

***City of Kenora
Water and Wastewater Long Range Financial Plan
Forecast***

O. Reg. 453/07 Financial Plan # 156-301

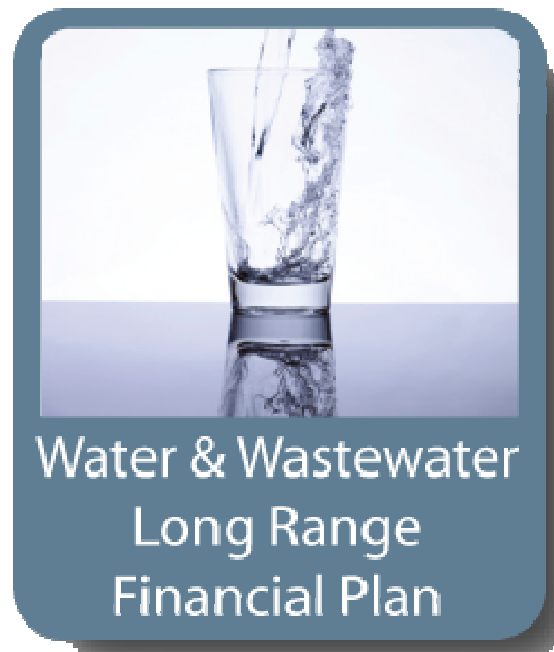


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Introduction to Long Range Financial Planning

Review of Regulatory and Legislative Requirements

The City of Kenora, 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. While the regulations are directed at **water systems**, the approach, as encouraged by the Province and being undertaken by the City was to undertake a similar process for the City's **wastewater systems**.

The financial environment for municipal government has fundamentally changed. The City of Kenora 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.

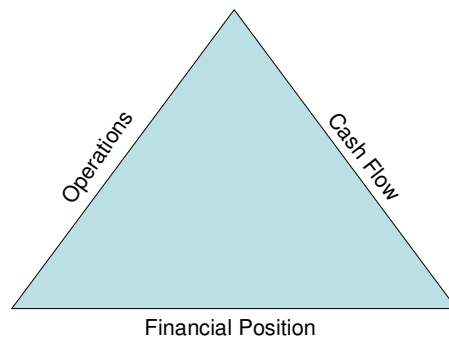
The City of Kenora is taking a proactive approach and has recognized the need for a long-term financial planning process that assesses the financial implications of current and proposed policies as well as Council approved decisions in its water and wastewater operations. The goal is to ensure that the City's water and wastewater operations are in a sound financial position and services can be provided on a sustainable basis.

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

- The financial plan must be approved by Council resolution (or governing body) indicating that the drinking water system is financially viable;
- The 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);
- The 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;
- The financial plan is 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 Operations summarizes the revenues and operating expenses for a given period. The Statement of 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 ensure consistent financial planning for municipal water services.

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 and wastewater financial condition in perspective, discusses the current challenges and risks and provides a sustainable financial forecast. 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. The LRFP has been prepared to meet the regulatory requirements. It does not represent a formal multi-year budget. The approval of the budget is undertaken annually. The LRFP is a living document that needs to be updated as assumptions and economic conditions change.

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 and Wastewater 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 and Wastewater 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:

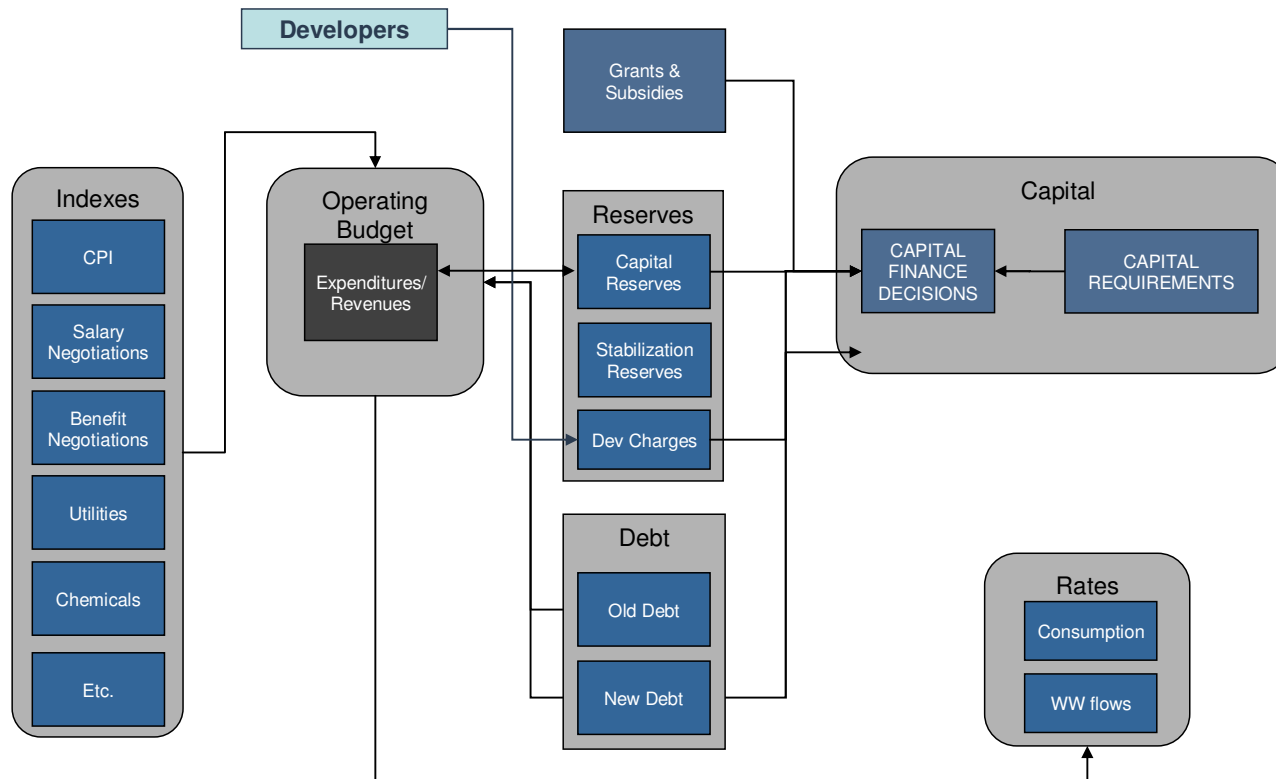
- Amend the assumptions, projections and strategies, as required, based on changes in the municipal environment;
- Continue building awareness of future changes in current operating and capital spending and funding levels;
- Assist the City in determining the extent of its financial challenges;
- Reconfirm 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 and Wastewater 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, consumption and wastewater flow 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.



