

## Report From the Treasurer

It is with pleasure that I present the Annual Report of the Regional Municipality of Niagara. This report provides financial results for the year ended December 31, 2006.

The purpose of the Treasurer's Report is to analyse and comment on the key details of the financial information contained in the 2006 audited consolidated financial statements. Ongoing financial practices, budgetary initiatives, and financial performance related to the delivery of the Region's programs and services are highlighted. This report, together with the accompanying financial statements, allows the reader to assess Niagara Region's financial activities and resources.

### Economic Overview

#### Unemployment Rate

Nationally, the unemployment rate decreased to 6.3% from 6.8% in 2005. This movement was mirrored with the regional unemployment rate falling from 7.0% to 6.4%. Niagara Region's Ontario Works income support caseloads have increased 1% to an average of 7,038 cases per month due to legislative changes.

#### Building Permit Values & Housing Starts

The Region's construction industry performed well in 2006. The total value of building permits issued increased 3.3% to \$578.0 million. Building permit values in the residential and industrial sectors had a solid increase of 5.4% and 102.1% respectively. The number of homes started in the St. Catharines-Niagara CMA, experienced a decrease of 8.4% to total 1,294 for 2006. Decreased demand was caused by slow job creation, high prices of new homes and greater choice in the resale market. The resale sales in the St. Catharines-Niagara CMA dropped 5% to 6,830 but remained well above the 10 year average. Demand for resale homes was driven by affordable mortgage rates, in-migration and lower prices of resale homes when compared to new homes.

#### Agriculture

The value of all agricultural products produced in Niagara Region exceeds \$510 million annually having a \$1.8 billion impact in the economy of which \$344 million was related to labour income. Over \$217 million in direct sales is generated by greenhouse floral and vegetable production which is the largest and fastest growing in Niagara's agricultural economy. Niagara's grape and tender fruit crops are home to over 95% of the grapes and 90% of the tender fruit crops in Ontario. Niagara is the largest chicken producing region in Ontario with gross farm receipts in excess of \$90 million. More than 49 million kilograms of chicken and 3 million kilograms of turkey per year are produced.

#### Tourism

Several major projects will improve access for visitors crossing to Niagara from the United States. These include the completed \$51 million fifth lane project for the Lewiston-Queenston Bridge, \$42 million in improvements for the Peace Bridge, the \$9 million Welcome Centre at Fort Erie and the planned \$110 million Niagara Falls Bridge Commission renovation.

For every dollar spent by a visitor in St. Catharines-Niagara CMA, another \$0.40 is generated in the regional economy. In 2004, Visitors spent \$1.7 billion on tourism related expenditures such as lodging, food and beverages, transportation, entertainment and retail. Total taxes generated as a result of visitor spending reached \$760 million including \$40.3 million in total municipal taxes for St. Catharines-Niagara CMA.

#### Welland Canal

The Welland Canal offers a complementary alternative to road and rail arteries. Currently operating at 60% capacity the system is positioned to create a stronger transportation network. Efforts such as the flexible tolls structure and the Hwy H2O campaign have been responsible for adding new cargo and additional vessel transits. Cargo volumes increased 9.5% in 2006 with a total of 37.4 million tonnes of grain, iron ore, coal and other cargo traveling through the canal. Vessel transits in 2006 totaled 3,673 or an increase of 6.7%. Toll revenue increased \$4.4 million to total \$41.8 million at year end 2006.

