

City of North Bay Report to Council

Report No: CORP 2019 – 123 **Date:** October 01, 2019
Originator: Laura Boissonneault
Business Unit: Corporate Services **Department:** Financial Services
Subject: 2020 Water and Wastewater Operating Budget
Closed Session: yes no

Recommendation

That Report to Council CORP 2019-123 regarding the 2020 Water & Wastewater Operating Budget be received and referred to a Special Committee Meeting – 2020 Water and Wastewater Operating Budget and Water Rates, to be held on October 23, 2019.

Background

During September and October, the City Engineer – Infrastructure & Operations and associated management team members met with the Chief Administrative Officer, Chief Financial Officer, and finance staff to review the Preliminary Water & Wastewater Operating Budget submissions. The proposed 2020 Water and Wastewater Operating Budget is attached to this report as Appendix A.

Financial/Legal Implications

Drinking water system owners are required to prepare a financial plan for their drinking water system as part of the new 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.

The City of North Bay Water Financial Plan was prepared by City staff and encompass years 2016-2025. This plan was endorsed by Council Resolution No. 2016-46 in January 2016 and a copy was provided to the Ministry of the Environment, Conservation and Parks (MECP). The principles laid out in the approved financial plan were used in setting the preliminary 2020 Water and Wastewater Operating Budget and ensures 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 2020 Water & Wastewater Operating Budget was prepared with the following guidelines:

Service Delivery – The preliminary 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

Utility Costs – Budget estimates take into consideration the prior year’s data, projected actual billings, as well as expected future trends. 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 costs will increase by 1% and natural gas by 1.3% from the 2019 projected year-end actuals.

Fuel – Fuel costs are estimated based on the anticipated usage for 2020 and the 9-month average fuel rate of \$1.02 per litre. In addition, \$0.022 per litre was added to the fuel rate for the phase-in of the federal carbon tax. The federal carbon tax on fuels came into effect on April 1, 2019. Therefore, the overall projected 2020 fuel rate is estimated at \$1.042 per litre.

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 and are reflected within the departments that individuals are assigned. Benefits include items such as Employment Insurance, Canada Pension Plan, WSIB, OMERS, EHT, LTD, Life, AD&D, dental and major medical. Not all 2020 benefit rates were known at the date of this report

which may lead to 2020 operational variances. However, 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 2020 is known and any risk of variance is applicable to the remaining 8 months. The insurance premiums for 2020 were not confirmed as at the date of this report. The enclosed 2020 budget has been prepared with no change in insurance premiums over the 2019 budget. However, any new information received regarding the 2020 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 and Wastewater Operating Budget that is used to finance projects within the City’s Water and 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. After reviewing the preliminary water and wastewater capital projects identified for 2020, staff is recommending that the CPI adjustment be removed from the calculation for the 2020 budget only as there are sufficient funds available without the addition of the CPI to support projects identified. This recommendation has been incorporated into the presented budget attached as Appendix A and results in a reduction of (\$289,978) in costs to the 2020 Operating Budget from what the policy formula otherwise would have required. The CPI adjustment will be maintained as part of the funding formula for the remainder of the 10 year capital budget plan.

Debenture Financing – As per the City’s Long Term Capital Funding Policy, the annual funding allowance for the Water and Wastewater Capital Budget includes \$3 million in debt financing to support capital projects. Principal and interest payments are budgeted within the Water and 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 and economic 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, 2019 is as follows:

• Water Operating (99576R):	\$333,915
• Sewer Operating (99577R):	<u>\$3,590,449</u>
Total Operating Reserves	\$3,924,364

The combined Water and Wastewater Operating Reserves represent funds available to mitigate the ongoing 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 2020 gross Water Operating Budgeted expenditures of \$13.4 million, the Water Operating Reserve should ideally be in the range of approximately \$1.3 million to \$2 million. Based on 2020 gross Wastewater Operating Budgeted expenditures of approximately \$10.8 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.1 million to \$1.6 million. The Water Operating Reserve remains well below the policy target while the Sanitary Sewer Operating Reserve is above the policy range. Note that the above reserve balances are subject to year-end accruals and allocations. Should future deficits exceed the water and sewer reserves, departments would need to obtain Council approval to borrow from the City's other reserves.

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 budgeted. 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. The balance in this Reserve as at the date of this report is \$1,341,893. During the 2019 Water and Wastewater Operating Budget deliberations, staff recommended that the reserve be drawn down on an annual basis to offset a portion of the principal and interest costs on the Water Treatment Plant loan until the loan is fully repaid. Accordingly, the presented budget includes a transfer from the Water Treatment Surcharge reserve in the amount of \$164,100. This recommendation will assist in reducing the costs that need to be recovered from customers through the Water Filtration Surcharge. The loan will be fully repaid in 2027.

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 2020 Water and Wastewater rates. The calculated rates will be presented to Council under a separate report.

Recommendation

That Report to Council CORP 2019-123 regarding the 2020 Water & Wastewater Operating Budget be received and referred to a Special Committee Meeting – 2020 Water and Wastewater Operating Budget and Water Rates, to be held on October 23, 2019.

Respectfully submitted,

Laura Boissonneault, BBA, CPA, CGA
Manager of Financial Services

We concur in this report and recommendation.

John Severino, P.Eng., MBA
City Engineer, Infrastructure &
Operations

Margaret Karpenko, CPA, CMA
Chief Financial Officer / Treasurer

David Euler, P.Eng., PMP
Chief Administrative Officer

Personnel designated for continuance: Chief Financial Officer/Treasurer
Attachments: Appendix A – 2020 Water and Wastewater Operating Budget