

FINANCE COMMITTEE REPORT

Report Date	October 16, 2020
Meeting Date	October 21, 2020

Chairman Councillor Merrithew and Members of Finance Committee

SUBJECT: 2021 Utility Fund Operating Budget

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of Finance Committee.

AUTHORIZATION

Primary Author	Commissioner/Dept. Head	City Manager
<i>Craig Lavigne</i>	<i>J. Brent McGovern</i>	<i>John Collin</i>

RECOMMENDATION

It is recommended that the Finance Committee approve the 2021 Utility Fund Operating budget as presented and submit to Common Council for receive and file once the Industrial Raw Water Budgets have been approved by the Finance Committee.

EXECUTIVE SUMMARY

The 2021 Utility Fund Operating Budget will represent the third year in a row that will see no rate increase for ratepayers that use both water and sewer services. These ratepayers include both flat rate customers which will see the annual cost remain the same at \$1,428 per year and metered customers will see no change in the cost per cubic meter and meter charge. The budget being presented does not include Industrial users of raw water.

The Utility has been aggressive in reducing costs in 2020 through staffing reductions, lower or no wage increases and with savings associated with lower interest cost on refinanced debentures. It is critical that rate stabilization continues to be high priority in light of the global pandemic, COVID 19, and due to the fact that rates have increased significantly over several years due to mega projects - Safe Clean Drinking Water and Harbour Clean-up.

The Utility still is facing pressure on shrinking revenues. Flat rate customers declined again in 2020 over previous year to 15,815 accounts. Also with the closure of Saputo at the end of the year, the revenue loss from this one account is approximately \$225k. The impacts of reduced meter revenue due to COVID 19

will likely continue into 2021 and the budget has included an estimate for this loss in revenue. Rate stabilization will continue to be challenging if the Utility does not experience growth in both residential and commercial customer base.

PREVIOUS RESOLUTION

N/A

STRATEGIC ALIGNMENT

The proposed 2021 Utility Fund Operating Budget is aligned with Council's priorities in taking a strategic approach to financial management of the Utility by continuing to contribute capital funding from operating, finding other revenue sources, improving the allocation of costs among ratepayers and continuing to find cost reductions and savings through continuous improvement initiatives.

REPORT

The 2021 Utility Fund Operating Budget will represent the third year in a row that will see no rate increase for ratepayers that use both water and sewer services. These ratepayers include both flat rate customers which will see the annual cost remain the same at \$1,428 per year and metered customers will see no change in the cost per cubic meter and meter charges.

Revenue

Overall revenue for 2021 has been budgeted at \$41,949,000 (2020- \$43,154,000). The Utility saw a minor decrease in flat rate customers over the 2020 budget resulting in a decline of 20 accounts. Since 2017 the number of flat rate accounts has declined by a total of 415 accounts. Some of the decline relates to customers having to switch to meter per by-law requirements, a large number relate to demolished buildings and a number of properties were bought and demolished as a result of the Irving Oil butane leak.

The biggest reduction in revenue is the meter customers (\$980k), which are largely commercial, manufacturing, malls, schools, restaurants, hotels and apartment buildings. COVID 19 will likely continue to have negative impact on many of these businesses and revenue has been adjusted downward to account for this impact.

Another significant impact to revenue for 2021 will be the closure of Saputo at the end of 2020. This customer represents approximately \$225k in revenue for the Utility. The Utility would have to add 157.5 new flat rate accounts in order to make up this revenue.

The balance of revenue includes the fire protection levy, storm sewer levy, interest revenue, other revenue and prior year surplus which is much less than previous years.

Expenditures

The Utility has undergone significant reduction in its workforce in order to balance the budget, stabilize rates and move toward operational optimization. The Utility has eliminated 10 positions and reduced salary and benefits by over \$1.05 million for 2021. This is the first budget that includes the wage escalation policy. Two of the three work groups will see 0% increases with the last group in its final year of its contract.

This restructuring is key in creating the stability needed to allow the Utility to better plan and stabilize its future rates.

The Utility has also been able to save additional interest expense on debentures due to lower interest rates on debentures that have been refinanced in 2020. There continues to be a focused approach in reducing debt which will have a balance of \$81.9 million at the end of 2021 from over \$107.4 million at the end of 2017 which is a 23.71% reduction in 5 years.

The budget includes \$4.8 million in pay as you go (capital from operating) capital funding. This will allow the Utility to complete its 2021 capital program without any additional borrowing. There continues to be a very strong effort to seek any capital funding available to offset the Utilities cost of infrastructure renewal. The Utility is currently straddled with over \$300 million infrastructure deficit and the capital renewal programs are seriously underfunded.

The operating budget also includes for the first time, \$625k for an operating reserve. The Utility has very few levers available to deal with events such as COVID 19 and the impact events can have on revenues. This operating reserve will allow the Utility to build some flexibility and better position itself to stabilize rates moving forward.

Conclusion

The 3rd rate freeze for 2021 is a positive note for ratepayers after having experienced several years of increases during Harbour Clean-u and the Safe, Clean Drinking Water Project. The Utility has continued to focus on cost reductions, continuous improvement, finding efficiencies, and process to improvements 2020, as well as debt management, leveraging of funds from other levels of Government and pay as you go for all capital expenditures.

The Utility will continue to focus on the various cost control initiatives. However a major issue the Utility cannot control is the growth of its revenue base. There continues to be a steady decline in flat rate accounts and meter consumption and in order to be able to continue to stabilize rates, the Utility needs to start seeing flat rate accounts and meter consumption increase.

The Utility will be completing its 10 year long term financial plan in 2021 and this document will provide the financial road map for the Utility.

SERVICE AND FINANCIAL OUTCOMES

See enclosed 2021 Utility Fund Operating Budget

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

The budget was established in collaboration with the City's Finance team.

ATTACHMENTS

Appendix – A – 2021 Saint John Water Operating Budget