Water & WW Rate Study

Long Range Financial Plan & Rate Structure

Proposed Plan

City of Kenora
Nov. 14, 2011

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LRFP and O.Reg 453/07

- O.Reg 453/07 essentially requires municipalities to develop comprehensive long range financial plans
- This will link together short and long range decisions and provide an understanding of the implications on:
  - Operating Budgets
  - Capital Budgets
  - Reserves/Debts
  - Assets

LRFP and *Sustainability*

- A Long Range Financial Plan (LRFP) was developed to provide strategies, principles and policies to guide financial decision-making
- The ultimate goal of the long range financial plan is to ensure that Kenora can provide water/wastewater services on a ***sustainable*** basis

What is a Long Range Financial Plan?

- A LRFP is a framework to guide the municipality in planning and decision making
- It is a strategic process that provides a municipality with the insights and information they need to make choices necessary to establish financial sustainability
- A LRFP:
  - Identifies fiscal issues and opportunities
  - Establishes fiscal policies and goals
  - Examines fiscal trends
  - Produces a financial forecast
  - Provides for feasible solutions

Sustainability

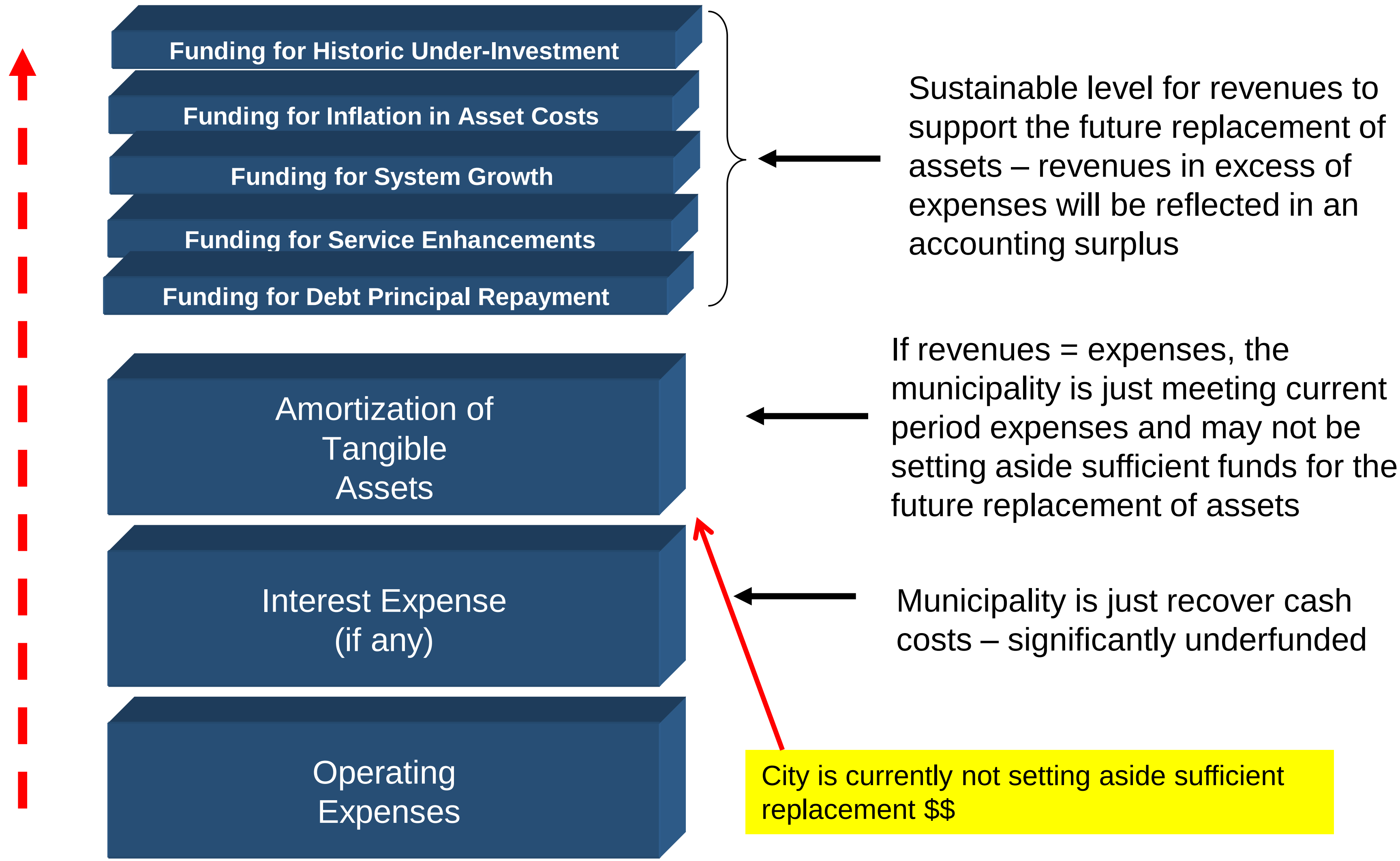
The City is experiencing three key challenges with respect to sustainability

1. *Underfunded program for the replacement of existing assets as the come due for replacement. This has resulted in a significant infrastructure deficit*

2. *Low reserves with insufficient annual contributions*

3. *Affordability considerations*

Building Blocks for Financial Sustainability



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Asset Renewal/Replacement - *Sustainability*

- City has $35 million in water and $31 million in wastewater assets (historical cost) with a replacement cost of $90 million in water and $77 million in ww assets
- Insufficient transfers to the capital program to achieve full lifecycle replacement of these assets. For example using the 2011 budget :

	Combined (000's)	
Total Contribution to Capital	$	510
Historical Amortization Expense	$	1,004
Replacement Amortization Expense	$	2,691
Funding Gap (Historical Amortization)	$	(494)
Funding Gap (Replacement Amortization)	$	(2,181)

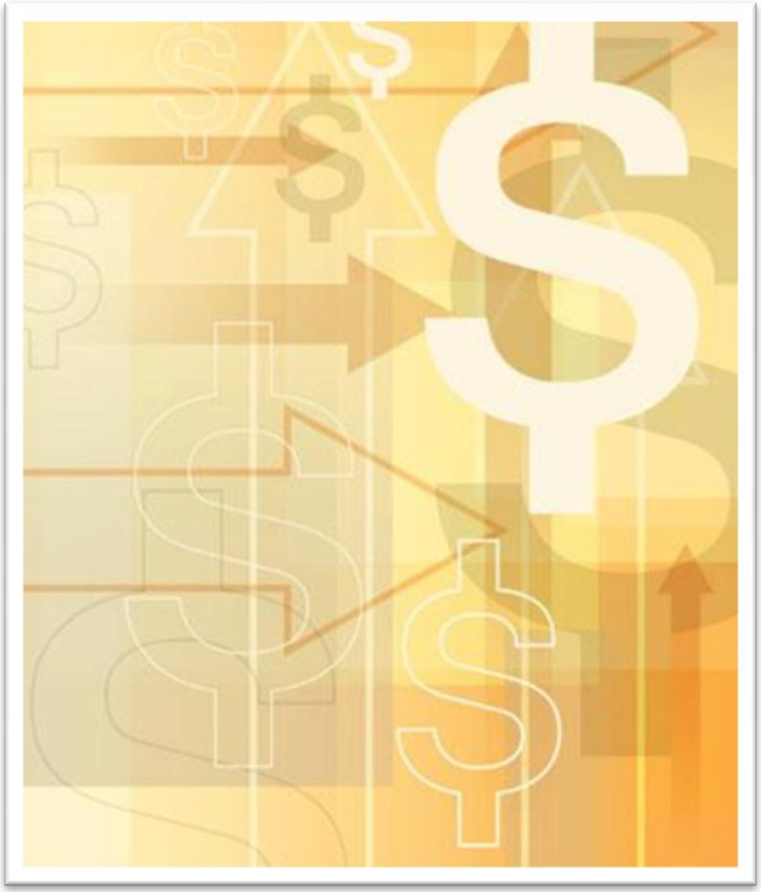
- Annual funding gap of $494,000 on a historical cost basis and $2.2 million on a replacement cost basis
- In addition, the City also has a historical funding deficit in water and wastewater operations of $17.3 million in water and $8.7 million in wastewater related to assets that are past their useful life.

Reserves - *Sustainability*

- Reserves/reserve funds includes:
  - To provide rate stabilization in the face of variable and uncontrollable factors
  - 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 ensure adequate and sustainable cash flows

Reserves - *Sustainability*

- The City's consolidated Water/Wastewater Reserves are forecast to be only $190,000 by the end of 2011 – this represents only 4% of the rate revenues
- This is very low, particularly given that the City's water and wastewater assets are almost 50% amortized with a combined replacement value of $167 million
- This creates risks in terms of revenue stability and unforeseen capital requirements



Affordability - *Sustainability*

Volume Meter Size	Res. 250 m³ 5/8"	Commercial 10,000 m³ 2"	Industrial 30,000 m³ 3"	Industrial 100,000 m³ 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%

