ITEM # 4.1
HRWC Board

March 26, 2020

TO: Craig MacMullin, MBA, CPA, CGA, Chair and Members of the Halifax Regional Water Commission Board

SUBMITTED BY: Digitally signed by Louis de Montbrun Date: 2020.03.20 11:49:42 -03'00'

Louis de Montbrun, CPA, CA
Director, Corporate Services/CFO

APPROVED: Cathie O'Toole Digitally signed by Cathie O'Toole DN: cn=Cathie O'Toole, o=Halifax Water, ou=General Manager, email=cathieo@halifaxwater.ca, c=CA Date: 2020.03.19 20:05:49 -03'00'

Cathie O'Toole, MBA, FCPA, FCGA, ICD.D
General Manager

DATE: March 18, 2020

SUBJECT: **Operating Results for the Eleven Months Ended February 29, 2020**

INFORMATION REPORT

ORIGIN

Financial Statements

BACKGROUND

The Board is required to review periodic financial information throughout the year.

DISCUSSION

Attached are the operating results for eleven (11) months of the 2019/20 fiscal year, period ending February 29, 2020. The statements reflect direct operating costs by department and allocations among water, wastewater and stormwater for common costs shared across all the services provided by Halifax Regional Water Commission (Halifax Water).

Halifax Water is a fully regulated government business enterprise, falling under the jurisdiction of the Nova Scotia Utility and Review Board (NSUARB). The NSUARB requires that Halifax Water file Financial Statements and rate applications with the Board based on the NSUARB Handbook for Accounting and Reporting for Water Utilities. The Accounting Standards Board (AcSB) requires rate regulated entities to conform to International Financial Reporting Standards (IFRS).

The Commission maintains the financial records in IFRS for the purposes of the annual audit and consolidation of the financial statements with those of Halifax Regional Municipality (HRM). The budget for the 2019/20 fiscal year was prepared using the NSUARB format and financial results continue to be provided in NSUARB format.

Summary information in NSUARB format is provided for the Balance Sheet on Page 1 and the Income Statement on Page 2. A detailed presentation of the Balance Sheet and Income Statement is provided on Pages 3 and 4. Pages 5 through 8 provide Income Statements by Service and for Regulated and Un-Regulated Services. Pages 9 and 10 provide the Balance Sheet and Income Statement in IFRS format.

Consolidated Income Statement - Page 2 of attachment

Summarized Consolidated Operating Results				
	Actual YTD 2019/20 '000	Prior YTD 2018/19 '000	$ Change	% Change
Operating Revenue	**$128,784**	$126,853	$1,931	1.5%
Operating Expenses	**$97,292**	$93,914	$3,378	3.6%
Operating Surplus (Deficit)	**$31,492**	$32,939	($1,447)	(4.4%)
Financial Revenue	**$1,082**	$1,737	($655)	(37.7%)
Financial Expenses	**$28,477**	$30,604	($2,127)	(7.0%)
Net Surplus before Pension	**$4,097**	$4,072	$25	0.6%
Accrued Pension Expense	**$7,345**	$4,765	$2,580	54.1%
Net Surplus (Deficit)	**($3,248)**	**($693)**	$2,605	(375.9%)

Key items of note:

- Operating revenue to date of $128.8 million is $1.9 million higher than the prior year.
- Operating expenses to date of $97.3 million are $3.4 million higher than the prior year.
- The Net Surplus, before Accrued Pension Expense, for the year to date is $4.1 million.
- The Net Deficit, after Accrued Pension Expense, for the year to date is a loss of $3.2 million, an increase in the loss of $2.6 million from the prior year.

The approved Net Deficit after Accrued Pension Expense was $14.0 million for the full fiscal year. The approved Net Deficit before Accrued Pension Expense was $8.4 million. (See page 2 of the attachment).

The forecasted Net Deficit before Accrued Pension Expense is $11.2 million for the full fiscal year. This is an improvement of $2.8 million from the approved Budget. (See page 2 of the attachment).

- Cumulative changes to the forecast include:
    - A reduction in Operating Revenue of $0.8 million, as a result of lower revenue for several unregulated activities;

- A reduction in Financial Revenue of $0.3 million, as a result of lower investment income;
- A reduction in Operating Expenses of $3.8 million from lower expected costs in several departments;
- A reduction in debt servicing costs of $2.3 million;
- The forecast for the Accrued Pension Expense increased by $2.3 million. This is an accrued expense and does not influence the rate regulated activities.

