



City of North Bay Report to Council

Report No: CORP-2023-012

Date: December 19, 2022

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2023 Water Wastewater Operating Budget

Closed Session: yes ☐ no ☒

Recommendation

1. That Council receive the City of North Bay's 2023 Water and Wastewater Operating Budget as set out in Report to Council CORP 2023-12 dated December 19, 2022 from Laura Boissonneault.
2. That Report to Council CORP 2023-12 be referred to a Special Committee Meeting to be held on January 4th, 2023.

Background

Water and Wastewater management team members met with the Chief Administrative Officer, the Chief Financial Officer, and finance staff to review the Preliminary Water & Wastewater Operating Budget submissions. The proposed 2023 Water & Wastewater Operating Budget is attached to this report as Appendix A.

Financial/Legal Implications

Drinking water system owners are required to prepare a long-range financial plan for their drinking water system as part of the Municipal Drinking Water Licensing Program as set out in Part V of the Safe Drinking Water Act (SDWA). The financial plan must be prepared in accordance with the Ministry of Environment Financial Plans Regulation 453/07.

Regulation 453/07 requires the following:

- The financial plan be approved by resolution of Council that specifies that the drinking water system is financially viable;
- Full-cost accounting be utilized to determine the true cost of the drinking water system; and
- Projections be at least six years but recommends a longer term plan.

An updated plan was approved in 2020 as part of the City's water license renewal. The principles laid out in the financial plan were used in setting the preliminary 2023 Water & Wastewater Operating Budget to ensure that the drinking water system remains financially viable.

Corporate Strategic Plan

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| ☐ Natural North and Near | ☐ Economic Prosperity |
| ☒ Affordable Balanced Growth | ☐ Spirited Safe Community |
| ☒ 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

Budget Guidelines – The 2023 Water & Wastewater Operating Budget was prepared with the following guidelines:

Service Delivery – The budget was prepared with Management's projections and cost estimates to deliver existing service levels to the ratepayers. Suggestions that provide Council with options to change the current levels of service are annually presented in the Service Level section of the budget. There are no Service Level requests for 2023.

Expenditures – These represent Management's best estimates to deliver current levels of services. Management's estimates include items such as:

- Annualized approved Council initiatives
- Inclusion of contractual agreements
- Legislated changes that came into effect
- Historical trends and expected future operational requirements

Utility Costs – Budget estimates take into consideration the prior year's data and projected demands. Calculations include such items as the benefit of energy efficiencies gained through capital investments and enhanced education programs to improve energy conservation. Historical trends and anticipated rates are used to project utility costs. Natural Gas rates have continued to increase since January 2021 (i.e., \$0.13/m³ to current \$0.31/m³). Natural Gas budgets were set with projections plus an 8.3% increase over 2022 (3-year average). Conservatively, Hydro budget lines were set at 2022 projections. Repairs and maintenance made in the last few years are assisting in overall utility savings.

Fuel – The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.748 per litre (2022 6-month average) plus the increase in carbon tax in April of 2023 at \$0.0326 per litre. The estimated overall weighted average fuel rate totals \$1.78 per litre (\$1.08 per litre – 2022). Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. The budgeted fuel rates exclude the provincial fuel taxes of \$0.057 (Reg) and \$0.053 cents (Diesel) per litre which was deferred by the provincial government in 2022 and now it is anticipated that the deferral will be extended until December 31, 2023.

Other Revenue Estimates – These estimates are based on trends, historical data, current rates, approved and anticipated rate increases, and any known revenue reductions.

Staff Complement – All staffing costs and Full Time Equivalents (FTE), including positions grant funded or directly related to Capital, are reported in the personnel costs with any associated offsetting revenues being recorded accordingly. An FTE is used to measure a worker's involvement in the service and indicates the workload of an employed person in a way that makes workloads comparable across various contexts. Therefore, an FTE of 1.0 means that the person is equal to a full-time worker, while an FTE of 0.5 signals that the worker is only allocated to the service half the time. Throughout the City's budget, one staff may be allocated to several services.

Fringe Benefits - Benefits include items such as Employment Insurance, Canada Pension Plan, WSIB, OMERS, EHT, LTD, Life, AD&D, dental and major medical. Effective November 1st, group benefit rates increased by 7.1%. The new rates have been reflected in the enclosed budget.