#### Power Generation

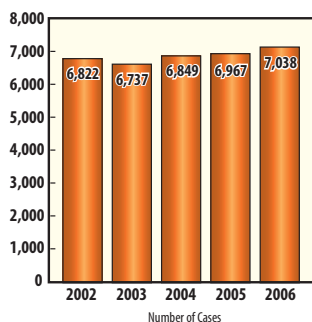
The province of Ontario has approved a \$400 million co-generation natural gas-fired plant. The power plant will be developed by Northland Power and will cover 11 acres of land owned by Thorold paper recycler Abitibi Consolidated. It will produce 236 megawatts or enough energy to light up 100,000 homes for Ontario and up to 350,000 lbs per hour of steam to the Abitibi Consolidated mill for use in its newsprint manufacturing process. Abitibi Consolidated will be able to retire its ageing steam plant, improve its competitiveness in the market, and help reduce airborne emissions. Construction is scheduled to begin in the first quarter of 2007 and the supply of electricity is expected to commence in 2009.

#### Bond Rating

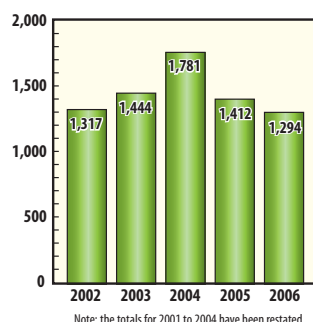
Niagara Region's "AA" credit rating reflects the region's low debt burden, good liquidity, lasting economic advantages, and good economic prospects.

social • economic • environment • cultural

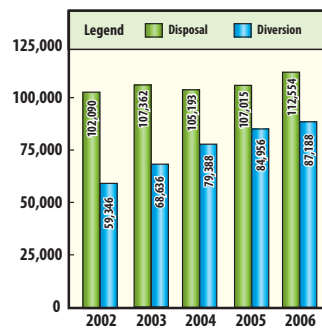
Average Monthly Ontario Works Caseload



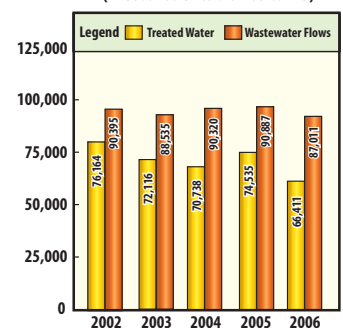
Housing Stats



Residential Solid Waste (Metric Tonnes) \*



Treated Water and Wastewater Flows (Thousands of Cubic Metres-m3) \*

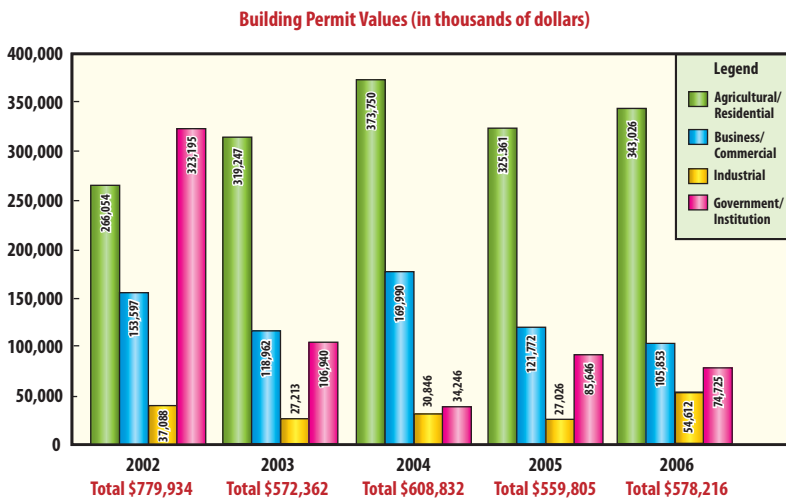


\* Data referenced from 5 Year Statistical Section.

# Report From the Treasurer

## 2006 Financial Results

The accompanying financial statements reflect the Region's policies governing its financial management and control, an independent review of its operations and the results of Council's approved levels of expenditures for the year 2006



### Budget Process

The Municipal Act of Ontario requires Regional Council to establish estimates of its expenditures by March of each year. This requirement is satisfied through a budget process which results in the establishment of current annual expenditures and setting of a multi-year capital forecast. The process is lead by a Council appointed Budget Review Committee and is initiated in July of each year with a Regional Council guideline-setting exercise. It culminates with an approved budget and a Regional levy upon the Area Municipalities, in the form of Regional tax rates on the various classes of properties.

