



Making a difference...together

## REPORT TO BEDDIS WATER SERVICE COMMISSION MEETING OF THURSDAY 10 MARCH 2011

---

### **SUBJECT**      2011 OPERATING AND CAPITAL BUDGET

### **ISSUE**

This report provides a synopsis of the 2011 budget, highlighting significant proposed changes. In accordance with Bylaw No. 3693, "Salt Spring Island Water, Sewer and Liquid Waste Disposal Commissions Bylaw No. 1, 2010", "Before the end of November of each year, a Commission shall be presented with a five-year operating and capital budget for the service area, which shall include estimates for the administrative, development, maintenance, operational and other expenses, including debt charges, and shall submit such expenditure estimates, together with estimates for expected revenues, in a form approved by the Financial Officer of the Capital Regional District (CRD) for the approval of the Regional Board and for inclusion in the Regional Board's preliminary and annual budgets."

### **BACKGROUND**

#### 2010 Estimated Actual Revenue and Expense

The estimated actual 2010 operating expense was \$30,087 less than budget due to the unused budget allocations for operation of the new water treatment plant, which did not enter service in 2010. Debt expense was \$29,710 less than budget because a short-term loan to complete the water treatment plant was planned for 2010 but was not implemented. Actual water sales revenue was \$3,186 greater than budget. As a result of these variances, an estimated surplus of \$63,586 will be carried forward to 2011 revenue.

#### 2011 Operating Expense

A net decrease in the 2011 budget operating expense of \$357 is proposed, including the following adjustments from 2010 budget:

Contract for Services: \$14,700 decrease  
Electricity: \$3,000 decrease  
Supplies – Chemical: \$2,500 decrease  
Operating – Other (Disposal Costs): \$5,000 decrease

The operating budget for the last several years has been based on operation of the DAF plant. It is now known that the new plant will not likely enter service before 2012; therefore, the budget for 2011 has been adjusted based on the cost to operate the current treatment system.

Allocation – Operating Labour: \$2,500 increase

An increase is proposed to offset an increase in the hourly cost of electronics technical services (process control), and to budget time for operations support services from Greater Victoria.

**Beddis Water Service Commission – 10 March 2011**  
**Re: 2011 Operating and Capital Budget**  
**Page 2**

Labour – Administration and Engineering: \$2,060 increase

An increase is proposed to reflect the actual level of effort required for administration of the service. In particular, time has been budgeted for the Manager – Saanich Peninsula and Gulf Islands Operations, which had not previously been recovered directly from the local service areas.

Operating – Other (Allocation – Vehicles): \$1,853

Operating – Other (Travel Expenses): \$998

Effective 1 January 2011, the Beddis Water Service became the responsibility of the Integrated Water Services Department. As a result, changes have been made for 2011 to the method of recovery of travel (e.g. ferry fares) and vehicle expenses. Vehicle and travel costs were previously overhead expenses recovered through labour rates for all CRD Environmental Services operations (local and regional services). Travel and vehicle costs will now be recovered directly from each service area based on the actual costs incurred.

Operating – Other (Water Quality Oversight): \$1,728

Water purveyors are required to report drinking water quality information to the public; however, this work has not previously been budgeted for local services. This continuous supplementary will provide a program of water quality data review, compilation and reporting to the public by the manager responsible for the CRD drinking water quality program. The deliverables will include annual and monthly reports published on the CRD website, and expert advice to operational staff.

Allocation – Corporate Services and Insurance/Legal: \$3,530

Changes have been made for 2011 to the method of assessing costs for financial and corporate services (including accounting, debt administration, billing, and bylaw management). These changes better align the cost of providing services to the level of effort required.

Contingency: \$ 12,174

An operating contingency in the range of 10% is considered prudent for a small water service area. Unused contingency is typically transferred to reserves or capital funds at year end.

2011 Capital Plan

The following capital projects are proposed for 2011, to be funded from the balance of a Gas Tax grant provided to the service in 2009 (\$28,400) and a proposed new 15-year Municipal Finance Authority loan, (subject to public approval):

Strategic Asset Management Plan: \$10,000

It is proposed to conduct an asset inventory to determine the quantity, age, condition and approximate life expectancy of watermains and other infrastructure; estimate the cost to renew or replace infrastructure; and develop a long-term financial plan to fund infrastructure renewal or replacement as required to maintain an acceptable level of service and stable annual cost of service. Funding will be provided from Gas Tax.

Treatment Plant Scope and Cost Refinement to Establish Loan Authorization: \$18,000

New funding is required in order to complete and commission the new Dissolved Air Flotation (DAF) water treatment plant, and to put the new Sky Valley tank into service. This project will establish the project scope and budget for a new loan authorization. Funding will be provided from Gas Tax.

**Beddis Water Service Commission – 10 March 2011****Re: 2011 Operating and Capital Budget****Page 3**

Referendum: \$10,000

A referendum is proposed for electoral assent to borrow funds to complete and commission the new Dissolved Air Flotation (DAF) water treatment plant, and to put the new Sky Valley tank into service. Funding will be provided from 2011 operating revenue.

**2011 Revenue Requirement**

No net change is proposed in the revenue requirement (taxes and fees), calculated as follows:

<b>Budget Item</b>	<b>2010 Budget</b>	<b>2011 Budget</b>	<b>Change</b>
Total Operating Costs	125,397	125,040	(357)
Capital/Reserve Expenditures (transfers)	0	63,429	63,429
Debt Costs	71,711	41,851	(29,860)
Prior Year Surplus	(30,324)	(63,586)	(33,062)
Revenue - Other	(150)	(100)	50
Total Change in Tax and Fee Revenue Requirement			0

**Impact on 2011 User Charges**

No changes to parcel tax or user charges are proposed for 2011.

**Forecast 2012-2015**

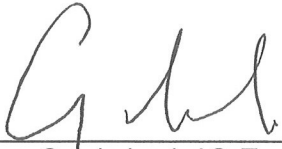
A five-year capital and operating budget forecast is provided for information. In addition to adjustments for inflation, the costs to operate the Beddis Water Service expected to increase by about \$25,000 when the new water treatment plant is commissioned. It is proposed to continue a planned annual transfer to reserve after 2011, but at the reduced rate of \$20,000 per year. If new borrowing is undertaken as shown in the 5-year capital plan, debt costs will increase by roughly \$50,000 between 2011 and 2014. Also after 2011, the prior year surplus will no longer be available to augment revenue. The combined impact of these changes is a projected parcel tax increase in the order of \$65,000 (\$500 per folio) in 2012, and a further increase of roughly \$50,000 (\$380 per folio) by 2014.

**Other Considerations: Infrastructure Replacement**

The watermain in the Beddis Water Service area are likely near the end of their useful life, and available capital reserve funds (\$5,044 at 31 December 2010) are insufficient to replace a significant portion of the mains. The Strategic Asset Management Plan proposed as a 2011 capital project will aid in planning and budgeting for infrastructure replacement. Planned transfers to the reserve fund beginning in 2011 will enable the utility to complete small projects without borrowing and manage unforeseen expenses such as watermain breaks. The proposed budget and forecast do not include funding for replacement of the aging watermain in the Beddis system.

**RECOMMENDATION**

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Beddis Water Service as presented; and,
2. That the 2010 actual surplus be balanced on the 2011 transfer to reserve.



---

Colwyn Sunderland, ASCT  
Local Services Engineering Coordinator



---

Tim Tanton, PEng  
Senior Manager, Infrastructure Engineering  
Concurrence

CS:ls  
Attachment: 1