Financial Analysis

The City of Kenora has taken a proactive approach, recognizing the need to develop a long-range financial plan, to address the challenges that the City is facing in the water and wastewater operations. The following summarizes the current financial position of the water and wastewater operations:

- **Asset Renewal/Replacement**—The City has \$35 million in water assets (based on historical costs) and \$31 million in wastewater assets. On a replacement cost basis, this is estimated to be \$90 million in water assets and \$77 million in wastewater assets. There are currently insufficient transfers to the capital reserves to achieve full lifecycle replacement of these assets. Recommendations have been made to support the timely replacement of existing assets.
- **Infrastructure Deficit**—Due to financial challenges, the City has not been replacing the water and wastewater assets in a timely basis and currently has a significant backlog of assets that require replacing. Using the PSAB data which tracks the asset inventories, useful life and estimated replacement costs, the existing backlog is estimated to be \$17 million in water and \$9 million in wastewater. Recommendations have been made to gradually address the infrastructure backlog and ensure that the backlog does not continue to grow.
- **Debt Charge**—The City currently issued \$1 million in debt. There are no issues with respect debt in the forecast however a debt policy is recommended to ensure that the City can meet its annual obligations.

- **Reserves**—The City's Water and Wastewater Reserves are low in relation to the assets they support. Wastewater Reserves are currently in a negative position. The combined Water and Wastewater forecast year end reserves as a percentage of rate revenues is only 4%. Recommendations have been made to establish parameters for reserve transfers.
- **Revenue Stability**—While the City is recovering a relatively high percentage of the costs from the fixed charge which improves revenue stability, the majority of costs to operate the water and wastewater systems are fixed and do not vary with consumption. This results in some risks to revenue stability if projected consumption does not materialize. Recommendations have been made with respect to establishing a minimum reserve balance to support operating deficits or emergency situations.
- **Affordability**—In relation to other municipalities surveyed, the residential cost of service is higher than average however the mid-large customers in Kenora are paying considerably less than the survey average due to the rate structure employed. Water/wastewater costs as a percentage of income are also slightly higher than average.

The next section of the report provides further detail as well as the proposed strategies to address challenges in the long range financial plan.

Asset Renewal/Replacement & Infrastructure Deficit

The full cost of managing the City’s water and wastewater systems has been taken into consideration in calculating the revenue requirements for the supply of water and the treatment of wastewater. The approach undertaken in the analysis of lifecycle costing was to use the PSAB data available from the City to develop a replacement schedule based on the useful life and estimated replacement cost.

The City’s assets include approximately 131 kms of water pipelines and 137 kms of wastewater pipelines. In addition, the City has treatment plants, valves, hydrants, standpipes, vehicles/equipment and manholes. The following table provides a summary of the water and wastewater assets.

	Historical Cost (000's)	Current Replacement Cost (000's)	Historical Amortization Expense (000's)	Replacement Cost Amortization Expense (000's)
Water	\$34,928	\$89,656	\$507	\$1,421
WW	\$30,677	\$77,043	\$497	\$1,263
Total	\$65,605	\$166,699	\$1,004	\$2,684

As shown above, the historical cost of the water/ww assets is \$65.6 million however the replacement cost is estimated to be \$166.7 million.

The annual amortization provides an estimate of the amount of monies that should be annually set aside for the future replacement/refurbishment of the existing assets. The annual amortization based on historical costing is \$1 million and the annual amortization based on replacement cost is \$2.7 million.

In 2011, the City contributed approximately \$0.5 million toward the replacement of capital assets as follows:

- \$0.4 million toward its capital reserves
- \$0.1 million in debt principal payments

As shown below, the combined annual funding gap in 2011 is \$0.5 million based on historical costing and \$2.2 million based on replacement costing. This will be addressed in the long range financial plan to move the City toward financial sustainability.

	Water (000's)	WW (000's)	Combined (000's)
Annual Contributions to Capital			
To Capital Reserves	\$ 548	\$ (142)	\$ 407
To Debt Principal Payments	\$ 103		\$ 103
Total Contribution to Capital	\$ 651	\$ (142)	\$ 510
Historical Amortization Expense			
Historical Amortization Expense	\$ 507	\$497	\$ 1,004
Replacement Amortization Expense	\$ 1,421	\$1,263	\$ 2,684
Funding Gap (Historical Amortization)			
Funding Gap (Historical Amortization)	\$ 144	\$ (639)	\$ (494)
Funding Gap (Replacement Amortization)			
Funding Gap (Replacement Amortization)	\$ (770)	\$ (1,405)	\$ (2,174)

The capital requirements from 2012-2017 based on replacement costs and useful life of the assets is \$4.5 million (\$2.5 million for water and \$2 million for wastewater).

In addition to the annual shortfall to support existing assets, the City also has a historical funding deficit in water and wastewater operations. Based on replacement costs and the City's assumptions with respect to the useful life of the assets, there are significant capital replacement needs where assets are beyond their useful life. Based on the analysis undertaken, there is an infrastructure deficit of \$17.3 million in water and \$8.7 million in wastewater related to assets that are past their useful life.

Recommended Infrastructure Deficit and Asset Replacement Strategy

The City of Kenora, like other municipalities in Ontario, has to fund programs and services it provides within a limited funding framework. The City must address rising costs and aging infrastructure with relatively flat revenue streams and limited ability to modify the services it provides.

Often overlooked in the budgeting process are the long range costs of owning and maintaining the asset (the "full-life" cycle costs). Policies and plans will assist in managing capital asset acquisition, maintenance, replacement and retirement.

Accumulated deferred maintenance and the timely replacement of assets has a cost. Major physical infrastructure failure can lead to sizeable downtime, increased costs to local business, and impact the City's ability to serve residents and attract industry.

Deferred maintenance and the timely replacement of assets also carries associated health and public safety risks, higher utility consumption and other operating costs, and a higher number of unforeseen repairs and replacement work. As such, asset management plans must take into consideration how assets will be replaced and what sources of financing to use.

The recommended strategy in this report is to gradually address the infrastructure backlog as well as meet the replacement requirements of assets as they become due for replacement over the next 6 years. Ratepayer affordability must be taken into consideration and therefore a phase-in strategy has been developed to gradually move toward a fully funded asset management financial plan to address the existing backlog and the annual underfunding of the capital program.