Balance Sheet - Page 3 of attachment

Key indicators and balances from the Balance Sheet are provided on the following tables (figures shown are in thousands):

Cash		
	2019/20	2018/19
Cash	**$54,371**	$52,611

Balance Sheet Liquidity (Current Ratio)		
	2019/20	2018/19
Current Assets	**$95,623**	$94,698
Current Liabilities	**$43,615**	$47,579
Current Ratio	**2.19**	1.99

- Cash balance includes funds held in bank accounts reduced by outstanding cheques. It has increased $1.7 million from the prior year largely in part due to a final debt repayment in January 2019.

Accounts Receivable		
	2019/20	2018/19
Customer Receivables	**$15,799**	$15,055
Unbilled Services	**$19,830**	$18,188
Halifax Regional Municipality	**$3,811**	$5,832
Total	**$39,440**	$39,075

Accounts Payable		
	2019/20	2018/19
Trade Payables	**$13,092**	$14,756
LT Debt Interest	**$2,343**	$2,409
Halifax Regional Municipality	**$6,761**	$5,988
Total	**$22,196**	$23,153

- Customer Receivables have increased $0.7 million from the prior year. The increase is largely a result of annual stormwater account invoicing commencing earlier than the prior year. There are also large current receivables from developers for CCCs in West Bedford.
- Unbilled Services have increased $1.6 million from the prior year due to the timing of billing cycles and higher consumption.
- HRM receivables have decreased $2.0 million due to the timing of the Stormwater Right-of-Way payment occurring in February instead of March as in the prior year.
- Trade Payables have decreased $1.6 million as there were several large progress claim payments outstanding in the prior year.
- HRM payables are higher by $0.7 million due to the timing of the Stormwater Right-of-Way payments to be remitted to HRM.

Capital Assets Under Construction	
	Cumulative
AMI - Advanced Metering Infrastructure	**$16,696**
JD Kline Filtration Replacement	**$8,376**
Lake Major Dam Replacement	**$8,862**
Lucasville Transmission Main Replacement	**$5,724**
All other projects	**$56,019**
Total Capital Expenditures	**$95,677**
External Funding Received	**($8,492)**
Net Assets Under Construction	**$87,185**

- Total Capital Expenditures as of February 29, 2020 are $87.2 million. By the end of the fiscal year it is expected that over $90 million in capital projects will be completed and capitalized including AMI, JD Kline, Lake Major Dam, and Lucasville Transmission Main Replacement.

Total Debt by Service (including current portion)		
	2019/20	2018/19
Water	**$67,585**	$61,197
Wastewater	**$135,657**	$133,443
Stormwater	**$16,833**	$13,644
Combined	**$220,075**	$208,284

Net change in Long Term Debt (full fiscal year)		
	2019/20	2018/19
New Debt	**$30,000**	$15,000
Debt repayments	**($18,209)**	($21,130)
Change in Debt	**$11,791**	($6,130)

- Long Term Debt increased $14.9 million as new debt acquired was greater than the prior year. New debt of $30 million was received in November 2019. For the full fiscal year, Long Term Debt will be up $17.0 million after declining for the past three years.

Debt Servicing Ratio by Service		
	YTD Debt Servicing Cost Ratio	
	2019/20	2018/19
Water	**11.6%**	16.6%
Wastewater	**24.0%**	23.8%
Stormwater	**17.8%**	18.7%
Combined	**18.5%**	20.5%

- The debt servicing ratio for Water of 11.6% is substantially lower than the prior year because the prior year includes the final, large repayment for the original Lake Major debt.
- The debt servicing ratio of 18.5% is well below the maximum 35% ratio allowed under the blanket guarantee agreement with HRM.

Operating Surplus		
	YTD 2019/20	YTD 2018/19
Opening Operating Surplus	**$15,663**	$20,481
Year to Date Suplus/(Deficit)	**($3,248)**	($693)
Cumulative Operating Surplus	**$12,415**	$19,788

- Cumulative Operating Surplus, after Accrued Pension Expense, for the eleven-months ended February 29, 2020 is lower than the prior year due to there being a larger projected deficit in 2019/20 and a decrease in the opening operating surplus for April 1, 2019 related to the March 2019 deficit.

