



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

City of Niagara Falls



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***Water Long Range Financial Plan
Forecast***

Introduction to Long Range Financial Planning

Water Long Range Financial Planning

The City of Niagara Falls, along with other Ontario municipalities that are responsible for the provision of drinking water, are required to meet the requirements set out in the Financial Plans Regulations O.Reg.453/07.

The financial environment for municipal government has fundamentally changed. The City of Niagara Falls has to fund programs and services it provides within a limited funding framework—namely, it must address rising costs, the demands of growth, increased service responsibilities related to regulatory and legislative requirements and an aging infrastructure with relatively flat revenue streams (conservation initiatives result in a decrease in the base upon which rates are generated).

The City of Niagara Falls is taking a proactive approach and has recognized the need for a long-term financial planning process that assesses the financial implications of current and proposed policies as well as Council approved decisions in its water operations.

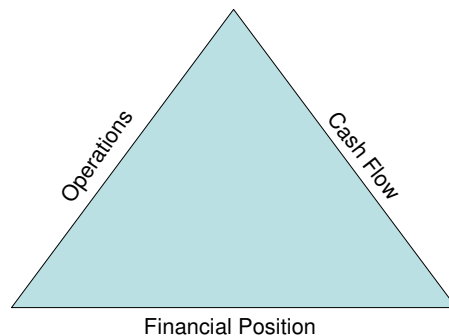
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Ontario Reg. 453/07 provides the following parameters with regards to s.30 (1) part b of the SDWA for new water systems:

- Financial plan must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- Financial plan must include a statement that the financial impacts have been considered and apply for a minimum six year period (commencing when the system first serves the public);
- Financial plan must include 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;
- Financial plans are to be made available to the public upon request and at no charge;
- If a website is maintained, financial plans are to be made available to the public through publication on the Internet at no charge; and
- Notice of the availability of the financial plans is to be given to the public.

The components of the financial plans indicated by the regulation are consistent with the requirements for financial statement presentation as set out in section PS1200 of the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook.

The categories can be found in three statements:



The Statement of Cash Flow and the Statement of Change in Net Financial Position are required statements going forward. The Statement of Change in Financial Position reports on whether enough revenue was generated in a period to cover the expenses in the period and whether sufficient resources have been generated to support current and future activities. The Statement of Cash Flow reports on how activities were financed for a given period which provides a measure of the changes in cash for that period.

The categories of financial information have been developed;

- to ensure that they provide a sound picture of the financial position of a drinking water system;
- to ensure that they are aligned with municipal financial statements prepared on a full accrual accounting basis, beginning on January 1, 2009; and
- to be a balance between encouraging more comprehensive and consistent financial planning for municipal water services, and accommodating existing municipal practices.

The goal is to provide the City with a realistic and informed view of operating and capital expenditures needed over time to maintain the integrity and health of its physical infrastructure and to accommodate growth and new environmental standards. As such, a Long Range Financial Plan (LRFP) creates a more purposeful approach to long-term financial management and helps align short term actions with long term financial strategies.

This document puts the City's water financial condition in perspective, discusses the current challenges and risks and provides a financial forecast, consistent with the strategic direction of the City. The plan also provides a framework for guiding the annual budget and the financial planning over a longer horizon. The LRFP helps to understand the implications that today's decisions have on future budgets.

Principles of Financial Sustainability

The Ministry of the Environment released a guideline (“Towards Financially Sustainable Drinking-Water and Wastewater Systems”) that provides possible approaches to achieving sustainability. The Province’s Principles of Financially Sustainable Water Services are provided below:

- **Principle #1:** Ongoing public engagement and transparency can build support for, and confidence in, financial plans and the system(s) to which they relate.
- **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:** Life-cycle 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. In general, metering and the use of rates can help ensure users pay for services received.
- **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.

The LRFP will be instrumental in the City’s ability to meet the Provincial reporting requirements included in O.Reg. 453/07 for water operations and has been developed in recognition of the above noted principles.



