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**REPORT TO HIGHLAND WATER AND SEWER LOCAL SERVICES COMMISSION
AND FERNWOOD WATER LOCAL SERVICE COMMISSION
MEETING OF TUESDAY 09 NOVEMBER 2010**

SUBJECT 2011 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2011 budgets, 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

FERNWOOD WATER SERVICE

2010 Operating Expense

The actual 2010 operating expense is expected to be \$6,292 below budget due to unused contingency. Debt cost and user charge revenue are also expected to be lower than budget, resulting in a projected surplus of \$5,882.

2011 Operating Expense

A decrease in the 2011 operating expense of \$4,256 is planned. This is the result of the following proposed increases, which are offset by the elimination of the \$10,192 contingency and reductions in the costs of operating, administration and engineering labour (\$2,056 total):

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

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.

Operating – Other: \$1320 (Travel Expenses)

Allocation – Vehicles: \$3,914

Effective 1 January 2011, the Fernwood and Highland water services became the responsibility of the Integrated Water Services Department. As a result, changes have been made for 2011 to the method of

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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: \$1,030

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.

Capital Plan

The following capital projects are planned for 2011:

System Upgrade Project (2011): \$290,000

A new Dissolved Air Flotation (DAF) water treatment plant will be constructed to serve both the Highland and Fernwood service areas (construction cost is shared on the ratio of taxable folios). Distribution upgrades may also be completed if funds are available upon completion of the treatment plant. Partial funding for the treatment plant is provided by a BC Community Water Improvement Program grant, with the remainder provided through a 15-year Municipal Finance Authority (MFA) loan authorized by referendum in March 2009 and a proposed new 15-year, \$500,000 MFA loan to be borrowed in the fall of 2011 (subject to public assent: \$117,500 Fernwood and \$382,500 Highland based on the ratio of taxable folios).

Reservoir Chlorine Monitoring Equipment (2011): \$15,000

It is proposed to upgrade the chlorine dosing system with new equipment that enables full SCADA (remote monitoring and control) function and improved dosing control and reliability. Funding would be provided from 2011 parcel tax revenue.

Strategic Asset Management Plan (2011): \$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. The Plan will enable comparison of the relative infrastructure deficit per taxable folio of the Highland and Fernwood services areas for the purpose of merging the service areas. Funding would be provided from 2011 parcel tax revenue.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating and capital budget would increase the revenue requirement (taxes and fees) for 2011 from \$82,160 to \$115,480. The increase results from the \$20,000 proposed direct funding of capital projects, an increase in the debt servicing expense of \$4,631 for the system upgrade project (of which \$1,760 is subject to public approval of new borrowing), and a reduction in the prior year surplus of \$14,435 compared to 2010. These impacts on the revenue requirement are partially offset by the reduction in operating expense for 2010 achieved by eliminating the contingency.

Impact on 2011 Taxes and User Charges

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In order to raise the additional revenue required for 2011, it is recommended that the parcel tax be increased from \$334.14 to \$809.35. 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 Fernwood Water Service are not expected to significantly change, with the exception of inflation. However, the proposed new borrowing to complete the upgrade project would require a revenue increase in 2012 of \$12,920 if approved by the Fernwood electors (parcel tax would increase to \$983.66).

Other Considerations: Operating Contingency and Infrastructure Replacement

Most of the water mains in the Fernwood Water Service Area are likely at the end of their useful life, and the service currently holds no funds in reserve. 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 a capital reserve fund would enable orderly replacement of water mains before unmanageable water loss rates or other problems develop. Each of these measures would require a revenue increase beyond that recommended for the 2011 budget.

It is planned that the Highland and Fernwood water service areas will merge for the purpose of operation and future capital works upon completion of the current water treatment upgrade project. The proposed Strategic Asset Management Plans for both service areas will assist a new, merged commission with financial planning for reliable operation and infrastructure replacement.