- Residential cost of service is 11% higher than the survey average for a customer that consumes 250 m^3 annually
- Costs for mid-large customers is considerably lower in Kenora than the survey average (29%-32% lower)
- Difference across various consumption levels is due to the large proportionate allocation of costs to be recovered from the fixed fee in Kenora

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Affordability - *Sustainability*

- Credit rating agencies believe that the level of rates for particular customers be considered along with the affordability of rates relative to income
- Industry benchmarks consider costs for water/wastewater service should not be higher than 2% of average household income. Currently, the cost of water/ww service in Kenora is 1.2% of income, well below the benchmark
- Residential affordability was taken into consideration in developing a long range financial plan to ensure that the cost of service is affordable

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Recommended Strategy

- Gradually increase the contributions to the capital program over the next 6 years 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% (cost per household income)
  - Address all capital requirements for assets as they come due for replacement over the next 6 years
  - Begin to address past infrastructure deficits
  - Gradually increase contributions to the reserves and establish a minimum reserve balance (10% of rate revenue requirements) to ensure that funds are available for revenue stability and to address any unforeseen capital requirements
  - Smooth the water/ww rate increases to 10%
- By 2017, the annual contributions to the capital program will exceed replacement amortization which will ensure that the infrastructure deficit will not grow

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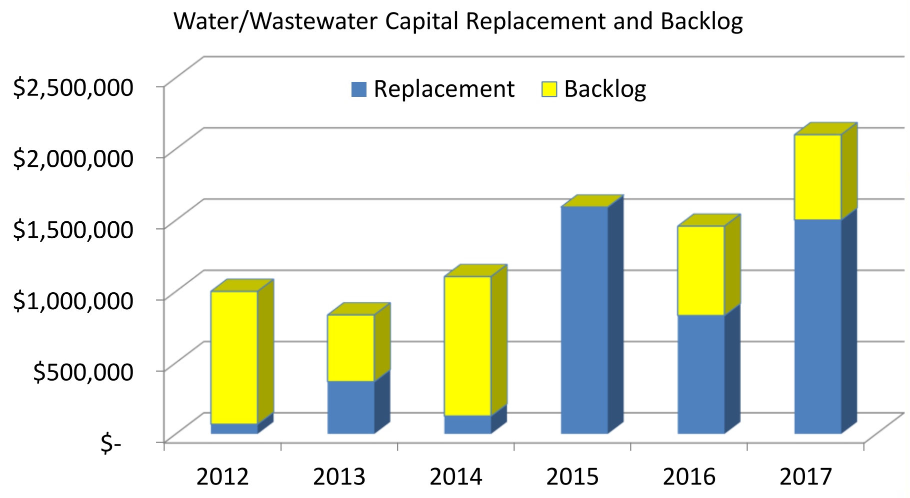
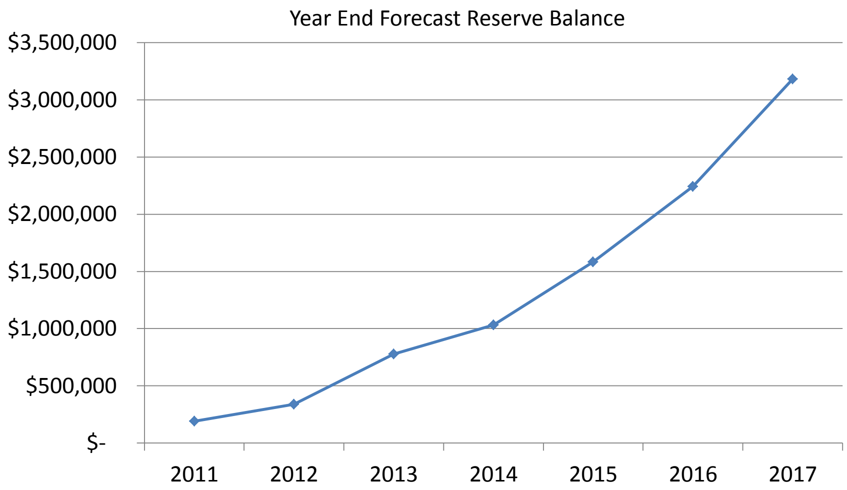
Recommended Strategy