Importance of a Long Range Financial Plan

A LRFP is a framework to guide the City in planning and decision-making to help ensure that the City:

- Has a plan to protect and maintain its assets;
- Has a reasonable degree of stability and predictability in the rate burden;
- Has a fair sharing in the distribution of resources between current and future ratepayers;
- Has sustainable cash flows in the long term;
- Maximizes its financial flexibility;
- Minimizes financial vulnerability during economic downturns; and
- Maintains programs and services at their desired levels.

General Approach to Preparing the City's LRFP

The LRFP identifies the key financial strategies that will influence the building of a sustainable long-term financial future and takes into account:

- Expected expenses and capital outlays for each year of the plan;
- Expected revenues for each year and their source;
- Performance measures to enable assessment of the Council's strategic priorities;
- Assumptions that have been used in the development of the LRFP; and
- Sensitivity analysis on key assumptions most likely to affect long-range financial planning and sustainability to ensure that the City is aware of the key levers that will impact the LRFP and that should be monitored over time

The LRFP is Dynamic—Regular Updates Will Be Undertaken

Although great effort has been made to present accurate financial projections, based upon the data available at this time, a LRFP is a dynamic document and should be updated and re-evaluated, on an ongoing basis. As such, the 2010 Water LRFP should be considered a work-in-progress.

It is not an exercise in precision, rather it is intended for use as a forecasting tool to ensure that the City is on the right course to meet its financial obligations and future challenges. The intent is to provide Council with regular updates to this document, so it will be useful in the ongoing cycle of business planning and budgeting.

Financial plans are only required to be updated in conjunction with every application for licence renewal (i.e. every 5 years), however, there are many potential circumstances that could occur within the short to medium term that would affect the assumptions in the projections for operating and capital. Council priorities, planning policies, changes to service levels, consumption projections and infrastructure requirements, will certainly lead to changes and the LRFP should be adjusted to reflect these changes as they occur.

It is anticipated that updates to the LRFP will:

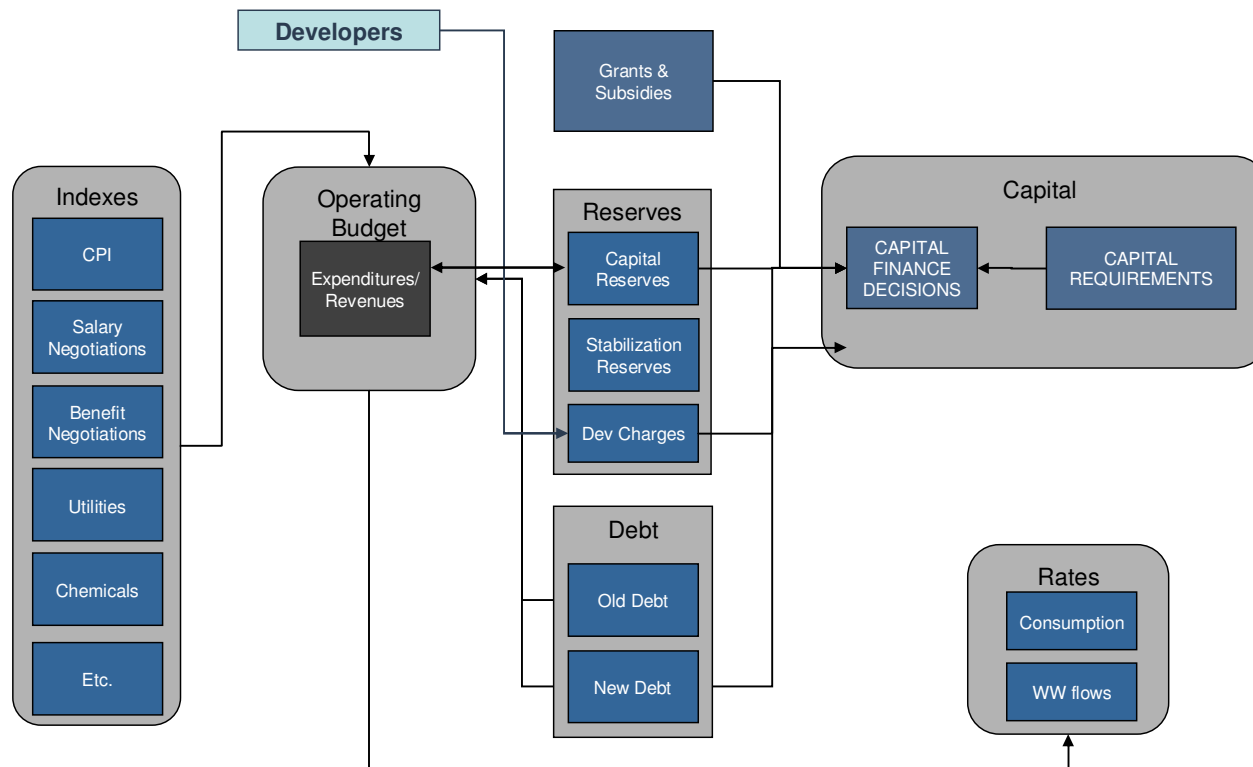
- Amend the assumptions, projections and strategies, as required, based on changes in the municipal environment;
- Continue building awareness of future changes in current operating and capital spending and funding levels;
- Assist the City in determining the extent of its financial challenges;
- Reconfirm the key financial goals and strategies that should guide future planning; and
- Spur the development of actions in future business plans that would respond to the long-term strategies.