### Financial Management and Control

The Region manages its financial affairs through the application of approved policies and procedures designed to meet relevant Provincial standards and accounting principles. Formal reporting of expenditures against budget is provided to operating units on a periodic basis to prevent budget overruns and ensure accountability. The integrity of financial management and control is ensured through an independent auditing process undertaken each year.

Regional Council is assured of this integrity through an appointed Audit Committee, as well as through scheduled periodic reporting of financial activities to the Province. The financial results of the fiscal year including "Municipal Performance Measurement Program" measures are reported in the annual Financial Information Return which is provided to the Provincial Government and also made available to the public.

### Financial Statements

The financial statements contained in this report have been prepared in accordance with the generally accepted accounting principles for Ontario

municipalities. Generally accepted accounting principles are derived primarily from three sources including the Municipal Financial Reporting Handbook, (a set of reporting guidelines issued by the Ontario Ministry of Municipal Affairs, for application by municipalities and their local boards), the standards issued by the Canadian Institute of Chartered Accountants contained in the CICA Handbook, and the standards set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

The Region's management is responsible for the preparation of the financial statements, and for the integrity and objectivity of the financial information contained in those statements.

### External Audit

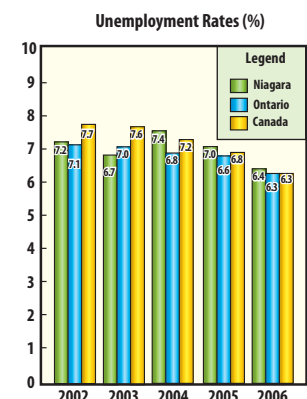
The Municipal Act of Ontario requires the Region to engage independent auditors to express an opinion as to whether the Region's financial statements present fairly in all material respects, the Region's financial position and operating results.

In discharging this duty, the auditors are given full access to all Regional records and meet periodically with staff to discuss matters arising from the audit or from new policies and procedures. As part of the annual audit, the auditors provide a written "audit management letter" dealing with the adequacy of the internal financial control system as well as an audit opinion on the results of the financial statement audit. Management's responses to the auditors' management letter, the audit opinion and the Region's annual Financial Statements, are reviewed and approved by the Audit Committee established by Regional Council.

### Audit Committee

Regional Council has established an Audit Committee which is responsible for ensuring, on behalf of the Corporate Services Committee and Council, that:

- The information contained in the Region's financial statements, Annual Report and other financial publications is not significantly erroneous, misleading or incomplete;
- The Region has implemented appropriate systems of internal control over financial reporting and that these are operating effectively;
- The Region has implemented appropriate systems of internal control to ensure compliance with legal, regulatory and ethical requirements;
- The external audit function has been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Audit Committee has been addressed; and
- The Region's annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to Council whether the annual financial statements should be approved.



## Report From the Treasurer

### Investment Policy

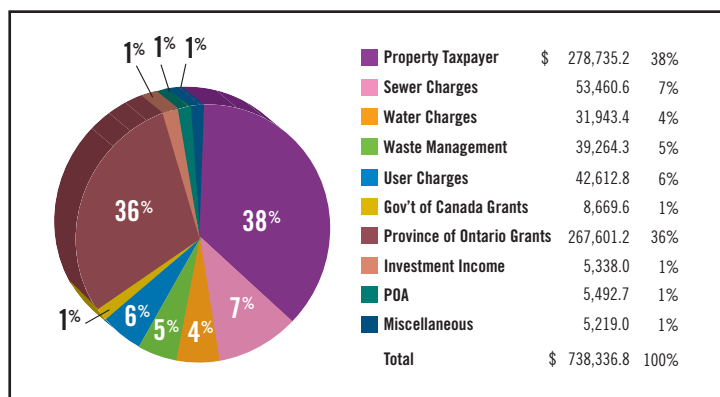
Investments of funds not currently being used are made in accordance with the Council-approved investment policy. That policy is reviewed and approved annually. It has as its main objectives the preservation of capital, maintenance of liquidity and competitive yield. The Region's investment policy meets all the requirements of the various pieces of legislation that govern municipal investments. In 2006, the strategy resulted in interest income amounting to \$10.6 million from an average rate of return of 4.23%. In general, the Region is in a net investing position.

