipal council.

This Financial Plan has been prepared in accordance with the Financial Plan regulation (O. Reg. 453/07) made under the Safe Drinking Water Act, as well as the provisions of the Financial Planning guidelines published by the MECP in August 2007, entitled “Toward Financially Sustainable Drinking-Water and Wastewater Systems”.

Guiding Principles

The following guiding principles have been used as the basis for the creation of the Water Financial Plan:

- Ensure a reasonable degree of stability and predictability in the rate burden.
- Provide fair sharing in the distribution of resources between current and future ratepayers.
- Provide for sustainable cash flows.
- Maximize financial flexibility.
- Minimize financial vulnerability during economic downturns.
- Maintain programs and services at their desired levels; and
- Protect and maintain the water and wastewater system.

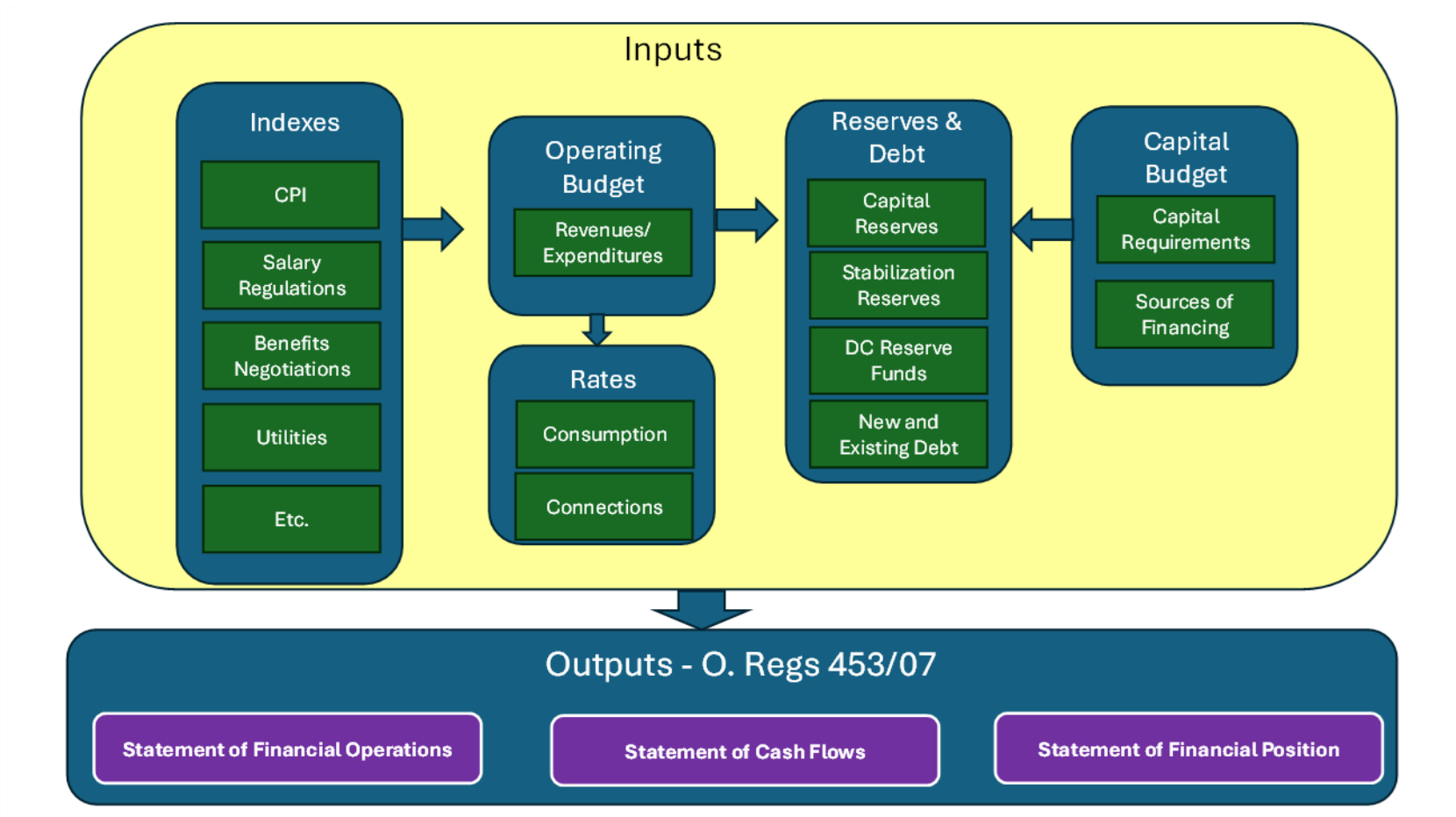
The Financial Plan is Dynamic

Great effort has been made to present accurate financial projections, based upon the data available, however there are many circumstances that could occur within the six-year timeframe that would affect the assumptions in the projections. Council priorities, planning policies, changes to service levels, consumption projections and infrastructure requirements will certainly lead to changes. The Financial Plan should be closely monitored and re-evaluated on an on-going basis.

Financial Forecast

Model Development

The Financial Plan was developed based on an analysis of all factors impacting the Water Capital and Operating Budgets. As shown below, due to the inter-relationship between all components of the plan, changes in any of the assumptions will potentially have an impact throughout the Financial Plan.



Background – Water System Overview

