



City of North Bay Report to Council

Report No: CORP-2021-114

Date: October 5, 2021

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2022 Water Wastewater Operating Budget

Closed Session: yes no

Recommendation

That Council receive and refer the 2022 Water & Wastewater Operating Budget to a Special Committee Meeting to be held on October 25, 2021.

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 2022 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 2022 Water & Wastewater Operating Budget to ensure that the drinking water system remains financially viable.

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

Budget Guidelines – The 2022 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 level of service have been included in the Service Level section of Appendix A.

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
- 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. The enclosed budget assumes hydro and natural gas rates and usage costs will increase by the 5 year average (1.2% and 7% respectfully) over projected 2021 year-end actuals.

Fuel – Fuel costs are estimated based on the anticipated usage at an average fuel rate of \$1.058 per litre. This includes an assumption for the annual federal carbon tax increase of \$0.0221 per litre. The federal carbon tax on fuel came into effect on April 1, 2019 and will continue to increase annually until April 2022.

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

Staff Complement – All staffing costs and Full Time Equivalent (FTE), including positions grant funded or directly related to Capital, are reported in the personnel costs with any associated offsetting revenues being recorded accordingly.

Fringe Benefits - Staff benefit costs have been updated by the Finance Department. Benefits include items such as Employment Insurance, Canada Pension Plan, WSIB, OMERS, EHT, LTD, Life, AD&D, dental and major medical. 2022 Manulife rates include an estimated combined increase of 9.9% for dental, major medical, Life and AD&D. Some benefit rates were unknown at the date of this report (WSIB, EI, etc.), but assumptions have been made for anticipated increases. Any new information received will be brought forward to Council during the Special Budget Committee Meetings.

Insurance – The City’s insurance period is from May to April. Therefore, the first 4 months of 2022 is known and any risk of variance is applicable to the remaining 8 months. The insurance premiums for 2022/23 were not confirmed as at the date of this report. The enclosed budget has been prepared with a 10% increase in insurance premiums over the 2021/22 contract. Any new information received regarding premiums will be brought forward to Council during the Special Budget Committee Meetings.

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 Long-Term Capital Funding Policy outlines the formula to be used to calculate the amount of the levy. One component of the calculation is to add an inflationary adjustment (CPI) to the prior year’s levy amount when calculating the current year’s levy. Consistent with the approach followed since 2019, it is recommended that the CPI factor be removed from the 2022 calculation as there is sufficient funding in 2022 to support water and wastewater capital projects. This recommendation has been incorporated into the proposed budget attached as Appendix A and results in a reduction of approximately (\$501,900) in costs to the 2022 Operating Budget from what the policy formula otherwise would have required.

Staff is recommending that the CPI adjustment be removed from the calculation for the 2022 budget only. Upon finalization of the update to the City’s Asset Management Plan, a determination will be made as to whether the Long Term Capital Funding Policy should be amended to eliminate the CPI on a permanent basis.

The Long Term Capital Funding Policy provides for an increase in the Capital Funding Allowance of 2% over the prior year’s budgeted water and wastewater user fee revenue. Accordingly, this increase has been included in the Preliminary 2022 Budget and represents an increase of approximately \$474,400.

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, 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 establishment of reserves provides some ability to respond to emergencies and to absorb some operational deficits. The balance in the associated Operating Reserves as at October 1, 2021 (before any changes that may occur as a result of 2021 operational surplus/deficit) is as follows:

- Water Operating (99576R): \$1,034,951
- Sewer Operating (99577R): \$1,484,674

The combined Water and Wastewater Operating Reserves represent funds available to mitigate the on-going operational risks, including risks associated with operating a metered billing system or any unforeseen circumstances. 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 \$13.85 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. The water reserve balance is below the target range while the Sanitary Sewer reserve balance is within the target range.

A separate reserve, 'Water Treatment Surcharge', Reserve No. 99580R, is available to offset any shortfalls in the Water Filtration Charge should actual revenues be lower than budget. This reserve was established with surplus funds from the Water Treatment Capital Project No. 2592WS and is intended to be applied against the principal and interest on debt issued for the Water Treatment Facility. A reserve transfer in the amount of \$164,100 will be utilized in 2022 to pay the on-going principal and interest on debt issued. The balance in this Reserve as at the date of this report is \$679,283. In 2021, Council approved increasing the transfer from reserve to \$527,752 (total 2021 principal and interest costs for the water treatment plant loan) in order to provide one-time financial relief to residents during the pandemic.

Council also approved a reserve transfer from the Wastewater Capital Reserve in the amount of \$300,000 for the 2021 budget. The transfer was approved in order to provide financial relief to residents during the pandemic. The transfer is being phased out and is recommended to decrease to \$150,000 in 2022.

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 2022 Water Wastewater rates. The calculated rates will be presented to Council through a separate report.

COVID-19 – Throughout 2021, there have been limited interruptions to essential water and wastewater services due to COVID-19. Departments continue to review operational practices and establish necessary steps to ensure minimal possible disruptions to users and staff.

The City continues to closely monitor the COVID-19 outbreak and will provide further updates should there be any major unforeseen service disruptions or financial impacts.

Recommended Option

That the 2022 Water & Wastewater Operating Budget be received and referred to a Special Committee Meeting to be held on October 25, 2021.

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 – 2022 Water Wastewater Operating Budget

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer