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**REPORT TO PORT RENFREW UTILITY SERVICES COMMITTEE
MEETING OF TUESDAY 8 MARCH 2012**

SUBJECT 2012 OPERATING AND CAPITAL BUDGETS

ISSUE

This report provides a synopsis of the 2012 budgets, highlighting significant proposed changes. Each year, the Committee recommends five annual service budgets (for street lighting, refuse disposal, water, Snuggery Cove water and sewer) to the Regional Board for inclusion in the Regional Board's annual budgets.

BACKGROUND

PORT RENFREW STREET LIGHTING LOCAL SERVICE

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

2011 Actual Revenue and Expense

Actual 2011 expenses exceeded budgets by \$846 and revenues were close to budget. The increase in costs is due to the discovery by BC Hydro that several existing streetlights were not included in the Port Renfrew bill in the past. An inventory was conducted to confirm that all streetlights were included in 2011. In addition an allowance has been made for increasing electricity rates.

The 2011 budget was balanced by carrying forward the net operating deficit of \$793 to 2012.

2012 Operating Expense

An increase in the 2012 operating expense of \$1,712 is proposed, including an increase of \$1,355 in operating costs and an increase of \$357 in contingency.

2012 Revenue Requirement

Implementing the planned changes to the 2012 operating and capital budget including payment of the 2011 deficit, would increase the revenue requirement (taxes and fees) from \$4,625 to \$6,740.

Impact on 2012 Taxes and User Charges

Due to the increase in revenue required for 2012, it is recommended that the parcel tax be increased from \$31.34 to \$41.24 and the annual user charge be increased from \$24.00 to \$39.19.

Forecast 2013-2016

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.

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PORT RENFREW REFUSE DISPOSAL LOCAL SERVICE

This service exists for the purpose of recovering the cost of maintaining, operating and regulating the solid waste disposal facilities.

2011 Actual Revenue and Expense

Actual 2011 expenses were \$6,969 lower than budget, and revenue was slightly more than budget, resulting in a 2011 surplus of \$7,793.

The 2011 budget was balanced by carrying the surplus forward to 2012.

2012 Operating Expense

An increase in the 2012 operating expense of \$6,670 is proposed, including the following adjustments:

- Increase Contract for Services by \$9,402
- Decrease Operating Costs by \$4,945
- Increase Contingency by \$2,213.

An increase of \$1,097 in the Transfer to Reserve, and an increase of \$10 in the Transfer to Equipment Replacement Fund are also recommended.

2012 Revenue Requirement

The 2011 contract fee for the Pacheedaht First Nation is estimated to be \$27,262 based on the same rate as the previous year.

The proposed increases to the 2012 operating budget are offset by the 2011 surplus carryforward, with the result being no net change in the requisition of \$29,973.

Impact on 2012 Taxes

The recommended 2012 budget requisition is unchanged from 2011, but the actual levy per taxable folio will depend on 2012 assessed values as determined by BC Assessment Authority.

Forecast 2013-2016

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

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 (total \$39,929 at December 31, 2011) are inadequate to recover a large unplanned capital expense.

PORT RENFREW WATER LOCAL SERVICE

This services exists for the purpose of recovering costs associated with operating and maintaining the water system, including treatment, conveyance and storage.

2011 Actual Revenue and Expense

The total expense in 2011 is expected to be \$33,646 below budget primarily due to lower than expected operating expenses and the unused contingency of \$14,142. Revenue was also slightly higher than expected, leading to a 2011 surplus of \$35,952.

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The 2011 budget was balanced by carrying the surplus forward into 2012.

2012 Operating Expense

A decrease in the 2012 operating expense of \$2,703 is proposed, including the following adjustments from 2011 budget:

- Decrease Operating Costs by \$701
- Decrease Contingency by \$2,002.

Also recommended are:

- Increase Transfer to Capital Fund by \$5,000 (to fund 2012 capital item)
- Increase Transfer to Reserve Fund by \$34,235.

Capital Plan

One capital item is planned for 2012 – a Strategic Asset Management Plan (SAMP) for \$5,000. Completion of the SAMP is an essential component of proper infrastructure planning. Deficient elements of the system will be identified and a prioritized replacement plan will be developed. A financial plan will then be developed to ensure acceptable service levels are maintained and annual costs of the service are stabilized.

2012 Revenue Requirement

Implementing the planned changes to the 2012 operating budget, including use of the prior year surplus of \$35,952 to defer 2012 costs, would increase the revenue requirement (taxes and fees) from \$83,438 to \$99,383. The increase in revenue requirement is offset by the fact that 32 new parcels have been added to the service area.

Impact on 2012 Taxes and User Charges

In order to raise the revenue required for 2012, it is recommended that the parcel tax decrease from \$340.05 to \$320.86, and the annual user charge increase from \$184.19 to \$203.38. The average total cost per user remains the same, at \$524.24.

