

PROJECT

Study and Report on Municipal Net Income from Water and Wastewater Operations to identify the amount available to re-invest in Infrastructure – All Municipalities in Niagara Region.

BACKGROUND

Starting with 2009 all municipalities in Ontario have to prepare and file with the Ministry of Municipal Affairs as part of the Annual Financial Information Return (FIR) a Statement of Operations for the Municipal Water Service (Schedule 75) and Wastewater Service (Schedule 75), this also includes the annual capital amortization that must be shown as an expense (i.e. depreciation). The Membership of the Heavy Construction Association of Regional Niagara thought it would be most informative to accumulate the results across the thirteen Niagara municipalities to see how much “profit” is being earned and how is it being re-invested in the infrastructure systems. This report could form the basis of a joint meeting with the P.W. Directors and/or municipal councillors.

FINDINGS

- The thirteen municipalities in total earned \$30.3M net income on \$197.9M of revenue in 2009 from the two environmental services. This represents a 2.78% Net Return on Investment (ROI) based on a Net Book Value of the Capital Assets of the Operating Systems (\$1.1B)
- If the ROI is based on Earnings before Interest, Taxes, Depreciation and Amortization calculation (this basis is a standard measurement for Investment Bankers) then the EBITDA would be \$65.0M with an ROI of 5.95%.
- Only one municipality (Port Colborne) specifically included a charge to operations for general administration, the other municipalities would be encouraged to do the same so that the “true” bottom line from Water and Wastewater Operations can be determined.
- It was assumed that all thirteen municipalities were consistent as a group in their inclusion of direct costs in the Statement of Operations.
- The thirteen municipalities reported that they in total had \$86.7M of construction in progress at December 31, 2009 for water and wastewater projects.
- As a side note, the thirteen municipalities in total have a \$425.6M Net Book Value for Storm Sewer Systems at December 31, 2009, adding the Water, Wastewater and Storm Sewer Systems together represents a \$1.5B investment in these systems to be recovered from future year’s revenue.

CONCLUSION and QUESTION

The thirteen Niagara Municipalities are realizing a positive return on the operation of their Water and Wastewater Systems with a ROI between 2.78% to 5.95%. How is this information being factored into infrastructure investment planning decisions to achieve fully sustainable systems?

Respectfully submitted,

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Management Consultant to HCARN
December 22, 2011

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - SUMMARY OF NIAGARA REGION

	Water	Wastewater	TOTAL
REVENUE			
User Fees	86,464,648	102,839,589	189,304,237
Revenue from Other Mun.	2,233,164	527,819	2,760,983
Energy Incentive Rebates	650,143	169,373	819,516
Contract Revenue	4,235	-	4,235
	746,433	848,999	1,595,432
Misc.	1,005,732	2,397,838	3,403,570
	<u>91,104,355</u>	<u>106,783,618</u>	<u>197,887,973</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	20,560,955	17,082,339	37,643,294
Operating and General	23,230,061	48,281,172	71,511,233
Amortization	15,088,019	16,914,280	32,002,299
Interest Expense	672,995	1,982,003	2,654,998
Other -	221,086	179,192	400,278
Other -	10,557,408	12,775,268	23,332,676
	-	-	-
	<u>70,330,524</u>	<u>97,214,254</u>	<u>167,544,778</u>
NET INCOME	<u>20,773,831</u>	<u>9,569,364</u>	<u>30,343,195</u>
	A	A	A

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment	112,644,457	-	112,644,457
Water Distribution	401,679,284	-	401,679,284
Wastewater Collection	-	438,432,978	438,432,978
Wastewater Treatment	-	139,263,283	139,263,283
TOTAL NET BOOK VALUE	<u>514,323,741</u>	<u>577,696,261</u>	<u>1,092,020,002</u>
	B	B	B
Construction in Progress	<u>30,379,337</u>	<u>56,325,574</u>	<u>86,704,911</u>
Storm Sewer Systems			<u>425,612,265</u>
RETURN ON INVESTMENT (A/B)	4.04%	1.66%	2.78%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - REGION

