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**REPORT TO SKANA WATER SERVICE COMMITTEE
MEETING OF WEDNESDAY 24 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. 3133, "Skana Water Service Committee Bylaw No. 1, 2003", "Upon its establishment, and In November of each year, the committee must approve an annual budget for the services provided in the Water 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 revenue, in a form approved by the Treasurer of the Regional Board for the approval of the Regional Board and for inclusion in the Regional Board's provisional and annual budgets."

BACKGROUND

2010 Estimated Actual Expense

The actual 2010 operating expense is expected to be \$11,030 below budget due to unused contingency. It is proposed to transfer \$5,000 of the operating surplus to the capital reserve fund, and to carry forward the remainder of \$6,030 as 2011 revenue.

2011 Operating Expense

A decrease in the 2011 operating expense of \$1,539 is proposed. This is the result of reductions of \$7,256 in the contingency and \$95 in operating labour, partially offset by the following increases:

Labour – Administration and Engineering: \$2,280

An increase is proposed to reflect the actual level of effort required for administration of the service. In particular, time has been budgeted for the Manager – Saanich Peninsula and Gulf Islands Operations, which had not previously been recovered directly from the local service areas.

Operating – Other: \$1,728 (Water Quality Oversight)

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.

Operating – Other: \$1,264 (Vehicles and Travel)

Effective 1 January 2011, the Skana Water 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.

Allocation – Corporate Services and Insurance/Legal: \$540

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

The following capital projects are proposed for 2011, to be funded from available capital reserves:

Strategic Asset Management Plan: \$5,000

It is proposed to conduct an asset inventory to determine the quantity, age, condition and approximate life expectancy of watermains and other infrastructure; estimate the cost to renew or replace infrastructure; and develop 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.

Replace Valve Boxes with Pipe and Risers: \$5,000

Approximately 12 existing distribution valve boxes have missing or broken covers, and asphalt impregnated paper risers have begun to disintegrate. These components require replacement to maintain or restore operability of the valves for distribution system maintenance and repairs.

Pipe Work at Reservoir: \$15,000

The existing water supply piping at the tank location is galvanized steel, inadequately supported above grade. The pipe is corroded and at the end of its useful life, and its configuration does not enable the reservoirs to be isolated for maintenance. The piping will be replaced with PVC installed underground with two new epoxy coated cast iron isolation valves and fittings.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating budget, and a reduction in the prior year surplus of \$6,862 compared to 2010, would increase the revenue requirement (taxes and fees) for 2011 from \$46,387 to \$51,710.

Impact on 2011 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the parcel tax be increased from \$273.03 to \$279.00, and that the user charge be increased from \$703.85 to \$789.22.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Skana Water Service are not expected to significantly change, with the exception of inflation and a proposed \$1,500 increase in the contingency in 2012. It is also proposed to add a \$5,000 annual transfer

to the capital reserve fund in 2012. These changes, and the elimination of the surplus after 2011, would require a further revenue increase of about \$13,000 in 2012 (equivalent to a parcel tax increase of about \$190).

Other Considerations: Infrastructure Replacement

The watermains in the Skana Water Service Area are approaching the end of their useful life, and the 2011 budget does not include a planned contribution to capital reserves for the purpose of infrastructure renewal. A substantial planned contribution to a capital reserve fund would enable aging infrastructure to be replaced or upgraded before unmanageable water loss rates or other problems develop. This measure would require a revenue increase beyond that recommended for the 2011 budget.

RECOMMENDATION

1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Skana Water Service as presented; and,
2. That the Capital Regional District Board authorize increases in the parcel tax and the user charge for the Skana Water Service as required to balance the 2011 budget; and,
3. That the Skana Water Service 2010 actual revenue and expense be balanced on 2010 transfer to the capital reserve fund.



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