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**REPORT TO HIGHLAND WATER AND SEWERLOCAL SERVICESCOMMISSION
AND FERNWOOD WATER LOCAL SERVICE COMMISSION
MEETING OF THURSDAY 24 NOVEMBER 2011**

SUBJECT 2012 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2012 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

2011 Estimated Actual Revenue and Expense

The actual 2011 revenue and expense are expected to be on budget with the utilization of the contingency funds. It is expected that the entire \$10,796 contingency will be required to offset higher than budgeted water testing and sampling labour costs associated with the algal toxicity event in St. Mary Lake this year.

2012 Operating Expense

An increase in the 2012 operating expense of \$1,227 is proposed primarily due to labour cost adjustments. It is proposed to reduce the contingency for 2012 by \$6,396 to mitigate the increase in the revenue requirement resulting from the elimination in 2011 of the \$16,678 prior year surplus.

Capital Plan

The following capital projects are planned for 2012:

Water Treatment Plant Construction (carry forward from 2011): \$383,000

The \$383,000 represents the Fernwood Water Service share in the estimated 2012 cost of the water treatment upgrade project, which is also funded through the Highland Water Service and the Highland and Fernwood Water Service.

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 water mains and the other system infrastructure not being considered under the upgrade project.; 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

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Fernwood Water Service Commission
Re: 2012 Operating and Capital Budget
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stable annual cost of service. A \$5,000 community works fund (Gas Tax) grant allocated by the CRD Board will supplement the 2011 capital plan item for an overall project budget of \$10,000.

2012 Revenue Requirement

The elimination in 2011 of the \$16,678 prior year surplus and the proposed \$1,227 operating budget increase are partially mitigated by a proposed \$6,396 reduction in the contingency. The net change in the revenue requirement for 2012 based on these adjustments is an increase of \$11,544.

Impact on 2012 Taxes and User Charges

In order to raise the additional revenue required for 2012, it is recommended that the fixed annual user charge be increased from \$780.67 to \$936.27. The parcel tax and consumption charges would remain at 2011 levels.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Subject to electoral assent, new debt costs to replace aging assets in the distribution system would increase the revenue requirement within the next five years. The scope and budget for these and other upgrades will be considered upon completion of the proposed 2012 Strategic Asset Management Plan.

Other Considerations: Asset Maintenance and Replacement

Much of the Fernwood Water Service infrastructure is aging and some components are nearing the end of their useful life, and the 2012 budget does not allow for capital reserve fund contributions. The current budget is also insufficient to accommodate the preventive maintenance required to keep assets in good working order throughout their life cycle, particularly as system components age. The Strategic Asset Management Plan will provide an estimate of the annual budget that would be required to replace assets at the end of their service lives, and to provide the level of preventive maintenance required to sustain an acceptable level of service and maximize the service lives of system components.

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

2011 Estimated Actual Revenue and Expense

The actual 2011 revenue is expected to be on budget. Operating expense is expected to be \$25,801 below budget due to partial utilization of the contingency funds. \$68,800 of the contingency is expected to be required to offset unplanned operating expenses related to the algal toxicity event in St. Mary Lake this year. An unbudgeted transfer of \$10,000 to the capital fund was also required to fund the strategic asset management plan. Debt cost is expected to be lower than budget due to the delay in the treatment upgrade project cash flow requirements. As a result of these variances, a projected surplus of \$32,529 will be carried forward to the 2012 budget.

2012 Operating Expense

An increase in the 2012 operating expense of \$2,498 is proposed primarily due to labour cost adjustments. It is proposed to reduce the contingency for 2012 by \$82,822 to eliminate the need for a revenue increase resulting from the reduction of the 2011 prior year surplus in 2011.

Capital Plan

The following capital projects are planned for 2012:

Water Treatment Plant Construction (carry forward from 2011): \$1,061,000

The \$1,061,000 represents the Highland Water Service share in the estimated 2012 cost of the water treatment upgrade project, which is also funded through the Fernwood Water Service and the Highland and Fernwood Water Service.

Upper Reservoir Booster Pump Station – Retrofit to Pitless Pump: \$6,000

It is proposed to replace the existing pump, which is near the end of its useful life. This project will be funded from 2012 revenue.

Improve Buildings at Middle and Upper Reservoirs (Roof/Exterior): \$10,000

It is proposed to replace the roofs and exterior finishes, which are near the end of their useful lives, to protect the structures and equipment. This project will be funded from 2012 revenue.

Upper Reservoir Chlorine Upgrade (Dosing/Monitoring): \$15,000

It is proposed to replace the existing pump system with new equipment that enables full SCADA function and improved dosing control and reliability. This project will be funded from 2012 revenue.

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 water mains and the other system infrastructure not being considered under the upgrade project; 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. A \$10,000 community works fund (Gas Tax) grant allocated by the CRD Board will supplement the 2011 capital plan item for an overall project budget of \$20,000.

