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Agenda Item #8
REPORT #RWSC 2009 - 25

**REPORT TO REGIONAL WATER SUPPLY COMMISSION
MEETING OF WEDNESDAY, 18 NOVEMBER 2009**

SUBJECT 2010 CAPITAL AND OPERATING BUDGET

PURPOSE

The purpose of the report is to provide a synopsis of the 2010 budget highlighting the proposed significant changes and additions. The report generally follows the sequence of information provided in the draft budget document. The report is based on the recommendations of the Budget Sub-Committee.

Rate Base

The rate base for 2010 has increased by \$56,096,382 with the biggest impact resulting from the re-evaluation of assets to comply with the requirements of the Public Sector Accounting Board (PSAB). This has added approximately \$42 million to the rate base. Major capital adding to the rate base includes the Sooke Water Supply and Treatment facility, the extension of the Millstream water line and the No. 2 Main replacement (Pages 6 and 7).

Revenue Requirement

The Revenue Requirement for 2010 has increased by \$2,671,593 primarily as a result of an increase in depreciation of \$2.1 million, an increase in operating expenditures including new expenditures related to the Leech water supply land acquisition and a reduction in operating expenditures primarily from the elimination of rebate programs. In addition, the revenue requirement increase also includes the projected deficit for 2009 (Pages 8 and 9).

Return on Rate base

Due to significant increases in the rate base and revenue requirements, the rate of return has been adjusted to mitigate the impact of the PSAB revaluation on the 2010 water rate.

Operations Budget

The 2010 board budget reflects an increase in non-discretionary expenses such as negotiated wage/salary increases, increased corporate allocations, increased costs of consumables such as fuel, chlorine, ammonia, electricity, radio licenses, etc., and agricultural subsidy.

The budget also reflects decreases due to the elimination of the various rebate programs that were budgeted in 2009 namely the irrigation system rebates (\$22,050), toilet rebates (\$207,460), and high efficiency washing machine rebates (\$283,020), and funding for a vacant position in demand management (\$66,200). The net decrease in the board budget from previous year (Column 2 less Column 7) is \$208,631.

The Single supplementary item is for the American Bullfrog eradication grant, conditional on matching funding by CRD Parks and administrative support for Fleet. Continuous supplementary items include seasonal staff for security, emergency response and environmental restoration in the Leech water supply area, wildlife and alien species management in the water supply lands, and the net additional costs associated with the operation of the new Sooke Disinfection facility. Details are provided on Pages 10 - 14 of the budget document.

Capital Budget

The projected capital expenditures for the period 2010 - 2014 total \$17.414 million, plus \$1.336 million cost shared with the Juan de Fuca water distribution system. The major expenditures over the five year period include restoration of the Leech Water Supply Area (\$2.722 million), completion of the No. 2 Main replacement (\$3.813 million) and the new McTavish reservoir (\$4.6 million).

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Agricultural Subsidy

In 2001, the Commission froze the agricultural water rate at \$0.2060 for 5 years subject to annual review. This compares to the current wholesale rate of \$0.5450. The Commission reviewed the rate in 2005 and decided to leave it unchanged. In 2008 the subsidy totaled \$576,928, up from the previous year by \$183,783. The 2010 budget has been increased to \$625,000 to reflect the increase in the wholesale rate. The subsidy to the agricultural sector will continue to grow as the wholesale rate increases. The Commission may wish to consider a modest annual increase in the agricultural rate of, say 2%. The 2010 agricultural rate would increase to \$0.2105. A summary of agricultural water use across the region is attached (Attachment 1).

Staffing

A summary of Water Services' staffing is attached (Attachment 2). The budget includes a single supplementary staffing increase by 1.0 FTE for administrative support for the Fleet Manager. Only 0.55 FTE would be charged to the supply system budget.

Water Demand

As was reported in the financial update in September, water demand was lower than expected despite having had one of the warmest (4th), sunniest (3rd) and driest (one of top 10) summers on record. With these weather conditions, higher than normal water demand would have been expected. Water demand for the year is projected to be about 9% below the 10 year average.

It is expected that the trend to lower per capita water use will continue given the requirement to install low water use plumbing, the popularity of Hi-Efficiency washing machines, developments with smaller lots, and the greater awareness of water issues in the community. Lower water use with largely fixed operating costs, financial obligations and continued investments in necessary infrastructure upgrades result in the need for rate increases to meet the revenue requirements.

To date the 5-year average has been used to calculate the water rate. This approach works well in a situation of stable or increasing water use. However, with declining water use and increasing revenue requirements, the 5-year average understates the water rate resulting in, as in 2009, a deficit. Under legislative requirements, the deficit must be carried forward to the next year as a revenue requirement. For the 2010 rate calculation, a trend analysis was undertaken to estimate the water use for rate calculation rather than the 5-year average.

