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**REPORT TO SKANA WATER SERVICE COMMITTEE
MEETING OF MONDAY, SEPTEMBER 21, 2015**

SUBJECT 2016 OPERATING AND CAPITAL BUDGET

ISSUE

This report provides a synopsis of the 2016 operating and capital budget, highlighting significant proposed changes related to operational expenditures, debt charges, any capital expenditures and revenue for the Skana water service.

In accordance with the establishment Bylaw No. 3133, the Skana Water Service Committee shall: *"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

2015 Estimated Actual Revenue and Expense

The estimated actual operating cost is projected to be **\$11,800** under budget as a result of:

- Lower than budgeted expenditures for:
 - contract services (\$580)
 - water testing (\$400)
 - electricity (\$700)
 - Supplies (\$420)
 - labour charges (\$3,260).
 - other operating expenses (\$230)
- Higher than budgeted expenditures for:
 - repairs and maintenance (\$440)
- Unspent contingency in the amount of \$6,650.

The estimated actual revenue is projected to be **\$630** more than budget as a result of:

- Higher than budgeted revenue for:
 - other revenue (service charges and penalties and interest income).

This results in a projected year-end surplus of **\$12,430**.

However, when adjusted for a maintenance reserve contribution recovery of \$670 the actual year end surplus is **\$13,100**. It is proposed that \$8,100 of the projected year-end surplus be carried forward as revenue into 2016 and \$5,000 be transferred to Capital Reserve Fund 1067.

2016 Operating Expense

A decrease in the 2016 operating expense of **\$190** (-0.4%) is proposed.

This is primarily a result of:

- Increase of \$200 in services contract expenditures.
- Increase of \$50 in allocations.
- Decrease of \$600 in electricity expenditures.
- Decrease of \$160 in operating supply expenditures.
- Increase of \$350 in labour charges.
- Decrease of \$30 in other operating expenses.

It is proposed that the \$6,650 contingency, approximately 10% of the operating budget, remain unchanged from 2015. The contingency is to be used in the event that the operating budget is exceeded, which is typically a result of major unplanned emergency repair events.

2016 Debt/Reserves

Maintenance Reserves:

Maintenance Reserves are to be used for the purchase of equipment and supplies that are typically not replaced annually such as filter media, ultraviolet lamps and sensors and other various items.

It is proposed that transfers to the maintenance reserves of \$1,000 remain at 2015 level.

An expenditure of \$670 occurred in 2015 against the maintenance reserve for the replacement of a failed ultraviolet light sensor. The maintenance reserve balance at the end of 2015 is projected to be \$2,330.

2016 Capital Reserve Fund:

It is proposed that \$1,970 be transferred to the Capital Reserve Fund in 2016. Projected annual contribution amounts may need to be adjusted subject to the outcome and recommendations of the strategic asset management plan for the service.

The capital reserve fund balance at the end of 2015 is projected to be \$47,638.

MFA Debt:

Debt servicing expenditures are budgeted to be \$1,173 lower in 2016 than 2015 as a result of debt refinancing.

2015 Revenue (User Charge and Parcel Tax)

In order to meet operating expenses and debt servicing costs it is proposed that:

- The user charge increase from \$35,772 to \$36,590; based on 45 single family equivalents (SFE) equates to \$813.11, for a 0.2% increase over the previous year.
- The parcel tax remain at \$19,350; based on 73 taxable folios and including the 5.25% surveyors tax fee this equates to \$279.00 per parcel, unchanged from the previous year.

Proposed Alternatives for User Rate Structure

In July of 2015, a discussion between the Committee, Electoral Area Director and the CRD staff raised issues related to water conservation during the drought conditions and potential changes in the water usage rate structure. Currently, the existing customer water meters are not read for billing purposes and water usage is based on the annual charge per single family equivalent unit connected to the system. The other source of revenue is a parcel tax for properties capable of being connected to the system.

In many water services that utilize the single family equivalent user charge there is quite often a concern of inequitable water consumption between the customers. Under this scenario all customers pay the same user charge regardless of the amount of water used per customer during the year. An option to promote water conservation and equitable payment includes the sale of water based on the amount consumed (measured by the meter). Further, excess water use may be deterred by imposing a progressive block rate structure whereby the unit rate is increase based on defined ranges of volumes used.

