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**REPORT TO CEDARS OF TUAM WATER SERVICE COMMISSION
MEETING OF MONDAY 10 JANUARY 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 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 actual 2010 operating expense is expected to be \$2,495 greater than budget due to estimated actual administration and engineering labour of about 30 hours more than allocated. Actual revenue is expected to be \$3,160 less than budgeted due to an error in implementing the 2010 budget. A fee increase approved by the Commission for 2010 was not included in amendments to the fee and charge bylaw, and as a result customers were billed the same fixed user charge as in 2009. These variances from budget are partially offset by the elimination of the planned transfer of \$1,254 to reserve, resulting in an estimated deficit of \$4,401 carried forward to 2011.

2011 Operating Expense

An increase in the 2011 operating expense of \$8,179 is proposed, including the following adjustments from 2010 expense:

Allocation – Operating Labour: \$1,515

It is proposed to budget time for electrician, electronics technician and operations support services from Greater Victoria. Although these services have been required in the past, they have not previously been budgeted.

Labour – Administration and Engineering: \$1,150

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.

Water Quality Oversight: \$1,728

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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 – Vehicles: \$1,131

Operating – Other (Travel Expenses): \$420

Effective 1 January 2011, the Cedars of Tuam 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.

Allocation – Corporate Services and Insurance/Legal: \$50

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.

2011 Capital Plan

The following capital projects are proposed for 2011, to be funded from a Gas Tax grant provided to the service in 2009:

Change Chlorine Pump to Prominent Pump: \$7,000

It is proposed to replace the existing pump system with new equipment that enables full SCADA function (remote monitoring and control of chlorine residual concentration).

Pressure Sensor on Well Casing: \$2,000

It is proposed to install a pressure transmitter in well to enable SCADA monitoring of well water level. This would provide early warning of water shortages, and would produce data for improved water resource management.

Maintain Well House Access Road: \$11,000

It is proposed to improve access to the well site to maintain year-round vehicle access and minimize disruption to the land owner. The scope of work is to be determined.

Strategic Asset Management Plan: \$5,000

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.

2011 Revenue Requirement

Recovering the 2010 deficit and implementing the planned changes to the 2011 operating budget will increase the revenue requirement (user fees) for 2011 from \$22,210 to \$31,590.

Impact on 2011 User Charges

In order to raise the additional revenue required for 2011, it is recommended that the fixed annual user charge be increased from \$1,115.00 to \$1,898.75. The consumption charge would remain at the 2010 level.

Forecast 2012-2015


A five-year capital and operating budget forecast is provided for information. The costs to operate the Cedars of Tuam Water Service and to service capital debt are not expected to change, with the exception of inflation. However, the proposed addition of a planned transfer to reserve in 2012 would require a small revenue increase, which would be offset by elimination of the deficit in 2011.

Other Considerations: Operating Contingency and Infrastructure Replacement

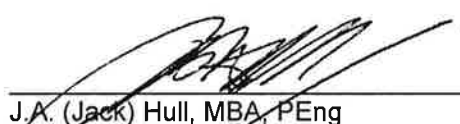
The watermain in the Cedars of Tuam Water Service Area are likely near the end of their useful life, and available capital reserve funds (estimated to be \$4,730 at 31 December 2010) are insufficient to replace a significant portion of the mains. The well operates near its maximum capacity, and although a new source of water has been developed, connecting it to the distribution system would require substantial new funding. 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 may enable orderly replacement of watermain or connection to the new well 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 Cedars of Tuam Water Service as presented; and,
2. That the Capital Regional District Board authorize an increase in the fixed annual user charge for the Cedars of Tuam Water Service as required to balance the 2011 budget; and,
3. That the 2010 actual deficit be balanced on the 2011 fixed annual user charge.



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