	Water	Wastewater	TOTAL
REVENUE			
User Fees	37,040,860	58,606,028	95,646,888
Revenue from Other Mun.	2,135,648	171,735	2,307,383
Energy Incentive Rebates	5,546	11,616	17,162
Contract Revenue	4,235		4,235
			-
Misc.	63		63
	<u>39,186,352</u>	<u>58,789,379</u>	<u>97,975,731</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	10,892,016	12,661,190	23,553,206
Operating and General	8,504,409	33,696,484	42,200,893
Amortization	7,381,498	9,882,359	17,263,857
Interest Expense			-
Other -			-
Other -			-
			-
	<u>26,777,923</u>	<u>56,240,033</u>	<u>83,017,956</u>
NET INCOME	<u>12,408,429</u>	<u>2,549,346</u>	<u>14,957,775</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment	112,644,457		112,644,457
Water Distribution	62,567,431		62,567,431
Wastewater Collection		110,495,413	110,495,413
Wastewater Treatment		139,263,283	139,263,283
			<u>424,970,584</u>
TOTAL NET BOOK VALUE	<u>175,211,888</u>	<u>249,758,696</u>	<u>424,970,584</u>
	B	B	B
Construction in Progress	<u>24,094,104</u>	<u>33,397,886</u>	<u>57,491,990</u>
Storm Sewer Systems			<u>-</u>
RETURN ON INVESTMENT (A/B)	7.08%	1.02%	3.52%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - ST. CATHARINES

	Water	Wastewater	TOTAL
REVENUE			
User Fees	9,047,994	2,781,537	11,829,531
Revenue from Other Mun.	801	2,475	3,276
Energy Incentive Rebates			-
Contract Revenue			-
Donated Assets and Scrap	746,433	848,999	1,595,432
Misc.			-
	<u>9,795,228</u>	<u>3,633,011</u>	<u>13,428,239</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	1,670,885	1,321,550	2,992,435
Operating and General	1,431,954	803,663	2,235,617
Amortization	1,359,902	1,600,348	2,960,250
Interest Expense	254,895	327,089	581,984
Other -	5,000		5,000
Other -	3,209,153	- 1,085,003	2,124,150
	<u>7,931,789</u>	<u>2,967,647</u>	<u>10,899,436</u>
NET INCOME	<u>1,863,439</u>	<u>665,364</u>	<u>2,528,803</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment	-		-
Water Distribution	65,976,765		65,976,765
Wastewater Collection		76,278,559	76,278,559
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>65,976,765</u>	<u>76,278,559</u>	<u>142,255,324</u>
	B	B	B
Construction in Progress	<u>775,273</u>	<u>615,695</u>	<u>1,390,968</u>
Storm Sewer Systems			<u>44,213,812</u>
RETURN ON INVESTMENT (A/B)	2.82%	0.87%	1.78%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - NIAGARA FALLS

	Water	Wastewater	TOTAL
REVENUE			
User Fees	8,210,756	6,596,276	14,807,032
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.			-
	<u>8,210,756</u>	<u>6,596,276</u>	<u>14,807,032</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	2,026,106	1,021,982	3,048,088
Operating and General	2,613,281	1,942,296	4,555,577
Amortization	1,748,578	1,622,099	3,370,677
Interest Expense	21,514	18,941	40,455
Other -			-
Other -			-
	<u>6,409,479</u>	<u>4,605,318</u>	<u>11,014,797</u>
NET INCOME	<u>1,801,277</u>	<u>1,990,958</u>	<u>3,792,235</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	70,055,331		70,055,331
Wastewater Collection		71,495,143	71,495,143
Wastewater Treatment			-
	<u>70,055,331</u>	<u>71,495,143</u>	<u>141,550,474</u>
TOTAL NET BOOK VALUE	B	B	B
Construction in Progress	<u>887,964</u>	<u>11,487,702</u>	<u>12,375,666</u>
Storm Sewer Systems			<u>198,536,326</u>
RETURN ON INVESTMENT (A/B)	2.57%	2.78%	2.68%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - WELLAND