The experience of other water systems that have implemented consumption based rate structures indicate that user consumption typically decreases. To guard against the potential of revenue shortfall to cover fixed operating expenses, it would be proposed that the rates are initially conservative and that the rates are reviewed and adjusted periodically (i.e. annually).

Two consumption based rate charge scenarios have been conceptualized as follows:

Scenario 1 – Hold the Fixed Charge and Implement a Tiered Water Rate

This scenario would impose a rate structure that retains the existing taxes and fees to cover operating and debt costs and adds a new tiered usage charge for high consumption only, possibly initiated after consuming 25 cubic meters per quarter. Customers with average or lower usage per quarterly billing cycle would not be subject to the new usage charges, and customers that use the most water would pay the highest costs. This alternative provides a moderate conservation incentive to customers who use more water than average, and poses low risk of a revenue shortfall (refer to Attachment 2).

Scenario 2 – Lower the Fixed Fee and Implement a Tiered Water Rate

This scenario would impose a rate structure that retains the taxes, reduces the fixed fee, but adds a new tiered usage charge for all water consumed. This may result in a modest reduction for low water consumers, and those users that use the most water would pay the highest cost. This alternative provides a strong conservation incentive for all water customers but also poses a moderate risk of a revenue shortfall (refer to Attachment 3).

In order to implement a new water rate structure an amendment would be required to the fees and charge bylaw.

Capital Plan 2016

The planned capital projects for 2016 include:

1. Safety Equipment (\$2,000 in 2016)

The CRD's safety advisor has undertaken a review of the treatment facility in consultation with the WorkSafe BC Officer and determined that additional eyewash safety equipment and drench hose is required.

Forecast 2017-2020

A five-year capital and operating budget forecast is provided for information.

The five-year capital improvements proposed are as follows:

In 2012, funding to complete a Strategic Asset Management Plan (SAMP) for \$10,000 was approved. The SAMP is in progress and it is proposed to deliver the draft SAMP to the Committee in late November, 2015. The SAMP's findings will identify future capital projects to ensure the reliability of the water system by completing system improvements as the existing infrastructure reaches its life expectancy. The SAMP will provide an estimate of the annual budget that would be required to replace assets at the end of their service lives, and to provide the level of preventive maintenance required to sustain an acceptable level of service and maximize the service lives of system components.

RECOMMENDATION

That the Skana Water Service Committee recommend that the CRD Board:

1. Approve the 2016 operating and capital budget for the Skana Water Service as presented;
2. Authorize the Parcel Tax of \$279.00 and User Charge of \$813.11 for the Skana Water Service; and
3. Carry over \$8,100 to 2016 as revenue and balance the 2015 revenue and expense on the 2015 transfer to capital reserve fund.

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Attachments:

1. Budget Committee Sheets
2. Proposed User Rate Scenarios

CAPITAL REGIONAL DISTRICT

2016 Budget

Skana Water (Mayne)

Committee Review

Compiled and Presented by CRD Finance

Sep 2015

Service: 2.642 Skana Water (Mayne)

Committee: Electoral Area Services

DEFINITION:

To provide for the construction of water supply and distribution facilities for Skana Water Service Area. Bylaw No. 3090 (November 12, 2003).

PARTICIPATION:

Southern Gulf Islands Skana Water Service Area #47, U(764)

MAXIMUM LEVY:

Greater of \$54,100 or \$9.65 / \$1,000 to a maximum of \$111,182.

MAXIMUM CAPITAL DEBT:

AUTHORIZED:	LA Bylaw No. 3090 (Nov. 12/03)	157,700	
BORROWED:	S.I. Bylaw No. 3154 (Apr. 22/04)	(78,850)	2.40% 2014 Remaining: \$32,889
	S.I. Bylaw No. 3196	(39,500)	4.98% 2014 Remaining: \$16,476
	S.I. Bylaw No. 3457 (2007)	(29,200)	4.82% 2014 Remaining: \$17,682
	Expired Nov 2008	(10,150)	

REMAINING:

0

COMMISSION:

Skana Water Service committee established by Bylaw # 3133 (Dec 10, 2003).

FUNDING:

User Charge:	Annual charge per single family equivalency unit connected to the system.
Parcel Tax:	Annual charge only on properties capable of being connected to the system.
Connection Charges:	At cost or minimum of \$1,000.