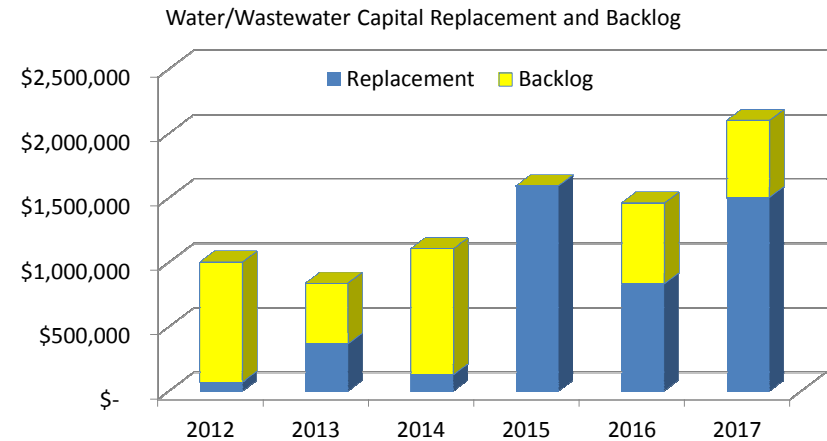
The table below summarizes the existing backlog and the capital requirements from 2012-2017 as assets reach the end of their useful life. In addition, the capital requirements from 2018-2023 has also been included to provide additional perspective beyond the first 6 years of the plan.

	Existing Backlog - Infrastructure Deficit (000's)	2012-2017 Replacement Requirements (000's)	2018-2023 Replacement Requirements (000's)
Water	\$17,344	\$2,470	\$4,167
WW	\$8,721	\$2,016	\$4,651
Total	\$26,065	\$4,486	\$8,818

In addition to addressing the backlog, over the next 6 years, it is anticipated that the City will require \$4.5 million in capital expenditures. From 2018-2023, \$8.8 million is required. The next table provides a summary of the proposed financial plan from 2012-2017. The recommended plan provides for approximately \$8.1 million to fund the replacement of all assets as they come due from 2012-2017(4.5 million) and to address \$3.6 million of the backlog. The specific capital projects should be determined in a priority basis.

	2012-2017 Capital Plan (000's)	2012-2017 Replacement Requirements (000's)	2012-2017 Backlog Addressed (000's)
Water	\$4,805	\$2,470	\$2,335
WW	\$3,285	\$2,016	\$1,268
Total	\$8,090	\$4,486	\$3,604

The following graph reflects the proposed capital replacement and backlog plan over the next 6 years.



By 2017, the annual contributions to the capital program will exceed replacement amortization as shown below which will ensure that the infrastructure deficit will not grow and there will be sufficient funds to replace they assets as the come due.

Combined Water/WW Plan	2012	2013	2014	2015	2016	2017
To Capital Reserves	\$ 700	\$ 1,078	\$1,510	\$ 1,997	\$2,542	\$3,154
To Debt Principal Payments	\$ 88	\$ 113	\$ 144	\$ 150	\$ 155	\$ 162
Total Contribution to Capital	\$ 788	\$ 1,191	\$1,654	\$ 2,146	\$2,697	\$3,316
Replacement Amortization Expense	\$2,684	\$ 2,751	\$2,820	\$ 2,890	\$2,963	\$3,037

Reserves and Revenue Stability

A Reserve and Reserve Fund is a financial provision or amount that is designated for a future purpose that extends beyond the current fiscal year. While its balance may vary over the course of a year, the Reserve/Reserve Fund is carried forward from one fiscal year to the next to facilitate multi-year financial planning. Reserves/Reserve Funds can be established to meet specific liabilities such as the replacement/acquisition of capital assets or to protect against known risks or unforeseen circumstances that may create financial difficulties. The purpose for maintaining reserves/ reserve funds includes:

- To provide rate stabilization in the face of variable and uncontrollable factors
- To provide financing for one-time or short term requirements without permanently impacting the water/ww rates
- To make provisions for replacements/renewals/acquisitions of assets/infrastructure that are currently being consumed
- To avoid spikes in funding requirements for large capital projects by reducing their reliance on long-term debt borrowings
- To smooth the rate impact of major capital projects on the operating budget
- To provide a source of internal financing
- To ensure adequate and sustainable cash flows
- To provide **financial sustainability**

The City's water and wastewater capital reserves are used for rate stabilization and capital expenditures. The City's consolidated Water/Wastewater Reserves are forecast to be only \$190,000 by the end of 2011. This is very low, particularly given that the City's water and wastewater assets are almost 50% amortized. This creates risks in terms of revenue stability and unforeseen capital requirements. This further reinforces the need to review reserve practices.

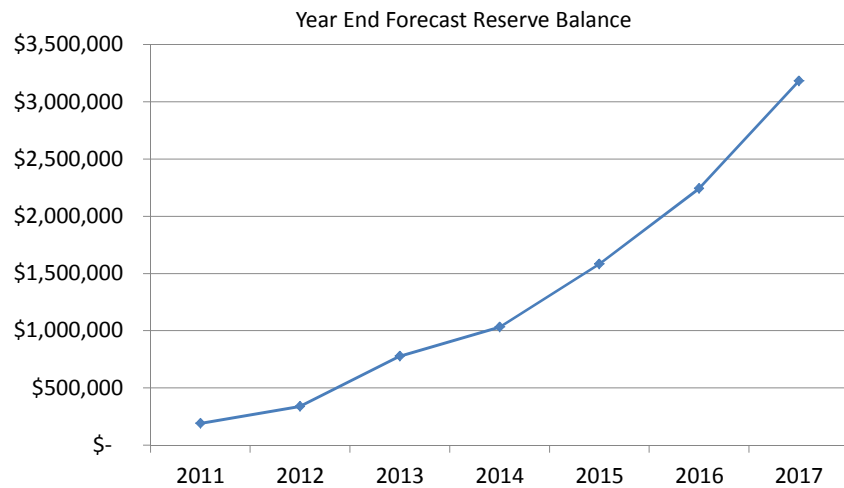
Recommended Reserve Strategies

The recommended strategy is to gradually increase the contributions to reserves to have sufficient funds to support the capital program as well as to provide revenue stability for the operations.