### 2006 Current Fund Operations

#### Current Revenues

Actual Operating Revenues for 2006 totaled \$738.3 million compared to \$711.4 million in 2005. This represents an increase of 3.8% or \$26.9 million. Funding for Regional services comes primarily from Property Taxes and Self-supported services in addition to Provincial Grants.

#### Current Revenues (in thousands of dollars)



#### Property Taxes and Self-supported Services

In 2006, taxpayers contributed \$403.4 million in the form of tax rates levied against the seven classes of property plus charges imposed on a "user pay" basis for services such as Water, Wastewater and Waste Management. Within this total amount, revenues received from Property Taxes amounted to \$278.7 million in 2006, an increase of 1.7%, and consisted of \$260.7 million obtained from the Levy, \$4.8 million from Supplemental Taxes and \$13.2 million from Payments-In-Lieu. Regarding "user pay" charges for self-supporting services these totaled \$124.7 million. Specifically, proceeds for Waste Management generated \$39.3 million, a 7.8% increase, while charges for Wastewater, and Water generated \$53.5 million and \$31.9 million respectively.

Regarding other current revenues, the Region's general User Charges rose by \$2.3 million to a total of \$42.6 million in 2006 while Investment Income earned was \$5.3 million. Fines related to enforcement of the Provincial Offences Act equaled \$5.5 million a decrease of \$151 thousand or 2.7% less than that received in 2005 and Miscellaneous proceeds totaled \$5.2 million.

As noted earlier, the Net Regional Tax Levy amounted to \$260.7 million for 2006 which represents an increase of \$9.0 million, or 3.57%, over the approved 2006 levy. However, after taking into consideration the impact of assessment growth at 1.6%, the net tax levy burden for all Regional services in 2006 was 1.97%.

#### Provincial and Federal Funding

Provincial grants consist of conditional and unconditional grants. Conditional grants totaling \$254.8 million in 2006 were provided for specific programs such as Ontario Works \$171.0 million, Seniors Programs \$34.7 million, Children's Services \$19.3 million, Public Health \$14.3 million, Land Ambulance \$8.3 million, Police \$3.0 million, Environmental Services specifically for Recycling \$1.9 million, Social Housing \$1.5 million, General Government \$653 thousand, Transit \$155 thousand and Emergency Measures \$8 thousand.

In addition, the province provides the Niagara Region with an Unconditional grant now called the Ontario Municipal Partnership Fund (OMPF) which replaces the prior-named Community Reinvestment Fund. This grant is intended to offset additional costs due to the downloading of various services to the Region that were previously undertaken by the Provincial Government. The \$9.2 million amount paid in 2006 under the OMPF program represents an increase of \$2.6 million from the \$6.6 million paid in the previous year. In 2005, the Ministry of Housing introduced a separate subsidy specifically for Ambulance Dispatch and in 2006 this amounted to \$3.6 million. Lastly, grants received from the Government of Canada remained stable at approximately \$8.7 million in 2006.

#### Current Expenditures

In 2006, Regional Government's Operating Expenditures totalled \$636.8 million which was \$26.9 million or 4.4% higher than the \$609.9 million expended in 2005.

