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**REPORT TO STICKS ALLISON WATER LOCAL SERVICE COMMITTEE
MEETING OF FRIDAY 26 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. 2558, "Sticks Allison Water Local Service Committee Bylaw No. 1, 1998", "Upon its establishment, and In November of each year, the Committee must approve an annual budget for the services provided in the Local 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 exceed budget by \$1,950 due to estimated actual administration and engineering labour of about 20 hours more than allocated.

2011 Operating Expense

An increase in the 2011 operating expense of \$9,646 is proposed for the following reasons:

Allocation – Operating Labour: \$6,803

Additional effort is required in order to maintain an acceptable level of service and to maintain compliance with statutory requirements as equipment ages (increase of about 2 hours per week).

Labour – Administration and Engineering: \$3,627

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.

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Travel Expenses: \$960

Operating – Other (Allocation – Vehicles): \$428

Effective 1 January 2011, the Sticks Allison Water 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.

Allocation – Corporate Services and Insurance/Legal: \$100

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.

Contingency: (\$4,000)

A decrease in the contingency from \$4,930 to \$930 is proposed in order to mitigate the impacts of increases in the operating expense.

Capital Plan

The following capital project is proposed for 2011, to be funded from available capital reserves:

Air Valve Replacement: \$3,000

Air release valves in the distribution system are at the end of their useful life and require replacement in order to sustain reliable operation.

2011 Revenue Requirement

Implementing the planned changes to the 2011 operating budget, and an increase in the prior year deficit of \$1,386 compared to 2010, would increase the revenue requirement (taxes and fees) for 2011 from \$31,204 to \$46,136.

Impact on 2011 Taxes and User Charges

In order to raise the additional revenue required for 2011, it is recommended that the user charge be increased from \$668.24 to \$1,110.35. No change is proposed in the parcel tax.

Forecast 2012-2015

A five-year capital and operating budget forecast is provided for information. The costs to operate the Sticks Allison Water Service are not expected to significantly change, with the exception of inflation. Projects proposed for 2012-2015, including replacement of watermains, would increase the annual revenue requirement by roughly \$50,000. The scope, estimated cost and funding structure for capital work after 2012 is conceptual and would be refined based on the outcome of a proposed 2012 Strategic Asset Management Plan.

Other Considerations: Infrastructure Replacement

The watermains in the Sticks Allison Water Local Service Area are likely at the end of their useful life, and available capital reserve funds are insufficient to replace a significant portion of the mains. The 2011 budget does not include an operating contingency, or a planned contribution to capital reserves for the

purpose of infrastructure renewal. A contingency of at least 10% of the total operating expense would greatly reduce the risk of an operating deficit; and a substantial planned contribution to the capital reserve fund would enable orderly replacement of watermains before unacceptable water loss rates or other problems develop. Each of these measures would require a revenue increase beyond that recommended for the 2011 budget.

It is proposed to conduct an asset inventory in 2012 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.

RECOMMENDATION

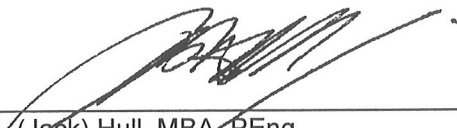
1. That the Capital Regional District Board approve the 2011 operating and capital budget for the Sticks Allison Water Local Service as presented; and,
2. That the Capital Regional District Board authorize an increase in the user charge for the Sticks Allison Water Local Service as required to balance the 2011 budget; and,
3. That the Sticks Allison Water Local Service 2010 actual revenue and expense be balanced on the 2011 user charge.



Colwyn Sunderland, ASCT
Local Services Engineering Coordinator



Tim Tanton, PEng
Senior Manager, Infrastructure Engineering
Concurrence



J.A. (Jack) Hull, MBA, PEng
General Manager, Integrated Water Services
Concurrence

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