	Water	Wastewater	TOTAL
REVENUE			
User Fees	7,606,749	10,789,144	18,395,893
Revenue from Other Mun.			-
Energy Incentive Rebates	644,597	157,757	802,354
Contract Revenue			-
			-
Misc.	596,826	1,695,977	2,292,803
	<u>8,848,172</u>	<u>12,642,878</u>	<u>21,491,050</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	1,278,629	504,676	1,783,305
Operating and General	1,443,797	1,694,608	3,138,405
Amortization	920,744	436,802	1,357,546
Interest Expense	256,633	92,301	348,934
Other -			-
Other -	4,249,281	9,148,548	13,397,829
			-
	<u>8,149,084</u>	<u>11,876,935</u>	<u>20,026,019</u>
NET INCOME	<u>699,088</u>	<u>765,943</u>	<u>1,465,031</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	32,114,435		32,114,435
Wastewater Collection		22,785,808	22,785,808
Wastewater Treatment			-
			-
TOTAL NET BOOK VALUE	<u>32,114,435</u>	<u>22,785,808</u>	<u>54,900,243</u>
	B	B	B
Construction in Progress	<u>1,046,395</u>	<u>134,545</u>	<u>1,180,940</u>
Storm Sewer Systems			<u>22,999,498</u>
RETURN ON INVESTMENT (A/B)	2.18%	3.36%	2.67%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - FORT ERIE

	Water	Wastewater	TOTAL
REVENUE			
User Fees	6,305,085	7,651,728	13,956,813
Revenue from Other Mun.		285,187	285,187
Energy Incentive Rebates			-
Contract Revenue			-
			-
Misc.	67,652	553,000	620,652
	<u>6,372,737</u>	<u>8,489,915</u>	<u>14,862,652</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	1,214,044	554,538	1,768,582
Operating and General	3,642,247	5,721,035	9,363,282
Amortization	595,353	527,326	1,122,679
Interest Expense	100,050	123,218	223,268
Other -	3,031	4,382	7,413
Other -	10,000	164,143	174,143
			-
	<u>5,564,725</u>	<u>7,094,642</u>	<u>12,659,367</u>
NET INCOME	<u>808,012</u>	<u>1,395,273</u>	<u>2,203,285</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	20,834,759		20,834,759
Wastewater Collection		29,204,007	29,204,007
Wastewater Treatment			-
			-
TOTAL NET BOOK VALUE	<u>20,834,759</u>	<u>29,204,007</u>	<u>50,038,766</u>
	B	B	B
Construction in Progress	<u>1,708,528</u>	<u>2,292,308</u>	<u>4,000,836</u>
Storm Sewer Systems			<u>30,572,336</u>
RETURN ON INVESTMENT (A/B)	3.88%	4.78%	4.40%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - LINCOLN

	Water	Wastewater	TOTAL
REVENUE			
User Fees	3,662,290	2,668,703	6,330,993
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.			-
	<u>3,662,290</u>	<u>2,668,703</u>	<u>6,330,993</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	749,967	24,652	774,619
Operating and General	408,900	161,721	570,621
Amortization	445,992	293,294	739,286
Interest Expense		146,874	146,874
Other -			-
Other -	1,398,474	2,064,850	3,463,324
	<u>3,003,333</u>	<u>2,691,391</u>	<u>5,694,724</u>
NET INCOME	<u>658,957</u>	<u>-</u>	<u>22,688</u>
			<u>636,269</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	21,788,048		21,788,048
Wastewater Collection		16,155,158	16,155,158
Wastewater Treatment			-
	<u>21,788,048</u>	<u>16,155,158</u>	<u>37,943,206</u>
TOTAL NET BOOK VALUE	B	B	B
Construction in Progress			-
Storm Sewer Systems			0
RETURN ON INVESTMENT (A/B)	3.02%	-0.14%	1.68%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - GRIMSBY