Proposed 2010 Wholesale Water Rate

It is expected that the CRD Board will be particularly vigilant in its review of all CRD budgets given the current economic circumstances. Accordingly, staff have looked for opportunities to minimize the increase in operating expenses. Major areas of expenditure, based on 2010 and accounting for 98.8% of the budget, include:

- Debt obligations 50.2%
- Labour (wages and benefits) 35.5%
- Corporate Services (Finance, IT, HR, Corporate Communications, etc.) 6.1%
- Agricultural Subsidy 2.3%
- Treatment/Disinfection plant operating costs(excluding labour) 2.4%
- Demand Management (excluding labour) 2.3%

Only a small percentage of the operating budget varies with the demand for water. Given that the demand management program has been much more successful than expected, it is proposed to reduce the demand management budget. Two options for reductions in the program are presented for consideration:

- Option 1 (base budget as presented) – Eliminates the Irrigation rebate program and reduces the rebate on ultra low toilets and hi-efficiency washing machines in 2010. Under this base option, rebates on ultra-low flow toilets and high efficiency washing machines have been reduced to \$40 and \$50 respectively and will be reevaluated

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in 2010 with a view to considering eliminating the rebates entirely in 2011. This has reduced the 2010 budget by \$247,500. In addition, a vacant position has not been funded, for an additional reduction of \$66,200.

- Option 2 – In addition to the base budget as presented in Option 1, the toilet and smart wash rebate program would be entirely eliminated, for a total reduction in the budget of \$647,520.

2010 Wholesale Rate

The recommended wholesale rate has taken into consideration the revenue required to meet debt obligations as well as the trend to declining water use. The wholesale rate under the two options is presented below:

2010 Wholesale Water Rate - Option 1.

Based on the draft base budget, the proposed wholesale rate is \$0.5450, an increase of \$0.0987. The rate increase reflects the impact, capital expenditures, higher operating costs, and the continuing trend to lower demand for water. The increase in annual cost for the average household using 235 cubic metres would be \$23.19.

2010 Wholesale Water Rate - Option 2.

Based on the draft budget, the proposed wholesale rate is \$0.5385, an increase of \$0.0922. The increase in annual cost for the average household using 235 cubic metres would be \$21.67.

5-Year Water Rate Projection

The 5-year water rate projection is attached (Attachment 3). As in previous projections, it is assumed that demand remains constant. It should also be noted that capital expenditures are not fully reflected in the water rate until after the asset is in service, i.e. 'used and useful'.

Selected 2009 Accomplishments

- Completed Sooke River Road Disinfection Facility.
- Completed Sooke Water Supply Pipeline replacing the Flowline.
- Completed Japan Gulch Dam low level pipe relining.
- Completed seismic upgrade of Japan Gulch Screening Tower.
- Completed seismic upgrade of Kapoor Tunnel Head Tank.
- Replaced 2.2 km of No. 2 Main.
- Extended water supply Main No. 9 to Highlands border.
- Laboratory approved for ongoing microbiological testing of drinking water.
- Revised and implemented a new monitoring plan for Goldstream Reservoir to better understand the algal ecology.
- Developed a preliminary water quality monitoring plan for the Leech Water Supply Area.
- Commenced auditing private facilities assessed as cross connection potential "severe hazards".
- Accommodated a 20% increase in tracked cross connection control devices.
- 60,000 seedlings planted in old clear cuts.
- Accessed the top of Survey Mountain by upgrading old logging roads for installation of a communications facility. This facility will assist the CRD and emergency agencies in providing radio and other communication links to areas beyond Sooke in addition to internal operational needs.
- Over 80 wetlands within the Sooke and Goldstream Water Supply Areas were surveyed for invasive species during the summer period with no significant finds. However, the surveys did result in locating significant levels of trespass including camp sites and campfires, established ATV trails, and grow operations.

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- Annual forest health aerial survey, conducted in cooperation with the Ministry of Forest and Range, revealed 141 sites with dead or dying trees. In 2008 there were 27 sites. Ground investigation indicates that impacts are due to moisture stress and naturally occurring tree diseases.
- Completed tree fall and fuel reduction work adjacent to the Japan Gulch Treatment Plant.
- In cooperation with BC Transmission Corporation, developed a transmission right-of-way brushing program that incorporated fuel reduction techniques.

Performance Indicators

For the past several years, the CRD has participated in the National Water Benchmarking Initiative, one of 32 utilities to do so. Benchmarking allows participants to highlight strengths and identify areas for improvement. The attached report for the supply system (Attachment 4) summarizes CRD Water Services' performance in comparison to the participating municipal services providers.

Recommendations from the Budget Subcommittee

The Budget Subcommittee recommends that the Regional Water Supply Commission:

1. Approve the five year Capital Budget;
2. Approve Option 2, to eliminate the rebates for ULF toilets and Hi-efficiency washing machines as at December 31, 2009, and that a communication plan be developed as soon as possible;
3. Approve the 2010 Operating Budget;
4. Approve the 2010 wholesale water rate of \$0.5385 per cubic metre; and
5. Approve a 2% increase in the agricultural water rate to \$0.2105.

RECOMMENDATION

That the Regional Water Supply Commission recommend that the CRD Board:

1. Approve the five year Capital Budget;
2. Approve Option 2, to eliminate the rebates for ULF toilets and Hi-efficiency washing machines as at December 31, 2009, and that a communication plan be developed as soon as possible;
3. Approve the 2010 Operating Budget;
4. Approve the 2010 wholesale water rate of \$0.5385 per cubic metre;
5. Approve the agricultural water rate of \$0.2105; and
6. Amend the *Water Supply Local Service Area Fee and Charge Bylaw No. 1, 1997* accordingly.

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