#### General Government, etc.

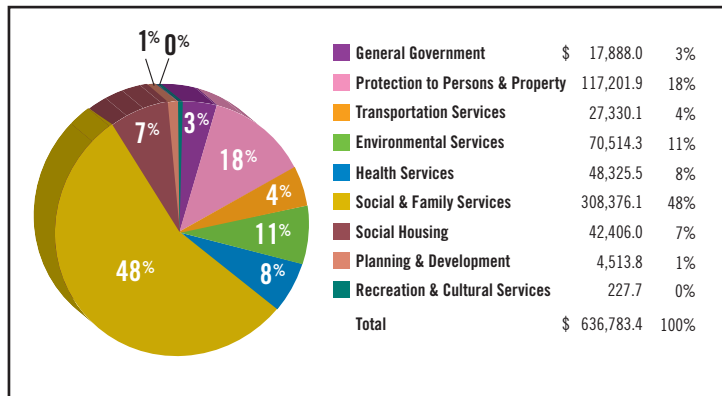
General Government expenditures, which include costs of \$4.9 million for Niagara Region's share of the Municipal Property Assessment Corporation, equaled \$17.9 million. Services provided for Planning and Development and Recreation and Cultural respectively totalled \$4.5 million and \$228 thousand.

#### Protection to Persons and Property

Expenditures to provide Police Services, Conservation, Emergency Measures and Provincial Offences Court Administration (POA) totalled \$117.2 million, an increase of \$10.2 million or 9.5% when compared to 2005. The largest dollar increase was experienced by Police Services at \$9.7 million or a change of 9.8% to a total of \$108.2 million on the year. The POA expenditures decreased by \$62 thousand to \$4.6 million in 2006. POA is a procedural law for administering and prosecuting Provincial Offences including those committed under the Highway Traffic Act, the Compulsory Automobile Insurance Act, the Trespass to Property Act, the Liquor Licence Act and other provincial legislation, municipal by-laws and some minor federal offences. Conservation expenditures from year-to-year rose by \$516 thousand to \$3.3 million and Emergency Measures Services by \$44 thousand to stand at \$1.1 million and Fire totalled \$14 thousand.

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## Current Expenditures (in thousands of dollars)



### Transportation Services

Transportation services expenditures, which relate to Roads Maintenance and Winter Control on approximately 799 centreline kilometers of roadways which the Region maintains, decreased 3.5% from 2005 to a total of \$27.3 million in 2006. Roadways rose by \$420 thousand to \$21.7 million, Winter Control was down a notable \$1.6 million to \$5.2 million and Other expenditures decreased by \$51 thousand to equal \$206 thousand. New expenditures were incurred for Transit in the amount of \$185 thousand

### Environmental Services

The Region is responsible for environmental programs such as the operation and engineering of Water & Wastewater systems and Waste Management which encompasses Solid Waste Collection, Disposal and Recycling. Each of these services is provided on a "user pay" basis and is self-financing. Expenditures for all Environmental Services programs decreased by \$2.2 million from \$72.7 million in 2005 to \$70.5 million in 2006. The majority of this decrease is due to the expenditures for Waste Disposal which was down by \$5.6 million or 49.9% to equal \$5.7 due primarily to a \$5.4 million adjustment to the Landfill liability. Meanwhile, services related to Water and Recycling increased by \$1.7 million and \$928 thousand to totals of \$14.8 million and \$14.7 million respectively while Wastewater was up \$101 thousand to \$26.7 million and Waste Collection costs increased by \$704 thousand to \$8.6 million.

### Health Services

The Public Health Department offers a range of programs related to Health Services which includes Protection and Promotion, Disease and Injury Prevention and also oversees the Emergency Services Division (ESD) which encompasses both Land Ambulance (Paramedic) Services and Land Ambulance Communications (Dispatch) Services with total expenditures of \$48.3 million. Expenditures to provide Health Related Services in 2006 amounted to \$24.4 million or \$1.3 million higher than 2005. ESD required operating expenditures of \$23.9 million, an increase of \$2.7 million or 12.6%.