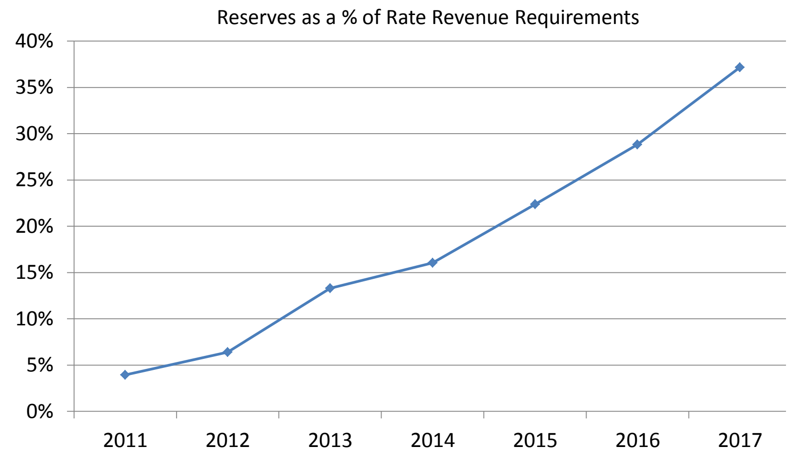
- Recommended plan provides for approximately $8.1 million to fund the replacement of all assets as they come due from 2012-2017(4.5 million) <u>and</u> to address $3.6 million of the backlog
- The specific capital projects should be determined in a priority basis

	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



Recommended Strategy





- 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 further expedite the elimination of the infrastructure deficit.

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Capital Financing Plan – *Sustainability*

	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	2012	2013	2014	2015	2016	2017	Total
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	2012	2013	2014	2015	2016	2017	Total
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

Operating Budget Forecast

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%

- Average blended rate requirement change is forecast to be 10% annually

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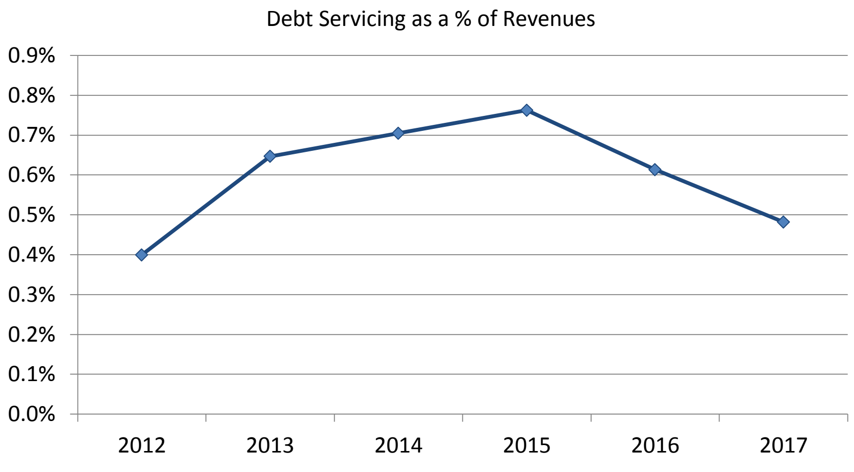
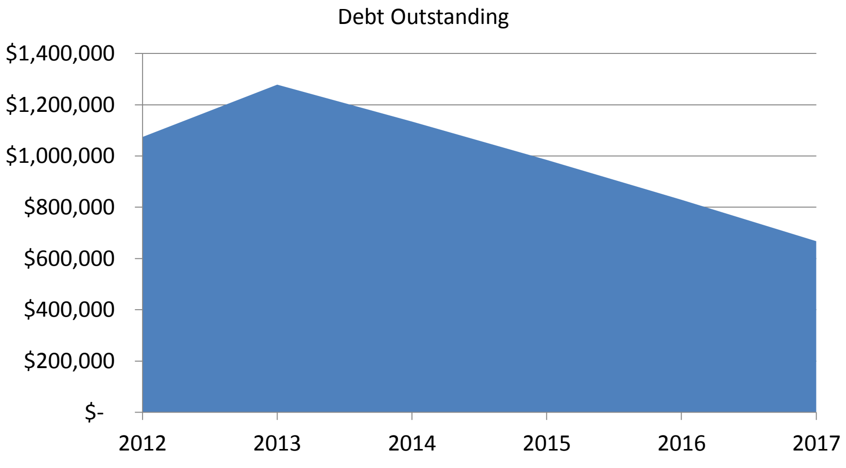
Debt Forecast





- City's debt outstanding peaks in 2013 at $1.3 million. By 2017, debt outstanding is $0.68 million

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Summary of Recommendations

- ✓ Supports ongoing replacement of existing assets
- ✓ Begins to address the infrastructure deficit
- ✓ Improves revenue stability
- ✓ Smooths rate increases
- ✓ Considers affordability for customers

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