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**REPORT TO MAGIC LAKE ESTATES WATER AND SEWER LOCAL SERVICES COMMITTEE
MEETING OF TUESDAY 15 NOVEMBER 2011**

SUBJECT 2012 OPERATING AND CAPITAL BUDGETS

ISSUE

This report provides a synopsis of the 2012 budgets, highlighting significant proposed changes. In accordance with Bylaw No. 2339, "Magic Lake Estates Water and Sewer Committee Bylaw, 1995", "Upon its establishment, and in November of each year, the Committee shall approve an annual budget for the services provided in the local service areas 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, in a form approved by 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

WATER LOCAL SERVICE

2011 Estimated Actual Revenue and Expense

The actual 2011 expense is expected to be \$76,586 below budget, mainly due to \$50,472 of unused contingency, lower labour expenditures, repair & maintenance costs, and vehicle and travel costs. Connection charge revenue is expected to be \$12,000 below budget. It is proposed to carry forward the net surplus of \$64,586 to supplement 2012 revenue.

2012 Operating Expense

An increase in the 2012 operating expense of \$28,208 is proposed, including operating cost increase of \$13,153 and contingency increase of \$15,055. The increase in contingency is proposed in order to reduce the risk of an operating deficit.

Capital Plan

The following capital work is planned for 2012:

Upgrade Project: \$4,750,000

A new Dissolved Air Flotation (DAF) water treatment plant and raw water pipeline will be constructed to treat water from both Buck Lake and Magic Lake, to improve system reliability and comply with legislated obligations for drinking water treatment. Up to two kilometers of water mains will be replaced and a new low-elevation balancing storage tank will be constructed to reduce water losses and improve energy efficiency. A seismic assessment will be conducted on the Buck Lake dam, and a new open channel spillway will be constructed to meet provincial dam safety requirements.

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Re: 2012 Operating and Capital Budgets

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This is a multi-year project with a total budget of \$8,012,500. The majority of the construction is scheduled for 2012. Partial funding is provided by a Building Canada Fund grant. Funding will include the transfer of \$142,000 from 2012 revenue, \$3,167,000 from the grant, \$896,500 already in the capital account, and a \$544,500 intake on the authorized borrowing.

Upgrade SCADA: \$15,000

It is proposed to replace the aging water SCADA system with new equipment that is compatible with the corporate standard. The project will replace hardware that has reached the end of its service life, and will reduce the risks of undetected equipment failure, spills, interrupted reservoir fill cycles and water quality problems. The project will be funded from new debt.

Strategic Asset Management Plan: \$20,000

A \$20,000 contribution from the Community Works Fund (Gas Tax) grant allocated by the Capital Regional District (CRD) Board will reduce the funding required by system users for the \$40,000 Strategic Asset Management Plan that was included in the Upgrade Project 2011 Capital Plan item.

2012 Revenue Requirement

In addition to the proposed \$28,208 operating budget increase, debt costs will increase by \$19,760 as funds are borrowed for the Upgrade Project. It is proposed to decrease contributions to capital and reserve funds by \$238,383. The prior year surplus will decrease in 2012 from \$241,201 to \$64,586, and it is proposed to decrease the budgeted connection fee revenue by \$14,300 to reflect a reduction in actual connection revenue in 2011. The net change in the revenue requirement (taxes and fees) for 2012 is an increase of \$500.

Impact on 2012 Taxes and User Charges

No change in taxes or fees is proposed. The \$500 increase in the revenue requirement will be recovered through an increase of 2 Single Family Equivalents (SFE) in 2011.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Annual debt costs will increase by approximately \$170,000 by 2014 as the upgrade project is completed however, these costs will be offset by reductions in planned cash funding of the project and transfers to the reserve fund. Three small asset replacement projects are forecast for 2014 to 2016, which would require new borrowing subject to electoral assent. The scope, estimated cost and funding structure of these projects is conceptual and will be refined based on the recommendations of the Strategic Asset Management Plan.

Other Considerations: Asset Maintenance and Replacement

Many of the water mains in the Magic Lake Estates water system are approaching the end of their useful lives, and the 2012 budget does not include sufficient funding to replace them. 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.

WATER (2) LOCAL SERVICE

This service exists for the sole purpose of recovering debt costs for a water main replacement project completed in 2003. The debt was refinanced mid-year in 2011 at a lower interest rate than the previous term, resulting in a \$22,558 reduction in the annual interest expense in 2011. As a result, an estimated surplus of \$22,558 will be carried forward to 2012.

