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**REPORT TO FULFORD WATER SERVICE COMMISSION
MEETING OF TUESDAY 17 JANUARY 2012**

SUBJECT 2012 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2012 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

2011 Estimated Actual Revenue and Expense

The actual 2011 revenue is expected to be on budget. Operating expense is expected to exceed budget by \$30,450, including the following variances from budget:

- Water testing: \$8,000 over budget due to additional testing related to a toxic algae bloom in Weston Lake
- CRD administration and engineering: \$6,210 over budget due to unplanned effort early in 2011 for the 2011 budget process, and additional effort related to a toxic algae bloom in Weston Lake
- Contract services: \$9,000 over budget due to a water main break on Morningside, additional sampling effort related to a toxic algae bloom in Weston Lake, and emergency call-outs to address system operations such as suspected system leaks and power failures
- CRD operating labour: \$2,626 over budget due to a water main break on Morningside, and additional sampling effort related to a toxic algae bloom in Weston Lake
- Repair and maintenance materials/supplies: \$2,700 over budget due to a watermain break on Morningside, addition of heat trace wiring on external piping at treatment plant, and repairs to the UV electrical equipment
- Electricity: \$600 over budget due to a BC Hydro rate increase

Debt expense will be \$2,250 under budget due to the timing of capital works in 2011. An estimated deficit of \$30,450 will be carried forward to 2012.

2012 Operating Expense

An increase in the 2011 operating expense of \$4,368 is proposed, including labour cost adjustments and a continuous supplemental budget of \$1,728 for water quality oversight. It is also proposed to add a \$4,263 contingency for 2012 to mitigate the risk of an operating deficit.

Capital Plan

The following capital work is planned for 2012:

Strategic Asset Management Plan: \$20,000

It is proposed to conduct an asset inventory to determine the quantity, age, condition and approximate life expectancy of water mains and other system infrastructure that has not been renewed; 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. \$10,000 will be provided by a Community Works Fund (Gas Tax) grant allocated by the CRD Board, and the remainder would be funded by the Fulford Water Service through the 2011 loan authorization.

Reynolds Road Chlorinator System (carry forward from 2011): \$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. This project would be funded by the Fulford Water Service through the 2011 loan authorization.

2012 Revenue Requirement

It is proposed to add a contingency of \$4,368 for 2012. The \$10,315 prior year deficit carried into 2011 will increase to an estimated \$30,450 for 2012. The budget debt servicing expense will increase by \$3,825 for 2012. There are no planned contributions to capital reserve funds. The net change in the revenue requirement for 2012 based on these and the other budget adjustments is an increase of \$32,552.

Impact on 2012 Taxes and User Charges

In order to raise the additional revenue required for 2012, it is recommended that the annual user charge be increased from \$1,222 to \$1,535; and that the minimum consumption charge per three month period be increased from \$305.50 to \$383.75. The parcel tax would remain at the 2011 level.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Capital upgrades will likely be required within the next five years to replace aging assets in the distribution system. The scope and budget for these and other upgrades will be considered upon completion of the proposed 2012 Strategic Asset Management Plan. A conceptual budget has been shown in the capital plan for 2014, requiring new borrowing and a corresponding increase in parcel tax or user charge revenue.

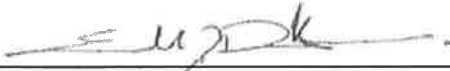
Other Considerations: Asset Maintenance and Replacement

Much of the infrastructure in the Fulford Water Service Area is at or near the end of its useful life, and the 2012 budget does not include sufficient funding to replace it. 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.

RECOMMENDATIONS

That the Fulford Water Service Commission recommend that the Capital Regional District Board:

1. Approve the 2012 operating and capital budget for the Fulford Water Service as presented;
2. Authorize an increase in the single-family residential user charge, and a proportional increase in the minimum quarterly consumption charge for other uses, for the Fulford Water Service as required to balance the 2012 budget; and
3. Balance the Fulford Water Service 2011 actual revenue and expense on the 2012 user charge, water consumption rate and minimum quarterly consumption charge.



Ted Robbins, B.Sc., C.Tech.
Senior Manager, Water Management



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

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Attachment: 1