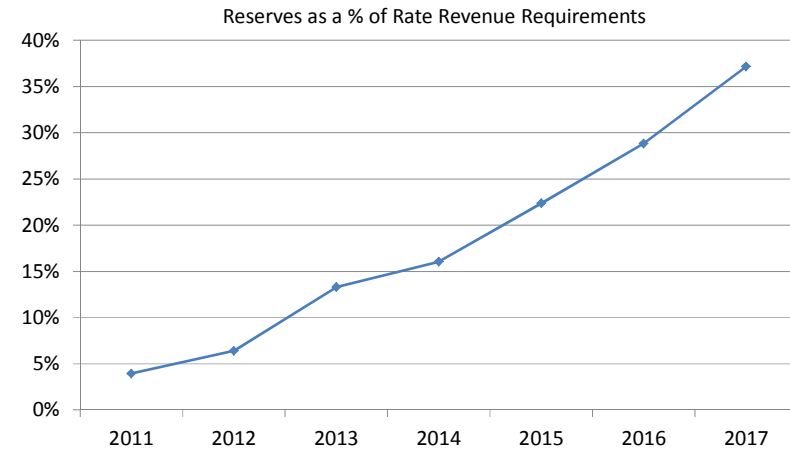
The strategy is built on the principle that the reserves will be used to fund the replacement or refurbishment of existing assets and will be funded through calculated annual contributions from the Operating Budget based on capital replacement costs.

Based on affordability considerations, a phase-in strategy is required. It is further recommended that the City attempt to maintain the reserves at a level of 10% of rate revenue requirements for revenue stability purposes. In the short-term, due to the considerable capital requirements and low reserve balances, this will take several years to achieve.

The following graph summarizes the forecast year end reserve balance based on a 10% rate revenue requirement increase annually. The reserve is forecast to move from a balance of \$190,000 in 2011 to \$3.2 million in 2017. This will provide the City with additional flexibility to increase the capital program beyond what has been included in the plan to further expedite the elimination of the infrastructure deficit.



As shown on the next column, the reserves as a percentage of rate revenue requirements is forecast to reach the 10% minimum target level by 2013. Again, any surplus reserves can be used to expedite the capital program and address the infrastructure deficit.



Debt

The City currently has \$1 million in debt outstanding. No new debt is required for the water program. The forecast includes the issuance of approximately \$0.6 million in wastewater debt in 2012 and 2013 to expedite the capital program and as a result of the negative wastewater reserve balance.

Recommended Debt Strategy

Debt levels and their related annual costs are important long-term obligations that must be managed within the available resources. An effective debt management policy provides guidelines for the City to manage debt. Debt servicing costs are low, well within industry standards. A recommended policy has been included to manage and monitor future debt. The recommended limit is to keep debt service costs (interest repayments) at 10% or less of the rate revenue requirements.

Affordability

The City of Kenora has a complex system because of its topological layout which increases operating costs related to maintaining the distribution system. In relation to other municipalities surveyed, the residential cost of service is higher than average. The following table summarizes the 2011 cost of service for various customer types and consumption levels in Kenora compared with 84 Ontario municipalities (representing 85+% of the Ontario population).

Volume Meter Size	Res. 250 m ³ 5/8"	Commercial 10,000 m ³ 2"	Industrial 30,000 m ³ 3"	Industrial 100,000 m ³ 4"
Kenora	\$ 919	\$ 16,762	\$ 51,524	\$ 159,540
Survey Average 84 Ontario Municipalities	\$ 826	\$ 24,777	\$ 72,415	\$ 235,173
\$ Difference to Average	\$ 93	\$ (8,015)	\$ (20,891)	\$ (75,633)
% Difference to Average	11%	-32%	-29%	-32%

As shown above, while the residential cost of service is 11% higher than the survey average for a customer that consumes 250 m³ annually, the costs for mid-large customers is considerably lower in Kenora than the survey average (29%-32% lower). The difference across various consumption levels is due to the large proportionate allocation of costs to be recovered from the fixed fee in Kenora. While this type of rate structure supports revenue stability principles as well as fairness and equity principles, as most of the costs of a system are fixed, it can pose challenges with respect to residential affordability. The City may wish to review its rate structure in future years if affordability becomes an issue.

Water/wastewater residential costs as a percentage of income were analyzed to consider the cost of service in each municipality in relation to the income levels. As shown below, the water and wastewater costs for a residential customer that consumes 250 m³ annually is 1.2% of gross household income in Kenora compared with the survey average of 1%.

	2011 Water/WW as a % of Household Income
Kenora	1.2%
Average	1.0%

Residential affordability was taken into consideration in developing a long range financial plan to ensure that the cost of service is affordable.

Recommended Affordability Strategy

According to research undertaken, utilities with higher credit ratings consistently consider the impact of operational and capital programs on rate affordability. While credit rating agencies believe credit is due to those systems that consistently raise rates to preserve financial strength, these activities will be more sustainable when rate affordability is a focus of policymakers and cost containment is regularly employed. Credit rating agencies believe that not only should the level of rates for particular customers be considered in these reviews, but also the affordability of rates relative to income, particularly for residential users.

Affordability is the concept of ability to pay, as opposed to willingness to pay, to which decision makers are more sensitive. Affordability is often evaluated by expressing water and sewer charges as a percentage of household income.

Industry benchmarks consider costs for water/wastewater service higher than 2% of average household income to be unaffordable. Currently, the cost of water/ww service in Kenora is 1.2% of income, well below the benchmark. The strategy in moving forward is to balance rate increases and address the asset replacement and infrastructure gap by ensuring that the residential cost of service remained below the benchmark 2%.

The recommended annual rate requirement increase from 2012-2017 is 10% of the combined water/wastewater increase. Using this forecast, by 2017, the estimated water/wastewater residential cost as a percentage of household income would be 1.9%. Increases greater than 10% of rates would pose affordability issues and were therefore not recommended.

Summary—Financial Policies and Strategies

The following summarizes the recommended financial policies and strategies:

- *The City will maintain all Water/Wastewater infrastructure in a state of good repair by implementing life cycle costing and providing adequate annual contributions to the replacement reserves to fund the future rehabilitation/replacement of assets.*
- *The City will target setting aside the annual amortization based on historical costing in the short term and the replacement cost of assets over time. These funds will be transferred to the City's Water and Wastewater Capital Reserves. A phase-in strategy will be implemented to achieve replacement cost contributions by 2017.*
- *To ensure that the reserves also provide for revenue stabilization, it is recommended that the water and wastewater reserves be maintained at approximately 10% or greater of the water and wastewater annual revenues.*
- *Future debt service payments will be made while ensuring the following:*
 - *The provision of essential services is not jeopardized.*
 - *Financial flexibility is maintained by ensuring that there are sufficient revenues to meet unanticipated expenditures and accommodate revenue fluctuations.*
 - *Outstanding debt obligations will not threaten long-term financial stability.*
 - *The amount of outstanding debt will not place an undue burden on local ratepayers.*
- *The City's Water and Wastewater debt interest service ratio as a percentage of own source revenues, will not exceed 10% as considered acceptable by credit rating agencies.*
- *It is recommended that the City's Treasurer review, on an annual basis, the affordability of the water/wastewater costs and will notify Council when the benchmark affordability level is exceeded. Based on industry standards, the benchmark is when the average water and wastewater service annual costs exceed 2% of average annual household income.*
- *The City will update the LRFPP as new information becomes available that could materially change the forecast.*

