

City of North Bay Report to Council

Report No: CORP-2022-035

Date: April 7, 2022

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2021 Water and Wastewater Year-end

Closed Session: yes ☐ no ☒

Recommendation

1. That the Chief Financial Officer be authorized to complete the 2021 reserve transfers as outlined in Appendix A.
2. That the City of North Bay's 2021 Water and Wastewater Year-end Financial Report be received and filed.

Background

Pending any final year-end entries or external audit adjustments, the City of North Bay's Water and Wastewater operations will end the 2021 fiscal year with a combined surplus of \$420,425.

There have been limited interruptions to essential water and wastewater services due to COVID-19. Throughout the year, departments reviewed operational practices and steps were taken to mitigate the COVID-19 impact through protective measures for staff and citizens. This included scheduling staff and services to meet restriction requirements.

There was no COVID Safe Restart funding allocated to Water or Wastewater Operations in 2021.

As predicted in the September 30th Year-end Financial Projection, Report to Council No. CORP 2021-113, overall consumption was lower than budget. Accordingly, the City ended the year with a water and wastewater revenue deficit of approximately (\$360,000). It is important to recognize that the City will continue to experience variances in consumption patterns based on seasonal trends, changing weather patterns and conservation initiatives undertaken by customers.

Actual costs can fluctuate from year to year depending upon the frequency and type of unplanned infrastructure issues and the extent of emergency repairs required. These events are difficult to predict as they are largely affected by weather conditions. The budget is established based on events in a typical year in order to mitigate significant fluctuations in rates.

Financial/Legal Implications

A departmental summary of year-end actual results and associated budgets is attached to this report as Appendix B. A summary of the year-end results is as follows:

Water Distribution and Water Plant Operations ended the year with an estimated surplus of \$519,926 resulting from lower personnel (scheduling & vacancies), construction, supplies/materials, and utility costs; partially offset by increased plant maintenance.

Wastewater Distribution and Wastewater Treatment Plant Operations ended the year with an estimated deficit of (\$99,501) resulting from higher chemicals, lower revenues and increased supplies, materials, and contract costs which includes costs to perform additional maintenance at the plant; partially offset by lower personnel and utility costs.

Reserves

In order to close the financial records for 2021, year-end transfers are required to be approved to the appropriate reserves. Council retains the discretion to then re-allocate funds as required at a later date. A summary of the recommended transfers has been included in Appendix A. Finalizing these transfers will allow for the closing of the 2021 financial records in preparation for the annual external audit.

Subject to final year-end adjustments, reserve balances as at the date of this report (excluding year-end balance transfers recommended in Appendix A) are estimated as follows:

- 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. Upon completion of the 2021 year-end transfers both reserves will be within the recommended reserve levels.

A separate reserve, 'Water Treatment Surcharge', Reserve No. 99580R, was established with surplus funds from the original Water Treatment Capital Project No. 2592WS and was 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 that was budgeted within the 2021 Water and Wastewater Operating Budget has been transferred from this reserve to operations. During the 2022 budget deliberations, Council authorized the transfer of \$2,245,200 from Capital

Project No. 3828WS, West Ferris Trunk Watermain Refining, to the Water Treatment Surcharge Reserve to be used to fund all remaining annual principal and interest payments on the Water Treatment Plant loan. This was approved by Resolution No. 2021-439. Accordingly, a transfer from reserve will be utilized annually to pay the ongoing principal and interest on debt issued. The balance in this Reserve as at the date of this report is \$2,931,901.

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

Option # 1

Council authorizes the Chief Financial Officer to complete the 2021 reserve transfers as outlined in Appendix A. Authorizing the transfers will enable staff to finalize the 2021 financial records in preparation for the external audit. This option is recommended.

Option # 2

Council does not authorize the Chief Financial Officer to complete the 2021 reserve transfers as outlined in Appendix A. If Council does not authorize the transfers to be completed then there would be a delay in closing the 2021 financial records which is required for the external audit. This option is not being recommended as there are commitments that must be fulfilled following completion of the audit. Financial Statements as well as the Provincial Financial Information Return (FIR) must also be completed and submitted.

Recommended Option

1. That the Chief Financial Officer be authorized to complete the 2021 reserve transfers as outlined in Appendix A.
2. That the City of North Bay's 2021 Water and Wastewater Year-end Financial Report 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 and 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:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer