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**REPORT TO GANGES SEWER LOCAL SERVICE COMMISSION
MEETING OF MONDAY 01 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 Operating Expense

The actual 2010 operating expense is expected to exceed budget by \$25,281 primarily due to increased effort required to operate the wastewater treatment plant, including:

- Failure of UV equipment and temporary repairs pending replacement late in 2010.
- Maintaining effluent quality and operational reliability with reduced aeration capacity before leaking air pipes were replaced in fall 2010.
- Temporary operations during upgrades to process control and monitoring systems.
- General increase in operation and maintenance effort as equipment ages.

The increased operating expense will be offset by reducing the planned transfer to reserve funds in order to avoid a deficit.

2011 Operating Expense

An increase in the 2011 operating expense of \$54,167 is planned for the following purposes:

Allocation – Operating Labour: \$25,264

Additional effort is required in order to maintain an acceptable level of service and to maintain compliance with statutory requirements as equipment ages (increase of about 4 operator hours per week).

Allocation – Environmental Protection: \$2,740

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 Costs (Vehicles and Travel): \$25,313

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Changes have been made for 2011 to the method of recovery of travel (e.g. ferry fares) and vehicle expenses as an outcome of the Service Delivery Review and resulting organizational changes. Vehicle and travel costs that were previously overhead expenses recovered through labour rates for all CRD Environmental Services operations (local and regional services) will now be recovered directly from each service area. The impact of these changes on the Ganges Sewer Service is a cost increase of \$25,313.

Corporate Services and Insurance/Legal: \$2,720

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, resulting in an increase of \$2,720 in the recovery from the Ganges Sewer Service.

Partially offsetting these increases is a decrease of \$1,870 in Administration and Engineering expense.

2011 Capital Plan

Asset Condition Evaluation, Engineering Study – 2010 c/f (2011): \$30,000

An engineering study will be conducted to determine the quantity, age, condition and approximate life expectancy of sewers 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 will be provided from 2011 revenue.

Major Equipment Replacement – Ganges WWTP (2011): \$40,000

This item will provide a budget to enable replacement of equipment as required to meet operational needs, funded partially from 2011 revenue and partially from reserves. In 2010, unplanned capital expenses of \$25,000 (increased scope of SCADA work and surge protection for UV equipment) required special approval of funding by the Commission on two occasions.

Dissolved Oxygen Instrument Replacement (2011): \$8,000

Existing instruments are nearing the end of their service life and are obsolete. Funding for this item will be provided from 2011 revenue.

Capital plans for 2012 through 2015 are conceptual (pending completion of the 2011 engineering study), and are provided for information only.

Impact on 2011 Taxes and User Charges

Since the 2010 revenue included a surplus of \$21,279 carried forward from 2009, the total impact of the proposed 2011 budget on taxes and fees will be an increase of \$47,035. In order to raise the additional revenue required for 2011, it is recommended that user charge revenue be increased from \$484,110 to \$530,318 (i.e. from \$377 to \$413 for a single-family dwelling). The parcel tax would remain at the 2010 level of \$118.04 per taxable folio.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Ganges Sewer Service are not expected to change, with the exception of inflation and the proposed addition of a modest \$10,000 contingency for 2012. However, the proposed capital plan and cost recovery structure would require a revenue increase of about \$125,000 over the four years, although the future capital plan will consider the outcomes of the 2011 engineering study. Alternative funding

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structures, such as increased borrowing and a lower proportion of cash funding of future capital work, could reduce the impact on the annual cost of service.

Other Considerations: Operating Contingency and Infrastructure Replacement

Some of the infrastructure in the Ganges Sewer Service Area is nearing the end of its useful life, and available capital reserve and equipment replacement funds (estimated to be \$124,000 available and unencumbered at 31 December 2010) are insufficient to replace a significant portion of the infrastructure. The 2011 budget does not include an operating contingency. A contingency of at least 10% of the total operating expense would greatly reduce the risk of an operating deficit. Although a contingency is proposed to be added in 2012, it amounts to only 1.9% of the operating budget.

Status of Reserve Fund

At its meeting of 22 April 2009, the Ganges Sewer Local Service Commission authorized the expenditure of up to \$50,000 from the reserve fund for the purpose of purchasing membranes. In consideration of the sustained performance of the existing membranes, no replacement membranes were purchased. It is recommended that the authorization to purchase membranes be rescinded. The release of these funds would bring the available balance of reserves to an estimated \$174,000 at 31 December 2010.

RECOMMENDATION

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Ganges Sewer Local Service as presented; and
3. That the 2010 actual revenue and expense be balanced on transfer to the reserve fund; and
2. That the Capital Regional District Board authorize an increase in user charges for the Ganges Sewer Local Service as required to balance the 2011 budget; and
4. That the previous authorization by the Ganges Sewer Local Service Committee to spend up to \$50,000 from the reserve fund for replacement of membranes be rescinded.



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Attachment: 1