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**REPORT TO CEDAR LANE WATER SERVICE COMMISSION
MEETING OF MONDAY 01 NOVEMBER 2010**

SUBJECT 2011 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2011 budget highlighting the proposed significant changes, also, 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 CRD for the approval of the Regional Board and for inclusion in the Regional Board's preliminary and annual budgets."

BACKGROUND

2010 Operating Deficit

A net operating deficit of \$7,218 is projected for 2010, with two principal causes:

- The actual frequency of site visits required by the contract operator to maintain and verify residual chlorine concentrations in the distribution system was greater than planned, resulting in a \$6,000 increase in contract operations expense (about 1.8 hours per week)
- Components of the UV disinfection units required replacement in April 2010, apparently as a result of an electrical surge, at an unbudgeted cost of \$1,419. The repair cost included the installation of surge protection for the equipment.

2011 Operating Expense

An increase in the 2011 operating expense of \$8,179 is planned for the following purposes:

Contract for Services: \$4,000

Additional effort is required in order to maintain and verify residual chlorine concentrations in the distribution system (about 1.2 hours per week).

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.

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Operations Labour Overhead Expense: \$432

Changes have been made for 2011 to the method of recovery of travel (e.g. ferry fares), vehicle and technical labour expenses. Vehicle and travel costs were previously overhead expenses recovered through labour rates for all CRD Environmental Services operations (local and regional services). Travel expenses will now be recovered directly from each service area, and vehicle costs and technical services will be recovered through a new business unit. The impact of these changes on the Cedar Lane Water Service is a cost increase of \$432.

Finance and Corporate Services: \$1,460

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, resulting in an increase of \$1,460 in the recovery from the Cedar Lane Water Service.

In addition to the above changes, the cost of fire insurance will increase by \$210 and the administration and engineering labour cost will increase by \$341 in 2011.

Capital Plan

Water System Improvements (2011): \$50,000

The five-year capital plan includes a single item for 2011: Completion of the grantable upgrade project. Grantable work must be completed by March 31, 2011 in order to be eligible for grant funding. New meters have confirmed that distribution system leakage is minimal (less than 0.5 litre per minute). The following work is recommended, which can be completed within the available budget and timeline:

1. Install and commission SCADA system for remote monitoring and control of infrastructure.
2. Complete distribution system upgrades to improve water quality (replace inoperable hydrants with standpipes or timer actuated flushing stations at dead ends).
3. Fulfill infrastructure grant conditions regarding well evaluation and decommissioning (consulting services).

This work is funded by an infrastructure grant and capital funds on hand (borrowed in 2010), therefore there is no impact on taxes or fees to complete the work.

Strategic Asset Management Plan (2012): \$5,000

An engineering study will be conducted 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. It is proposed to fund this work from available reserves, requiring no new revenue from taxes or fees.

2011 Revenue Requirement

Recovery of the 2010 deficit and implementing the planned changes to the 2011 operating budget will increase the revenue requirement (taxes and fees) for 2011 from \$54,663 to \$68,044.

Impact on 2011 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the parcel tax be increased from \$525.40 to \$906.03. The fixed and consumption charges would remain at 2010 levels.

Forecast 2012-2015


A five-year capital and operating budget forecast is provided for information. The costs to operate the Cedar Lane Water Service and to service capital debt are not expected to change, with the exception of inflation. However, the proposed addition of a contingency in 2012 would require a significant revenue increase.

Other Considerations: Operating Contingency and Infrastructure Replacement

The water mains in the Cedar Lane Water Service Area are likely at the end of their useful life, and available capital reserve funds (\$56,472 at 31 December 2010) are insufficient to replace a significant portion of the mains. The wells operate near their maximum capacity, and it is unlikely that a new source of water can be developed to offset increased water losses in distribution. The 2011 budget does not include an operating contingency, or a planned contribution to capital reserves for the purpose of infrastructure renewal. A contingency of at least 10% of the total operating expense would greatly reduce the risk of an operating deficit; and a substantial planned contribution to the capital reserve fund would enable orderly replacement of water mains before unacceptable water loss rates or other problems develop. Each of these measures would require a revenue increase beyond that recommended for the 2011 budget.

RECOMMENDATION

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Cedar Lane Water Service as presented; and,
2. That the Capital Regional District Board authorize an increase in the parcel tax for the Cedar Lane Water Service as required to balance the 2011 budget; and,
3. That the 2010 actual deficit be balanced on 2011 parcel tax.



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