Water Model and Situational Analysis

Model Development

The LRFP is developed based on an analysis of all factors impacting the capital and operating budget, including financing plans and consumption forecasts. This forecast also includes assumptions with respect to growth and development charge revenues, interest rates impacting reserves and debt issuance. 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 LRFP.



Water Forecast

Challenges/Risks/Opportunities

The following summarizes the key challenges, risks and opportunities to long-term financial sustainability which have been addressed as part of the plan:

- **Challenges with Respect to Revenue Stability**—The City does not have a stabilization reserve fund available in case of budget shortfalls and has been required to fund prior year deficits from the operating budget.
- **Availability of Reserves**—There is a need to increase reserve balances to support the replacement and refurbishment of assets. The plan incorporates strategies to build/maintain capital reserves over the next several years.
- **New Provincial Standards and Regulations**—The O.Reg. 453/07 requires municipalities to demonstrate full cost recovery for all water services.
- **Revenue Challenges Related to Reduced Consumption**—Water production has been declining while population has been increasing. This is expected to continue over the forecast period due primarily to the success of the water conservation program. While this reduces the overall consumption of water which aids in conservation and future capital requirements, this places increased pressure on rate increases.

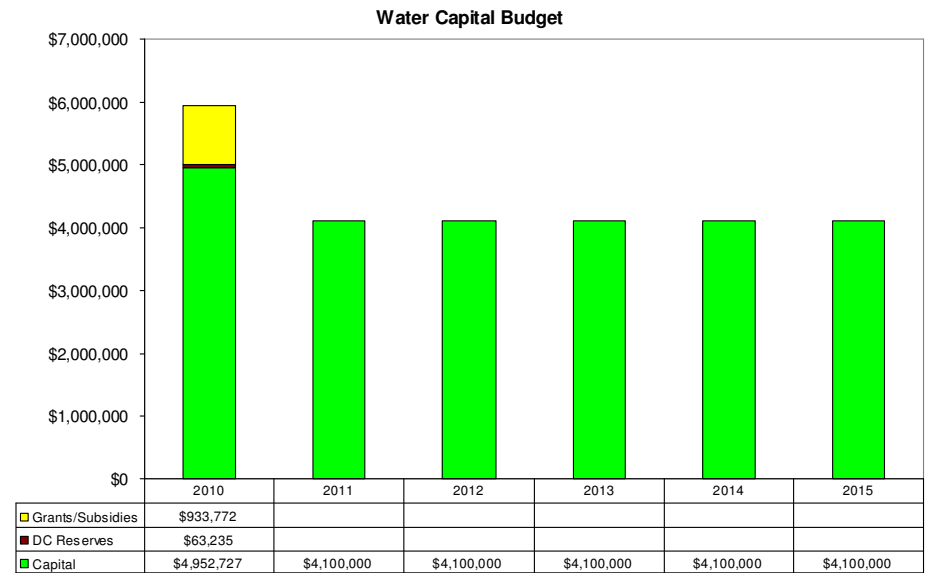
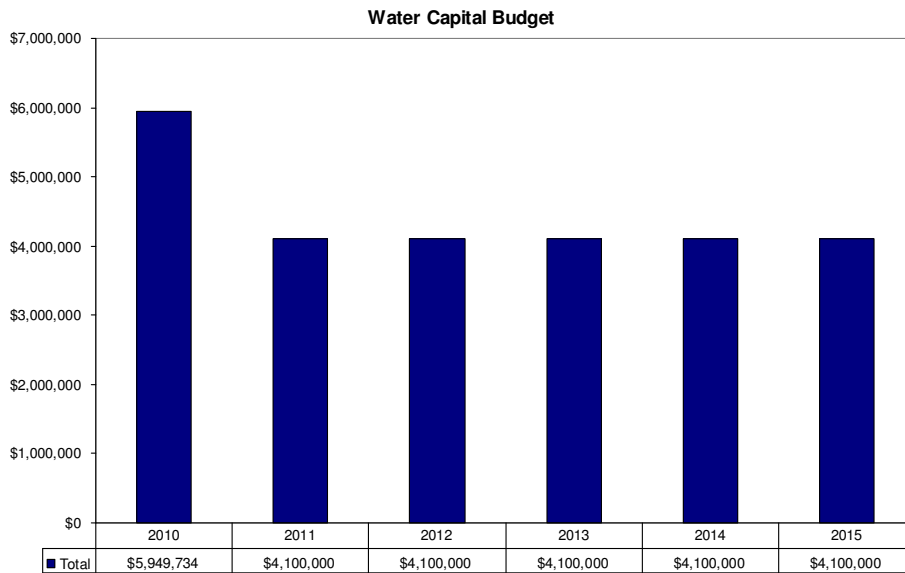
Key Assumptions

The following provides the key assumptions in the Forecast:

- **Capital Projects**—Water Capital Forecast is based on the capital needs as identified by City Engineering. The City identified \$26.45 million for the water capital budget over the next 6 years.
- **Water Capital Reserves**—The opening balance for 2010 Water Capital Reserves and Reserve Funds are based on the year-end estimated balance for 2009.
- **Sources of Financing**—Capital Reserves were used as the primary source of financing as defined in the City's Capital Budget document.
- **Service Standards**—Water programs are maintained at their current service levels.
- **Expenditure Increases**—based on:
 - Salary, wage and benefit increases based on future projected increases (2.5% annually)
 - Water supply costs projected increases (2% annually)
- Reserve contributions vary annually and have been used to ensure full funding of the capital plan and in accordance with the City's capital reserve policies.

Water Capital Budget—Type of Project and Financing Plan

The proposed financing strategy, in the long range financial plan, gradually moves the City toward full cost recovery based on the replacement costs of the underlying assets. As shown below, the City’s 6-year Water Capital Budget is \$26.45 million which is largely for the replacement of watermains. Approximately 96% of the financing for the Capital Budget is from Capital Reserves; 4% from Grants and Subsidies with a small DC source.