The City of Dryden water operations, like most other Ontario municipalities, is facing fiscal challenges. Water operations require significant capital infrastructure. The capital infrastructure must eventually be replaced within:

- a limited funding framework,
- relatively flat revenue streams, and
- limited ability to modify the waterworks operations.

The long-range costs of owning and maintaining these assets (the “full life” cycle costs) are often overlooked in the budgeting process.

The City has approximately \$20 million in water assets (based on historical costs). The costs of replacing these assets have increased significantly and are estimated at \$51.5 million.

The primary source of funding these replacement costs are primarily from the operating budget. In 2025 approximately 39% of the total operating budget relates to funding the capital program. The 2025 Asset Management Plan (AMP) has identified the capital funding is insufficient to achieve full lifecycle replacement of these assets.

As illustrated in table 1, the AMP the average annual capital funding requirement for the water program is \$4.045 million, however the 2025 operating budget capital contribution is \$1.207 million resulting in an annual infrastructure funding gap is \$2.838 million.

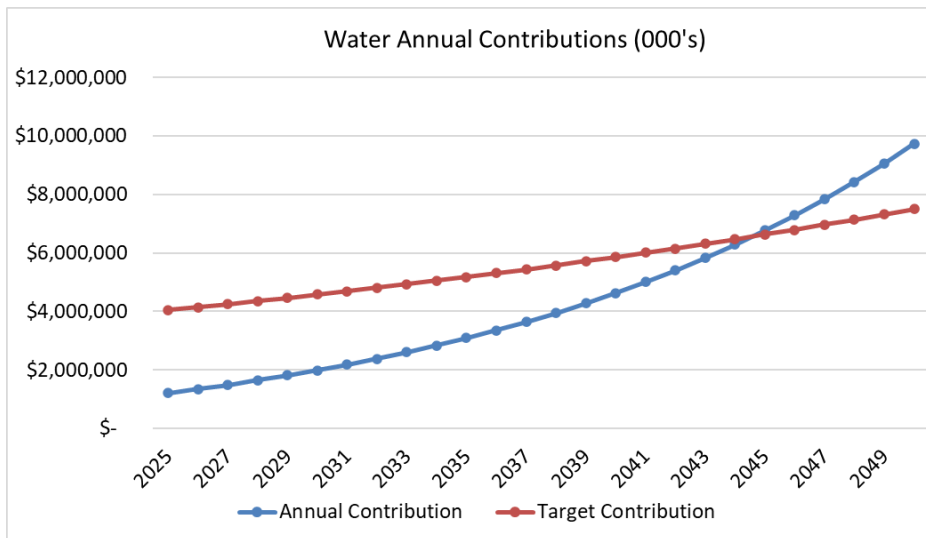
This issue has been addressed in the financial plan to move the City toward financial sustainability over a 20-year period by providing a gradual increase in capital contributions each year. A phased approach is recommended to maintain ratepayer affordability.

Table 1 - Estimated Annual Funding Gap

2025 Capital Contributions (000's)	Water
Current Capital Contribution for Asset Replacement	\$ 1,207
Recommended Annual Average Contribution (AMP)	\$ 4,045
Estimated Annual Funding Gap	\$ (2,838)

The following graph reflects the target (inflated over time) and the contributions to the capital plan. As illustrated, the annual infrastructure gap gradually closes in 20 years.