Water and Wastewater Forecast

Key Assumptions

The following provides the key assumptions in the Forecast:

- **Capital Projects**—Water and Wastewater Capital Forecast is based on the capital needs as identified by the City plus the additional capital requirements to address asset replacements and the infrastructure deficit. The plan includes \$4.8 million for water and \$3.3 million for wastewater capital expenditures for over the next 6 years.
- **Water & Wastewater Capital Reserves**—The opening balance for 2011 Water and Wastewater Capital Reserves and Reserve Funds are based on the year-end estimated balance for 2010.
- **Sources of Financing**—Capital Reserves were used as the primary source of financing. Debt was issued for the replacement of new assets only in years when the reserve balances were low in wastewater.
- **Debt** - 10 year term at 4%. No new debt is required for the water program. The forecast includes the issuance of approximately \$0.6 million in wastewater debt in 2012-2013 to expedite the capital program and as a result of the negative wastewater reserve balance.
- **Expenditure Increases**—based on:
 - Salary, wage and benefit increases based on future projected increases (3.6%-4.0% annually);
 - Chemical expenses (2% annually);
 - Telephone & Utilities (3% annually);
 - Insurance (3.1% annually);
 - Landfill disposal Costs (0% annually) and
 - Miscellaneous expenses (3.1% annually).
- **Revenue Increases**—based on:
 - 10% annual increase in rate revenue requirements;
 - 0% in other revenues
- **Disposals**—assumes no disposals of tangible capital assets.
- **Useful Life**—based on the City's tangible capital asset policies.
- **Reserve Contributions**—The annual contribution to reserves varies annually based on an assumed 10% rate revenue requirement increase annually.
- **Service Standards**—Water and wastewater programs are maintained at their current service levels.

Summary of Rate Revenue Requirements

The City’s objective in establishing the Water and Wastewater rates is to avoid large fluctuations from year to year and to ensure rates 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.

Efforts are being made in this plan to gradually grow/maintain the reserves to provide a source of funding for the ongoing replacement/refurbishment of capital assets. The following tables reflect the forecast rate revenue requirements.

in (000's)	2011	2012	2013	2014	2015	2016	2017
Water Rate Revenue Requirements	\$ 2,463	\$ 2,566	\$ 2,793	\$ 3,028	\$ 3,282	\$ 3,555	\$ 3,851
Wastewater Rate Revenue Requirements	\$ 2,373	\$ 2,753	\$ 3,056	\$ 3,406	\$ 3,798	\$ 4,234	\$ 4,720
Total	\$ 4,837	\$ 5,319	\$ 5,849	\$ 6,435	\$ 7,080	\$ 7,789	\$ 8,571
% change in Rate Revenue Requirements							
Water		4.2%	8.9%	8.4%	8.4%	8.3%	8.3%
Wastewater		16.0%	11.0%	11.5%	11.5%	11.5%	11.5%
Total		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

As shown above the annual increases in consolidated water and wastewater rate revenue requirements is 10% from 2012 to 2017. Appendix A provides the Operating Budgets for water and wastewater services.

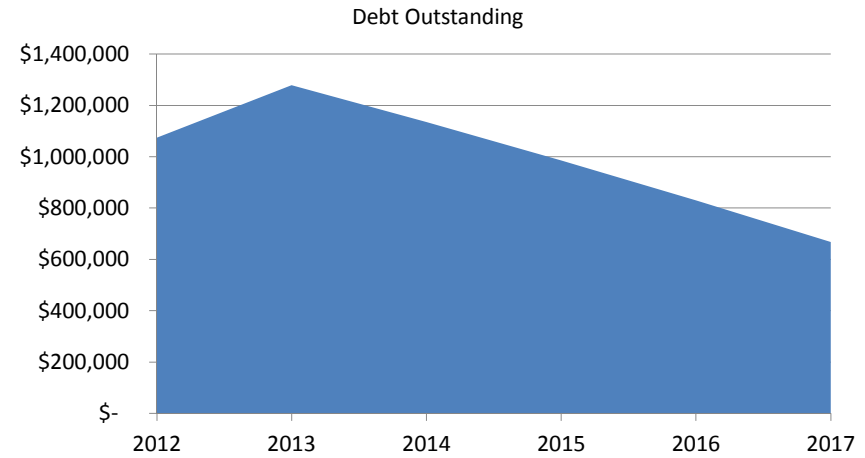
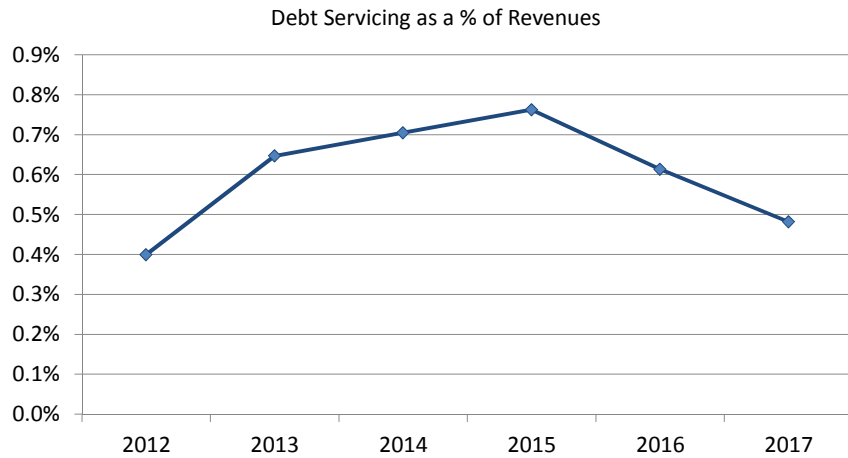
Water and Wastewater Capital Budget

As shown below, the City's 6-year Water Capital Budget is \$4.8 million and the Wastewater Capital Budget is \$3.3 million.