RESERVE FUND:

Fund 1067, established by Bylaw # 3192 (July 14, 2004)

	2015 BOARD BUDGET	2015 ESTIMATED ACTUAL	BUDGET REQUEST			FUTURE PROJECTIONS			
			2016 CORE BUDGET	2016 SUPPLEMENTARY	2016 TOTAL	2017	2018	2019	2020
Skana Water (Mayne)									
<u>OPERATING COSTS:</u>									
JLB Services Contract	10,080	9,500	10,280	-	10,280	10,490	10,700	10,910	11,130
Repairs & Maintenance	1,060	1,500	1,060	-	1,060	1,090	1,120	1,150	1,180
Allocations	5,600	5,600	5,650	-	5,650	5,760	5,870	5,980	6,090
Water Testing	2,600	2,200	2,600	-	2,600	2,650	2,700	2,750	2,810
Electricity	2,300	1,600	1,700	-	1,700	1,730	1,760	1,800	1,840
Supplies	1,260	840	1,100	-	1,100	1,120	1,140	1,160	1,180
Labour Charges	17,700	14,440	18,050	-	18,050	18,420	18,790	19,160	19,550
Contingency	6,650	-	6,650	-	6,650	6,780	6,920	7,060	7,200
Other Operating Expenses	2,980	2,750	2,950	-	2,950	3,000	3,060	3,120	3,180
TOTAL OPERATING COSTS	50,230	38,430	50,040	-	50,040	51,040	52,060	53,090	54,160
*Percentage Increase over prior year					-0.4%	2.0%	2.0%	2.0%	2.0%
<u>DEBT/RESERVES</u>									
Transfer to Maintenance Reserve	1,000	1,000	1,000	-	1,000	1,020	1,040	1,060	1,080
Transfer to Capital Reserve Fund	-	5,000	1,970	-	1,970	1,170	1,170	2,120	9,330
MFA Debt Reserve Fund	-	-	-	-	-	-	-	-	-
MFA Debt Principal	6,943	6,940	6,940	-	6,940	6,940	6,940	6,940	1,460
MFA Debt Interest	5,260	5,260	4,090	-	4,090	4,090	4,090	3,140	1,410
TOTAL DEBT / RESERVES	13,203	18,200	14,000	-	14,000	13,220	13,240	13,260	13,280
TOTAL COSTS	63,433	56,630	64,040	-	64,040	64,260	65,300	66,350	67,440
<u>FUNDING SOURCES (REVENUE)</u>									
Estimated balance C/F from 2015 to 2016	-	8,100	(8,100)	-	(8,100)	-	-	-	-
Balance C/F from 2014 to 2015	(8,311)	(8,310)	-	-	-	-	-	-	-
Connection Charges	-	(430)	-	-	-	-	-	-	-
User Charges	(35,772)	(35,770)	(36,590)	-	(36,590)	(37,320)	(38,070)	(38,830)	(39,610)
Transfer from Maintenance Reserve	-	(670)	-	-	-	-	-	-	-
Other Revenue	-	(200)	-	-	-	-	-	-	-
TOTAL REVENUE	(44,083)	(45,380)	(36,590)	-	(36,590)	(37,320)	(38,070)	(38,830)	(39,610)
REQUISITION - PARCEL TAX	(19,350)	(19,350)	(19,350)	-	(19,350)	(26,940)	(27,230)	(27,520)	(27,830)
*Percentage increase over prior year						2.0%	2.0%	2.0%	2.0%
User Charges					2.3%	39.2%	1.1%	1.1%	1.1%
Requisition					0.0%	14.9%	1.6%	1.6%	1.6%
Combined					1.5%				

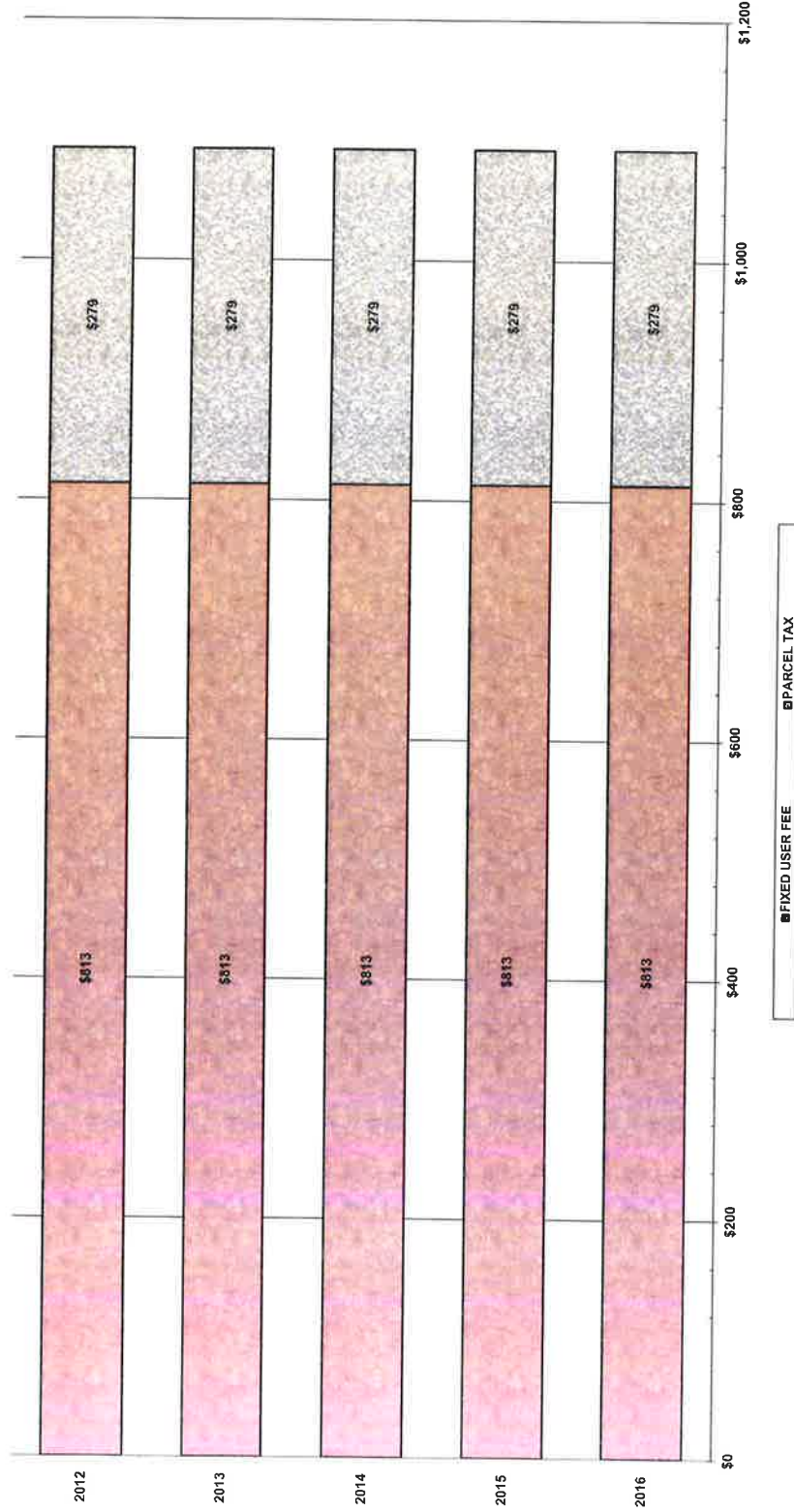
Service:

2.642 Skana Water (Mayne)

Committee: Electoral Area Services

<u>Year</u>	<u>Taxable Folios</u>	<u>Parcel Tax</u>	<u>SFE's</u>	<u>User Charge</u>	<u>Tax & Charges</u>	<u>Bylaw</u>	<u>Assessments \$(000's)</u>
2010	73	\$273.03	39	\$703.85	\$976.88		13,972
2011	72	\$279.00	41	\$789.22	\$1,068.22	3778	16,030
2012	73	\$279.00	42	\$813.00	\$1,092.00	3823	14,233
2013	73	\$279.00	42	\$813.00	\$1,092.00	3892	13,153
2014	73	\$279.00	43	\$813.00	\$1,092.00	3924	12,466
2015	73	\$279.00	44	\$812.95	\$1,091.95		11,521
2016 Budget	73	\$279.00	45	\$813.11	\$1,092.12		11,521

CAPITAL REGIONAL DISTRICT Skana Water (Mayne) FUNDING ANALYSIS 2012-2016



Actual Costs 2012-2015, Projected 2016
Prepared by CRD Finance
16/09/2015

Service:

2.642 Skana Water (Mayne)

Committee: Electoral Area Services

#1 Safety Equipment (\$2,000 in 2016)

(a) The CRD's safety advisor has undertaken a review of the treatment facility in consultation with the WorkSafe BC Officer and determined that additional eyewash safety equipment and drench hose is required.

Reserve Schedule

Reserve Fund: 2.642 Skana Water Capital Reserve Fund (Bylaw No.: 3192)

Reserve Cash Flow

Fund: 1067 Fund Center: 101849

	Budget					
	Estimate 2015	2016	2017	2018	2019	2020
Beginning Balance	52,038	47,638	47,608	48,778	49,948	52,068
Transfer to Cap Fund (Based on Capital Plan)	(10,000)	(2,000)	-	-	-	-
Transfer from Operating Budget	5,000	1,970	1,170	1,170	2,120	9,330
Interest Income*	600	-	-	-	-	-
Ending Balance \$	47,638	47,608	48,778	49,948	52,068	61,398

Assumptions/Background:

Transfer whatever the operating budget will allow

* Interest should be included in determining the estimated ending balance for the current year. Interest in planning years nets against inflation which is not included.

RATE STRUCTURE ANALYSIS

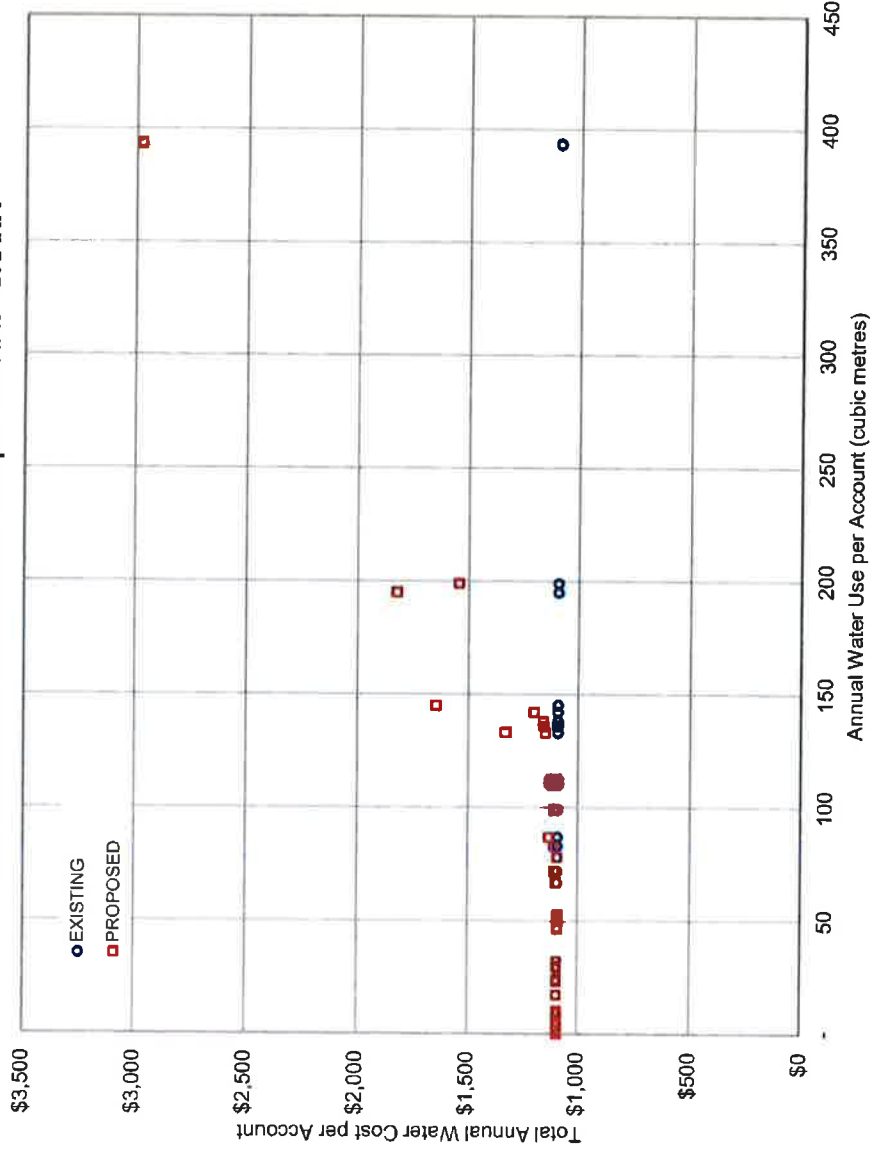
SKANA WATER SYSTEM

09/09/2015

EXISTING	Annual Parcel Tax =	\$ 279.00	x	73	folios	Tier 1	0.00	m ³ =	\$ -	/ m ³
	Fixed Charge/SFE =	\$ 813.00	/ year =	\$ 203.25	/ cycle	Tier 2	0.00	m ³ =	\$ -	/ m ³
	Cycles per year =	4				Tier 3	0.00	m ³ =	\$ -	/ m ³
	# of SFE =	45				Tier 4	0.00	m ³ =	\$ -	/ m ³