Figure 1 - Water Infrastructure Gap Closing



Financial Environment, Forecast Assumptions and Financial Policies



Sources of Data Used

- **Reserves**—Water Reserve projected 2025.
- **Operating Budget**—The 2025 Operating Budget for Water was used to forecast future years based on various assumptions.
- **2026 Capital Budget**—The proposed Capital Budget included sources of financing, such as contributions from reserves and grant recoveries.
- **Financial Information Return (FIR) 2023**—The City's FIR was used in the preparation of the O. Regs. with respect to amortization information.
- **2025 Asset Management Plan (AMP)** – The 2025 AMP was used to calculate infrastructure replacement needs.

Water Financial Environment and Assumptions

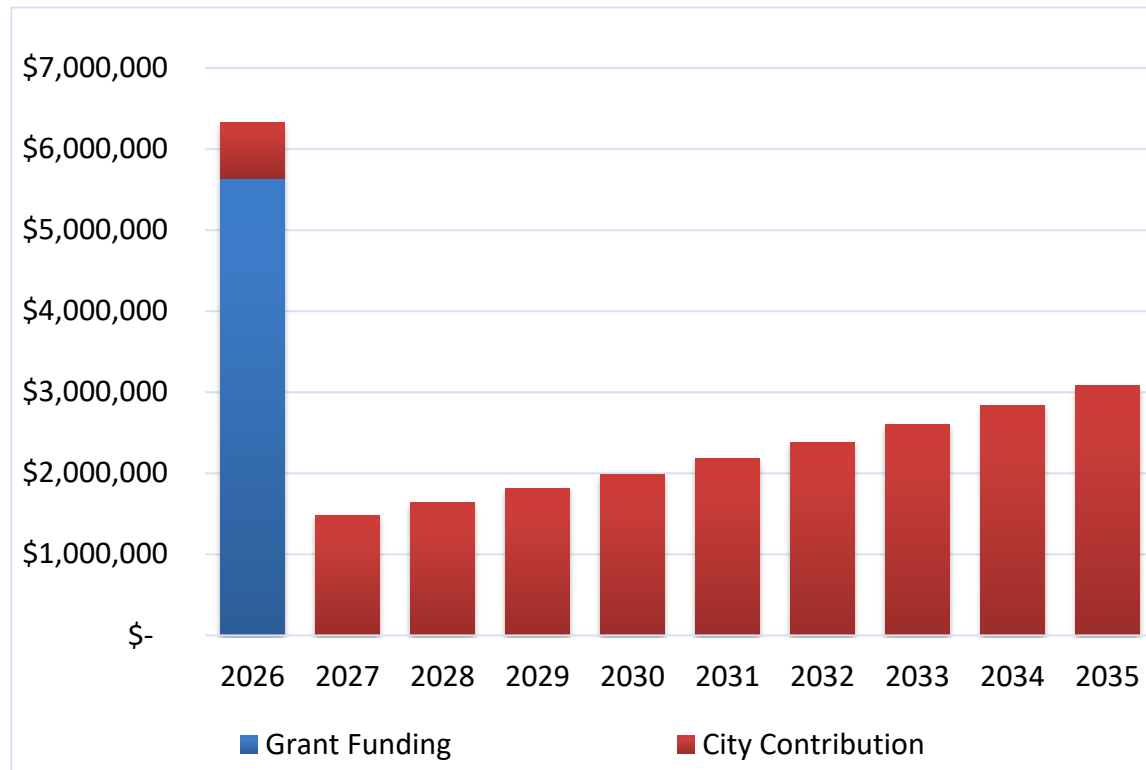
The following provides the key assumptions that were used in the financial plan:

- **Expenditures Increases** — 2.5% annually
- **Debt Terms** — No new debt
- **Water Capital Reserve**—The opening balance for 2026 for the Water Capital Reserve is based on the projected year-end balance for 2025, which is \$1.6 million.
- **Service Standards**—Water programs are maintained at their current service levels.
- **Capital Projects** – The City approves a one-year capital budget. The water capital forecast is based on the annual capital reserve contribution in the operating budget. This approach may not be reflective of the asset's actual condition. Actual field condition data is more representative of the City's state of infrastructure and should be used to make financial plans more meaningful. The financial plan should be updated once actual field condition data is incorporated in the City's AMP.