Insurance – At the time of establishing the 2023 budget, insurance costs are estimated to increase by 10% upon renewal. The City's insurance period is from May to April. Therefore, the first 4 months of 2023 is known and the increase applicable to the remaining 8 months.

Capital Levy – The capital levy is the annual funding contribution from the City's Water & Wastewater Operating Budget that is used to finance projects within the City's Water & Wastewater Capital Budget. The City's approved Long-Term Capital Funding Policy outlines the formula to be used to calculate the amount of the levy.

In accordance with the City's policy, a 2% increase over the prior year's budgeted water and wastewater revenue has been included in the proposed budget to support the on-going capital levy, debenture principal and interest payments in the amount of \$485,185.

The City's policy also includes an annual increase for inflation. Over the last several years, the inflationary component was removed from the calculation as it was not required to balance the 10 year Capital Budget. However, due to significant inflationary pressures experienced in 2022, it is recommended that the inflationary component be phased back into the capital levy calculation in order to ensure that there is sufficient funding available to support the long-term capital budget. Staff is recommending to phase the CPI adjustment back into the capital levy calculation in 2023 at a rate of 50% of the calculated amount; followed by 75% in 2024 and 100% in 2025. This results in an increase of \$260,851 in 2023. The implementation of the City's Asset Management Plan is ongoing and a review of the Long-Term Capital Funding Policy will be completed and recommendations will be brought forward once this work is completed.

Debenture Financing – In accordance with the City's Long Term Capital Funding Policy, the annual funding allowance for the Water & Wastewater Capital Budget includes \$3 million in debt financing to support capital projects. Principal and interest payments are budgeted within the Water & Wastewater Operating Budget.

Risks – As with any budget, there are risks associated with forecasting expenditures and revenues. Many water and wastewater expenditures are non-discretionary. Factors such as water and sewer line breaks, emergencies, fuel costs, insurance rates, supply chain issues, utilities, etc. may significantly impact actual net Water and Wastewater operating costs resulting in budget to actual variances. Revenues are volatile due to the fact they

are dependent upon the volume being consumed by users. Water and Wastewater operations are also highly contingent on weather conditions. The tabled budget does not contain any contingency to mitigate any of the aforementioned risks.

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 and Wastewater Operating reserve balances estimated as at the date of this report (excluding any projected 2022 year-end transfers) are as follows:

- 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 2023 gross water operating budgeted expenditures of \$14.5 million, the water operating reserve should ideally be in the range of approximately \$1.45 million to \$2.18 million. Based on 2023 gross Wastewater Operating Budgeted expenditures of approximately \$13.4 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.34 million to \$2.01 million. Currently, reserves are within range of the City's reserve target policy (before any 2022 year-end transfers).

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 \$504,712 is budgeted within the 2023 Water and Wastewater Operating Budget. The balance in this Reserve as at the date of this report is \$2,457,483 which includes the 2022 budgeted transfer to operations.

In 2021, Council approved a reserve transfer from the Wastewater Capital Reserve in order to provide relief to residents during the pandemic. The transfer is being phased out and is recommended to decrease to \$75,000 in 2023 (2021 - \$300,000; 2022 - \$150,000).

Water Rates – Water rates are calculated on a full cost recovery model. The enclosed Water and Wastewater Operating Budget will be used as a basis for calculating the 2023 Water Wastewater rates. The calculated rates will be presented to Council through Report to Council CORP 2023-9.

Recommended Option

1. That Council receive the City of North Bay's 2023 Water and Wastewater Operating Budget as set out in Report to Council CORP 2023-12 dated December 19, 2022 from Laura Boissonneault.
2. That Report to Council CORP 2023-12 be referred to a Special Committee Meeting to be held on January 4th, 2023.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA

Title: Manager, Financial Services

I concur with this report and recommendation

Name Margaret Karpenko, CPA, CMA
Title: Chief Financial Officer /Treasurer

Name Domenic Schiavone
Title: Director Public Works and Parks

Name David Euler, P.Eng., PMP
Title: Chief Administrative Officer

Attachments: Appendix A – 2023 Water Wastewater Operating Budget

Personnel designated for continuance:
Margaret Karpenko, CPA, CMA
Chief Financial Officer /Treasurer