	Water	Wastewater	TOTAL
REVENUE			
User Fees	4,179,858	4,104,897	8,284,755
Revenue from Other Mun.	96,715	68,422	165,137
Energy Incentive Rebates			-
Contract Revenue			-
			-
Misc.	185,830		185,830
	<u>4,462,403</u>	<u>4,173,319</u>	<u>8,635,722</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	968,685	371,144	1,339,829
Operating and General	1,687,197	347,783	2,034,980
Amortization	712,050	709,777	1,421,827
Interest Expense			-
Other -			-
Other -			-
			-
	<u>3,367,932</u>	<u>1,428,704</u>	<u>4,796,636</u>
NET INCOME	<u>1,094,471</u>	<u>2,744,615</u>	<u>3,839,086</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	32,382,962		32,382,962
Wastewater Collection		37,494,125	37,494,125
Wastewater Treatment			-
			<u>69,877,087</u>
TOTAL NET BOOK VALUE	<u>32,382,962</u>	<u>37,494,125</u>	<u>69,877,087</u>
	B	B	B
Construction in Progress	<u>1,163,305</u>	<u>29,015</u>	<u>1,192,320</u>
Storm Sewer Systems			<u>64,730,865</u>
RETURN ON INVESTMENT (A/B)	3.38%	7.32%	5.49%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - PORT COLBORNE

	Water	Wastewater	TOTAL
REVENUE			
User Fees	1,623,769	929,427	2,553,196
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.	4,735		4,735
	<u>1,628,504</u>	<u>929,427</u>	<u>2,557,931</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	363,494	200,916	564,410
Operating and General	320,120	442,394	762,514
Amortization	303,050	337,399	640,449
Interest Expense	38,967	30,297	69,264
Other -	213,055	174,810	387,865
Other -			-
	<u>1,238,686</u>	<u>1,185,816</u>	<u>2,424,502</u>
NET INCOME	<u>389,818</u>	<u>- 256,389</u>	<u>133,429</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	13,688,378		13,688,378
Wastewater Collection		14,137,257	14,137,257
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>13,688,378</u>	<u>14,137,257</u>	<u>27,825,635</u>
	B	B	B
Construction in Progress	<u>124,963</u>		<u>124,963</u>
Storm Sewer Systems			<u>12,250,721</u>
RETURN ON INVESTMENT (A/B)	2.85%	-1.81%	0.48%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - THOROLD

	Water	Wastewater	TOTAL
REVENUE			
User Fees	2,594,717	3,737,070	6,331,787
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.	110,081	64,850	174,931
	<u>2,704,798</u>	<u>3,801,920</u>	<u>6,506,718</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	340,552	185,499	526,051
Operating and General	171,710	112,666	284,376
Amortization	662,036	810,190	1,472,226
Interest Expense		6,832	6,832
Other -			-
Other -	1,530,500	2,407,730	3,938,230
	<u>2,704,798</u>	<u>3,522,917</u>	<u>6,227,715</u>
NET INCOME	<u>-</u>	<u>279,003</u>	<u>279,003</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	14,295,496		14,295,496
Wastewater Collection		13,576,927	13,576,927
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>14,295,496</u>	<u>13,576,927</u>	<u>27,872,423</u>
	B	B	B
Construction in Progress	<u>249,678</u>	<u>8,328,960</u>	<u>8,578,638</u>
Storm Sewer Systems			<u>7,157,461</u>
RETURN ON INVESTMENT (A/B)	0.00%	2.05%	1.00%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - NIAGARA ON THE LAKE