HIGHLAND WATER SERVICE

2010 Operating Expense

The actual 2010 operating expense is expected to be \$50,325 below budget due to unused contingency. Debt cost is also expected to be lower than budget, resulting in a projected surplus of \$52,500.

2011 Operating Expense

A decrease in the 2011 operating expense of \$27,498 is planned. This is the result of the following proposed increases, which are offset by reduction of the contingency by \$44,699:

- Operating – Other: \$1,728 (Water Quality Oversight)
- Operating – Other: \$2,227 (Travel Expenses)
- Allocation – Vehicles: \$7,329
- Allocation – Corporate Services and Insurance/Legal: \$2,200

(See above for descriptions)

Electricity – \$2,100

The Highland share of the electricity cost to operate the new water treatment plant is expected to be greater than the cost to operate the existing Highland water treatment plant.

Capital Plan

The following capital projects are planned for 2011:

System Upgrade Project (2011): \$960,000

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Strategic Asset Management Plan (2011): \$10,000

(See above for descriptions)

Communications / SCADA Upgrades (2011): \$20,000

It is proposed to upgrade process monitoring and control systems for chlorine dosing to reliably maintain drinking water quality in higher elevation areas of the distribution system. Funding would be provided from the operating surplus carried forward to 2011.

2011 Revenue Requirement

The proposed new borrowing to complete the system upgrade project will increase the revenue requirement (taxes and fees) for 2011 from \$186,575 to \$191,587. Operating cost increases, the transfer of \$30,000 to capital and increased debt cost of \$6,325 will be offset by the 2010 surplus and a reduced 2011 contingency.

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 \$481.73 to \$505.49. 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 Highland Water Service are not expected to significantly change, with the exception of inflation. However, increasing debt cost on the current MFA loan (approved 2009), the lack of a surplus after 2011, and a planned transfer of \$31,000 to capital in 2012 would require a parcel tax increase in that year of nearly \$60,000 (parcel tax would increase to \$723.71). If approved by the Highland electors, the proposed new borrowing to complete the upgrade project would require a further revenue increase in 2012 of \$42,052 (parcel tax would increase to \$897.96).

Other Considerations: Operating Contingency and Infrastructure Replacement

Many of the watermains in the Highland Water Service Area are likely at the end of their useful life, and the service currently holds no funds in reserve. The 2011 and forecast budgets include a contingency of about 4.5% of operating expense, which is low considering the age and condition of the infrastructure. There is no 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 a capital reserve fund would enable orderly replacement of watermains before unmanageable water loss rates or other problems develop. Each of these measures would require a revenue increase beyond that recommended for the 2011 budget.

MALIVIEW SEWER SERVICE

2010 Operating Expense

The actual 2010 operating expense is expected to be \$2,849 below budget due to unused contingency. Debt cost is also expected to be lower than budget, resulting in a projected surplus of \$3,045.

2011 Operating Expense

An increase in the 2011 operating expense of \$8,657 is planned. This is the result of the following proposed increases, which are offset by a \$1,764 reduction in the cost of operating labour:

Allocation – Environmental Protection: \$870

The cost to provide laboratory, marine environment monitoring and regulatory compliance services will increase as a result of changes to the cost recovery structure effective 2011.

Operating – Other: \$2,701 (Vehicles and Travel Expenses)

Effective 1 January 2011, the Maliview Sewer 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.

Labour – Administration and Engineering: \$1,798

The level of effort to administer the service and to provide technical services to operations has exceeded the budget allocation in the past few years. An increase of approximately 20 hours is proposed for 2011.

Allocation – Corporate Services and Insurance/Legal: \$1,420

(See above for description)

Contract for Services: \$1,100

The cost of hauling sludge increased in 2010, requiring a budget increase in 2011.

Electricity: \$250

A budget increase is required based on 2010 actual expense to date.

Contingency: \$2,282

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

MSR Effluent Compliance Sampling Site: \$10,000

It is proposed to construct a new sample point to enable sampling of blended flows (treated water and screened wet weather overflow) to comply with regulatory requirements. Funding would be provided from reserves.

