

City of North Bay Report to Council

Report No: CORP-2021-081

Date: July 20, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: Year-end Water & Wastewater Financial Projection as at June 30, 2021

Closed Session: yes ☐ no ☒

Recommendation

That the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending June 30, 2021 be received and filed.

Background

Subsequent to budgetary approval, departments are required to monitor their expenditures and revenues on an on-going basis and project to the end of the year. Year-end projections are reported to Council on a semi-annual basis, being June 30th and September 30th of each year with final results prepared as at December 31st. Projections become more accurate as the year unfolds and more information becomes available. It is common practice for management to make necessary adjustments or reallocations of resources to ensure that departments realize all possible savings and efficiencies.

Financial/Legal Implications

See Options/Analysis for Financial Implications. No Legal Implications.

Corporate Strategic Plan

- | | |
|---|--|
| <input type="checkbox"/> Natural North and Near | <input type="checkbox"/> Economic Prosperity |
| <input checked="" type="checkbox"/> Affordable Balanced Growth | <input type="checkbox"/> Spirited Safe Community |
| <input checked="" type="checkbox"/> Responsible and Responsive Government | |

Specific Objectives

- Provide smart, cost effective services and programs to residents and businesses
- Ensure that Council and staff have a shared perception of goals

Options Analysis

Appendix A to this report provides a summary of the City's 2021 Water and Wastewater Year-end Financial Projection, as at June 30, 2021. Year-to-date

actual results presented in Appendix A are subject to adjustments and year-end entries. In order to provide the most comprehensive year-end projections possible, each cost center and business unit has been reviewed in detail by Business Unit Managers. Finance provided a general review of all cost centers including a review of revenues, wages & benefits, fuel, fleet, utilities, and insurance costs. Based on projections prepared as at June 30th, there is an estimated year-end surplus of \$341,692 being reported.

The following summarizes the overall variance between the approved budget and the projected year-end values:

- **Sanitary Sewer Distribution** and **Sanitary Sewer Plant** operations are currently reporting a year-end surplus of \$49,408 resulting from lower utilities, fleet usage, and personnel costs (scheduling, gapping and vacancies); partially offset with higher goods and services and insurance costs, as well as lower anticipated revenues.
- **Water Distribution** and **Water Plant** operations are currently projecting a year-end surplus of \$292,284 resulting from lower utilities, goods and services, fleet usage and personnel costs (scheduling, gapping and vacancies); partially offset with higher insurance costs and lower revenues.

Risks - On-going risks pertaining to the Water and Wastewater Budgets include the following:

- **Revenue Fluctuations due to Changes in Consumption** – The Year-end Financial Projection presented in Appendix A has been prepared on the basis that overall revenues will be lower than budget. To date, the City has realized lower consumption levels than budgeted. The June variance projection has been prepared using actual consumption to date with a historically moderate consumption forecasted for the remaining months of 2021. Accordingly, the City is expecting to end the year with a water and wastewater revenue deficit of approximately (\$142,800). It is anticipated that the City will continue to experience changes in consumption patterns based on seasonal trends, changing weather patterns, conservation initiatives undertaken by customers.
- **Utility Costs** - Historical trends are used to project utility costs; however, many variables can have an effect on actual utility costs and there is always a risk that variances will be realized between budget and actual costs. Utilities are currently trending slightly under budget.
- **Unforeseen Issues/Emergencies Related to Necessary Services** - Due to the nature of the department, any Water and Wastewater issues/emergencies, including severe weather events that arise must be dealt with in a timely manner to maintain necessary services to residents. It is impossible to predict the frequency of these occurrences. Individual events can vary in size and cost.
- **Fuel** - The fuel budget was set based on expected usage at an estimated rate of \$1.01 per litre. Actual fuel rates for the first six months of the year have been comparable to the budgeted rate. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate.

- **WSIB Rates** - WSIB's new rate model came into effect January 1, 2020, changing the way employers are classified and how premium rates are set and adjusted. WSIB uses the insurable earnings, claim costs and the number of allowed claims over a six-year period to set premium rates. The new model uses a two-step approach to set and adjust premium rates for employers.

- Step one involves setting an average rate for each industry class
 - Step two reflects individual claims experience and risk

The attached projection does not include any in-year rate changes from budgeted rates.

- **COVID-19** - There has been limited interruptions to essential water and wastewater services due to COVID-19. Throughout 2020 and into 2021, departments have continued to review in detail operational practices and have taken steps to mitigate the COVID-19 impact including introducing protective measures for staff and citizens and scheduling staff and services to meet restriction requirements.

The City continues to closely monitor the COVID-19 outbreak and will provide further updates should there be any major unforeseen service disruptions or financial impacts.

Reserves - The Water and Wastewater Operating Reserves represent funds available to mitigate ongoing operational risks, including risks associated with operating a metered billing system or any unforeseen circumstances. If a year-end deficit should arise, reserves are available to offset the shortfall.

- Water Operating Reserve Fund (#99576R) - \$1,034,951
- Sanitary Sewer Operating Reserve Fund (#99577R) - \$1,484,674

As per the City's Reserve Policy, the Water and Wastewater Stabilization Reserve target is 10% to 15% of budgeted expenditures. Accordingly, with 2021 gross water operating budgeted expenditures of \$13.7 million, the water operating reserve should ideally be in the range of approximately \$1.4 million to \$2.0 million. Based on 2021 gross Wastewater Operating Budgeted expenditures of approximately \$11.9 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.2 million to \$1.8 million. Currently, water reserves are under the minimum recommended reserve level, while wastewater reserves are within range of the City's reserve target policy. Should the projected year-end surpluses be realized then the surplus funds would be added to the reserve balances noted above.

A separate reserve, 'Water Treatment Surcharge', Reserve No. 99580R, is available to offset any shortfalls in the Water Filtration Charge should actual revenues be lower than budget. This reserve was established with surplus funds from the Water Treatment Capital Project No. 2592WS and is intended to be applied against the principal and interest on debt issued for the Water Treatment Facility. A reserve transfer in the amount of \$527,752 has been budgeted within the 2021 Water and Wastewater Operating Budget. A transfer from reserves will continue to be utilized annually to pay a portion of the ongoing principal and interest on debt issued. The balance in this Reserve as at the date of this report is

\$678,362, which is net of the 2021 transfer to operations.

Recommended Option

That the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending June 30, 2021 be received and filed.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

I concur with this report and recommendation.

Name: Domenic Schiavone

Title: Director Public Works & Parks

Name: Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name: David Euler, P.Eng., PMP

Title: Chief Administrative Officer

Personnel designated for continuance:

Manager of Financial Services

Attachment: Appendix A – Water & Wastewater Unit Variance Summary