### Social & Family Services – Social Housing

A wide range of important social services are provided to the Niagara community through the department of Community Services. The cost of providing these programs in 2006 totaled \$350.8 million for the year 2006, an increase of \$16.2 million and remained constant at 55.1% of the Region's gross Operating Expenditures versus the 2005 results. General Assistance, which includes Ontario Disability Support Program (ODSP), grew by 5.0% or \$10.5 million to \$222.1 million while operating expenditures for the Homes for the Aged increased by \$1.8 million to \$60.7 million and both Social Housing increased by \$2.1 million and Child Care increased by approximately \$1.8 million to respectively add up to \$42.4 million and \$25.6 million.

### Current Financing Activities and Transfers

In 2006, Regional Government's Financing Activities and Net Transfers were a net outflow from the Current Fund totalling \$101.0 million or \$1.2 million less than that in 2005.

The outflows consist of Debt Principal Payments of \$23.0 million and net transfers to other funds of \$75.0 million. Regarding other items, these include adjustments to Employee benefits and other liabilities \$3.8 million, Landfill Liability (\$5.4 million), Allowance for tax write-off (\$1.3 million) reversing an entry from 2005 and Change in non-financial assets of (\$33 thousand).

### Net Current Operating Fund Balance

At the end of 2006, there was a net accumulated Current Fund surplus of \$919 thousand.

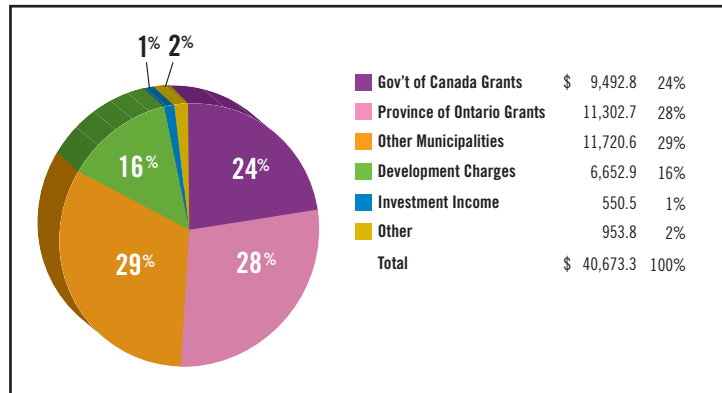
## 2006 Capital Fund Operations

### Capital Revenues

Capital projects are financed from a variety of different sources that change from year to year depending on the projects. In 2006, the Capital Operations revenues amounted to \$40.7 million, an increase of \$14.6 million from the previous year largely due to the introduction of the Canada Gas Tax Funding in the amount of \$8.0 million. This total also consists of Recoveries from Area Municipalities \$11.7 million, Provincial Grants \$11.3 million, Development Charges \$6.4 million, other Federal Grants \$1.5 million, Other Revenues \$954 thousand, Investment Income of \$550 thousand and Developer Contributions of \$278 thousand.

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### Capital Revenues (in thousands of dollars)



Note: the totals for 2001 to 2004 have been restated to exclude Sources of Financing.

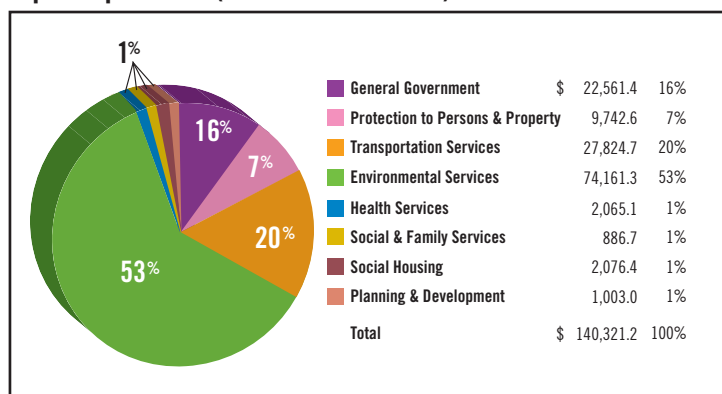
### Capital Expenditures

Capital investment allows for the maintenance of the current infrastructure and to provide for future requirements. In 2006, Capital Expenditures increased 28.1% or \$30.8 million to total \$140.3 million for the year.

Public works projects maintain, upgrade and replace infrastructure for Transportation (Road Works) as well as for Environmental purposes (Wastewater Treatment, Water Production and Solid Waste Management). Environmental Services capital expenditures increased \$18.2 million versus the year before to an annual total of \$74.2 million. Transportation Services projects totaled \$27.8 million, an increase of \$960 thousand over 2005.

Capital expenditures of \$22.6 million relating to building infrastructure for General Government were required in the year representing a \$13.0 million increase while Protection to Persons and Property capital expenditures increased by \$2.7 million to a total of \$9.7 million. The remaining \$6.03 million, or 4.1% of total capital expenditures, was divided amongst Social Housing \$2.08 million, Health Services \$2.07 million, and Planning and Development \$1.0 million, Social and Family Services amounted to \$887 thousand.

### Capital Expenditures (in thousands of dollars)



### Capital Financing Activities and Transfers

In 2006, Regional Government's Financing Activities and Net Transfers which includes Debt issued and assumed and transfers from other funds were a net inflow into the Capital Fund totalling \$139.55 million or \$55.45 million greater than that in 2005.

Transfers to/from other funds resulted in a net inflow of \$84.3 million for additional financing for capital. This amount was the result of a net inflow of funds obtained from Reserves & Reserve Funds (excluding Development Charges) of \$83.8 million in addition to an inflow from the Revenue Fund for \$472 thousand. The balance of the inflows was financed by way of Debt Issuance of \$55.24 million.

### Net Capital Fund Balance

At the end of 2006, the Capital Fund had a net accumulated surplus of \$40.0 million.

## Debt Position

The Region of Niagara's debt policies are governed by Provincial legislation and Regional Council's internal policies. The Province's prescribed annual repayment limit, stipulates that payments relating to all debt and all other long-term financial obligations of a municipality should not be greater than 25% of own source revenues which includes the annual tax levy and rate generated revenue. However, the Region's self-imposed Debt Management Policy requirements are more stringent and specify that total annual repayments relating to debenture debt and other long-term financial obligations can not exceed 20% of own source revenues. In addition the Region's policy further establishes a threshold for tax supported debt repayments at 15% of the Regional tax levy.

In 2006, Debt Charges including principal and interest totaled \$31.95 million and at only 6.9% of own source revenues equaling \$462.1 million are well within both the Provincial and Regional requirements. Total outstanding debt at December 31, 2006 amounted to \$200.5 million, an increase of 17.8% over 2005.

The overall increase of long-term liabilities was the net result of the issuance of \$53.3 million in new Regional debentures (excluding \$1.98 million in debt incurred on behalf of the Conservation Authority) less the retirement of \$23.0 million of Regional debt. Approximately 58.1% or \$116.5 million of the outstanding debt relates to projects in Transportation (\$81.8 million) and Environmental services (\$34.7 million). The remaining outstanding debt is for projects in Social and Family Services (\$32.7 million), General Government (\$22.8 million), Protection to Persons and Property (\$19.4 million), Social Housing (\$4.3 million), Health Services (\$3.0 million) and Planning and Development (\$1.8 million).

On July 11, 2006 the Region issued a debenture for \$91.505 million which included the requirements for the Area Municipalities with all-in-costs of 5.24% and terms ranging from one to twenty years. The Regional component totalled \$53.26 million the majority of which was issued to finance various Roads Works projects (\$23.0 million), Buildings & Equipment (\$12.7 million), Waste Management (\$6.16 million), Information Systems (\$4.5 million), Regional Police (\$3.8

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million), Niagara Regional Housing (\$1.38 million), Public Health (\$1.25 million) and Planning (\$473 thousand). Additionally, \$1.98 million in debt was incurred on behalf of the Conservation Authority while the remaining \$36.265 million was issued on behalf of the area municipalities who are responsible for payment of both their applicable principal and interest.

Total Debt Charges paid in 2006 amounted to \$31.95 million, up 10.6% from 2005. On a per capita basis, Total Debt per resident averages \$461.

In 2006, the Region's credit was reaffirmed as "AA" rating by Standard and Poor's. This rating has been in place for the last 6 years and is a testament to the Region's financial strength.

## Reserves and Reserve Funds

As of December 31, 2006, the Niagara Region's Discretionary Reserve Funds balance was \$173.5 million and Reserves equaled \$56.7 million for a combined balance of \$230.2 million. This represents a 1.8% decrease over the previous year. Contributions to Reserves and discretionary Reserve Fund positions are a prudent, fiscally responsible method of building financial resources to ensure sufficient financial flexibility and to minimize fluctuations due to either anticipated or unexpected future liabilities as a result of changing requirements. In addition they complement the Region's philosophy of maximizing the use of Current Funds to minimize the necessity for issuing debt.

Overall in 2006 contributions to Reserve Funds totaling \$66.1 million was derived from three sources. Current Fund Operations contributed \$55.15 million, Capital contributed \$5.85 million and \$5.05 million was contributed from Investment Income. Transfers from Reserve Funds totaled \$81.2 million and consisted of \$79.5 million to Capital Projects and \$1.7 million to Current. Thus, the net of contribution inflows of \$66.1 million less outflows of \$81.2 million resulted in a net annual decrease in Reserve Funds of \$15.1 million. With regards to Reserves, contributions totaled \$29.8 million during the year while transfers from Reserves equaled \$18.9 million for a net annual increase of \$10.9 million.


The Region's only obligatory reserve fund is the Development Charge Reserve Fund which represents Deferred Revenue set aside to finance specific future infrastructure capital costs related to growth by accumulating funds collected from developers. In 2006, total Development Charge gross receipts including investment income amounted to \$9.1 million while gross disbursements were

\$4.3 million including \$3.8 million that was spent on growth-related capital projects. There was also an adjustment which offsets an entry set-up in 2005 for \$2.558 million which results in a year-end balance of \$18.6 million.

## Conclusion

The results of the 2006 operations are summarized in the following statements. The Regional Municipality of Niagara maintains careful monitoring of anticipated receipts and approved expenditures and its commitment to continuous improvement in financial policies and strategies has resulted in another successful year. This is supported by the fact that the Region's "AA" credit rating was reaffirmed in 2006 by Standard and Poor's Rating Service.

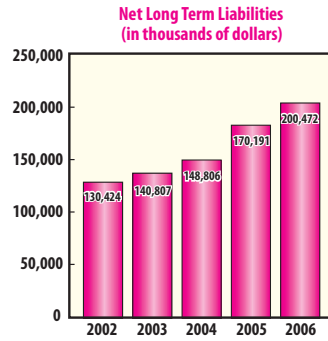
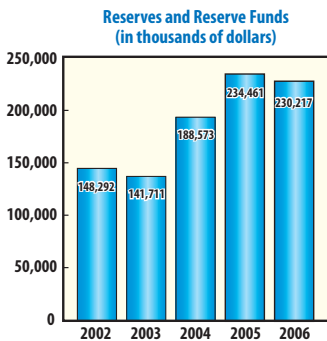
Gord Lockyer



Treasurer/Director Financial Management & Planning

May 2, 2007

social • economic • environment • cultural



Note: the totals for 2001, 2002 and 2004 have been restated