



# City of North Bay Report to Council

Report No: CORP-2024-048

Date: June 4, 2024

Originator: Laura Boissonneault

Business Unit: Corporate Services

Department: Financial Services Department

Subject: 2023 Water and Wastewater Year-end

Closed Session: yes  no

## Recommendation

That Council :

1. authorize the Chief Financial Officer to complete the 2023 reserve transfers as outlined in Appendix A attached to Report to Council CORP 2024-048 dated June 4, 2024 from Laura Boissonneault; and
2. receive and file the City of North Bay’s 2023 Water and Wastewater Year-end Financial Report as set out in Report to Council CORP 2024-048 dated June 4, 2024 from Laura Boissonneault.

## Background

Pending any final year-end entries or external audit adjustments, the City of North Bay’s Water and Wastewater operations will end the 2023 fiscal year with a surplus of \$296,452.

A total of \$825,000 in reserve funding was approved as part of the 2023 Water and Wastewater Operating Budget as a means of supporting ratepayers given the economic conditions at that time. During the year, operational savings and increased revenues assisted in offsetting certain cost pressures and contributed to an overall year-end surplus. Accordingly, the full reserve funding included in the 2023 budget was not required to balance the year-end results. A total of \$283,907 in reserve funding was used to balance Water Operations while there was no requirement to use reserves to balance Wastewater Operations.

## Corporate Strategic Plan

- Natural North and Near
- Affordable Balanced Growth
- Responsible and Responsive Government
- Economic Prosperity
- Spirited Safe Community

## 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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## Financial/Legal Implications

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

- **Sanitary Sewer Distribution** and **Sanitary Sewer Plant** operations is reporting a year-end surplus of \$296,452 resulting from higher than anticipated revenues and lower personnel, fuel, chemicals, and contract costs; partially offset with higher repair costs and lower reserve transfers.
- **Water Distribution** and **Water Plant** operations is reporting a balanced year-end position resulting from higher than anticipated revenues and lower personnel, and fuel costs; offset with higher contract, utility, materials (i.e. chemicals), and repair costs, along with lower reserve transfers.

**Year-end Variances by Category** – The following highlights some of the key areas contributing to the overall Water and Wastewater Year-end variance:

- **Revenue Fluctuations** – As predicted in the September 30th Year-end Financial Projection, Report to Council No. CORP 2023-124, actual 2023 consumption was higher than budgeted consumption. Accordingly, the City ended the year with a Water and Wastewater rates based revenue surplus of approximately \$404,000. Annual consumption forecasts are based on a typical year using historical trends; however, risk rests in actual revenues collected varying directly with user consumption volumes. It is important to recognize that the City will continue to experience variances in revenues associated with consumption patterns based on seasonal trends, changing weather patterns and conservation initiatives undertaken by customers.
- **Utility Costs** - Utilities are slightly over budget by approximately \$39,000. Historical trends and future expectations are used to project utility costs; however, many variables can influence actual utility costs and there is always a risk that variances will be realized between budget and actual costs. The higher use of water would have had an impact on utilities.
- **Insurance** – Actual insurance costs are slightly under budget by approximately \$31,000. At the time of establishing the 2023 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 2023 was known, and the increase was applicable to the remaining 8 months.
- **Unforeseen Issues/Repairs/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. In 2023, the City experienced unanticipated repairs at the Water and Wastewater facilities, as well as some large diameter watermain breaks.

- **Fuel** - The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.78 per litre. The actual weighted average fuel rate by the end of 2023 was \$1.52 per litre. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. Fuel savings realized in 2023 were approximately \$79,000.
- **Personnel** - Net personnel savings were realized during the year in the amount of approximately \$559,000 from both gapping and vacancies. The savings exclude the impact of capital wages and benefits as these expenses are reported in the operating budget for transparency purposes; however, actual amounts are recorded directly in the associated capital projects.

The labour market is experiencing a shortage in many areas, especially in the skilled trades. With this shortage comes increased competition as employers are competing for a smaller pool of candidates. The City has experienced challenges in recruiting employees that meet qualifications. Personnel savings are considered one-time and not sustainable as full complement is required to deliver municipal services.

**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. Water and Wastewater Operating Reserve balances at the date of this report (excluding any recommended reserve transfers outlined in Appendix A to this report) are as follows:

- Water Operating Reserve Fund (#99576R) - \$1,266,461
- Sanitary Sewer Operating Reserve Fund (#99577R) - \$1,202,111

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 \$1.5 million to \$2.2 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 \$1.3 million to \$2.0 million. Currently, reserves are below the City's reserve target policy (before any 2023 year-end transfers).

A separate reserve, 'Water Treatment Surcharge', Reserve No. 99580R is being used on an annual basis to pay the ongoing principal and interest on debt issued. A reserve transfer in the amount of \$504,712 was budgeted within the 2023 Water and Wastewater Operating Budget. The balance in this Reserve as

at the date of this report is \$2,090,025, which includes the 2023 transfer to operations.

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**Recommended Option**

That Council :

1. authorize the Chief Financial Officer to complete the 2023 reserve transfers as outlined in Appendix A attached to Report to Council CORP 2024-048 dated June 4, 2024 from Laura Boissonneault; and
2. receive and file the City of North Bay’s 2023 Water and Wastewater Year-end Financial Report as set out in Report to Council CORP 2024-048 dated June 4, 2024 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 Shannon Saucier, CPA, CA

Title: Director, Financial Services / Deputy Treasurer

Name Alan Korell

Title: City Engineer – Infrastructure and Operations

Name Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name John Severino, P.Eng., MBA

Title: Chief Administrative Officer

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer