NIAGARA FALLS WATER BOARD

Financial Projections and User Rates

Drescher & Malecki

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Drescher & Malecki Projections and Analysis

- To provide independent cash flow estimates sufficient to meet the Board's Rate Covenant (Debt-service coverage ratio of 1.15).
- Assumptions are based on:
  - Historical trends and audited financial data.
  - The most current available information provided through discussions with the Board Management.
  - Year-to-date budget to actual reports per the financial software
  - Other information obtained from the NYS retirement system, health insurance publications, etc.

Coverage Ratio Components

- Cash Flows from Operating Revenues (A)
  - Water and Sewer rents
  - Interest earnings
  - Licenses and permits (cell towers and rental)
  - City payments
- Cash Flows from Operating Expenses (B)
  - Employee salaries and benefits
  - Contractual and other
- Debt Service (C)
  - Principal and interest payable in the Fiscal Year
- The ratio is calculated as follows:

$$\frac{(A\text{-}B)}{C}$$

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Projection of cash flows and rates

Line		Audited	Estimated				
		2023	2024	2025	2026	2027	2028
	Revenues						
1	Water and Sewer rents	$ 38,414,775	$ 37,476,897	$ 37,851,897	$ 38,987,454	$ 40,157,078	$ 41,361,790
2	Interest earnings	1,680,389	1,105,864	800,000	700,000	650,000	550,000
3	Licenses, permits and other revenues	1,072,796	512,659	600,000	628,200	657,725	688,638
4	Total	41,167,960	39,095,420	39,251,897	40,315,654	41,464,803	42,600,428
	Operations and Maintenance Expenses						
5	Salaries and benefits	13,254,697	13,853,600	14,357,241	14,911,698	15,487,888	16,086,674
6	Contractual	14,331,060	14,691,417	14,911,788	15,470,980	16,051,142	16,653,060
7	Total	27,585,757	28,545,017	29,269,029	30,382,678	31,539,030	32,739,734
8	**Revenues available for debt service**	13,582,203	10,550,403	9,982,868	9,932,976	9,925,773	9,860,694
	Debt Service						
9	Debt service on outstanding bonds	7,096,337	7,963,410	8,332,243	8,307,885	8,286,262	8,181,205
10	Debt service on future Authority bonds	-	-	-	-	-	-
11	Total	7,096,337	7,963,410	8,332,243	8,307,885	8,286,262	8,181,205
12	**Debt Service Coverage (minimum 1.15)**	1.91	1.32	1.20	1.20	1.20	1.21
13	**DMLLP Recommended Rate Increase for O&M**			0.0%	3.0%	3.0%	3.0%

Key Findings

- **<u>Contractual costs:</u>**
  - 2024 projection: $360k increase from 2023 (2.5%).
    - YTD projected total of $14,691,417
    - Hypochlorite solutions ($100k)
    - Other chemicals ($50k)
    - Computer equipment($100k)
    - Equipment repairs ($100k)
  - 2025 projection: $220k increase (1.5% increase based on 10 year average offset by for a decrease in bid pricing)
  - 2026 and beyond: 3.7% increase based on a 10 year average.
- **<u>Salaries and Benefits:</u>**
  - 2024 projection: $600k increase or 4.5%.
    - New approved contracts became effective
    - Step increases
    - Health insurance costs (closing 9% higher than 2023)
  - 2025 salary projection: 2% increase (3.5% 10 year average offset by reduction of 2.5 positions)
  - 2025 health insurance projection: 8% increase
  - 2026 and beyond: 3.5% increase based on a 10 year average.

Key Findings

- **<u>Projecting Revenues:</u>**
  - 2024 projection: Decrease in water and sewer rents of 2.4%, or 940k based on year-to-date.
    - Decreased consumption
    - Lasting impact of Occidental closure
  - 2025 projection: slight increase from 2024 based on new production line from Linde.
  - Decreased interest earnings planned throughout the projected period as operating funds are used and no new debt is planned.
- **<u>Rate Increase:</u>**
  - Based on the results of our financial projection model, the Board should achieve a 1.20 debt ratio on its O&M budget with a 0% rate increase in 2025.
  - Beyond 2025, small incremental increases projected to remain above the ratio during the projection period (3% in 2026, 2027 and 2028).

2025 Division Head Budget

	Rounded
Revenues	
Operating revenues	$ 40,914,448
Total	40,914,448
Operations and Maintenance Expenses	
Salaries and benefits	13,725,481
Contractual	19,225,834
Total	32,951,315
Revenues available for debt service	7,963,133
Debt Service	
Debt service on outstanding bonds	7,963,133
Debt Service Coverage Ratio	1.00

Note: The Authority is required to submit a balanced budget whereby revenues should be sufficient to meet both operating costs and debt service payments, which explains the ratio of “1”. For purposes of our analysis of the debt covenant, the Authority is required to raise sufficient revenues or control its costs to develop a ratio of over 1.15%, which explains some deviations from this budget.