	Water	Wastewater	TOTAL
REVENUE			
User Fees	3,304,622	2,500,529	5,805,151
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.	3,045	75,401	78,446
	<u>3,307,667</u>	<u>2,575,930</u>	<u>5,883,597</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	533,501	87,705	621,206
Operating and General	2,165,879	2,450,821	4,616,700
Amortization	707,671	523,704	1,231,375
Interest Expense	936	34,089	35,025
Other -			-
Other -	160,000	75,000	235,000
	<u>3,567,987</u>	<u>3,171,319</u>	<u>6,739,306</u>
NET INCOME	<u>- 260,320</u>	<u>- 595,389</u>	<u>- 855,709</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	45,120,561		45,120,561
Wastewater Collection		33,132,915	33,132,915
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>45,120,561</u>	<u>33,132,915</u>	<u>78,253,476</u>
	B	B	B
Construction in Progress	<u>276,548</u>	<u>17,069</u>	<u>293,617</u>
Storm Sewer Systems			<u>32,635,239</u>
RETURN ON INVESTMENT (A/B)	-0.58%	-1.80%	-1.09%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - PELHAM

	Water	Wastewater	TOTAL
REVENUE			
User Fees	1,877,912	1,420,164	3,298,076
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.	12,500		12,500
	<u>1,890,412</u>	<u>1,420,164</u>	<u>3,310,576</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	358,081	80,623	438,704
Operating and General	136,076		136,076
Amortization			-
Interest Expense		1,202,362	1,202,362
Other -			-
Other -			-
	<u>494,157</u>	<u>1,282,985</u>	<u>1,777,142</u>
NET INCOME	<u>1,396,255</u>	<u>137,179</u>	<u>1,533,434</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	9,145,510		9,145,510
Wastewater Collection		5,655,214	5,655,214
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>9,145,510</u>	<u>5,655,214</u>	<u>14,800,724</u>
	B	B	B
Construction in Progress	<u>52,579</u>	<u>22,394</u>	<u>74,973</u>
Storm Sewer Systems			<u>5,485,358</u>
RETURN ON INVESTMENT (A/B)	15.27%	2.43%	10.36%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - WEST LINCOLN

	Water	Wastewater	TOTAL
REVENUE			
User Fees	1,010,036	1,054,086	2,064,122
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
Misc.	25,000	8,610	33,610
	<u>1,035,036</u>	<u>1,062,696</u>	<u>2,097,732</u>
OPERATING EXPENSES			
Salaries, Wages and Benefits	164,995	67,864	232,859
Operating and General	704,491	907,701	1,612,192
Amortization	251,145	170,982	422,127
Interest Expense			-
Other -			-
Other -			-
	<u>1,120,631</u>	<u>1,146,547</u>	<u>2,267,178</u>
NET INCOME	<u>- 85,595</u>	<u>- 83,851</u>	<u>- 169,446</u>

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution	13,709,608		13,709,608
Wastewater Collection		8,022,452	8,022,452
Wastewater Treatment			-
TOTAL NET BOOK VALUE	<u>13,709,608</u>	<u>8,022,452</u>	<u>21,732,060</u>
	B	B	B
Construction in Progress			-
Storm Sewer Systems			<u>7,030,649</u>
RETURN ON INVESTMENT (A/B)	-0.62%	-1.05%	-0.78%

Municipal Net Income from Water & Wastewater Operations
Year Ended December 31, 2009
Municipality - WAINFLEET

No Municipal Water & Wastewater Service Offered

	Water	Wastewater	TOTAL
REVENUE			
User Fees			-
Revenue from Other Mun.			-
Energy Incentive Rebates			-
Contract Revenue			-
			-
Misc.			-
	-	-	-
OPERATING EXPENSES			
Salaries, Wages and Benefits			-
Operating and General			-
Amortization			-
Interest Expense			-
Other -			-
Other -			-
			-
	-	-	-
NET INCOME	-	-	-

Municipal Investment in Environmental Capital Assets
Net Book Value at December 31, 2009

	Water	Wastewater	TOTAL
Operating Systems			
Water Treatment			-
Water Distribution			-
Wastewater Collection			-
Wastewater Treatment			-
TOTAL NET BOOK VALUE	-	-	-
	B	B	B
Construction in Progress			-
Storm Sewer Systems			0
RETURN ON INVESTMENT (A/B)	#DIV/0!	#DIV/0!	#DIV/0!