



City of North Bay Report to Council

Report No: CORP-2024-002

Date: December 28, 2023

Originator: Laura Boissonneault

Business Unit:

Department:

Corporate Services

Financial Services Department

Subject: 2024 Water and Wastewater Operating Budget

Closed Session: yes no

Recommendation

1. That Council receive the City of North Bay's 2024 Water and Wastewater Operating Budget as set out in Report to Council CORP 2024-02 dated December 28, 2023 from Laura Boissonneault.
2. That Report to Council CORP 2024-02 be referred to a Special Committee Meeting to be held on January 8th, 2024.

Background

The Water and Wastewater Operating Budget is a financial plan that describes the costs required to operate the water and wastewater systems and determines the amount of money that must be raised through water and wastewater rates to fund the anticipated expenditures. The Water and Wastewater Operating Budget is fully funded by user rates with no reliance on property taxes.

The City's annual budgeting process is based on a zero-based budgeting philosophy whereby all prior year budget amounts are set to zero and departments must review and justify the inclusion of cost estimates for the new budget year. Budget estimates are based on anticipated future requirements, historical trends, market conditions and contractual agreements. Management also takes into consideration anticipated savings expected to be realized through various capital investments and other continuous improvement initiatives when developing revenue and expense estimates for the upcoming year. For example, the enclosed budget includes anticipated utility cost savings as a result of various capital infrastructure investments completed in 2023, such as the replacement of the digester at the Wastewater Treatment Plant. Additionally, savings in postage costs and office supplies are forecasted for 2024 due to an increase in the number of customers that switched from paper bills to e-bills following a contest held in late 2023.

The preparation of the annual budget includes the following steps:

1. **Preparation** - Finance starts the budget process by rolling existing cost centers and departments into the next year with zero dollars. Finance populates personnel costs based on individual positions and contractual rates established through union contracts, personnel agreements, and City wage by-laws. Annual benefit changes and legislated costs are updated as well as utilities, insurance, interdepartmental activities, and applicable capital & reserve transfers. Budgets are then promoted to the departmental

level for review and input of individual goods and services and ancillary revenue amounts.

2. **Department Input** - Each department reviews their budgets and determines current needs based on historical trends and future requirements to maintain existing service levels. Budgets are then promoted to senior management for review and approval. Once reviewed by senior management, budgets are promoted to Finance where individual budget line item variances and overall budget positions are analyzed. The Preliminary Water and Wastewater Operating Budget package is then prepared for internal roundtable review with the CAO.
3. **Internal Review** – Internal roundtable meetings are held to review the Preliminary Water and Wastewater Budget with departmental management, the Chief Administrative Officer, the Chief Financial Officer, and Finance staff. Amendments are made and the updated ‘Proposed Water and Wastewater Operating Budget’ package is forwarded to Council for consideration through Special Budget Committee Meetings.
4. **Council Approval** – Special Budget Committee meetings are held to review the staff recommended budget and finalize the budget requirements for the upcoming year. The Special Committee Meetings are open to the public. Additionally, a public meeting is held to review the corresponding Water and Wastewater rates. Recommendations from the Special Committee Meetings are brought forward to Council for final approval.

The proposed 2024 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 used to establish 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 proposed 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.
-

Options Analysis

Budget Guidelines – The 2024 Water & Wastewater Operating Budget was prepared with the following guidelines:

Service Delivery – The budget was prepared based on Management’s projections and cost estimates to deliver existing service levels to ratepayers. Suggestions that provide Council with options to change the current levels of service are presented in the Service Level section of the budget. There are no Service Level options proposed for 2024.

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
- Historical trends and expected future operational requirements

Utility Costs – Budget estimates take into consideration the prior year’s data as well as projected demands and rates. Calculations include such items as the benefit of energy efficiencies gained through capital investments and enhanced education programs to improve energy conservation. Natural Gas budgets were set based on 2023 projections, plus an 8.7% increase (5-year average). Hydro budgets were set at 2023 projections, plus a 2% increase.

Fuel – The fuel budget was set based on expected usage at an estimated weighted average rate of \$1.57 per litre (12 month average), plus the carbon tax increase in April 2024, and the Ontario Fuel Tax reestablishment by June 2024, totaling \$0.0529 per litre. The estimated overall weighted average fuel rate totals \$1.62 per litre (2023 - \$1.78).

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 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. 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 0.2%. The new rates have been reflected in the enclosed budget.

Insurance – At the time of establishing the 2024 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 2024 is known and the increase is 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 annual levy.

In accordance with the policy, a 2% increase over the prior year’s budgeted water and wastewater revenues, as well as a CPI factor was to be included in the proposed budget to support the capital levy and debenture principal and interest payments. However, the current budget is based on a phased-in approach for the inflationary component of the levy in order to mitigate the impact on the overall budget. The 2024 budget impact for capital funding totals \$875,898.

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 2023 year-end transfers) 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 2024 gross water operating budgeted expenditures of \$15.1 million, the Water Operating Reserve should be in the range of \$1.51 million to \$2.27 million. Based on 2024 gross wastewater operating budgeted expenditures of \$14.2 million, the Sanitary Sewer Operating Reserve should be in the range of \$1.42 million to \$2.13 million. Currently, reserves are below the City’s reserve target policy (before 2023 year-end transfers).

A separate reserve, Water Treatment Surcharge, Reserve No. 99580R, was established for principal and interest on debt issued for the Water Treatment Facility. A reserve transfer in

the amount of \$493,318 is budgeted within the 2024 Water and Wastewater Operating Budget. The balance in this Reserve as at the date of this report is \$2,080,219, which is net of the 2023 budgeted transfer to operations.

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 2024 Water Wastewater rates. The calculated rates will be presented to Council through Report to Council CORP 2024-03.

Recommended Option

1. That Council receive the City of North Bay's 2024 Water and Wastewater Operating Budget as set out in Report to Council CORP 2024-02 dated December 28, 2023 from Laura Boissonneault.
2. That Report to Council CORP 2024-02 be referred to a Special Committee Meeting to be held on January 8th, 2024.

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 Margaret Karpenko, CPA, CMA

Title: Chief Financial Officer /Treasurer

Name Alan Korell

Title: City Engineer – Infrastructure and Operations

Name John Severino, P.Eng., MBA

Title: Chief Administrative Officer

Attachments: Appendix A – 2024 Water Wastewater Operating Budget

Personnel designated for continuance:

Margaret Karpenko, CPA, CMA

Chief Financial Officer /Treasurer