

REPORT FROM THE DIRECTOR OF FINANCE & TREASURER

Re: 2023 USER PAY BUDGET (WATER WASTEWATER)

RECOMMENDATION

That the report of the Director of Finance & Treasurer re: 2023 User Pay Budget be received;
And that the 2023 Ad Hoc Budget Committee approve the 2023 User Pay Budget as presented;
And that the necessary bylaw be forwarded to Council for adoption.

BACKGROUND

Based on provincial regulations User Pay Rates (for Water and Wastewater) are that require consumers to pay the full cost of consumption and disposal.

The purpose of this report is to present the 2023 User Pay Budget (Water Wastewater) for the City of Elliot Lake. The approach to this budget is a zero based budget model. This means that each budget line has been reviewed individually and justified. There is no automatic year-to-year percentage increases. Each position, line expenditure or operational cost has a rationale directly linked to City operations. The operational budget is an estimate of the income and expenditure for the department determined by service levels, actual expenses, and information from previous years' budgets.

ANALYSIS

WATER AND WASTEWATER FINANCIAL PLAN 2020 – 2029

In accordance with O.Reg. 453/07 the last Water and Wastewater Financial Plan (Appendix A) was completed in October 2021; subsequently presented to council at the November 21, 2022 adhoc budget committee meeting. The 2020 Water and Wastewater Financial Plan (often referred to as the Rate Study) provides a strategic plan to ensure that the City has sufficient funds to cover future water/wastewater system operating costs, and water/wastewater system asset renewal and replacement costs (Capital Projects).

This rate study consists of the following tasks:

- Compile the current and projected costs for the 2022-2029 period;
- Project capital renewal and replacement costs to 2029;
- Develop water and wastewater rates for 2022 to 2031, based on the above, utilizing best rate setting practices;
- Compare the current rates in Elliot Lake with those of nearby communities

WATER AND WASTE WATER RATES

The 2023-2031 projected rates for water and wastewater are set out in section 3.4. This projection requires a steady 7% year over year increase. This is in line with council's recent practices. Since 2016, Council has been applying a 7% increase to the user rates to build necessary reserves to fund the 10-year asset management plan (AMP). This was based on the capital requirement for replacing the underground infrastructure on road projects like the Valley/Hemlock project. In 2020, the majority of the work on Pine/Poplar was completed with a water/waste component at approx. \$1.4M; since that time all estimates for infrastructure projects have increased significantly.

RESERVES

In accordance with the Appendix A, the 2023 Budget maintains a 7% increase to the contribution to reserves, while holding the increase to total increase to billing at 6.77%.

Section 3.6 in Appendix A cites that the City will have a reserve deficit by the end of 2025. Appendix B provides the September 19, 2022 report of the Director of Finance & Treasurer regarding the Reserves Report and Capital Forecast including a detailed focus with respect to the appendices related to User Pay – Water Wastewater. This report confirms the significant pressure on the reserves.

SALARIES & BENEFITS

In line with zero-based budgeting, wages has been based on the level of the incumbents at the time of budgeting and will be projected in the following year with accuracy related to the nearest next month that their classification changes.

At the February 21, 2023 adhoc budget meeting, council reviewed an in camera report from the Director of Finance/Treasurer regarding the 2023 Wages and Benefits Budget. Staff received direction to include a total of \$1,223,150 in wages and benefits for the plants administration and operations, exclusive of distributed wages from other public works departments.

The below table provides a detailed look at the departments/cost centres within the City.

	2023	2023	2022	2022	variance	variance
	employees	Budget	employees	Budget	employees	Budget
Mayor & Council	7	\$163,430	7	\$153,751	0	\$9,679
CAO	3	\$369,434	3	\$396,960	0	-\$27,526
Corporate Services	18	\$1,640,837	18	\$1,543,987	0	\$96,849
Protective Services	44	\$2,258,355	39	\$2,038,678	5	\$219,677
Infrastructure Services	47	\$3,060,355	45	\$2,981,492	2	\$78,863
Recreation and Culture	65	\$1,092,611	69	\$1,193,918	-4	-\$101,306
Economic Development	2	\$160,623	3	\$198,528	-1	-\$37,904
Public Library	9	\$349,451	8	\$336,414	1	\$13,036
Water & Sewer (User Pay)	14	\$1,223,150	14	\$1,225,933	0	-\$2,784
Total	209	\$10,318,245	206	\$10,069,661	3	\$248,584

CONFERENCES, CONVENTIONS & TRAVEL

Throughout 2020 and into 2022, conferences and conventions moved to virtual platforms. In 2023, many departments will attend in person to conferences. With this reasoning in mind, the 2023 budget lines for departments are budgeted reflective of 2020 requirements.

UTILITIES

A review of CPI for energy in the Province of Ontario shows that the rate is 6.4%; this CPI includes gasoline and diesel. To that extent, the CPI used for the determination of the 2023 budget is 5%.

