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**REPORT TO SALT SPRING ISLAND LIQUID WASTE DISPOSAL LOCAL SERVICE COMMISSION
MEETING OF TUESDAY 09 NOVEMBER 2010**

SUBJECT 2011 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2011 budget, highlighting significant proposed changes. In accordance with Bylaw No. 3693, "Salt Spring Island Water, Sewer and Liquid Waste Disposal Commissions Bylaw No. 1, 2010", "Before the end of November of each year, a Commission shall be presented with a five-year operating and capital budget for the service area, 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 revenues, in a form approved by the Financial Officer of the CRD for the approval of the Regional Board and for inclusion in the Regional Board's preliminary and annual budgets."

BACKGROUND

2010 Operating Expense

The actual 2010 operating expense is expected to exceed budget by \$12,374 due to unplanned labour and disposal costs incurred during emergency shutdowns due to operational problems with the aging membrane bioreactor and effluent disposal field. The increased operating expense is offset by a corresponding savings in debt expense, resulting in a balance in estimated actual revenue and expense.

2011 Operating Expense

An increase in the 2011 operating expense of \$27,605 is planned for the following purposes:

Allocation – Operating Labour: \$2,084

An increase is proposed to offset inflation.

Labour – Administration and Engineering: \$1,400

The actual level of effort to provide administration and engineering staff services to the Salt Spring Liquid Waste service significantly exceeded the budget in 2009. An increase is proposed to reflect the actual level of effort required for these services.

Allocation – Vehicles: \$18,334

Travel Expenses: \$6,151

Effective 1 January 2011, the Salt Spring Island Liquid Waste Disposal Local Service became the responsibility of the Integrated Water Services Department. As a result, changes have been made for 2011 to the method of recovery of travel (e.g. ferry fares) and vehicle expenses. Vehicle and travel costs were previously overhead expenses recovered through labour rates for all CRD Environmental Services operations (local and regional services). Travel and vehicle costs will now be recovered directly from each service area based on the actual costs incurred.

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Corporate Services and Insurance/Legal: \$1,160

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.

Partially offsetting these increases is a decrease of \$1,594 in the contingency.

2011 Capital Plan

Septage Facility Upgrade: \$1,500,000

A recent update by the engineering consultant of the cost estimate to complete the project significantly exceeds the available budget. Staff are considering changes to the project plan for recommendation to the Commission at a subsequent meeting.

Capital plans for 2012 through 2015 are conceptual, and are provided for information only.

Impact on 2011 Taxes and User Charges

Since the 2010 revenue was increased to recover a deficit of \$75,637 carried forward from 2009, the increases in operating and debt servicing costs proposed for 2011 do not require an increase in revenue from parcel taxes or tipping fees (sale of services).

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Salt Spring Liquid Waste Disposal Local Service are not expected to change after 2011, with the exception of inflation. However, the proposed capital plan and cost recovery structure would require a revenue increase of about \$100,000 in 2012. This increase is driven by the proposed 2012 Gulf Islands Septic lagoon closure project (\$50,000 annual cash funding for four years) and the full cost of servicing the \$2.1 million debt for the septage facility upgrade project. The retirement of a five-year 2007 loan in 2012 will result in a small decrease in revenue requirement for 2013.

Other Considerations: Operating Contingency and Commitment to Beneficial End Use of Biosolids

The contingency proposed in the 2011 budget and capital plan represents about 2% of the total operating expense, and the Salt Spring Island Liquid Waste Local Service holds no funds in reserve. A contingency of at least 10% of the total operating expense would greatly reduce the risk of an operating deficit, and unused contingency could be used to build capital reserves over time.

The establishment bylaw for the Salt Spring Island Liquid Waste Local Service includes a mandate to co-compost biosolids with wood waste materials for beneficial end use. Although budgeted as part of the facility upgrade project, the business case for co-composting biosolids and wood materials on Salt Spring Island has significantly changed since the service was established in 1993 due to a steady decline in the production of clean wood waste materials and growing uncertainty about the market for composted biosolids. There may be alternative means of managing liquid waste materials originating on Salt Spring Island that offer better value to the community than proceeding to fulfill the original mandate for the service.

RECOMMENDATION

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Salt Spring Island Liquid Waste Local Service as presented; and

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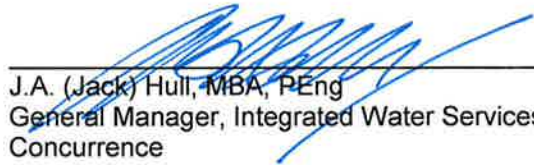
2. That the 2010 actual revenue and expense be balanced on 2011 contingency.



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Concurrence



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Attachment: 1