PROPOSED	Annual Parcel Tax =	\$ 279.00	x	73	folios	Tier 1	25.00	m ³ =	\$ -	/ m ³
	Fixed Charge/Conn = <td>\$ 813.00</td> <td>/ year = <td>\$ 203.25</td> <td>/ cycle <td>Tier 2 <td>50.00</td> <td>m³ = <td>\$ 1.70</td> <td>/ m³</td> </td></td></td></td>	\$ 813.00	/ year = <td>\$ 203.25</td> <td>/ cycle <td>Tier 2 <td>50.00</td> <td>m³ = <td>\$ 1.70</td> <td>/ m³</td> </td></td></td>	\$ 203.25	/ cycle <td>Tier 2 <td>50.00</td> <td>m³ = <td>\$ 1.70</td> <td>/ m³</td> </td></td>	Tier 2 <td>50.00</td> <td>m³ = <td>\$ 1.70</td> <td>/ m³</td> </td>	50.00	m ³ = <td>\$ 1.70</td> <td>/ m³</td>	\$ 1.70	/ m ³
	Cycles per year = <td>4</td> <td></td> <td></td> <td></td> <td>Tier 3 <td>50.00</td> <td>m³ = <td>\$ 7.50</td> <td>/ m³</td> </td></td>	4				Tier 3 <td>50.00</td> <td>m³ = <td>\$ 7.50</td> <td>/ m³</td> </td>	50.00	m ³ = <td>\$ 7.50</td> <td>/ m³</td>	\$ 7.50	/ m ³
	# of Connections = <td>45</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	45								

Total Water Taxes and Fees vs. Water Use per Account - SKANA



SCENARIO 1

Hold the fixed charge and implement a 3 tier water rate structure.

	Existing	Proposed	% change
Total revenue	\$ 55,936	\$ 60,275	7.8%
Parcel tax	\$ 19,351	\$ 19,351	0.0%
Fixed charge	\$ 36,585	\$ 36,585	0.0%
usage charge	\$ -	\$ 4,339	n/a
Avg/acct	\$ 1,092.00	\$ 1,203.25	10.2%
P5	\$ 1,092.00	\$ 1,092.00	0.0%
P10	\$ 1,092.00	\$ 1,092.00	0.0%
P25	\$ 1,092.00	\$ 1,092.00	0.0%
P50 (median)	\$ 1,092.00	\$ 1,092.00	0.0%
P75	\$ 1,092.00	\$ 1,130.25	3.5%
P90	\$ 1,092.00	\$ 1,370.50	25.5%
P95	\$ 1,092.00	\$ 1,662.50	52.2%

NOTES

Increase revenue by approximately \$4,300 (7.8%) to guard against revenue shortfall should customer usage decrease

RATE STRUCTURE ANALYSIS

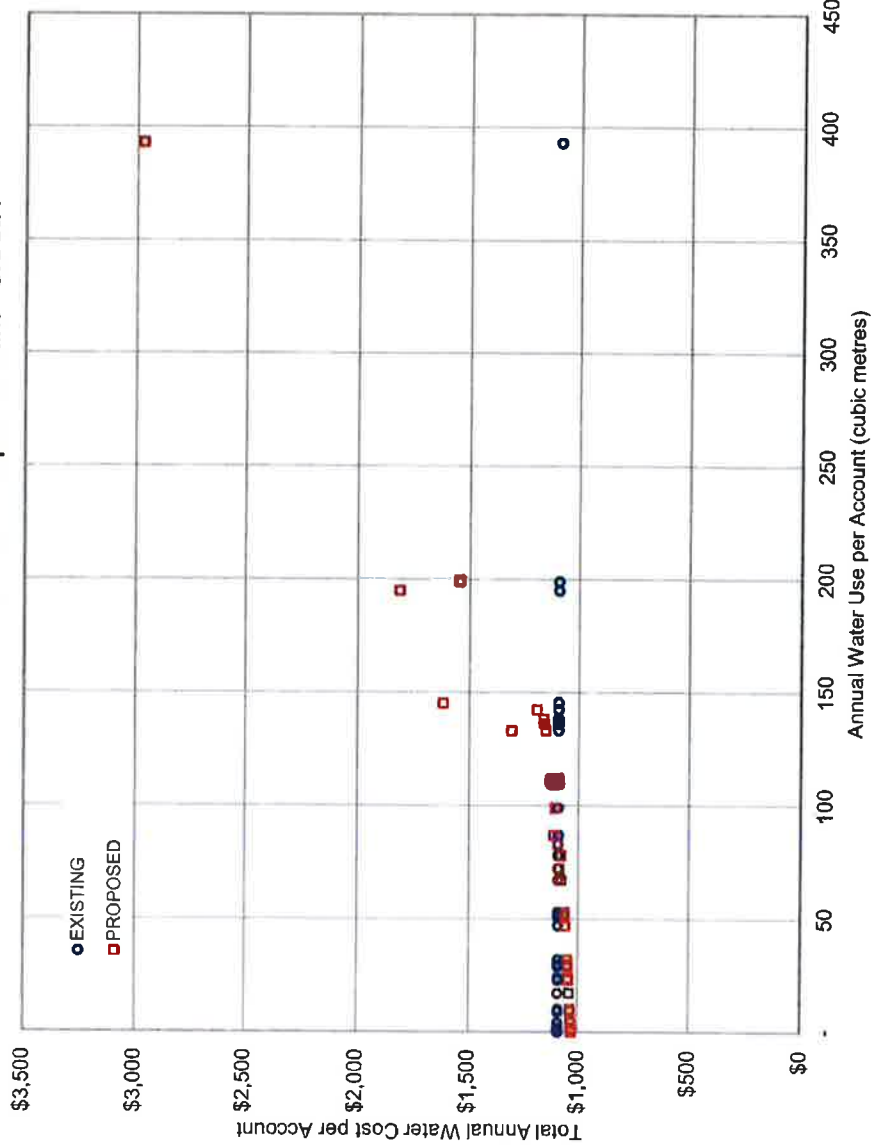
SKANA WATER SYSTEM

09/09/2015

EXISTING		PROPOSED	
Annual Parcel Tax =	\$ 279.00	Annual Parcel Tax =	\$ 279.00
Fixed Charge/SFE =	\$ 813.00	Fixed Charge/Conn =	\$ 750.00
Cycles per year =	4	Cycles per year =	4
# of SFE =	45	# of Connections =	45
x 73 folios		x 73 folios	
/ year = \$ 203.25 / cycle		/ year = \$ 187.50 / cycle	
Tier 1	<=	Tier 1	<=
Tier 2	<=	Tier 2	<=
Tier 3	<=	Tier 3	>
Tier 4	>		

EXISTING		PROPOSED	
m^3 =	\$ -	m^3 =	\$ 0.65
m^3 =	\$ -	m^3 =	\$ 1.70
m^3 =	\$ -	m^3 =	\$ 7.50
m^3 =	\$ -		
		25.00	
		50.00	
		50.00	

Total Water Taxes and Fees vs. Water Use per Account - SKANA



SCENARIO 2

Lower the fixed fee and implement a 3 tier water rate structure

	Existing	Proposed	% change
Total revenue	\$ 55,936	\$ 58,726	5.0%
Parcel tax	\$ 19,351	\$ 19,351	0.0%
Fixed charge usage charge	\$ 36,585	\$ 33,750	-7.7%
	\$ -	\$ 5,625	n/a
Avg/acct	\$ 1,092.00	\$ 1,173.22	7.4%
P5	\$ 1,092.00	\$ 1,029.00	-5.8%
P10	\$ 1,092.00	\$ 1,030.17	-5.7%
P25	\$ 1,092.00	\$ 1,037.78	-5.0%
P50 (median)	\$ 1,092.00	\$ 1,063.45	-2.6%
P75	\$ 1,092.00	\$ 1,120.90	2.6%
P90	\$ 1,092.00	\$ 1,353.26	23.9%
P95	\$ 1,092.00	\$ 1,634.99	49.7%

NOTES

Increase revenue by approximately \$2,700 (5%) to guard against revenue shortfall should customer usage decrease