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**REPORT TO PORT RENFREW UTILITY SERVICES COMMITTEE  
MEETING OF TUESDAY 25 JANUARY 2011**

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**SUBJECT      2011 OPERATING AND CAPITAL BUDGETS**

**ISSUE**

This report provides a synopsis of the 2011 budgets, highlighting significant proposed changes. In accordance with Bylaw No. 3281, "Port Renfrew Utility Services Committee Bylaw, 2005", "Upon its establishment, and in November of each year, the Committee shall approve an annual budget for each of the services provided in 12(a) and 12(b) and 12(c) above [sewer, street lighting and water] 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, for the approval of the Regional Board and for inclusion in the Regional Board's provisional and annual budgets." It is proposed to expand the mandate of the Port Renfrew Utility Services Committee to also include the provision of solid waste services.

**BACKGROUND**

**PORT RENFREW STREET LIGHTING LOCAL SERVICE**

This service exists for the purpose of recovering the cost of street lighting provided by BC Hydro.

**2010 Estimated Actual Revenue and Expense**

The total revenue and expense in 2010 is expected to be on budget.

**2011 Operating Expense**

An increase in the 2011 operating expense of \$420 is proposed, including the following:

Labour – Administration and Engineering: \$430

There was previously no budget for administration of the service; however, some effort has been required in the past two years to correspond with the service provider (BC Hydro) and to brief the Committee on changes in the service. An allocation of five hours for the year is proposed for this purpose.

Allocation – Corporate Services and Insurance/Legal: (\$10)

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**

There is no capital plan for this service.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating and capital budget, and elimination of the 2009 deficit in 2010, would decrease the revenue requirement (taxes and fees) from \$8,152 to \$4,625.

Impact on 2011 Taxes and User Charges

Due to the reduction in revenue required for 2011, it is recommended that the annual user charge be decreased from \$44.23 to \$24.00, and that the parcel tax be decreased from \$50.47 to \$28.88.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Port Renfrew Street Lighting Local Service are not expected to change with the exception of inflation.

PORT RENFREW REFUSE DISPOSAL LOCAL SERVICE

2010 Estimated Actual Revenue and Expense

The total operating expense in 2010 is expected to be \$2,145 greater than budget for the following reasons:

- Contract services exceed budget by \$2,322 due to increased volume of material transferred through the station
- Electricity costs exceed budget by \$1,000 due to increased usage by the caretaker
- Meeting and advertising expense is \$777 below budget
- Repairs and maintenance is \$400 below budget.

Total 2010 revenue is expected to be \$5,051 below budget for the following reasons:

- Revenue from the sale of service to the Pacheedaht First Nation is expected to be \$1,726 below budget in 2010 due to a calculated adjustment for inflation according to the contract for services that was less than the budgeted increase
- The \$3,600 lease revenue for the transfer station operator's trailer site was deducted directly from the caretaker's contract payment, and as such was not recorded as revenue
- Revenue from tipping fees is expected to be \$275 greater than budget due to increased volume.

It is proposed to balance the 2010 actual revenue and expense by reducing the planned transfer to reserve by \$7,196.

2011 Operating Expense

An increase in the 2011 operating expense of \$7,267 is proposed, including the following adjustments:

Contract for Services: \$5,254

An increase is proposed in order to accommodate increased volume of material transferred, and an adjustment to the monthly cost of caretaker services (\$1,156 - \$300 site license = \$856 per month).

Labour – Administration and Engineering: \$750

The actual level of effort to provide administration and engineering staff services substantially exceeded the budget allocated for this work in 2009. An increase is proposed to reflect the actual level of effort required for these services.

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Electricity: \$1,000

An increase is proposed to reflect the estimated actual 2010 expense.

Allocation – Corporate Services and Insurance/Legal: \$3,290

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.

Operating – Other Costs: (\$677)

Repairs and Maintenance Costs (\$200)

Reductions are proposed to reflect the estimated actual 2010 expenses for meetings, advertising, repairs and maintenance.

Capital Plan

There are no capital projects planned in the next five years.

2011 Revenue Requirement

The proposed changes to the 2011 operating expense, elimination of the \$3,600 site license fee from revenue (as it is deducted directly from payment for caretaker services), and the elimination of the \$1,463 revenue surplus that was carried into 2010, are partially offset by a proposed reduction in the planned transfer to reserve from \$8,883 (2010) to \$1,000 (2011). The result of these changes is an increase in the revenue requirement (taxes and fees for contract services) from \$57,933 to \$62,380. The 2011 contract fee for the Pacheedaht First Nation is estimated to be \$27,604 based on inflation data for January to October 2010, leaving the balance of \$32,118 to be recovered through the tax levy.

Impact on 2011 Taxes

The recommended 2011 budget would increase the average levy per taxable folio from \$137 to \$159.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Port Renfrew Refuse Disposal Service are not expected to change with the exception of inflation.

Other Considerations: Capital Reserves and Contingency

Although significant upgrades to the transfer station were completed in 2009, further upgrading and renewal will be needed in the future. Capital reserves and equipment replacement funds (estimated to total \$32,275 at December 31, 2010) are inadequate to recover a large unplanned capital expense. The contingency of \$79 is inadequate to cover a significant unplanned operating expense. A contingency of at least 10 percent of operating expense (about \$7,500) would greatly reduce the risk of a deficit and would serve to stabilize tax revenue.

PORT RENFREW WATER LOCAL SERVICE

2010 Estimated Actual Revenue and Expense

The total expense in 2010 is expected to be \$52,223 below budget due to the unused contingency of \$51,619, and lower than expected operating labour. An unplanned expense of \$14,298 (Recovery-Other) was incurred for emergency response and repairs in resulting from a December 2008 - January 2009

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snowstorm (for which a claim had been registered with the Provincial Emergency Program, but was rejected in 2010), and \$35,000 was transferred to the capital fund for the purpose of replacing the Baird Creek crossing in conjunction with a highway bridge replacement. These changes result in an estimated surplus of \$2,925 at December 31, 2010.

2011 Operating Expense

A decrease in the 2011 operating expense of \$44,647 is proposed, including the following adjustments from 2010 budget:

Allocation – Operating Labour: (\$1,133)

The hourly loaded rate for operating labour will decrease in 2011 due to changes in the method of recovery of travel and vehicle costs.

Labour – Administration and Engineering: (\$1,008)

The level of effort to provide administration and engineering staff services is expected to decrease in 2011.

Allocation – Corporate Services and Insurance/Legal: \$370

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.

Repairs and Maintenance Costs: \$90

Electricity: \$100

Operating – Other Costs: \$40

Water Testing Expenditures: \$60

Supplies – Chemical: \$40

Increases are proposed to adjust for inflation.

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.

Allocation – Vehicles: \$4,983

Effective 1 January 2011, the Port Renfrew utility services became the responsibility of the Integrated Water Services Department. As a result, changes have been made for 2011 to the method of recovery of vehicle expenses. Vehicle 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.

Contingency: (\$49,917)

It is proposed to reduce the contingency to mitigate the impact on 2011 tax and fee revenue associated with the loss of the prior year surplus in 2010.

Capital Plan

No capital work is planned for 2011.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating budget, and reduction of the prior year surplus from \$53,013 to \$2,925, would increase the revenue requirement (taxes and fees) for 2011 from \$77,997 to \$83,438.

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 \$174.21 to \$184.19, and that the parcel tax be increased from \$318.19 to \$340.05.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Port Renfrew Water Service are not expected to change with the exception of inflation.

A strategic asset management plan is proposed as a 2012 capital project. This would include an asset inventory to determine the quantity, age, condition and approximate life expectancy of watermains and other infrastructure; an estimate the cost to renew or replace infrastructure; and 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.

A conceptual capital expense of \$45,000 per year beginning in 2012 for water treatment upgrades would require a corresponding increase in revenue. The scope and budget of water treatment upgrades will be reviewed in 2011 in light of plans for land development in the Port Renfrew area.

Other Considerations: Contingency, Capital Reserves and Infrastructure Replacement

Many of the watermains in the Port Renfrew Water Service Area are nearing the end of their useful life, and available capital reserve and equipment replacement funds (estimated to be \$17,518 at 31 December 2010) are insufficient to replace a significant portion of the mains. Treatment upgrades are also needed, and no funds are available for this work unless the community grows rapidly. The 2011 budget includes only a very small operating contingency, and no 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 aging infrastructure 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.

SNUGGERY COVE WATER SERVICE

This service was established in 2002 for the sole purpose of servicing debt relating to the expansion of the Port Renfrew water system to the Snuggery Cove area. The debt cost is repaid by the 41 taxable parcels in the Snuggery Cove area. The Snuggery Cove area is included as part of the Port Renfrew Water Service Area for the purpose of operation of the water system and future capital works.

2010 Estimated Actual Expense

The actual 2010 expense is expected to be \$376 below budget due to unused contingency. The \$376 surplus will be carried forward as 2011 revenue.

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2011 Operating Expense

An increase in the 2011 operating expense of \$254 is proposed to offset an increase in the allocation for Corporate Services and Insurance/Legal of \$630. It is proposed to eliminate the \$376 contingency to minimize the required increase.

2011 Revenue Requirement

Due to the increase in operating expense, the 2011 revenue requirement will increase from \$31,726 to \$31,920.