Income Statement – All Services - Page 4 of attachment

The following tables compare the actual results for the year to date with the prior year actual results and forecasts for the year.

Summarized Consolidated Operating Results			
	Actual YTD 2019/20 '000	Prior YTD 2018/19 '000	$ Variance
Operating Revenue	**$128,784**	$126,853	$1,931
Operating Expenses	**$97,292**	$93,914	$3,378
Operating Surplus (Deficit)	**$31,492**	$32,939	($1,447)
Financial Revenue	**$1,082**	$1,737	($655)
Financial Expenses	**$28,477**	$30,604	($2,127)
Surplus (Deficit)	**$4,097**	$4,072	$25

Summarized Consolidated Operating Results			
	Actual YTD 2019/20 '000	Forecast YTD 2019/20 '000	$ Variance
Operating Revenue	**$128,784**	$126,471	$2,313
Operating Expenses	**$97,292**	$101,974	($4,682)
Operating Surplus (Deficit)	**$31,492**	$24,497	$6,995
Financial Revenue	**$1,082**	$988	$94
Financial Expenses	**$28,477**	$28,409	$68
Surplus (Deficit)	**$4,097**	($2,924)	$7,021

- The year to date surplus of $4.1 million is on par with the prior year, with the increase in revenues being offset with an increase in expenses. The surplus is $7.0 million greater than the pro-rated forecast for the year. The following is a discussion on factors influencing the variances.

Operating Revenue

Operating Revenue Results			
	Actual YTD 2019/20 '000	Prior YTD 2018/19 '000	$ Variance
Consumption Revenue	**$84,526**	$84,184	$342
Base Charge Revenue	**$25,118**	$25,057	$61
Wastewater Rebate	**($774)**	($1,227)	$453
Metered Sales Sub-total	**$108,870**	$108,014	$856
SW Site Generated Charge	**$6,986**	$5,635	$1,351
HRM Fire Protection & Right of Way	**$10,000**	$10,000	$0
Other Operating Revenue	**$2,928**	$3,204	($276)
Operating Revenue Total	**$128,784**	$126,853	$1,931

Operating Revenue Results			
	Actual YTD 2019/20 '000	Forecast YTD 2019/20 '000	$ Variance
Consumption Revenue	**$84,526**	$83,905	$621
Base Charge Revenue	**$25,118**	$25,109	$9
Wastewater Rebate	**($774)**	($1,047)	$273
Metered Sales Sub-total	**$108,870**	$107,967	$903
SW Site Generated Charge	**$6,986**	$5,681	$1,305
HRM Fire Protection & Right of Way	**$10,000**	$10,000	$0
Other Operating Revenue	**$2,928**	$2,822	$106
Operating Revenue Total	**$128,784**	$126,470	$2,314

Operating revenue has increased $1.9 million as compared to the previous year. Key items of note include:

- Water and Wastewater consumption is up 0.4% on a volumetric basis as compared to the previous year. Consumption had been budgeted to remain consistent with the prior year but has increased slightly. February had an extra billing day as compared to prior year.
- The Wastewater Rebate has decreased $0.4 million from the prior year due to a higher than anticipated rebate for NS Power in the prior year. The Wastewater Rebate is an offset to revenue. It is available to certain large customers whose wastewater is a lower proportion of their consumed water.
- Stormwater Site Generated Charge revenue is higher than the prior year. A large portion of Stormwater revenue is billed annually to Stormwater-only customers. Previously this was done in March of each year, but invoicing began in January this year. This will allow better management of customer inquiries about the invoices and enable payment and collection within the fiscal year.
- Other Operating Revenue categories are down slightly as compared to budget and forecasted amounts.