	2012	2013	2014	2015	2016	2017	Total
Water Capital Budget	\$ 735,565	\$ 517,500	\$ 702,000	\$ 800,000	\$ 950,000	\$ 1,100,000	\$ 4,805,065
Financing Plan							
Capital Reserve	\$ 455,185	\$ 517,500	\$ 702,000	\$ 800,000	\$ 950,000	\$ 1,100,000	\$ 4,524,685
Subsidy	\$ 280,380						\$ 280,380
Total	\$ 735,565	\$ 517,500	\$ 702,000	\$ 800,000	\$ 950,000	\$ 1,100,000	\$ 4,805,065

	2012	2013	2014	2015	2016	2017	Total
Wastewater Capital Budget	\$ 265,000	\$ 317,500	\$ 402,000	\$ 500,000	\$ 800,000	\$ 1,000,000	\$ 3,284,500
Financing Plan							
Capital Reserve	\$ -	\$ -	\$ 402,000	\$ 500,000	\$ 800,000	\$ 1,000,000	\$ 2,702,000
Debt	\$ 265,000	\$ 317,500					\$ 582,500
Total	\$ 265,000	\$ 317,500	\$ 402,000	\$ 500,000	\$ 800,000	\$ 1,000,000	\$ 3,284,500

Water and Wastewater Debt Summary



As shown in the graph above, the City’s debt charges are increasing until 2015 as a percentage of revenues but well below the recommended limit of 10%.

As shown in the graph above, the City’s debt outstanding peaks in 2013 at \$1.3 million. By 2017, debt outstanding is \$0.68 million.

Reporting Requirements—O.Reg. 453/07



Water and Wastewater Reporting Requirements—O.Reg. 453/07

While the O. Reg. 453/07 only applies to Water, the City has prepared statements for both water and wastewater operations. 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 system 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

	2011	2012	2013	2014	2015	2016	2017
Water Total Revenues							
Rate Revenues							
Water - Metered Revenue	\$ 1,107,128	\$ 1,153,074	\$ 1,255,467	\$ 1,360,926	\$ 1,475,244	\$ 1,596,214	\$ 1,727,103
Water Monthly Service Chrg	\$ 1,356,291	\$ 1,412,577	\$ 1,538,014	\$ 1,667,207	\$ 1,807,252	\$ 1,959,062	\$ 2,123,623
Water Purchased	\$ 42,000	\$ 44,100	\$ 46,305	\$ 48,620	\$ 51,051	\$ 53,604	\$ 56,284
Other Service Charges	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000
Local Improvements	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161
Interest Revenue	\$ 27,643	\$ 16,080	\$ 15,928	\$ 18,164	\$ 19,954	\$ 23,886	\$ 29,116
Proceeds form Other Sources	\$ -	\$ 280,380	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 2,609,223	\$ 2,982,372	\$ 2,931,874	\$ 3,171,078	\$ 3,429,662	\$ 3,708,927	\$ 4,012,287
Water Total Expenses							
Operating Expenses							
Waterworks	\$ 1,111,540	\$ 1,191,255	\$ 1,233,889	\$ 1,276,725	\$ 1,320,997	\$ 1,366,746	\$ 1,414,025
Water Standpipes/Booster Stations	\$ 56,000	\$ 57,714	\$ 59,480	\$ 61,298	\$ 63,174	\$ 65,107	\$ 67,098
Water Treatment Plant	\$ 854,424	\$ 881,708	\$ 909,309	\$ 937,190	\$ 965,953	\$ 995,624	\$ 1,026,233
Total Operating Expenses	\$ 2,021,964	\$ 2,130,677	\$ 2,202,678	\$ 2,275,213	\$ 2,350,124	\$ 2,427,477	\$ 2,507,356
Debt Charges							
Debt Charges - Interest Payments	\$ 19,307	\$ 34,357	\$ 30,991	\$ 27,496	\$ 23,867	\$ 20,099	\$ 16,186
Amortization Expense							
Water Assets	\$ 507,271	\$ 521,638	\$ 532,495	\$ 542,995	\$ 555,754	\$ 566,420	\$ 579,087
Total Expenses	\$ 2,548,542	\$ 2,686,672	\$ 2,766,164	\$ 2,845,704	\$ 2,929,744	\$ 3,013,996	\$ 3,102,629
Annual Surplus/(Deficit)	\$ 60,680	\$ 295,700	\$ 165,710	\$ 325,374	\$ 499,919	\$ 694,931	\$ 909,658

The annual surplus increases from \$60,680 in 2011 to \$909,658 in 2017 which provides additional funds for the replacement of assets.

Statement of Cash Flow/Cash Receipts—Water

	2011	2012	2013	2014	2015	2016	2017
Total Revenues	\$ 2,609,223	\$ 2,982,372	\$ 2,931,874	\$ 3,171,078	\$ 3,429,662	\$ 3,708,927	\$ 4,012,287
Cash Paid For							
Operating Costs	\$ 2,021,964	\$ 2,130,677	\$ 2,202,678	\$ 2,275,213	\$ 2,350,124	\$ 2,427,477	\$ 2,507,356
Debt Repayment - Debt Interest	\$ 19,307	\$ 34,357	\$ 30,991	\$ 27,496	\$ 23,867	\$ 20,099	\$ 16,186
Cash Provided From Operating Transactions	\$ 567,951	\$ 817,338	\$ 698,206	\$ 868,369	\$ 1,055,672	\$ 1,261,351	\$ 1,488,745
Capital Transactions							
Acquisition of TCA	\$ 927,500	\$ 735,565	\$ 517,500	\$ 702,000	\$ 800,000	\$ 950,000	\$ 1,100,000
Finance Transactions							
Proceeds from Debt Issues	\$ -						
Debt Repayment - Principal	\$ (102,943)	\$ (87,893)	\$ (91,259)	\$ (94,754)	\$ (98,383)	\$ (102,151)	\$ (106,064)
Increase/(Decrease) in Cash Equivalents	\$ (462,491)	\$ (6,120)	\$ 89,447	\$ 71,615	\$ 157,289	\$ 209,200	\$ 282,681
Cash and Cash Equivalents at Beginning Balance	\$ 1,105,711	\$ 643,220	\$ 637,100	\$ 726,547	\$ 798,162	\$ 955,450	\$ 1,164,650
Cash and Cash Equivalents at Ending Balance	\$ 643,220	\$ 637,100	\$ 726,547	\$ 798,162	\$ 955,450	\$ 1,164,650	\$ 1,447,331

The reserve position increased from \$643,220 in 2011 to \$1.45 million in 2017 due to an increase in the contribution to reserves.

Statement of Financial Position—Water

The accumulated surplus increases from \$24.5 million to \$27.4 million due to an increase in tangible capital assets, reserve position and decrease in debt.

	2011	2012	2013	2014	2015	2016	2017
Financial Assets							
Cash	\$ 643,220	\$ 637,100	\$ 726,547	\$ 798,162	\$ 955,450	\$ 1,164,650	\$ 1,447,331
Liabilities							
Debt - Principal Outstanding	\$ 897,057	\$ 809,165	\$ 717,906	\$ 623,151	\$ 524,768	\$ 422,617	\$ 316,553
Net Financial Assets	\$ (253,838)	\$ (172,065)	\$ 8,641	\$ 175,010	\$ 430,682	\$ 742,033	\$ 1,130,778
Non-Financial Assets							
Tangible Capital Assets	\$24,774,817	\$24,988,744	\$24,973,749	\$25,132,754	\$25,377,000	\$25,760,580	\$26,281,493
Accumulated Surplus/Deficit	\$24,520,979	\$24,816,680	\$24,982,390	\$25,307,764	\$25,807,682	\$26,502,613	\$27,412,272
Cash as a % of Net Fixed Assets	2.6%	2.5%	2.9%	3.2%	3.8%	4.5%	5.5%
Debt as a % of Net Fixed Assets	3.6%	3.2%	2.9%	2.5%	2.1%	1.6%	1.2%
Notes							
Accumulated Surplus is comprised of the following:							
Reserves	\$ 643,220	\$ 637,100	\$ 726,547	\$ 798,162	\$ 955,450	\$ 1,164,650	\$ 1,447,331
Investment in Tangible Capital Assets	\$ 24,774,817	\$ 24,988,744	\$ 24,973,749	\$ 25,132,754	\$ 25,377,000	\$ 25,760,580	\$ 26,281,493
Debt Outstanding	\$ (897,057)	\$ (809,165)	\$ (717,906)	\$ (623,151)	\$ (524,768)	\$ (422,617)	\$ (316,553)
	\$ 24,520,979	\$ 24,816,680	\$ 24,982,390	\$ 25,307,764	\$ 25,807,682	\$ 26,502,613	\$ 27,412,272

Statement of Financial Operations—Wastewater

	2011	2012	2013	2014	2015	2016	2017
Wastewater Total Revenues							
Rate Revenues							
Residential Surcharge	\$ 2,368,123	\$ 2,748,000	\$ 3,050,280	\$ 3,401,062	\$ 3,792,184	\$ 4,228,286	\$ 4,714,538
Commercial Surcharge	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376
Miscellaneous Revenue	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Local Improvements	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161	\$ 11,161
Interest Revenue	\$ 14,797	\$ (11,333)	\$ (7,432)	\$ 1,249	\$ 5,819	\$ 15,680	\$ 26,965
Proceeds form Other Sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenues	\$ 2,406,457	\$ 2,760,204	\$ 3,066,385	\$ 3,425,848	\$ 3,821,541	\$ 4,267,502	\$ 4,765,040
Wastewater Total Expenses							
Operating Expenses							
Sanitary System	\$ 1,512,493	\$ 1,567,040	\$ 1,621,930	\$ 1,677,042	\$ 1,734,017	\$ 1,792,914	\$ 1,853,802
Sewer Lift Stations	\$ 161,000	\$ 166,409	\$ 171,897	\$ 177,453	\$ 183,193	\$ 189,138	\$ 195,261
Sewage Treatment Plant	\$ 848,646	\$ 870,735	\$ 893,117	\$ 915,765	\$ 939,145	\$ 963,280	\$ 988,197
Total Operating Expenses	\$ 2,522,139	\$ 2,604,184	\$ 2,686,944	\$ 2,770,260	\$ 2,856,355	\$ 2,945,332	\$ 3,037,260
Debt Charges							
Debt Charges - Interest Payments	\$ -	\$ -	\$ 10,200	\$ 21,524	\$ 19,517	\$ 17,429	\$ 15,256
Amortization Expense							
Wastewater Assets	\$ 496,865	\$ 511,259	\$ 515,842	\$ 523,675	\$ 532,434	\$ 539,100	\$ 549,767
Total Expenses	\$ 3,019,004	\$ 3,115,443	\$ 3,212,985	\$ 3,315,459	\$ 3,408,306	\$ 3,501,862	\$ 3,602,283
Annual Surplus/(Deficit)	\$ (612,547)	\$ (355,238)	\$ (146,600)	\$ 110,389	\$ 413,235	\$ 765,641	\$ 1,162,757

Currently there is a deficit of \$612,547. At the end of the plan (2017), there is a surplus of \$1.16 million which provides additional funds for the replacement of assets.

Statement of Cash Flow/Cash Receipts—Wastewater

	2011	2012	2013	2014	2015	2016	2017
Total Revenues	\$ 2,406,457	\$ 2,760,204	\$ 3,066,385	\$ 3,425,848	\$ 3,821,541	\$ 4,267,502	\$ 4,765,040
Cash Paid For							
Operating Costs	\$ 2,522,139	\$ 2,604,184	\$ 2,686,944	\$ 2,770,260	\$ 2,856,355	\$ 2,945,332	\$ 3,037,260
Debt Repayment - Debt Interest	\$ -	\$ -	\$ 10,200	\$ 21,524	\$ 19,517	\$ 17,429	\$ 15,256
Cash Provided From Operating Transactions	\$ (115,682)	\$ 156,020	\$ 369,242	\$ 634,064	\$ 945,669	\$ 1,304,741	\$ 1,712,524
Capital Transactions							
Acquisition of TCA	\$ 929,500	\$ 265,000	\$ 317,500	\$ 402,000	\$ 500,000	\$ 800,000	\$ 1,000,000
Finance Transactions							
Proceeds from Debt Issues		\$ 265,000	\$ 317,500	\$ -	\$ -	\$ -	\$ -
Debt Repayment - Principal			(\$21,996)	(\$49,247)	(\$51,253)	(\$53,341)	(\$55,514)
Increase/(Decrease) in Cash Equivalents	\$ (1,045,182)	\$ 156,020	\$ 347,245	\$ 182,818	\$ 394,416	\$ 451,400	\$ 657,010
Cash and Cash Equivalents at Beginning Balance	\$ 591,873	\$ (453,309)	\$ (297,289)	\$ 49,956	\$ 232,774	\$ 627,190	\$ 1,078,590
Cash and Cash Equivalents at Ending Balance	\$ (453,309)	\$ (297,289)	\$ 49,956	\$ 232,774	\$ 627,190	\$ 1,078,590	\$ 1,735,600

By the end of 2011, it is estimated that the reserves will be in a negative position of \$453,209. By 2017, with increased reserve contributions, the reserve balance is forecast to be \$1.7 million.

Statement of Financial Position—Wastewater

The accumulated surplus increases from \$20.3 million to \$22.2 million due to an increase in reserve position.