Reserve Fund and Debt Summary

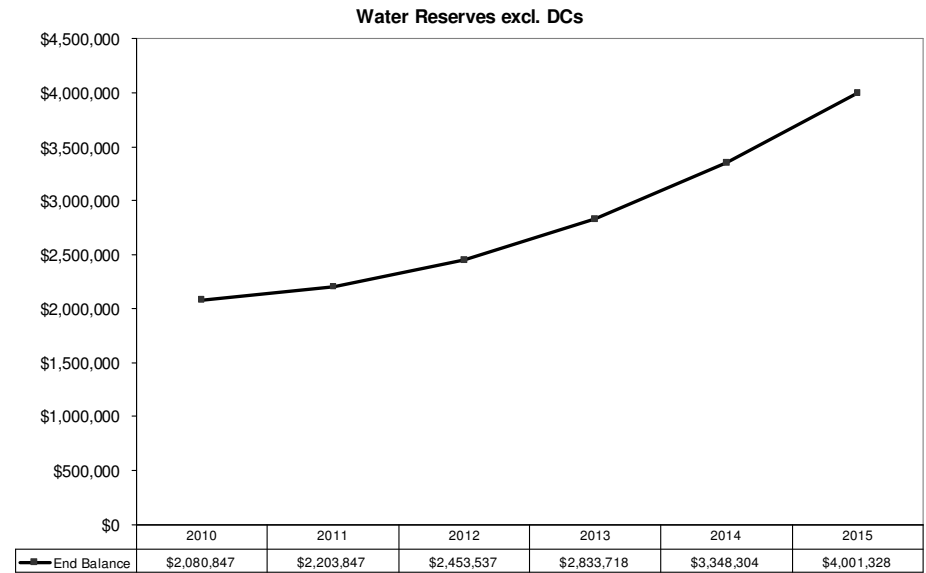
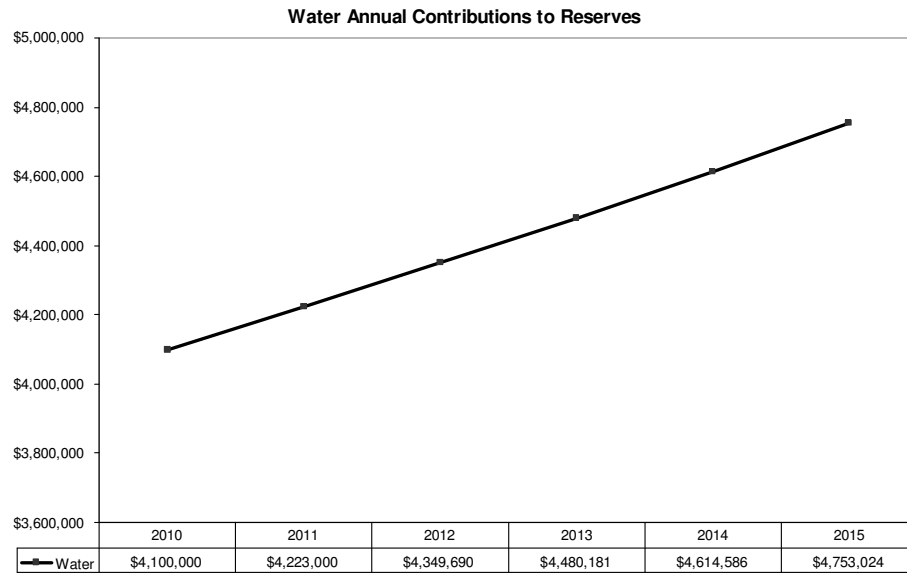
Adequate reserves are important to mitigate the City's financial risk and to strengthen the City's ability to withstand negative impacts on revenues from economic fluctuations and unforeseen expenditure requirements. Reserves and reserve funds are accumulated net revenues which are set aside for future expenditures. Reserves and reserve funds are a critical component of a municipality's long-term financing plan. The importance of maintaining reserves is to:

- Provide stability of tax rates and user fees in the face of variable and uncontrollable factors (e.g. interest rates, changes in subsidies, increase in fuel prices);
- Provide financing for one-time or short-term requirements without permanently impacting the tax and utility rates;
- Make provisions for acquisition and replacement of assets and infrastructure that are currently being consumed and depreciated;
- Avoid spikes in funding requirements of the capital budget by reducing reliance on long-term debt borrowing;
- Provide a source of internal financing;
- Ensure adequate cash flows;
- Provide flexibility to manage debt levels and protect the municipality's financial position; and
- Provide for liabilities that have been incurred in the current year but will not be paid for until future years.

"Debt management may be defined as the process of providing for the payment of interest and principal payments on existing debt, and the planning for new debt issuance at a level which will optimize borrowing cost and not impair the financial position of the municipality." (Ministry of Municipal Affairs and Housing). Together with the General Reserve and Reserve Fund Policy, the Debt Management Policy sets fiscally-prudent financial targets to ensure that the City can adequately plan for and fund future capital needs in a responsible manner. Targets for achieving a favourable financial position have been established for debt and reserves and include:

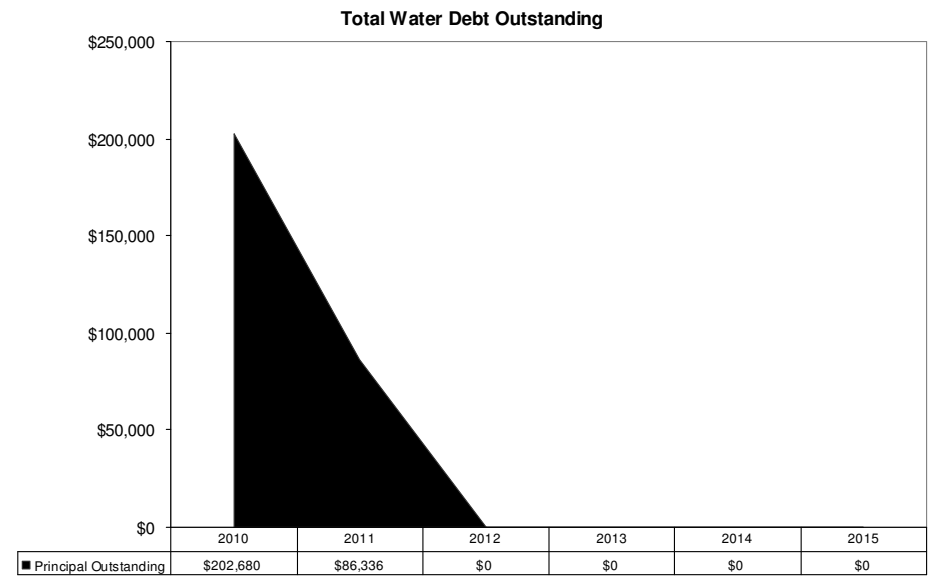
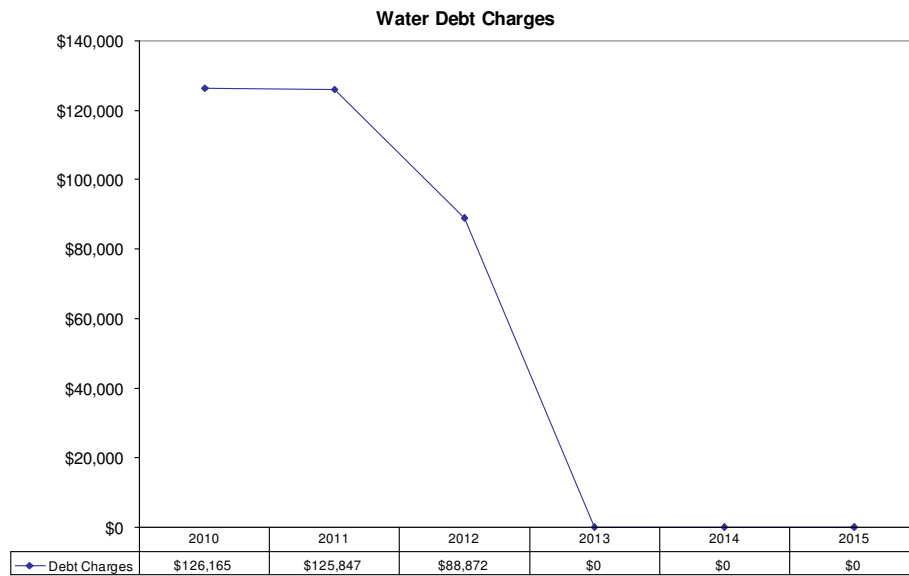
- Rate supported debt charges will be limited to 15% of the City's rate supported revenues
- Life Cycle Reserve Fund Contributions as a % of Asset Value – Annual contributions to capital reserves should be aligned with the lifecycle of the underlying assets. Asset value is defined as the purchase price less accumulated depreciation. Life Cycle Reserve Fund is the City's Capital Reserve Fund used for the replacement of existing assets.

Water Reserve Fund Summary



As shown above, annual contributions to the Water Reserve are being made with a gradual increase to smooth the impact on rates and to move toward full cost recovery.

Water Debt Summary



As shown in the graphs, the City will no need to issue any debt during the 6-year forecast period due to the gradual building of the capital reserves. Debt will be fully retired by 2012.

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 following table reflects the forecast expenditure requirements. It should be noted that the Region, which is a key driving factor in the rate revenue requirements is forecast at 2%.

	2010	2011	2012	2013	2014	2015
Total Expenditures	\$ 19,645,677	\$ 20,098,842	\$ 20,526,204	\$ 20,912,788	\$ 21,399,639	\$ 21,898,166
<u>Revenues</u>						
Miscellaneous Expenses	\$ 170,024	\$ 173,424	\$ 176,893	\$ 180,431	\$ 184,039	\$ 187,720
Rate Revenue Requirements	\$ 19,475,653	\$ 19,925,418	\$ 20,349,311	\$ 20,732,357	\$ 21,215,600	\$ 21,710,445
Total Revenues	\$ 19,645,677	\$ 20,098,842	\$ 20,526,204	\$ 20,912,788	\$ 21,399,639	\$ 21,898,166
Rate Revenue Increase		2.3%	2.1%	1.9%	2.3%	2.3%

As shown above the increases in consolidated water rate revenue requirements range from 1.9% to 2.3% from 2011 to 2015.

Reporting Requirements—O.Reg. 453/07



Water Reporting Requirements—O.Reg. 453/07

Paragraph 4 of subsection 3(1) of the regulation requires that financial plans include the following:

1. Details of the proposed or projected **financial position** of the drinking water itemized by:
 - a. total financial assets
 - b. total liabilities
 - c. net debt
 - d. non-financial assets that are tangible capital assets, tangible capital assets under-construction, inventories of supplies and prepaid expenses
 - e. changes in tangible capital assets that are additions, donations, write-downs and disposals
2. Details of the proposed or projected **financial operations** of the drinking water system itemized by:
 - a. Total revenues, further itemized by water rates, user charges and other revenues
 - b. Total expenditures itemized by amortization expenses, interest expenses and other expenses
 - c. Annual surplus or deficit
 - d. Accumulated surplus or deficit
3. Details of the drinking water systems proposed or projected gross **cash receipts or gross cash payments (Cash Flows)** itemized by:
 - a. Operating transactions that are cash received from revenues, cash paid for operating expenses and financing charges
 - b. Capital transactions that are proceeds on sale of tangible capital assets and cash used to acquire capital assets
 - c. Investing transactions that are acquisitions and disposal of investments
 - d. Financial transactions that are proceeds from the issuance of debt and debt repayment
 - e. Changes in cash and cash equivalents during the year
 - f. Cash and cash equivalents at the beginning and end of the year

Statement of Financial Operations—Water

	2010	2011	2012	2013	2014	2015
Water Total Revenues						
Rate Revenues	\$ 19,475,653	\$ 19,925,418	\$ 20,349,311	\$ 20,732,357	\$ 21,215,600	\$ 21,710,445
Miscellaneous Revenues	\$ 170,024	\$ 173,424	\$ 176,893	\$ 180,431	\$ 184,039	\$ 187,720
Total Revenues	\$ 19,645,677	\$ 20,098,842	\$ 20,526,204	\$ 20,912,788	\$ 21,399,639	\$ 21,898,166
Water Total Expenses						
Operating Expenses						
Regional Charges	\$ 11,000,661	\$ 11,220,674	\$ 11,445,088	\$ 11,673,989	\$ 11,907,469	\$ 12,145,619
Contracted Services	\$ 1,331,098	\$ 1,364,375	\$ 1,398,485	\$ 1,433,447	\$ 1,469,283	\$ 1,506,015
Labour	\$ 1,754,784	\$ 1,798,654	\$ 1,843,620	\$ 1,889,710	\$ 1,936,953	\$ 1,985,377
Employee Benefits	\$ 404,763	\$ 414,882	\$ 425,254	\$ 435,885	\$ 446,783	\$ 457,952
Rents and Financial Expenses	\$ 385,233	\$ 394,864	\$ 404,735	\$ 414,854	\$ 425,225	\$ 435,856
Insurance Premiums	\$ 82,380	\$ 84,440	\$ 86,550	\$ 88,714	\$ 90,932	\$ 93,205
Electricity	\$ 16,500	\$ 16,913	\$ 17,335	\$ 17,769	\$ 18,213	\$ 18,668
Materials	\$ 397,292	\$ 407,224	\$ 417,405	\$ 427,840	\$ 438,536	\$ 449,499
Miscellaneous Expenses	\$ 46,800	\$ 47,970	\$ 49,169	\$ 50,398	\$ 51,658	\$ 52,950
Total Operating Expenses	\$ 15,419,511	\$ 15,749,995	\$ 16,087,642	\$ 16,432,608	\$ 16,785,053	\$ 17,145,142
Debt Charges						
Debt Charges - Interest Payments	\$ 15,927	\$ 9,503	\$ 2,536	\$ -	\$ -	
Amortization Expense						
Water Assets	\$ 1,839,595	\$ 1,876,888	\$ 1,912,741	\$ 1,948,357	\$ 1,922,520	\$ 1,836,514
Total Expenses	\$ 17,275,033	\$ 17,636,387	\$ 18,002,919	\$ 18,380,964	\$ 18,707,573	\$ 18,981,656
Annual Surplus/(Deficit)	\$ 2,370,644	\$ 2,462,456	\$ 2,523,285	\$ 2,531,824	\$ 2,692,066	\$ 2,916,510

Statement of Cash Flow/Cash Receipts—Water

	2010	2011	2012	2013	2014	2015
Total Revenues	\$ 19,645,677	\$ 20,098,842	\$ 20,526,204	\$ 20,912,788	\$ 21,399,639	\$ 21,898,166
Cash Paid For						
Operating Costs	\$ 15,419,511	\$ 15,749,995	\$ 16,087,642	\$ 16,432,608	\$ 16,785,053	\$ 17,145,142
Debt Repayment - Debt Interest	\$ 15,927	\$ 9,503	\$ 2,536	\$ -	\$ -	\$ -
Cash Provided From Operating Transactions	\$ 4,210,239	\$ 4,339,344	\$ 4,436,026	\$ 4,480,181	\$ 4,614,586	\$ 4,753,024
Capital Transactions						
Acquisition of TCA	\$ 5,949,734	\$ 4,100,000	\$ 4,100,000	\$ 4,100,000	\$ 4,100,000	\$ 4,100,000
Finance Transactions						
Proceeds from Debt Issues						
Proceeds from DCs	\$ 63,235	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from Other Sources	\$ 933,772	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Repayment - Principal	\$ (110,238)	\$ (116,344)	\$ (86,336)	\$ -	\$ -	\$ -
Increase/(Decrease) in Cash Equivalents	\$ (852,726)	\$ 123,000	\$ 249,690	\$ 380,181	\$ 514,586	\$ 653,024
Cash and Cash Equivalents at Beginning Balance	\$ 2,933,574	\$ 2,080,848	\$ 2,203,848	\$ 2,453,538	\$ 2,833,719	\$ 3,348,305
Cash and Cash Equivalents at Ending Balance	\$ 2,080,848	\$ 2,203,848	\$ 2,453,538	\$ 2,833,719	\$ 3,348,305	\$ 4,001,329

Statement of Financial Position—Water

	2010	2011	2012	2013	2014	2015
Financial Assets						
Cash	\$ 2,080,848	\$ 2,203,848	\$ 2,453,538	\$ 2,833,719	\$ 3,348,305	\$ 4,001,329
Liabilities						
Debt - Principal Outstanding	\$ 202,680	\$ 86,336	\$ -	\$ -	\$ -	\$ -
Net Financial Assets	\$ 1,878,168	\$ 2,117,512	\$ 2,453,538	\$ 2,833,719	\$ 3,348,305	\$ 4,001,329
Non-Financial Assets						
Tangible Capital Assets	\$ 72,752,799	\$ 74,975,911	\$ 77,163,170	\$ 79,314,813	\$ 81,492,292	\$ 83,755,778
Cash as a % of Net Fixed Assets	2.9%	2.9%	3.2%	3.6%	4.1%	4.8%
Debt as a % of Net Fixed Assets	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%