



Making a difference...together

**REPORT TO SALT SPRING ISLAND LIQUID WASTE DISPOSAL LOCAL SERVICE COMMITTEE
MEETING OF FRIDAY 06 FEBRUARY 2009**

SUBJECT FINANCIAL UPDATE

PURPOSE

To present for information to the Salt Spring Island Liquid Waste Disposal Local Service Committee (SSILW) a preliminary report on 2008 actual revenue and expense and an update of projected 2009 and five-year forecast revenue and expense, and to request approval to spend contingency funds.

BACKGROUND

The 2009 budget approved by SSILW included estimated actual revenue and expense for 2008, and a five-year forecast incorporating the cost of borrowing funds for the major upgrade project. At the time, it was anticipated that a surplus of \$21,009 in 2008 would be carried forward to 2009. It was also anticipated that a pilot composting operation would commence late in 2008, reducing the cost of hauling dewatered solids to the Hartland landfill near Victoria in 2009.

In November and December 2008, a series of operating problems and adverse weather conditions resulted in significant unplanned operation and maintenance expenses. A greater effort than expected was also required for the public approval process to borrow funds for the upgrade, and the requirement to haul dewatered biosolids to Greater Victoria for the entire year resulted in higher than expected disposal costs. As a result, the overall operating cost in 2008 exceeded the estimated actual cost presented at the budget meeting by about \$65,000 (19%). Although total revenue was about \$12,000 greater than anticipated, the overall cost of debt servicing was also about \$8,000 greater than anticipated due to higher than expected interest rates of short-term (five-year) bank loans used to finance the land purchase in 2002 and the process upgrades completed in 2007. The land purchase loan was repaid in full in 2008.

The combined result of these changes in revenue and expense is that a deficit of roughly \$40,000 will be carried forward to 2009, representing a roughly \$60,000 shortfall in 2009 revenue from the surplus carry-forward anticipated in the budget approved by the committee. Although the fiscal year-end reconciliation is still in progress and it is anticipated that the debt servicing cost may decrease slightly, the deficit carried forward to 2009 is not likely to change significantly.

Impact on 2009 Budget and Five-Year Forecast

An updated summary of 2008, 2009 and forecast revenue and expense is provided in Attachment 1. The approved budget includes a contingency of \$78,412 that would be carried forward to 2010 unless needed in 2009. Roughly \$60,000 of this contingency will be required to offset the shortfall in carry-forward from 2008.

The 2009 budget was also based on the assumption that the pilot composting operation would eliminate the costs of hauling and tipping dewatered biosolids at the Hartland landfill in 2009 (the actual 2008 cost was \$88,000), and that a lower cost of \$57,000 would be incurred to procure wood waste for composting and to lease composting equipment. This cost is likely to be greater than \$57,000 since a composting trial operation is not likely to commence in the first half of 2009, until a public consultation process has been completed. In Attachment 1, it is projected that \$44,000 will be spent on hauling and tipping, and that a further \$30,000 will be required to lease and operate composting equipment. It is anticipated that any compost produced in such a pilot program will be retained on site as cover for the original Gulf Island Septic lagoons, as part of a closure plan pending approval by the Ministry of Environment.

The plan to accommodate the cost of the upgrade project without increasing the parcel tax for five years relied on carrying forward a significant surplus from 2009 through 2013, peaking in 2010 at \$108,000 as existing debt is retired and before the full new debt load of the upgrade project comes into effect in 2012. However, the elimination of a surplus in 2009 reduces the amount carried forward in subsequent years, resulting in a projected deficit in 2012 at the current parcel tax rate. A revenue increase of roughly \$20,000 would be required in 2012 in order to balance the budget. This increase could be achieved by increasing the parcel tax by about 9% to \$46.00. It would also be possible to balance the forecast by eliminating the \$20,000 contingency that is budgeted annually after the project is completed in 2011; however, this would leave no flexibility in the budget to accommodate unplanned expenses after the project is completed.

ALTERNATIVES

1. That the Salt Spring Island Liquid Waste Disposal Local Service Committee receive this report for information, and approve the use of the 2009 contingency of \$78,412 to recover the shortfall in carry-forward from 2008, and to accommodate hauling and disposal costs that are required due to delayed implementation of a pilot composting operation.
2. That the Salt Spring Island Liquid Waste Disposal Local Service Committee receive this report for information.

FINANCIAL IMPLICATIONS

The impact of the unexpected operating expenses in 2008, and anticipated increases in 2009 operating expenses, is that the full 2009 contingency of \$78,412 will be required in order to balance the operating budget. This will result in the loss of an anticipated carry-forward that is needed to accommodate future debt servicing costs associated with the upgrade project without increasing the parcel tax. Based on a revised five-year forecast, the parcel tax may need to be increased by roughly 9% to \$46.00 in 2012, after the upgrade project is completed.

SUMMARY

Unplanned expenses incurred in November and December 2008 resulted in a year-end operating deficit of approximately \$40,000, representing a roughly \$60,000 shortfall from the anticipated surplus of \$21,009. Postponement of pilot composting operation to accommodate a public consultation process in 2009 and the need to develop a closure plan for the original septage lagoons will increase the overall operating expense in 2009 by an estimated \$16,000. In combination, these unexpected expenses will require the use of the full 2009 contingency. Since the funding plan for the upgrade project relied on carrying forward a surplus from 2009 in order to maintain the current parcel tax rate of \$42.11 until at least 2103, it is likely that a small revenue increase will be required before 2013.

RECOMMENDATION

That the Salt Spring Island Liquid Waste Disposal Local Service Committee receive this report for information, and approve the use of the 2009 contingency of \$78,412 to recover the shortfall in carry-forward from 2008, and to accommodate hauling and disposal costs that are required due to delayed implementation of a pilot composting operation.



Colwyn Sunderland, ASCT
Local Services Engineering Coordinator

CS:ls

Attachments: 1

