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**REPORT TO LYALL HARBOUR / BOOT COVE WATER LOCAL SERVICE COMMITTEE
MEETING OF WEDNESDAY 10 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. 1875, "Lyll Harbour / Boot Cove Water Local Services Committee Bylaw, 1990", "Upon its establishment, and on or before December of each year, the Committee shall approve an annual budget for the services provided in the local 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 revenue, to the Treasurer of the Regional Board for the approval of the Regional Board and for inclusion in the Regional Board's provisional and annual budgets."

BACKGROUND

2010 Operating Expense

The actual 2010 operating expense is expected to be \$30,720 below budget due to unused contingency. Debt cost is expected \$2,075 greater than budget, resulting in a projected surplus of \$28,645.

2011 Operating Expense

A decrease in the 2011 operating expense of \$32,611 is proposed. This is the result of elimination of the \$47,300 contingency and a reduction of \$1,274 in the allocation for operating labour, partially offset by the following increases:

Labour – Administration and Engineering: \$2,731

The actual level of effort to provide administration and engineering staff services to the Lyall Harbour / Boot Cove 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: \$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.

Travel Expenses: \$2,741

Allocation – Vehicles: \$7,033

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Effective 1 January 2011, the Lyll Harbour / Boot Cove 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). 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: \$1,730

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 – Treatment and Reservoir: \$800,000

Water treatment upgrades and a new treated water storage tank will be completed. Partial funding is provided by a Municipal-Rural Infrastructure Fund grant. Grantable work must be completed by March 31, 2012. The scope and budget for this project will be revised based on evaluation of treatment alternatives to be completed in 2010.

Money Lake Dam Works: \$65,000

A qualified consultant will be retained to conduct a safety review of the Money Lake No. 1 dam, in accordance with Ministry of Environment requirements. This project is considered a high priority given recently observed changes to the seepage through the dam. The scope of services will include recommendations for capital improvements and operational procedures. 2010 capital projects (Dam Safety Maintenance, \$5,000 and Money Lake Intake Structure Improvements, \$25,000 will be carried forward to 2011 and included in the scope and budget of this project. Funding is proposed from reserves (\$35,000) and 2011 revenue (\$30,000).

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 \$142,009 to \$162,691. The increase results from the \$30,000 proposed direct funding of Money Lake dam works, an increase in the debt servicing expense of \$12,464 for the system upgrade project, and a reduction in the prior year surplus of \$110,879 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

In order to raise the additional revenue required for 2011, it is recommended that the parcel tax be increased from \$560.00 to \$623.76, and that the user charge be increased from \$325.00 to \$388.29.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Lyll Harbour / Boot Cove Water Service are not expected to significantly change, with the exception of inflation and the reinstatement of a contingency in 2012. This change, as well as the elimination of the surplus in 2011 to fund Money Lake Dam works and the proposed \$10,000 transfer to capital for a

Strategic Asset Management Plan, would require a further revenue increase of about \$24,000 in 2012 (increasing the parcel tax to \$773).

Other Considerations: Contingency Funds and Infrastructure Replacement

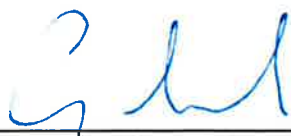
Many of the watermains in the Lyall Harbour / Boot Cove Water Service Area are approaching the end of their useful life, and the proposed 2011 Capital Plan will fully deplete capital reserves. The 2011 budget does not include an operating contingency, or a planned contribution to capital reserves for 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 aging infrastructure to be replaced or upgraded 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 proposed to conduct a Strategic Asset Management Plan in 2012 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.

RECOMMENDATION

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Lyall Harbour / Boot Cove Water Service as presented; and,
2. That the Capital Regional District Board authorize increases in the parcel tax and the user charge for the Lyall Harbour / Boot Cove Water Service as required to balance the 2011 budget; and,
3. That the Lyall Harbour / Boot Cove Water Service 2010 actual revenue and expense be balanced on surplus carried forward to 2011.



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