Operating Expenses

Summary of Operating Expenses by Department			
	Actual YTD 2019/20 '000	Prior YTD 2018/19 '000	$ Variance
Water Services	**$18,518**	$18,767	($249)
WW Services	**$30,628**	$29,818	$810
SW Services	**$4,387**	$4,349	$38
Engineering & IS	**$8,819**	$7,358	$1,461
Regulatory Services	**$3,441**	$2,898	$543
Corporate Services	**$10,046**	$10,718	($672)
Depreciation	**$21,453**	$20,006	$1,447
Total Operating Expenses	**$97,292**	$93,914	$3,378

Summary of Operating Expenses by Department			
	Actual YTD 2019/20 '000	Forecast YTD 2019/20 '000	$ Variance
Water Services	**$18,518**	$19,828	($1,310)
WW Services	**$30,628**	$30,699	($71)
SW Services	**$4,387**	$4,837	($450)
Engineering & IS	**$8,819**	$8,159	$660
Regulatory Services	**$3,441**	$3,867	($426)
Corporate Services	**$10,046**	$11,660	($1,614)
Depreciation	**$21,453**	$22,923	($1,470)
Total Operating Expenses	**$97,292**	$101,973	($4,681)

Key items to note:

- Operating expenses of $97.3 million are $3.3 million higher than the prior year and $4.7 million below the eleven-month forecast for the year.
- Compared to the prior year, expense categories with the largest increases in costs to date are Engineering and Information Systems (mostly related to Wastewater operations, page 6 of attachment), Wastewater Treatment Plants, and Depreciation (mostly related to Wastewater assets, page 6 of attachment).

Financial Revenue

Key items to note:

- Interest income is lower than the previous year despite higher than anticipated cash balances and rising interest rates. To align with the requirements of the Regional

Development Charge (RDC) regulations, the portion of interest earned attributable to RDC funds is now allocated to those funds. This results in lower interest income attributable to Water, Wastewater and Stormwater services of $0.6 million to date.

- Miscellaneous revenue includes various un-regulated activities such as tower leases, energy generation, consulting activities and some contracted services.

Financial Expenses

Key items to note:

- Long Term Debt principal and interest expenses are $2.2 million lower than in the prior year.
- Debt servicing savings are a result of new debt issues having lower interest rates than older, maturing issues. For the previous three years debt repayments have been greater than new debt, however, new debt issued in November of $30.0 million exceeds the debt repayments of $18.2 million this fiscal year.

Operating Results by Service - Pages 5-7 of attachment

Year to Date Operating Results by Service		
	2019/20	2018/19
	'000	'000
Water	**$5,536**	$3,447
Wastewater	**($2,222)**	$671
Stormwater	**$783**	($46)
Surplus (Deficit)	**$4,097**	$4,072

Regulated and Unregulated Operations - Page 8 of attachment

Results by Activity		
	2019/20	2018/19
	'000	'000
Regulated Activities	**($7,594)**	($4,254)
Unregulated Activities	**$607**	$1,136
Surplus (Deficit)	**($6,987)**	($3,118)
Accrued Pension Expense	**$3,739**	$2,425
Surplus (Deficit)	**($3,248)**	($693)

Key items to note:

- Two factors have contributed to the decline in the surplus for Unregulated Activities. One factor is a decline in revenue from Septage Tipping as former customers have been using other vendors. The other is a reduction in the allocation of revenue from regulated operations for the dewatering of biosolids to the unregulated dewatering facility at Aerotech. Aerotech was incurring costs associated with treating septage and a portion of

the revenue had been allocated to offset these costs. Currently, most of the dewatering process is being handled within the other Halifax Water facilities and, as a result, the revenue allocation to Aerotech is reduced.

Results under International Financial Reporting Standards - Pages 9 & 10

As noted previously, the AcSB requires Halifax Water, as a rate regulated utility, to report financial results using IFRS.

On the IFRS Balance Sheet, Accumulated Depreciation is higher producing a lower value for assets, Contributed Capital is treated as a long term liability and amortized rather than being treated as a contribution to equity, and the Operating Surplus is much higher due to changes in the Income Statement.

On the IFRS Income Statement, revenue is the same. Depreciation expense is higher as contributed assets are depreciated and some assets are depreciated more quickly. Financial revenue is higher as the amortization of contributed capital is treated as revenue. The most significant change is financial expenses are lower as there is no expense for the Long Term Debt Principal appropriation – a difference of $18.6 million for the full year.

The IFRS Surplus for the year to date is $11.6 million.

ATTACHMENTS

Unaudited Operating Results for the eleven (11) months ended February 29, 2020

Report prepared by: Alicia Scallion

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