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. Funding would be provided from reserves.

2011 Revenue Requirement

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Implementing the planned changes to the 2011 operating and capital budget would increase the revenue requirement (taxes and fees) for 2011 from \$76,747 to \$81,750.

Impact on 2011 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the fixed user charge be increased from \$300.00 to \$399.92. The parcel tax and consumption charge 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 Maliview Sewer Service are not expected to significantly change, with the exception of inflation. However, the proposed capital expense in 2012 to correct problems with the sewer main and services in Maliview Road and to replace the roof and siding of the treatment plant building would require a further revenue increase. Although these expenses are shown as funded directly from 2012 revenue, it may be preferable to combined these projects with other work identified in the 2011 Strategic Asset Management Plan and seek public approval to borrow funds.

Other Considerations: Infrastructure Replacement

Much of the infrastructure in Maliview Sewer Service Area is at or near the end of its useful life, and the service currently holds no funds in reserve beyond those needed for current capital projects. A substantial planned contribution to a capital reserve fund would enable orderly replacement of sewers and treatment works before the costs to operate deteriorating infrastructure become unmanageable, or the system is no longer able to meet legislated requirements for protection of the environment. Funding infrastructure replacement 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 Fernwood Water Service as presented; and,
2. That the Capital Regional District Board authorize an increase in the parcel tax for the Fernwood Water Service as required to balance the 2011 budget; and,
3. That the Fernwood Water Service 2010 actual revenue and expense be balanced on surplus carried forward to 2011; and,
4. That the Capital Regional District Board approve the 2011 operating and capital budget for the Highland Water Service as presented; and,
5. That the Highland Water Service 2010 actual revenue and expense be balanced on surplus carried forward to 2011; and,
6. That the Capital Regional District Board approve the 2011 operating and capital budget for the Maliview Sewer Service as presented; and,
7. That the Capital Regional District Board authorize an increase in the fixed annual user charge for the Maliview Sewer Service as required to balance the 2011 budget; and,

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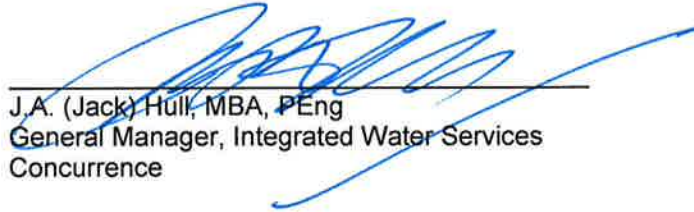
8. That the Maliview Sewer Service 2010 actual revenue and expense be balanced on surplus carried forward to 2011.



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Local Services Engineering Coordinator



Tim Tanton, PEng
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Concurrence



J.A. (Jack) Hull, MBA, PEng
General Manager, Integrated Water Services
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CS:ls
Attachment: 1



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Highland/Ferrowood: Referenda Scheduling

Task	Completion Date	Notes
Bylaws to CRD Board for Two Readings	Dec 8, 2010	
Bylaws Approved by Inspector of Municipalities	1 st Week of Jan 2011	Assumed 4 weeks, due to holiday season
CRD Board Appoints Chief Election Officer, Establishes Polls and Bylaw Questions	Jan 12, 2011	
Notice Period to Electors	Jan 13 – Mar 18	
Referenda Date	Sat. Mar 19, 2011	
Consultant Finalizes Construction Tenders	Mar 21 – April 13, 2011	
CRD Board Adopts Bylaws	April 13, 2011	
Quashing Period	April 13 – May 13, 2011	
Inspector of Municipalities Grants Certificate of Approval	May 16, 2011	May take 2-3 weeks for response
Tender Construction Contract	April 13 – May 13, 2011	
Construction	June 2011 – Feb 2012	8 Months to Build Plant
Funding Deadline	Mar 31, 2012	Last statement and supporting invoices due by this date