Water Capital Budget

The following graph reflects the projected amount available each year for capital replacement. water. As shown below the plan will generate \$20.7 million over the 10-year period.

Figure 2 - Water Capital Budget



Summary of Operating Budget Requirements

The City's objective in establishing the water rates is to avoid large fluctuations from year to year and are set at a level to adequately cover current operating costs, maintain and repair the City's existing asset base, and replace assets where appropriate. The transfer to water capital increases from \$1.2 million in 2025 to \$3 million in 2035. The following table reflects the forecast revenues and expenditures based on assumptions.

Table 2 - Water Budget Forecast

Water (000s)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Revenues	\$ 2,833	\$ 3,009	\$ 3,195	\$ 3,393	\$ 3,604	\$ 3,827	\$ 4,064	\$ 4,316	\$ 4,584	\$ 4,868	\$ 5,170
Other Revenues	\$ 34	\$ 35	\$ 35	\$ 36	\$ 37	\$ 38	\$ 39	\$ 40	\$ 41	\$ 42	\$ 43
Total Revenues	\$ 2,867	\$ 3,043	\$ 3,231	\$ 3,430	\$ 3,641	\$ 3,865	\$ 4,103	\$ 4,356	\$ 4,625	\$ 4,910	\$ 5,213
Operating Expenses	\$ 1,660	\$ 1,702	\$ 1,744	\$ 1,788	\$ 1,833	\$ 1,878	\$ 1,925	\$ 1,973	\$ 2,023	\$ 2,073	\$ 2,125
Transfer to Water Capital	\$ 1,207	\$ 1,341	\$ 1,486	\$ 1,642	\$ 1,808	\$ 1,987	\$ 2,178	\$ 2,383	\$ 2,602	\$ 2,837	\$ 3,088
Total Expenditures	\$ 2,867	\$ 3,043	\$ 3,231	\$ 3,430	\$ 3,641	\$ 3,865	\$ 4,103	\$ 4,356	\$ 4,625	\$ 4,910	\$ 5,213
Rate Revenues % Change	6.3%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%

The rate-revenue requirement increase year over year is 6.2% for Water from 2026 onwards.

Reporting Requirements O.Reg. 453/07



Introduction—O.Reg. 453/07

The Financial plan has been prepared in accordance with the regulation (O.Reg. 453/07) made under the Safe Drinking Water Act. The Financial plan regulation requires that the plans be updated every five years along with the request for the renewal of the drinking water licence. This ongoing update will assist in revisiting the assumptions made to develop the operating and funding plans as well as reassessing the needs for capital renewal and major maintenance expenses.

Statement of Financial Operations - This statement summarizes the revenues and expenditures. The expenditures include ongoing operating costs plus asset amortization. This statement indicates that the system and its asset base are projected to be maintained with funds being available each year for future capital renewal or major maintenance.

As shown in the statement of financial operations, the City is generating excess revenues over expenses including amortization over the forecast period.

Cash Receipts or Gross Cash Payments (Cash Flows) - The cash flow statement summarizes how the Water Operations is expected to generate and utilize cash resources. The transactions that generate and use cash include the projection of cash to be received from revenues, cash to be used for operating expenditures and financing charges, cash projected to be used to acquire capital assets and projected financial transactions that are the proceeds from debt or debt principal repayment.

Cash balances are positive throughout the forecast period.

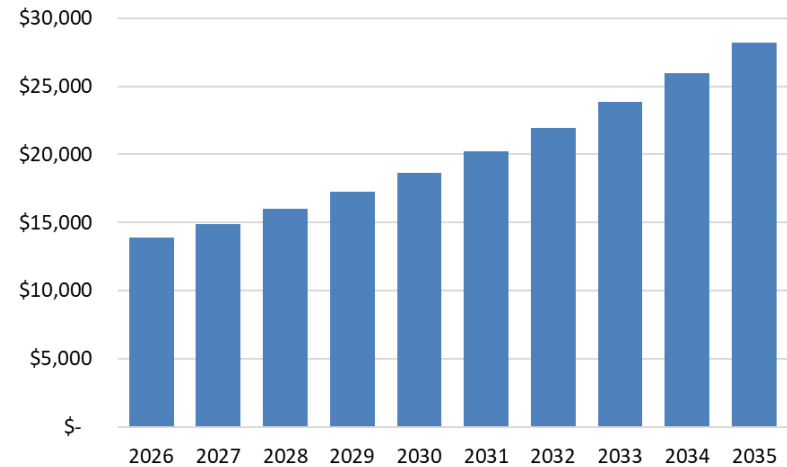
Financial Position - There are two important indicators to review in the Statement of Financial Position described as follows:

- Tangible Capital Assets
- Accumulated Surplus

Water Statements

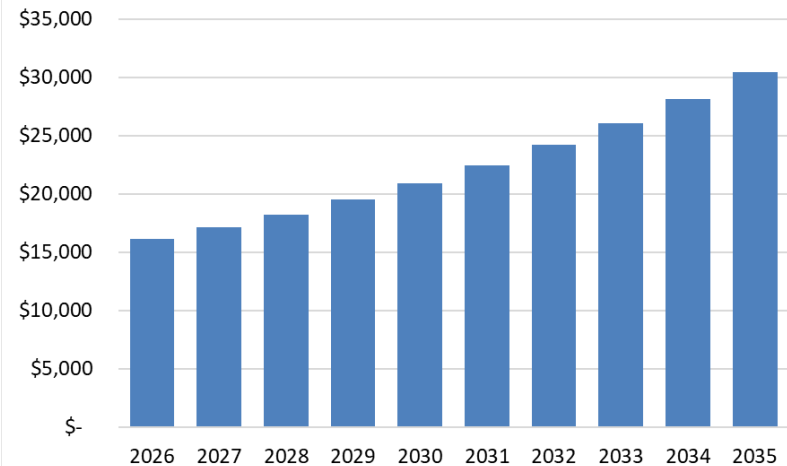
Tangible Capital Assets (Net Book Value) - The net book value of tangible capital assets are increasing which indicates assets are being renewed faster than they are used or assets have been added due to development.

Figure 3 - Water Net Book Value (000s)



Accumulated Surplus—A second financial indicator which is reflected in the financial position statement is the accumulated surplus. This indicator represents cash on hand plus the net book value of tangible capital assets less debt. The accumulated surplus is forecast to increase from 2026 to 2035. The increasing projected surpluses in water operations indicate that if the City adheres to the financial plan, it will strengthen its combined cash and asset position.

Figure 4 - Water Accumulated Surplus (000s)



Statement of Financial Operations

(000s)	Projected										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenues											
User Fees	\$ 2,833	\$ 3,009	\$ 3,195	\$ 3,393	\$ 3,604	\$ 3,827	\$ 4,064	\$ 4,316	\$ 4,584	\$ 4,868	\$ 5,170
Other Revenues	\$ 34	\$ 35	\$ 35	\$ 36	\$ 37	\$ 38	\$ 39	\$ 40	\$ 41	\$ 42	\$ 43
Interest Earnings	\$ 51	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 2,917	\$ 3,043	\$ 3,231	\$ 3,430	\$ 3,641	\$ 3,865	\$ 4,103	\$ 4,356	\$ 4,625	\$ 4,910	\$ 5,213
Operating Expenses											
Salaries/Wages	\$ 767	\$ 786	\$ 806	\$ 826	\$ 847	\$ 868	\$ 890	\$ 912	\$ 935	\$ 958	\$ 982
Benefits	\$ 40	\$ 41	\$ 42	\$ 43	\$ 44	\$ 45	\$ 46	\$ 47	\$ 48	\$ 50	\$ 51
Other	\$ 228	\$ 234	\$ 240	\$ 246	\$ 252	\$ 258	\$ 265	\$ 271	\$ 278	\$ 285	\$ 292
Contracted Services	\$ 184	\$ 189	\$ 194	\$ 199	\$ 204	\$ 209	\$ 214	\$ 219	\$ 225	\$ 230	\$ 236
Materials & Equipment	\$ 285	\$ 292	\$ 300	\$ 307	\$ 315	\$ 323	\$ 331	\$ 339	\$ 348	\$ 356	\$ 365
Utilities	\$ 155	\$ 159	\$ 163	\$ 167	\$ 172	\$ 176	\$ 180	\$ 185	\$ 189	\$ 194	\$ 199
Total Operating Expenses	\$ 1,660	\$ 1,702	\$ 1,744	\$ 1,788	\$ 1,833	\$ 1,878	\$ 1,925	\$ 1,973	\$ 2,023	\$ 2,073	\$ 2,125
Debt Charges											
Debt Charges - Interest Expenses											
Amortization Expense											
Amortization of tangible capital assets	\$ 362	\$ 467	\$ 492	\$ 519	\$ 550	\$ 583	\$ 619	\$ 659	\$ 702	\$ 749	\$ 801
Total Expenses	\$ 2,022	\$ 2,169	\$ 2,236	\$ 2,307	\$ 2,382	\$ 2,461	\$ 2,544	\$ 2,632	\$ 2,725	\$ 2,823	\$ 2,926
Annual Surplus/Deficit	\$ 895	\$ 874	\$ 994	\$ 1,122	\$ 1,259	\$ 1,404	\$ 1,559	\$ 1,724	\$ 1,900	\$ 2,088	\$ 2,287

