



NIAGARA FALLS WATER BOARD

Financial Projections, User Rates and Operating Budget



NOVEMBER 20, 2017

Projection of cash flows and rates

Line	2017	2018	2019	2020	2021	
Revenues						
1	Water and wastewater user payments	30,286,339	31,048,021	31,972,861	32,925,447	33,582,616
2	Interest earnings	507,000	520,000	520,000	520,000	520,000
3	Total	30,793,339	31,568,021	32,492,861	33,445,447	34,102,616
Operations and Maintenance Expenses						
4	Salaries and benefits	10,649,948	11,378,832	12,007,356	12,348,199	12,701,893
5	Chemicals/sludge	4,278,000	4,485,000	4,581,600	4,680,132	4,780,635
6	City services	93,000	97,500	99,600	101,742	103,927
7	Insurance/safety	744,000	780,000	796,800	813,936	831,415
8	Maintenance	1,023,000	1,072,500	1,095,600	1,119,162	1,143,195
9	Utilities	1,395,000	1,462,500	1,494,000	1,526,130	1,558,903
10	Other expenses	1,023,000	1,072,500	1,095,600	1,119,162	1,143,195
11	Authority/Board expenses	744,000	780,000	796,800	813,936	831,415
12	PILOT payment to City	700,000	750,000	750,000	750,000	750,000
13	Total	20,649,948	21,878,832	22,717,356	23,272,399	23,844,577
14	Revenues available for debt service	10,143,391	9,689,189	9,775,505	10,173,048	10,258,039
Debt Service						
15	Debt service on outstanding bonds	6,878,359	7,266,645	7,062,174	7,251,340	6,916,967
16	Debt service on NYPA energy loan	267,800	267,800	267,800	267,800	267,800
17	Debt service on future Authority bonds	-	232,098	464,196	639,066	813,936
18	Total	7,146,159	7,766,543	7,794,170	8,158,206	7,998,703
19	Surplus (line 15 - line 19)	2,997,232	1,922,646	1,981,335	2,014,842	2,259,336
20	Debt Service Coverage	1.42	1.25	1.25	1.25	1.28
21	Rate Increase	0.0%	3.0%	3.0%	3.0%	2.0%

Drescher & Malecki Projections and Analysis

- Our Goal – To provide independent cash flow estimates and project future debt-service coverage ratios.
- Our analysis of projected amounts was performed in accordance with historical trends and audited data from the prior years, along with year-to-date actual reports per the financial software.
- Suggested areas were communicated within the budget that may be examined further based on YTD analysis to see whether actual budget costs could be adjusted up or down.

Expenses

- Personnel and Benefits

- Trending:

	Audited Historical				Projected
	2013	2014	2015	2016	2017
Personnel costs	\$ 4,789,375	\$ 4,943,369	\$ 5,021,834	\$ 4,942,509	\$ 5,450,000
Employee benefits	<u>4,920,173</u>	<u>4,986,902</u>	<u>5,271,132</u>	<u>4,732,547</u>	<u>5,199,948</u>
	<u>\$ 9,709,548</u>	<u>\$ 9,930,271</u>	<u>\$ 10,292,966</u>	<u>\$ 9,675,056</u>	<u>\$ 10,649,948</u>

- Following a \$618,000 decrease in personnel and employee benefits in 2016, we anticipate an increase in 2017 mainly as a result of new union contracts, additional staffing and health insurance costs.

Expenses

- **Personnel costs (Future Impact):**

- Based on year-to-date figures, personnel costs are expected to increase 10.3% from 2016, mainly due to the negotiated contracts. Further, the Board added 5 positions during 2017 and saw an increase in vacation and sick payouts (separation benefits) for retirees.
- Total personnel costs are estimated to increase 4.0% from 2017 to 2018 as a result of 4 new positions, along with normal raises and step increases.
- An approximate 2% increase following 2018 corresponds to the historical average increase over the past several years, and therefore, we will assume this trend continue over the next several years as well.
- This increase is also associated with new negotiated contracts awarding 1.5 and 2.0% raises annually, depending on tier 1 and tier 2 employees, respectively.

	Projected				
	2017	2018	2019	2020	2021
Personnel costs (%)	13.3%	4.0%	2.0%	2.0%	2.0%



Expenses

- **Employee Benefits Breakdown:**

- Health Insurance: Based on historical trends, we would expect the cost of providing health care to continue to rise each year. Per BCBS, an 11-12% increase in medical rates is anticipated for enrollment period beginning 6/1/2018.
- NYS ERS: Due to the NYS Common Retirement Fund's strong gains leading up to 2015, a large decrease was realized in 2016 and per review of the 2017 ERS invoices, a small decrease should be realized. However, an increase is expected in 2018 based on the current estimated bill from NYSERS.
- With health care and the cost of living increasing, we anticipate social security and workers compensation to continue increasing at a small rate, similar to personnel cost increases.

Expenses

- **Health and Prescription Insurance:**

- Based on year-to-date amounts, health insurance costs is expected to increase 11.8% in 2017. This increase is primarily the result of new staffing and an increasing number of retirees.
- Further, in accordance with BCBS, the 2018 rates are expected to increase 11-12% from 16-17 rates.
- For the years following 2018, we expect a 5% increase thereafter as an estimate of historical average.

			Projected		
	2017	2018	2019	2020	2021
Health Insurance	11.8%	12.0%	5.0%	5.0%	5.0%

Expenses

- **Contractual Expenses** - consisting of chemicals, utilities/maintenance, insurance, parts and supplies, legal and other expenses.

– Trending:

	Audited Historical				Projected
	2013	2014	2015	2016	2017
Contractual expenses	\$ 7,186,059	\$ 7,249,300	\$ 7,905,491	\$ 9,271,978	\$ 10,000,000

Expenses

- **Contractual Expenses (continued)**

- From 2011 to 2015, contractual expenses have fluctuated between 6.9 million and 7.9 million annually. For 2016, the audited Financial Statements reported \$9.3 million mainly due to the Board’s investment in significant chemicals to counteract the smell of the Wasterwater plant. During 2017, sewage discharges and storm water overflows have caused additional costs to the Board in the form of chemical and legal expenses, and therefore, contractual costs are expected to increase by 7.9% from 2016 to an estimated \$10 million, based on year-to-date projections.
- Costs mentioned above are anticipated to carry into 2018 to address the ongoing challenges before stabilizing in 2019 at the rate of inflation of roughly 2%.

	Projected				
	2017	2018	2019	2020	2021
Contractual costs (%)	7.9%	5.0%	2.0%	2.0%	2.0%

Water Revenues

- Water rents and charges increased annually from 2012 to 2015 due to water and sewer meter charge increases and increased consumption levels. The addition of Norampac Industries in 2013 generated a significant increase in revenues.
- During 2016, revenues dropped following the loss of large industrial users, such as Niagara Generation and Chemours (\$100k loss expected in 2017).
- Based on YTD charges and no other changes in major customers, water revenues project to be similar to 2016 (\$10,857,206). For conservative measures in 2017, we reduced that amount by \$100k estimated loss from Chemours.

– Trending

	2013	2014	2015	2016	Projected 2017
Water rents and charges	\$ 11,097,080	\$ 11,246,172	\$ 11,550,903	\$ 10,857,206	\$ 10,857,206



Sewer Revenues

- From the chart below, sewer revenues also increased significantly in 2013 due to the addition of “Norampac”, coupled with the 6% rate increase.
- In 2015, there was an increase in non-consumption revenues related to penalties and other charges to assessed to large industrial SIUs in 2015, which were not realized in 2016.
- During 2016, as discussed on the previous slide, Niagara Generation and Chemours were permanently closed, which negatively impacted revenues. (\$255k loss expected in 2017).
 - Trending

	Audited Historical					Projected
	2012	2013	2014	2015	2016	2017
Sewer rents and charges	\$ 14,519,527	\$ 18,296,694	\$ 17,924,980	\$ 21,112,768	\$ 19,147,911	\$ 18,892,911

Revenues

- Historical trends show increases in water consumption from 2011 to 2014, but decreases occurred in 2015 and 2016 following the loss of customers such as Niagara Generation in the middle of 2015 and Chemours at the end of 2016.

– Trending

	<u>Billing units, Hundreds of Cubic Feet</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Water Usage	3,002,547	3,316,858	3,457,012	3,270,105	3,212,938
% Change	4.17%	10.47%	4.20%	-5.4%	-1.7%

- Through the first 3 quarters of 2017, consumption levels appear to decrease at a level similar to 2016, in accordance with the effects of Chemours.

Capital Improvement Plan (“CIP”)

- Projects adopted by the Board to meet the City’s water and wastewater demands.
 - \$26.8M budgeted from 2017 through 2020.
 - The Board will be using the remaining NYPA funds, and the remaining portion of the 2013 bond issuance proceeds.
 - This will require continued payments of principal and interest.
 - Based on the most recent approved CIP, debt issuances of \$7,300,000 is expected in 2018 and \$5,500,000 in 2020 to cover the remaining portion of the CIP. Related debt service costs are assumed to begin in 2018.

Rate Considerations

- The financial plan displays the following major factors:
 - Overall consumption appears to be decreasing, **and**
 - increasing costs (particularly personnel and employee benefits), **and**
 - Planned debt transactions in 2018 and 2020 will increase annual principal and interest payments.
- A 3.0% rate increase in 2018 should allow the Board to achieve the debt coverage ratio. Annual rate increases will be needed in the future to offset increasing costs, unexpected costs or lost revenues and will likely avoid possible large rate increases in the future.
- Based on the results of our financial projection model, the Board should achieve a 1.25 debt ratio with a 3.0% rate increase in 2018.

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