2012 Revenue Requirement

The proposed operating budget increase, a reduction in 2011 of the prior year surplus from \$99,375 to an estimated \$32,529, and the proposed \$26,000 transfer to capital in 2012 will be mitigated by a reduction in debt expense and the proposed \$82,822 reduction in the contingency. As a result there is no net change in the revenue requirement for 2012.

Impact on 2012 Taxes and User Charges

The proposed 2012 budget has no impact on taxes or user charges.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Subject to electoral assent, new debt costs to replace aging assets in the distribution system would increase the revenue requirement within the next five years. The scope and budget for these and other upgrades will be considered upon completion of the proposed 2012 Strategic Asset Management Plan.

Other Considerations: Asset Maintenance and Replacement

Much of the Highland Water Service infrastructure is aging and some components are nearing the end of their useful life, and the 2012 budget does not allow for significant capital reserve fund contributions. The current budget is also insufficient to accommodate the preventive maintenance required to keep assets in good working order throughout their life cycle, particularly as system components age. The Strategic Asset Management Plan will provide an estimate of the annual budget that would be required to replace assets at the end of their service lives, and to provide the level of preventive maintenance required to sustain an acceptable level of service and maximize the service lives of system components.

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 – FERNWOOD WATER SERVICE

Upon completion of the new water treatment plant, it is proposed to fund the new single plant operation from the individual operating budgets for approximately nine months in 2012. A single combined operating budget will be prepared for the service in 2013. The combined debt budget will continue in 2012.

MALIVIEW SEWER SERVICE

2011 Estimated Actual Revenue and Expense

The actual 2011 revenue is expected to be on budget. Operating expense is expected to be \$11,047 over budget, including the full utilization of the contingency funds, due to emergency outfall repair costs.

A budgeted \$2,980 transfer to reserve cannot be accommodated due to the operating shortfall. As a result, an estimated net deficit of \$8,282 will be carried forward to the 2012 budget

2012 Operating Expense

An increase in the 2012 operating expense of \$6,488 is proposed, including labour cost adjustments and a new supplemental budget of \$5,741 for increased outfall monitoring as required under the provincial Waste Management Permit PE-242.

2012 Capital Plan

Strategic Asset Management Plan: \$5,000

A \$5,000 Community Works Fund (Gas Tax) grant allocated by the CRD Board will supplement the 2011 Capital Plan item for an overall project budget of \$10,000.

2012 Revenue Requirement

The proposed operating budget increase, replacement of the \$8,568 2010 surplus with the estimated \$8,282 2011 deficit, and a proposed 2012 transfer to capital will increase the revenue requirement by \$26,119. This will be partially mitigated by a \$2,924 reduction in debt cost due to retirement of a \$15,193 five-year loan in 2011, and a proposed \$13,704 reduction in the contingency. The net change in the revenue requirement for 2012 is an increase of \$9,491.

Impact on 2012 Taxes and User Charges

The number of connected users increased in 2011 from 94 to 95. Taking this increase into account, in order to raise the additional revenue required for 2012, it is recommended that the fixed user charge be increased from \$346.73 to \$442.99. The parcel tax and consumption charge would remain at 2011 levels.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Subject to electoral assent, new debt costs to replace aging infrastructure would increase the revenue requirement within the next five years. The scope and budget for these and other upgrades will be considered upon completion of the proposed 2012 Strategic Asset Management Plan.

Other Considerations: Asset Maintenance and Replacement

Much of the Maliview Sewer Service infrastructure is aging and some components are nearing the end of their useful life, and the 2012 budget does not allow for significant capital reserve fund contributions. The current budget is also insufficient to accommodate the preventive maintenance required to keep assets in good working order throughout their life cycle, particularly as system components age. The Strategic Asset Management Plan will provide an estimate of the annual budget that would be required to replace assets at the end of their service lives, and to provide the level of preventive maintenance required to sustain an acceptable level of service and maximize the service lives of system components.

RECOMMENDATION

That the Highland Water and Sewer Local Services Commission and the Fernwood Water Local Service Commission recommend that the Capital Regional District Board:

1. Approve the 2012 operating and capital budget for the Fernwood Water Service as presented;
2. Authorize an increase in the fixed annual user charge for the Fernwood Water Service as required to balance the 2012 budget;
3. Balance the Fernwood Water Service 2011 actual revenue and expense on the 2012 contingency;
4. Approve the 2012 operating and capital budget for the Highland Water Service as presented;
5. Balance the Highland Water Service 2011 actual revenue and expense on the 2012 contingency;
6. Approve the 2012 debt budget for the Highland – Fernwood Water Service as presented;
7. Approve the 2012 operating and capital budget for the Maliview Sewer Service as presented;
8. Authorize an increase in the fixed annual user charge for the Maliview Sewer Service as required to balance the 2012 budget; and
9. Balance the Maliview Sewer Service 2011 actual revenue and expense on the 2012 transfer to reserve.



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Attachments: 3



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Concurrence