For 2012, the interest expense will decrease by \$55,571 from 2011 budget. It is proposed to increase the contingency by \$18,533 for 2012 in order to carry a diminishing surplus over the remaining term of the debt to maintain a stable parcel tax rate. The balance of required revenue of \$178,064 would be recovered through a parcel tax of \$209.39, a reduction of \$70.00 from the 2011 rate.

The Magic Lake Estates Water (2) Local Service will be extinguished when the repayment of 2002 borrowing is complete in 2017.

SEWER LOCAL SERVICE

2011 Estimated Actual Revenue and Expense

The actual 2011 expense is expected to be \$40,169 below budget, mainly due to unused contingency of \$37,361, and lower than expected other operating costs.

Connection charge revenue is expected to be \$17,500 below budget, resulting in a net surplus of \$22,669. It is proposed to carry forward the surplus to supplement 2012 revenue.

2012 Operating Expense

A net increase in the 2012 operating expense of \$3,540 is due mainly to increases in labour costs.

Capital Plan

The following capital work is planned for 2012:

Schooner WWTP Upgrades: \$250,000

Upgrades to the Schooner Wastewater Treatment Plant are required in order to maintain reliable sewer service and protection of the marine environment. A project plan, including conceptual design and budgetary cost estimate, will be developed as part of the 2011 engineering study. In anticipation of increased loading from solids separated by the proposed new Magic Lake water treatment plant, up to \$166,500 will be provided for this project from the federal-provincial water system upgrade infrastructure grant. It is expected that 50% of the work will occur in 2012, with an additional \$250,000 capital item in 2013. The project will require funding of \$83,500 from reserve in 2012, with the balance provided by the grant.

Replace SCADA Equipment: \$31,000

It is proposed to replace the aging sewer SCADA system with new equipment that is compatible with the corporate standard. The project will replace hardware that has reached the end of its service life, and will reduce the risks of undetected equipment failure, spills, and overflows. The project will be funded from reserves.

Strategic Asset Management Plan (SAMP): \$25,000

This contribution from Gas Tax grant funds will reduce the funding required by system users for the \$50,000 SAMP item included in the 2011 budget.

2012 Revenue Requirement

The net change in the 2012 revenue requirement is an increase of \$9,146, mainly due to changes in contingency allowance, capital reserve transfer, surplus carry forward and connection fee revenues.

Impact on 2012 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the parcel tax be increased from \$401.27 to \$414.76. The user charge would remain at the 2010 level.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. Capital upgrades will be required within the next five years to address the condition of the Chart Drive septic field and the need for improvements to the Schooner treatment plant. The scope and budget for these and other upgrades will be considered upon completion of the 2011 Engineering Study, for a proposed fall 2011 or spring 2012 loan authorization (public approval) process.

Other Considerations: Asset Maintenance and Replacement

Much of the infrastructure in the Magic Lake Estates Sewer Service Area is at or near the end of its useful life, and the 2012 budget does not include sufficient funding to replace it. Associated problems such as excessive inflow and infiltration (I&I) and obsolete treatment equipment are impacting the ability of the service to consistently comply with legislated requirements for effluent discharge. 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

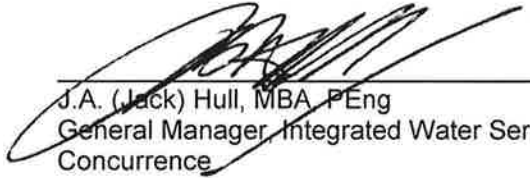
That the Magic Lake Estates Water and Sewer Local Services Committee recommend that the CRD Board:

1. Approve the 2012 operating and capital budget for the Magic Lake Estates Water Service as presented;
2. Balance the Magic Lake Estates Water Service 2011 actual revenue and expense on transfer to the capital reserve fund;
3. Approve the 2012 operating and capital budget for the Magic Lake Estates Water (2) Service as presented;
4. Authorize a decrease in the parcel tax for the Magic Lake Estates Water (2) Service as required to balance the 2012 budget;
5. Approve the 2012 operating and capital budget for the Magic Lake Estates Sewer Service as presented;
6. Authorize an increase in the parcel tax for the Magic Lake Estates Sewer Service as required to balance the 2012 budget; and

7. Balance the Magic Lake Estates Sewer Service 2010 actual revenue and expense on transfer to the capital reserve fund.



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Concurrence

CS:ls
Attachment: 1