Impact on 2011 Taxes and User Charges

The cost of this service is recovered through a property value tax, which averaged \$738 per taxable parcel in 2010. Primarily due to a reduction in the number of taxable parcels from 43 to 41 for 2011, the average tax in 2011 will be \$779. There are no user charges associated with this service.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The revenue requirement will increase by 1.3% in 2012 due to the elimination of the prior year surplus in 2011, and is expected to remain unchanged subsequently. The Snuggery Cove Water Service will be extinguished when the repayment of 2004 borrowing is complete in 2019.

PORT RENFREW SEWER LOCAL SERVICE

2010 Estimated Actual Expense

The actual 2010 operating expense is expected to be on budget.

2011 Operating Expense

An increase in the 2011 operating expense of \$5,174 is proposed, including the following adjustments from 2010 budget:

Allocation – Operating Labour: \$2,369

A budget increase is proposed to offset increases in the hourly cost of electronics technical services (process control), and in the level of effort to operate the aging system and maintain regulatory compliance.

Labour – Administration and Engineering: (\$2,065)

The actual level of effort to provide administration and engineering staff services to the Port Renfrew Sewer Service is expected to be significantly less than the budget allocated for this work in 2010. A decrease is proposed to reflect the actual level of effort required for these services.

Allocation – Environmental Protection: \$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.

Allocation – Vehicles: \$4,390

Operating – Other Costs (Travel Expenses): (\$650)

Allocation – Corporate Services and Insurance/Legal: \$390

(See above for descriptions)

Capital Plan

No capital work is planned for 2011.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating budget, as well as the elimination of the prior year surplus that partially offset 2010 expenses, would increase the revenue requirement (taxes and fees) from \$59,671 to \$70,794.

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 \$320.76 to \$362.75 and that the parcel tax be increased from \$372.82 to \$434.40.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Port Renfrew Sewer Service are not expected to change with the exception of inflation. A \$5,000 strategic asset management plan proposed for 2012, and a conceptual capital expense of \$45,000 per year beginning in 2012 for water treatment upgrades, would require corresponding increases in revenue. The scope and budget of water treatment upgrades will be reviewed in 2011 in light of plans for land development in the Port Renfrew area.

Other Considerations: Contingency, Capital Reserves and Infrastructure Replacement

Much of the sewer infrastructure in Port Renfrew is nearing the end of its useful life, and available capital reserve and equipment replacement funds (estimated to be \$18,150 at 31 December 2010) are insufficient to replace a significant portion of the infrastructure. Treatment upgrades are also needed, and no funds are available for this work unless the community grows rapidly. The 2011 budget includes only a very small operating contingency, and no 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 aging infrastructure 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 Port Renfrew Street Lighting Local Service as presented; and,
2. That the Capital Regional District Board authorize decreases in the annual user charge and parcel tax for the Port Renfrew Street Lighting Local Service as required to balance the 2011 budget; and,
3. That the Port Renfrew Street Lighting Local Service 2010 actual revenue and expense be balanced on 2011 contingency; and,
4. That the Capital Regional District Board approve the 2011 operating and capital budget for the Port Renfrew Refuse Disposal Local Service as presented; and,

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5. That the Capital Regional District Board authorize an increase in the property tax levy for the Port Renfrew Refuse Disposal Local Service as required to balance the 2011 budget; and,
6. That the Port Renfrew Refuse Disposal Local Service 2010 actual revenue and expense be balanced on 2010 transfer to reserve; and,
7. That the Capital Regional District Board approve the 2011 operating and capital budget for the Port Renfrew Water Local Service as presented; and,
8. That the Capital Regional District Board authorize increases in the annual user charge and parcel tax for the Port Renfrew Water Local Service as required to balance the 2011 budget; and,
9. That the Port Renfrew Water Local Service 2010 actual revenue and expense be balanced on 2011 contingency; and,
10. That the Capital Regional District Board approve the 2011 operating and capital budget for the Snuggery Cove Water Local Service as presented; and,
11. That the Capital Regional District Board authorize an increase in the property tax levy for the Snuggery Cove Water Local Service as required to balance the 2011 budget; and,
12. That the Snuggery Cove Water Local Service 2010 actual revenue and expense be balanced on the 2011 property tax levy; and,
13. That the Capital Regional District Board approve the 2011 operating and capital budget for the Port Renfrew Sewer Local Service as presented; and,
14. That the Capital Regional District Board authorize increases in the annual user charge and parcel tax for the Port Renfrew Sewer Local Service as required to balance the 2011 budget; and,
15. That the Port Renfrew Sewer Local Service 2010 actual revenue and expense be balanced on 2011 parcel tax.



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CS:ls  
Attachment: 1