Statement of Cash Flow/Cash Receipts

Projected											
(000s)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Total Revenues	\$ 2,917	\$ 3,043	\$ 3,231	\$ 3,430	\$ 3,641	\$ 3,865	\$ 4,103	\$ 4,356	\$ 4,625	\$ 4,910	\$ 5,213
Cash Paid For											
Operating Costs	\$ 1,660	\$ 1,702	\$ 1,744	\$ 1,788	\$ 1,833	\$ 1,878	\$ 1,925	\$ 1,973	\$ 2,023	\$ 2,073	\$ 2,125
Debt Repayment - Debt Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Provided from Operating Transactions	\$ 1,257	\$ 1,341	\$ 1,486	\$ 1,642	\$ 1,808	\$ 1,987	\$ 2,178	\$ 2,383	\$ 2,602	\$ 2,837	\$ 3,088
Capital Transactions											
Acquisition of TCA		\$ 6,329	\$ 1,486	\$ 1,642	\$ 1,808	\$ 1,987	\$ 2,178	\$ 2,383	\$ 2,602	\$ 2,837	\$ 3,088
Finance Transactions											
Proceeds from Debt Issuance											
Proceeds from Grants		\$ 5,642	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Principal Repayment											
Increase/(Decrease) in Cash Equivalents		\$ 655	\$ -	\$ -	\$ 0	\$ -	\$ (0)	\$ -	\$ (0)	\$ -	\$ (0)
Cash and Cash Equivalents at Beginning Balance		\$ 1,584	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239
Cash and Cash Equivalents at Ending Balance		\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239

Statement of Financial Position

Projected											
(000s)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Financial Assets											
Cash	\$ -	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239
Liabilities											
Debt - Principal Outstanding		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Financial Assets	\$ -	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239	\$ 2,239
Non-Financial Assets											
Tangible Capital Assets	\$ 19,450	\$ 19,450	\$ 25,779	\$ 27,265	\$ 28,907	\$ 30,715	\$ 32,702	\$ 34,880	\$ 37,263	\$ 39,865	\$ 42,702
Additions to Tangible Capital Assets	\$ -	\$ 6,329	\$ 1,486	\$ 1,642	\$ 1,808	\$ 1,987	\$ 2,178	\$ 2,383	\$ 2,602	\$ 2,837	\$ 3,088
Accumulated Amortization	\$ 11,425	\$ 11,892	\$ 12,384	\$ 12,904	\$ 13,453	\$ 14,036	\$ 14,655	\$ 15,314	\$ 16,016	\$ 16,765	\$ 17,566
Total Non-Financial Assets	\$ 8,025	\$ 13,887	\$ 14,881	\$ 16,003	\$ 17,262	\$ 18,666	\$ 20,225	\$ 21,950	\$ 23,850	\$ 25,937	\$ 28,224
Accumulated Surplus	\$ 8,025	\$ 16,126	\$ 17,120	\$ 18,243	\$ 19,501	\$ 20,905	\$ 22,465	\$ 24,189	\$ 26,089	\$ 28,177	\$ 30,464
Cash as a % of Non-Financial Assets	0.0%	16.1%	15.0%	14.0%	13.0%	12.0%	11.1%	10.2%	9.4%	8.6%	7.9%
Debt as a % of Non-Financial Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%