



Making a difference...together

**REPORT TO FULFORD WATER SERVICE COMMISSION
MEETING OF THURSDAY 25 NOVEMBER 2010**

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 exceed budget by \$30,357, primarily due to service connection costs (Contract for Services) for which the associated revenue was received and recognized in 2009. Engineering and administration labour is also expected to exceed budget by \$9,200 due to unplanned meetings and correspondence. A shortfall of \$9,400 in consumption charge (non-residential) revenue is also projected. As a result, an estimated deficit of \$39,757 will be carried forward to 2011.

2011 Operating Expense

An increase in the 2011 operating expense of \$17,347 is proposed, including the following adjustments:

Allocation – Operating Labour: \$5,327

Additional effort is required in order to provide maintenance and technical support services outside the scope of the operating contract. These services are provided by CRD operators, trades and electronics technicians.

Labour – Administration and Engineering: \$6,362

The actual level of effort to provide administration and engineering staff services to the Fulford Water Service is expected to exceed the budget allocated for this work in 2010. An increase is proposed to reflect the actual level of effort required for these services.

Operating – Other Costs (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.

Operating – Other Costs (Travel Expenses): \$888

Operating – Other Costs (Allocation – Vehicles): \$1,471

Effective 1 January 2011, the Fulford 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). These costs will now be recovered directly from each service area based on the actual costs incurred.

Allocation – Corporate Services and Insurance/Legal: \$3,650

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: (\$5,139)

It is proposed to eliminate the contingency in 2011 in order to reduce the impact of other operating cost increases on the revenue requirement.

Capital Plan

The following capital work is planned for 2011:

Water Service Connection to Fulford School: \$30,000

As a contractual condition of siting the treatment plant and storage tank in an easement on school property, the service area is required to provide a service connection to the school at no capital cost to the school. The requested service consists of a 50mm domestic and 100mm fire connection.

Fence around Reservoir: \$15,000

As a contractual condition of siting the treatment plant and storage tank in an easement on school property, the service area is required to provide a fence around the storage tank at no capital cost to the school.

Reynolds Road Chlorinator System: \$15,000

It is proposed to decommission and remove the chlorinator, but to retain and refurbish the structure at the site to house new strainers to prevent debris accumulation in the raw water supply pipeline.

Strategic Asset Management Plan: \$15,000

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 the 2011 and 2012 capital expenses with a new loan through the Municipal Finance Authority. As such, all capital work would be subject to the approval of the electors to borrow funds.

2011 Revenue Requirement

Implementing the proposed changes to the 2011 operating and capital budget and recovering the 2010 deficit would increase the revenue requirement (taxes and fees) from \$160,780 to \$228,643.

Impact on 2011 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the annual user charge be increased from \$850.00 to \$1,557.18; that the water consumption rate be increased from \$1.84 to \$3.37; and that the minimum consumption charge per three months be increased from \$212.50 to \$389.30. The parcel tax 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 Fulford Water Service are not expected to change with the exception of inflation, and the proposed addition of a \$20,000 contingency in 2012. If borrowing is approved for the 2011 and 2012 capital plans, the annual debt cost will increase by approximately \$16,500 by 2012. These changes would not significantly change taxes or fees for the service. This forecast does not take into consideration the implications of the strategic asset management plan.

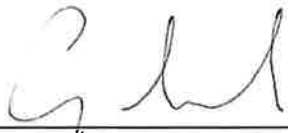
Other Considerations: Capital Reserves, Contingency and Infrastructure Replacement

Many of the watermains in the Fulford Water Service Area are at the end of their useful life. The service currently holds no reserves for planned or unexpected capital needs such as watermain replacement or major repairs. 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 watermains 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.

RECOMMENDATIONS

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Fulford Water Service as presented; and,
2. That the Capital Regional District Board authorize an increase in the single-family residential user charge, and proportional increases in the water consumption rate and minimum quarterly consumption charge for other uses, for the Fulford Water Service as required to balance the 2011 budget; and,


3. That the Fulford Water Service 2010 actual revenue and expense be balanced on the 2011 user charge, water consumption rate and minimum quarterly consumption charge.



Colwyn Sunderland, ASCT
Local Services Engineering Coordinator



Tim Tanton, PEng
Senior Manager, Infrastructure Engineering
Concurrence



J.A. (Jack) Hull, MBA, PEng
General Manager, Integrated Water Services
Concurrence

CS:ls
Attachment: 1