

City of North Bay Report to Council

Report No: CORP-2024-091

Date: October 25, 2024

Originator: Laura Boissonneault

Business Unit: Corporate Services

Department: Financial Services Department

Subject: Year-end Water & Wastewater Financial Projection as at September 30, 2024

Closed Session: yes no

Recommendation

That Council receive and file the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending September 30, 2024, as set out in Report to Council CORP 2024-091 dated October 25, 2024, from Laura Boissonneault.

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

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 September 30th, there is an estimated year-end deficit of (\$63,047) being reported. The presented projection requires usage of budgeted one-time reserves in the amount of \$825,000.

A departmental summary of year-to-date actuals and associated budgets is attached to this report as Appendix A and Appendix B. 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 surplus of \$123,367 resulting from lower personnel, utility, and fuel costs; partially offset with higher contracts, materials, and insurance costs, along with lower than anticipated revenues.
- **Water Distribution** and **Water Plant** operations are currently reporting a year-end deficit of (\$186,414) resulting from higher restoration/construction, utilities, insurance, materials, and supplies costs; partially offset with higher than anticipated revenues and lower fuel costs.

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

- **Revenue Fluctuations due to Changes in Consumption** – The revenue projection has been prepared using actual consumption to date combined with the historical average consumption projected for the remaining months of the year. Overall, actual consumption has been trending close to budget. The City is expecting to end the year with a total Water and Wastewater revenue surplus of approximately \$65,000. The City may 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 influence actual utility costs and there is always a risk that variances will be realized between budget and actual costs. Utilities are currently trending on budget.
- **Insurance** – At the time of establishing the 2024 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 2024 was known, and the increase was applicable to the remaining 8 months. Actual insurance costs are slightly over budget by approximately (\$22,000).
- **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. In 2024, higher than expected

restoration costs resulted due to unforeseen emergency repairs.

- **Fuel** - The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.62 per litre. Actual fuel rates for the first 9 months of the year have been lower than budget. The current weighted average fuel rate is \$1.42 per litre. Projections are based on current realized savings as well as projected rates for the remainder of the year. Under the terms of the current contract, the City pays pricing based on the Ultramar Daily Toronto Rack Rate. If usage remains the same for the balance of the year, savings are estimated to be approximately \$29,000 by year-end.
- **Personnel** - Several vacancies continue to be the result of recruiting issues. The labour market is experiencing a shortage in many areas, especially in the skilled trades. With this shortage comes increased competition as employers are choosing from a smaller pool of candidates. The City has experienced challenges in recruiting employees that meet qualifications. Estimated net personnel savings projected for 2024 are approximately \$241,000. Realized savings are considered one-time and not sustainable as full complement is required to deliver budgeted municipal services. Overtime costs have occurred due to vacancies as well as emergency situations (i.e. infrastructure breaks).

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 as at the date of this report (*excluding* 2024 budgeted one-time reserve transfers in the amount of \$450,000 Wastewater and \$375,000 Water, respectfully), are as follows:

- Water Operating Reserve Fund (#99576R) - \$1,266,461
- Sanitary Sewer Operating Reserve Fund (#99577R) - \$1,498,463

As per the City's Reserve Policy, the Water and Wastewater Stabilization Reserve target is 10% to 15% of budgeted expenditures. Accordingly, with 2024 gross Water operating budgeted expenditures of \$15.1 million, the Water operating reserve should ideally be in the range of approximately \$1.5 million to \$2.3 million. Based on 2024 gross Wastewater operating budgeted expenditures of approximately \$14.2 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.4 million to \$2.1 million.

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 \$493,318 was budgeted within the 2024 Water and Wastewater Operating Budget. The balance in this Reserve as at the date of this report is \$1,673,411, including the 2024 transfer.

Upon finalization of in-year and year-end transactions, surpluses or deficits are recommended to be transferred to/from the reserve balances noted above.

Recommended Option

That Council receive and file the City of North Bay's Water and Wastewater Year-end Financial Projection for the period ending September 30, 2024, as set out in Report to Council CORP 2024-091 dated October 25, 2024, from Laura Boissonneault.

Respectfully submitted,

Name: Laura Boissonneault, CPA, CGA, PCP

Title: Manager, Financial Services

I concur with this report and recommendation.

Name: Alan Korell

Title: Interim City Engineer

Name: Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name: John Severino, P.Eng, MBA

Title: Chief Administrative Officer

Personnel designated for continuance:

Manager of Financial Services

Attachment: Appendix A – Water & Wastewater Unit Variance Summary

Appendix B – Water & Wastewater Budget VS Actual Year-end Projections