



## City of North Bay Report to Council

Report No: CORP-2022-077

Date: July 12, 2022

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: Year-end Water & Wastewater Financial Projection as at June 30, 2022

Closed Session: yes  no

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### Recommendation

That Council receive and file the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending June 30, 2022, as set out in Report to Council CORP 2022-077 dated July 12, 2022 from Laura Boissonneault.

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### 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 30<sup>th</sup> and September 30<sup>th</sup> of each year with final results prepared as at December 31<sup>st</sup>. 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.

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### Financial/Legal Implications

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

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### 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

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### Options Analysis

Appendix A to this report provides a summary of the City's 2022 Water and Wastewater Year-end Financial Projection, as at June 30, 2022. 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, insurance, and utilities. Based on projections prepared as at June 30<sup>th</sup>, there is an estimated year-end deficit of (\$266,911) being reported.

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

- **Sanitary Sewer Distribution and Sanitary Sewer Plant** operations are currently reporting a year-end deficit of (\$193,610) resulting from lower than anticipated revenues and higher fuel, material and repair costs; partially offset with lower utilities and personnel costs (scheduling, gapping and vacancies).
- **Water Distribution and Water Plant** operations are currently projecting a year-end deficit of (\$73,301) resulting from lower than anticipated revenues and higher fuel, material and repair costs; partially offset with lower personnel costs (scheduling, gapping and vacancies).

**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 using actual consumption to date combined with a four-year average consumption projected for the remaining months of the year. Overall, actual consumption is anticipated to be trending slightly lower than budgeted consumption. Therefore, the City is expecting to end the year with a water and wastewater revenue deficit of approximately (\$276,000). It is anticipated that the City will continue to experience changes in consumption patterns based on seasonal trends, changing weather patterns, and 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 under budget.
- **Insurance** – At the time of establishing the 2022 budget, insurance costs were estimated to increase by 10% upon renewal. The City's insurance period is from May to April. Therefore, the first 4 months of 2022 was known and the increase was applicable to the remaining 8 months. Insurance costs are expected to be on budget.
- **Unforeseen Issues/Repairs/Emergencies Related to Necessary Services** - Due to the nature of the department, any Water and Wastewater issues/repairs/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 weighted average rate of \$1.084 per litre. Actual fuel rates for the first 6 months of the year have been higher than budget. The current estimated weighted average fuel rate is \$1.91 per litre. Under the terms of the current

contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If rates remain the same for the balance of the year, cost overages are estimated to be (\$121,000) by year end.

**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) - \$1,554,877
- Sanitary Sewer Operating Reserve Fund (#99577R) - \$1,385,173

As per the City's Reserve Policy, the Water and Wastewater Stabilization Reserve target is 10% to 15% of budgeted expenditures. Accordingly, with 2022 gross water operating budgeted expenditures of \$13.9 million, the water operating reserve should ideally be in the range of approximately \$1.4 million to \$2.1 million. Based on 2022 gross Wastewater Operating Budgeted expenditures of approximately \$12.3 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.2 million to \$1.8 million. Currently, reserves are within range of the City's reserve target policy (before any estimated 2022 transfers). Should the projected year-end deficits be realized then the required funds to balance the year would be transferred from the reserve balances noted above.

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 \$516,232 was budgeted within the 2022 Water and Wastewater Operating Budget. 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 Council Resolution No. 2021-439. Accordingly, a transfer from reserve will be used on an annual basis to pay the ongoing principal and interest on debt issued. The balance in this Reserve as at the date of this report is \$2,429,136 which is net of the 2022 transfer to operations.

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### **Recommended Option**

That Council receive and file the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending June 30, 2022, as set out in Report to Council CORP 2022-077 dated July 12, 2022 from Laura Boissonneault.

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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