A review of the three-year average with respect to hydro consumption and natural gas provides the basis for the 2023 budget; and includes an increase of 5% increase for CPI. Unless other extenuating circumstances are known at the time of budgeting.

In 2022, Ontario Hydro issued a large credit note for billing pertaining to the lift stations and water treatment plant. To that extent, the credit is resultant in the unaudited 2022 actuals being under budget.

Normally, the boilers in use at the wastewater plant are capable of burning methane produced during processing as fuel. Since late 2022, the system that allows burning of methane has required maintenance, and Staff has had difficulty addressing the issue due to the very limited number of qualified technicians available. As such, the boilers have been burning natural gas as fuel since that time which has increased operating costs. The timeframe for parts and repair is unknown and a budget increase is required.

City of Elliot Lake	2023 Budget	2022 Budget	Variance	2022 Actuals Unaudited	2022 Budget to Actuals Unaudited	2021 Actual
HYDRO Sewage Treatment Plant	\$151,992	\$143,314	\$8,678	\$132,581	(\$10,733)	\$132,230
HYDRO Lift Stations	\$191,440	\$196,785	(\$5,345)	\$153,102	(\$43,683)	\$179,420
HYDRO Water Treatment Plant	\$335,422	\$332,654	\$2,768	\$284,173	(\$48,481)	\$310,473
NATURAL GAS Sewage Treatment Plant	\$83,248	\$49,383	\$33,865	\$79,284	\$29,901	\$46,860
Total	\$762,102	\$722,136	\$39,966	\$649,140	(\$72,997)	\$668,984

INSURANCE

Per the December 31, 2022 renewal, insurance premiums have increased by 11.84%. Insurance is allocated between General Government, Municipal Airport, Public Library and the User Pay (Water/Waste Water Budget). The 2022 User Pay budget in err, did not include an increase for insurance premiums (the overage was absorbed by General Government).

Using distribution created from the approved 2022 Levy for Municipal Taxation and User Pay, the distribution of insurance expense is revised in 2023 resultant in a 30% on all insurance lines within the User Pay budget.

COST CENTRE ANALYSIS – SCHEDULE B

The following analysis pertains to a by cost centre review of notable changes contained in Schedule B and Schedule C.

PLANTS ADMINISTRATION

Contracted services increases based on actuals in 2021 and 2022 namely due to increases in services provided by the Electrical Safety Authority.

PLANTS OPERATIONS

Pertaining entirely to the salaries and benefits; the reduction in this cost centre pertains to the anticipated approval of a \$35,000 grant from the Northern Ontario Heritage Fund Corporation (NOHFC) for the Operator in Training position.

SEWAGE TREATMENT ADMINISTRATION

Notable increases to utilities and insurance as previously discussed.

SEWAGE TREATMENT OPERATIONS

Contracted services is slightly increased based on three year average actuals. Chlorine costs have increased 15% and aluminum sulphate 10% over 2022.

SANITARY SEWER CONNECTIONS

Contracted services are known to increase in 2023 due to increased due diligence in maintenance and record keeping related to sanitary lines.

LIFT STATIONS

No significant variance to note.

WATER TREATMENT PLANT ADMINISTRATION

The 2023 budget is citing a significant increase to municipal taxes based on actuals in 2022 and 2021; an allowance of 5% for levy increase is included. Insurance premiums as previously discussed.

WATER TREATMENT PLANT OPERATIONS

No significant variance to note.

WATER TREATMENT PLANT TREATMENT

Chemical costs are on the rise, chlorine costs have increased 15%, lime and poly-aluminum chloride 10% over 2022. Likewise, sludge disposal contracts are known to increase in 2023.

WATER BILLING & MISC. REVENUE

Water billing will increase 6.77% in 2023. Through prudent administration additional revenue is budgeted related to service charges (for additional services – see Schedule A) and for penalty (interest) charges. The increase related to reserve transfer was previously discussed.

WATER MAINS

Based on known increases for materials, this line increases by \$25,000.

FINANCIAL IMPACT

Schedule A of the proposed bylaw details the 2023 billing to be \$921.00 for residential (flat annual rate) and commercial (metered) properties. Resultant in an annual increase of \$58.00 or a monthly increase of \$4.83. Cubic metered rates have increased 6.77% over 2022. Schedule D provides the revenue estimate for 2023.

With respect to service fees, additional services are available. These include, Water Supply Leak Investigation, Sewer Lateral Rodding (Camera), After Hours Call Out For Sewer Back Up Emergency and Fire Hydrant Maintenance. This would be used in the event of service requests Service fees collected in year are reported in the operational financial statements and any annual surplus is returned to water/wastewater reserves.

LINKS TO STRATEGIC PLAN

The report is consistent with the commitment identified by Mayor and Council within the Strategic Plan focusing on “Continued Investment into Infrastructure”.

SUMMARY

It is recommended that Council approve the 6.77% increase to water/waste water rates. It is the recommendation of the Director of Finance & Treasurer that the 2023 User Pay Budget be approved and that the necessary bylaw be forwarded to Council for adoption.