



NIAGARA FALLS WATER BOARD

Financial Projections and User Rates



NOVEMBER 23, 2020

Drescher & Malecki Projections and Analysis

- To provide independent cash flow estimates sufficient to meet the debt-service coverage ratio (1.15).
- Assumptions used:
 - Historical trends and audited financial data from the prior years
 - The most current available information provided by Board Management and year-to-date actual reports per the financial software
 - Other (NYS retirement system, health insurance publications, etc.)



Expenses

- Personnel and Benefits

- Trending:

	Audited Historical				Projected
	2016	2017	2018	2019	2020
Personnel costs	\$ 4,942,509	\$ 5,432,579	\$ 6,065,718	\$ 6,140,679	\$ 6,495,682
Employee benefits	<u>4,732,547</u>	<u>5,491,962</u>	<u>5,561,118</u>	<u>5,679,447</u>	<u>5,733,744</u>
	<u>\$ 9,675,056</u>	<u>\$ 10,924,541</u>	<u>\$ 11,626,836</u>	<u>\$ 11,820,126</u>	<u>\$ 12,229,426</u>

Expenses

- **Personnel costs:**
 - Based on year-to-date figures, 2020 personnel costs are estimated to be higher than 2019 actuals.
 - Total personnel costs are estimated to increase 1.9% from 2021 to 2024 based on a 10 year average (normal raises and step increases).
 - This increase is associated with negotiated contracts awarding 1.5 and 2.0% raises annually, depending on tier 1 and tier 2 employees, respectively.
 - Average overtime costs have stabilized over the past 3 years.

Expenses

- **Employee Benefits:**

- Health Insurance: Based on historical trends, we would expect the cost of providing health care to continue to rise each year. However, the NYS Department of Financial Services approved insurer rates that will increase costs to individuals by 1.8 percent for 2021.
- NYS ERS: Due to the NYS Common Retirement Fund's strong gains leading up to 2015, a large decrease was realized in 2016 and has remained consistent through 2020 per the estimated bills from NYSERS.
- Social security and workers compensation to continue increasing at a rate similar to personnel cost increases.



Expenses

- **Employee Benefits (Future Impact):**
 - The projected 1.9% in 2021 corresponds to the expected decrease in NYS average health insurance rates, and is comparable to the increase in personnel costs.
 - For all other years, we expect a 4% increase thereafter based on historical averages.

	Projected				
	2020	2021	2022	2023	2024
Employee benefits	1.0%	1.9%	4.0%	4.0%	4.0%

Expenses

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

	Audited Historical				Projected
	2016	2017	2018	2019	2020
Contractual expenses	\$ 9,271,978	\$ 8,928,037	\$ 9,902,911	\$ 9,990,533	\$ 10,791,692

Expenses

- **Contractual Expenses (continued)**

- Contractual expenses are difficult to predict, however based on year-to-date figures.
 - Projection of 8% increase in 2020 represents roughly 10.8 million.
 - 2021 projection of 6.5% accounts for estimated increase in sludge disposal and hypochlorite solutions.
 - In the past 10 years, the average annual increase is 3%, which is used in our future projections.

	Projected				
	2020	2021	2022	2023	2024
Contractual costs (%)	8.0%	6.5%	3.0%	3.0%	3.0%

Revenues

- During 2016, revenues dropped following the loss of large industrial users, such as Niagara Generation and Chemours and rates remained unchanged during 2017.
- During 2018 and 2019, rates increased 2.4% and 2.0%, respectively.
- During 2020, consumption data overall is trending higher than the prior year, and with rates unchanged the projected increase in 2020 revenues is estimated at 0.5%.

– Trending

	Audited Historical				Projected
	2016	2017	2018	2019	2020
Operating revenues	\$ 30,380,370	\$ 30,152,829	\$ 31,259,913	\$ 31,188,271	\$ 31,359,741



Revenues

- An additional source of revenue included in the cash flow analysis is interest income which has been reported at \$1,163,345 in 2019.
 - 2020 expected to be around budget of \$664,000.
 - 2021 thru 2024 projects \$700,000 based on 5 year average.
- Assuming no significant change in consumption level, the following revenue increase is projected, consistent with rate increase suggested of 5.5, 5.5, 3.0 and 3.0% between 2021 and 2024.
 - Trending

	Projected			
	2021	2022	2023	2024
Total revenues (%)	5.5%	5.5%	3.0%	3.0%

Capital Improvement Plan (“CIP”)

- Projects adopted by the Board to meet the City’s water and wastewater demands.
 - \$33.9M budgeted from 2020 through 2023.
 - Based on the most recently obtained CIP, debt issuances of \$13,500,000 is expected in 2021 to cover portions of the project costs. Related debt service costs are assumed to begin in 2021 for interest only.
 - This will require continued payments of principal and interest.

Rate Considerations

- The financial projections consider the following major factors:
 - Overall consumption trends;
 - increasing costs (particularly contractual, personnel and employee benefits/health insurance); **and**
 - Planned debt transactions in 2021 will increase annual principal and interest payments going forward.
- A 5.5% rate increase in 2021 should allow the Board to achieve the debt coverage ratio based on current and historical trends.
- Based on the results of our financial projection model, the Board should achieve a 1.20 debt ratio with a 5.5% rate increase in 2021.

Projection of cash flows and rates

Line		Estimated				
		2020	2021	2022	2023	2024
Revenues						
1	Operating revenues	32,023,741	33,284,100	35,048,725	36,064,187	37,110,113
2	Total	32,023,741	33,284,100	35,048,725	36,064,187	37,110,113
Operations and Maintenance Expenses						
3	Salaries and benefits	12,229,426	12,464,152	12,826,081	13,199,840	13,585,853
4	Chemicals/sludge	4,539,582	4,967,361	5,139,151	5,316,529	5,499,675
5	Insurance/safety	506,583	554,319	573,490	593,284	613,722
6	Maintenance	1,261,710	1,380,604	1,428,351	1,477,651	1,528,553
7	Utilities	1,308,231	1,431,509	1,481,016	1,532,133	1,584,913
8	Other expenses	1,595,918	1,746,306	1,806,700	1,869,058	1,933,444
9	Authority/Board expenses	879,669	962,562	995,851	1,030,223	1,065,713
10	PILOT payment to City	700,000	700,000	700,000	700,000	700,000
11	Total	23,021,118	24,206,814	24,950,641	25,718,718	26,511,873
12	Revenues available for debt service	9,002,623	9,077,286	10,098,085	10,345,469	10,598,239
Debt Service						
13	Debt service on outstanding bonds	7,593,334	7,272,030	7,620,131	7,353,480	7,966,182
14	Debt service on future Authority bonds	-	275,000	795,000	780,000	765,000
15	Total	7,593,334	7,547,030	8,415,131	8,133,480	8,731,182
16	Surplus (line 12 - line 15)	1,409,289	1,530,256	1,682,954	2,211,989	1,867,057
17	Debt Service Coverage (minimum 1.15)	1.19	1.20	1.20	1.27	1.21
18	Actual/Proposed Rate Increase	0.0%	5.5%	5.5%	3.0%	3.0%