Forecast 2013-2016

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 conceptual capital expense of \$45,000 per year beginning in 2013 for water system upgrades would require a corresponding increase in revenue. The scope and budget of water system upgrades will be reviewed in 2012 in light of the SAMP results and changing plans for land development in the Port Renfrew area.

Other Considerations: Contingency, Capital Reserves and Infrastructure Replacement

Many of the water mains in the Port Renfrew Water Service Area are nearing the end of their useful life, and available capital reserve and equipment replacement funds (total of \$18,187 at 31 December 2011) 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. 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. This would require a revenue increase beyond that recommended for the 2012 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 44 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.

2011 Actual Revenue and Expense

The actual 2011 revenue and expense were on budget.

2012 Operating Expense

A decrease in the 2012 operating expense of \$610 is expected in 2012.

2012 Revenue Requirement

After accounting for the fact that the \$324 surplus carried forward from 2010 to 2011 has changed to a \$119 deficit carried forward from 2011 to 2012, the 2012 requisition decreases only slightly from \$31,972 to \$31,785.

Impact on 2012 Taxes

The cost of this service is recovered through a property value tax, which was \$1.39 per \$1,000 of assessed value in 2011. Although the total requisition is very close to that of 2011, the actual tax rates will not be known until assessment values are confirmed by BC Assessment Authority. There are no user charges associated with this service.

Forecast 2013-2016

A five-year capital and operating budget forecast is provided for information. The operating costs (to administer the service) increase in future by the rate of inflation, and debt costs remain the same. The Snuggery Cove Water Service will be extinguished when the repayment of 2004 borrowing is complete in 2019.

PORT RENFREW SEWER LOCAL SERVICE

This service exists for the purpose of recovering costs to operate sewage collection and treatment facilities.

2011 Actual Revenue and Expense

The actual 2011 operating expense is expected to be \$13,823 below budget, primarily due to unused contingency and lower than expected operating costs. Revenue was on budget.

2012 Operating Expense

An increase in the 2012 operating expense of \$3,324 is proposed, including the following adjustments from 2011 budget:

- Increase Operating Costs by \$2,981
- Increase Contingency by \$343.

A further increase of \$9,836 is included to fund the marine water quality monitoring program as required by the provincial Ministry of Environment. We are now required to take water samples around the outfall area to ensure that treatment standards are being met.

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Also included are the following recommended increases:

- \$5,000 increase Transfer to Capital Fund (to fund 2012 capital item)
- \$625 increase to Reserve Fund.

Capital Plan

One capital item is planned for 2012 – a Strategic Asset Management Plan (SAMP) for \$5,000. Completion of a SAMP is an essential component of proper infrastructure planning. Deficient elements of the system will be identified and a prioritized replacement plan will be developed. A financial plan will then be developed to ensure acceptable service levels are maintained and annual costs of the service are stabilized.

2012 Revenue Requirement

Implementing the planned changes to the 2012 operating budget and accounting for the increased surplus carried forward to 2012 will increase the revenue requirement (taxes and fees) from \$69,735 to \$80,101.

Impact on 2012 Taxes and User Charges

In order to raise the additional revenue required for 2012, it is recommended that the parcel tax be increased from \$434.40 to \$490.15 and that the annual user charge be increased from \$362.75 to \$413.88.

Forecast 2013-2016

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 conceptual capital expense of \$45,000 per year beginning in 2013 for sewer upgrades will require corresponding increases in revenue. The scope and budget of sewer upgrades will continue to be reviewed in 2012 in light of the SAMP and also 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 (total \$18,876 at 31 December 2011) 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 2012 budget contains only modest transfers to reserve funds, and this may have to increase in the future.

RECOMMENDATIONS

1. That the Capital Regional District Board approve the 2012 operating and capital budget for the Port Renfrew Street Lighting Local Service as presented; and,
2. That the Capital Regional District Board authorize increases in the annual user charge and parcel tax for the Port Renfrew Street Lighting Local Service as required to balance the 2012 budget; and,
3. That the Capital Regional District Board approve the 2012 operating and capital budget for the Port Renfrew Refuse Disposal Local Service as presented; and,
4. That the Capital Regional District Board authorize an increase to the property tax levy for the Port Renfrew Refuse Disposal Local Service as required to balance the 2012 budget; and,

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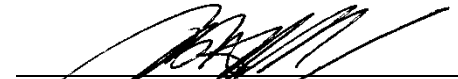
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5. That the Capital Regional District Board approve the 2012 operating and capital budget for the Port Renfrew Water Local Service as presented; and,
6. That the Capital Regional District Board authorize an increase in the annual user charge and a decrease in the parcel tax for the Port Renfrew Water Local Service as required to balance the 2012 budget; and,
7. That the Capital Regional District Board approve the 2012 operating and capital budget for the Snuggery Cove Water Local Service as presented; and,
8. 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 2012 budget; and,
9. That the Capital Regional District Board approve the 2012 operating and capital budget for the Port Renfrew Sewer Local Service as presented; and,
10. 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 2012 budget.



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Concurrence

TT:ls

Attachment: 1