	2011	2012	2013	2014	2015	2016	2017
Financial Assets							
Cash	\$ (453,309)	\$ (297,289)	\$ 49,956	\$ 232,774	\$ 627,190	\$ 1,078,590	\$ 1,735,600
Liabilities							
Debt - Principal Outstanding		\$ 265,000	\$ 560,504	\$ 511,257	\$ 460,004	\$ 406,663	\$ 351,149
Net Financial Assets	\$ (453,309)	\$ (562,289)	\$ (510,547)	\$ (278,483)	\$ 167,186	\$ 671,927	\$ 1,384,451
Non-Financial Assets							
Tangible Capital Assets	\$20,743,667	\$20,497,408	\$20,299,066	\$20,177,391	\$20,144,957	\$20,405,857	\$20,856,090
Accumulated Surplus/Deficit	\$20,290,358	\$19,935,119	\$19,788,519	\$19,898,908	\$20,312,143	\$21,077,784	\$22,240,541
Cash as a % of Net Fixed Assets	-2.2%	-1.5%	0.2%	1.2%	3.1%	5.3%	8.3%
Debt as a % of Net Fixed Assets	0.0%	1.3%	2.8%	2.5%	2.3%	2.0%	1.7%
Notes							
Accumulated Surplus is comprised of the following:							
Reserves	\$ (453,309)	\$ (297,289)	\$ 49,956	\$ 232,774	\$ 627,190	\$ 1,078,590	\$ 1,735,600
Investment in Tangible Capital Assets	\$ 20,743,667	\$ 20,497,408	\$ 20,299,066	\$ 20,177,391	\$ 20,144,957	\$ 20,405,857	\$ 20,856,090
Debt Outstanding	\$ -	\$ (265,000)	\$ (560,504)	\$ (511,257)	\$ (460,004)	\$ (406,663)	\$ (351,149)
Total Accumulated Surplus	\$ 20,290,358	\$ 19,935,119	\$ 19,788,519	\$ 19,898,908	\$ 20,312,143	\$ 21,077,784	\$ 22,240,541

Appendix

Appendix A

Water Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget	2017 Budget
Revenues							
Water - Metered Revenue	\$ 1,107,128	\$ 1,153,074	\$ 1,255,467	\$ 1,360,926	\$ 1,475,244	\$ 1,596,214	\$ 1,727,103
Water Monthly Service Chrg	\$ 1,356,291	\$ 1,412,577	\$ 1,538,014	\$ 1,667,207	\$ 1,807,252	\$ 1,959,062	\$ 2,123,623
Water Purchased	\$ 42,000	\$ 44,100	\$ 46,305	\$ 48,620	\$ 51,051	\$ 53,604	\$ 56,284
Other Service Charges	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000
Total Revenues	\$ 2,570,419	\$ 2,674,751	\$ 2,904,786	\$ 3,141,753	\$ 3,398,547	\$ 3,673,879	\$ 3,972,010
Expenditures							
<i>Water & Sewer Vehicles</i>							
	\$ (17,552)	\$ (15,243)	\$ (12,875)	\$ (10,446)	\$ (7,941)	\$ (5,356)	\$ (2,690)
	\$ (17,552)	\$ (15,243)	\$ (12,875)	\$ (10,446)	\$ (7,941)	\$ (5,356)	\$ (2,690)
<i>Water</i>							
Waterworks	\$ 1,129,092	\$ 1,206,498	\$ 1,246,763	\$ 1,287,171	\$ 1,328,937	\$ 1,372,102	\$ 1,416,715
Water Standpipes/Booster Stations	\$ 56,000	\$ 57,714	\$ 59,480	\$ 61,298	\$ 63,174	\$ 65,107	\$ 67,098
Water Treatment Plant	\$ 854,424	\$ 881,708	\$ 909,309	\$ 937,190	\$ 965,953	\$ 995,624	\$ 1,026,233
	\$ 2,039,516	\$ 2,145,920	\$ 2,215,552	\$ 2,285,659	\$ 2,358,064	\$ 2,432,833	\$ 2,510,046
TOTAL EXPENDITURES	\$ 2,021,964	\$ 2,130,677	\$ 2,202,678	\$ 2,275,213	\$ 2,350,124	\$ 2,427,477	\$ 2,507,356
Transfers to Reserves	\$ 548,455	\$ 544,074	\$ 702,108	\$ 866,540	\$ 1,048,424	\$ 1,246,402	\$ 1,464,654
Rate Revenue Requirements %		4.2%	8.9%	8.4%	8.4%	8.3%	8.3%

Appendix A

Wastewater Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget	2016 Budget	2017 Budget
Revenues							
Residential Surcharge	\$ 2,368,123	\$ 2,748,000	\$ 3,050,280	\$ 3,401,062	\$ 3,792,184	\$ 4,228,286	\$ 4,714,538
Commercial Surcharge	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376	\$ 5,376
Miscellaneous Revenue	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Total Revenues	\$ 2,380,499	\$ 2,760,376	\$ 3,062,656	\$ 3,413,438	\$ 3,804,560	\$ 4,240,662	\$ 4,726,914
Expenditures							
Sewer							
Sanitary System	\$ 1,530,045	\$ 1,582,283	\$ 1,634,804	\$ 1,687,488	\$ 1,741,957	\$ 1,798,270	\$ 1,856,492
Sewer Lift Stations	\$ 161,000	\$ 166,409	\$ 171,897	\$ 177,453	\$ 183,193	\$ 189,138	\$ 195,261
Sewage Treatment Plant	\$ 848,646	\$ 870,735	\$ 893,117	\$ 915,765	\$ 939,145	\$ 963,280	\$ 988,197
	\$ 2,539,691	\$ 2,619,427	\$ 2,699,818	\$ 2,780,706	\$ 2,864,295	\$ 2,950,688	\$ 3,039,950
Water & Sewer Vehicles	\$ (17,552)	\$ (15,243)	\$ (12,875)	\$ (10,446)	\$ (7,941)	\$ (5,356)	\$ (2,690)
	\$ (17,552)	\$ (15,243)	\$ (12,875)	\$ (10,446)	\$ (7,941)	\$ (5,356)	\$ (2,690)
TOTAL EXPENDITURES	\$ 2,522,139	\$ 2,604,184	\$ 2,686,944	\$ 2,770,260	\$ 2,856,355	\$ 2,945,332	\$ 3,037,260
Transfer to Reserves	\$ (141,640)	\$ 156,192	\$ 375,713	\$ 643,178	\$ 948,206	\$ 1,295,330	\$ 1,689,654
Rate Revenue Requirements %		16.0%	11.0%	11.5%	11.5%	11.5%	11.5%