

**REPORT TO SAANICH PENINSULA WASTEWATER COMMISSION
MEETING OF THURSDAY, OCTOBER 17, 2024**

SUBJECT Saanich Peninsula Wastewater Service 2025 Operating and Capital Budget

ISSUE SUMMARY

To provide an overview of the 2025 Saanich Peninsula Wastewater Service (SPWW) operating and capital budget, highlighting the variances from the 2024 budget and the proposed 2025 budget figures. The report generally follows the sequence of information provided in the attached draft budget document (Appendix A).

BACKGROUND

The draft 2025 SPWW Service budget has been prepared for the Saanich Peninsula Wastewater Commission's (the Commission) consideration. The Commission will make budget recommendations to the Capital Regional District (CRD) Board through the Committee of the Whole in October. As in previous years, the draft 2025 budget has been prepared considering the CRD Board's 2025 service planning and financial expectations, which include identifying opportunities to realign or reallocate resources and seek potential efficiencies between departments and services, reviewing of service levels and adjustments related to regulatory compliance, and undertaking infrastructure improvements to maintain service levels across the service area. The following sets out the key components of the budget.

2024 Year End Financial Projections

The estimated 2024 operating costs are projected to be \$3,755,161, which is under budget by \$252,572. Of this surplus, \$201,670 is attributed to lower labor consumption and reduced repair maintenance costs. The remaining \$50,902 is primarily due to savings from biosolids management cost, along with some minor savings from standard overhead and laboratory.

Due to reduced repair and maintenance expenses, the transfer from operating funds will also decrease by \$80,000.

In addition, revenue from the Panorama Recreation Center District Energy System (DES) exceeded the budget by \$21,200. The net effect of these revenue and expenditure variances results in a year-end surplus of \$193,771, which will be equally allocated between two funds: the Operating Reserve Fund and the Capital Reserve Fund.

2025 Budget

Operating Budget

The 2025 combined operations and reserve budget is \$5,115,006, which represents a 2.42% increase over the 2024 budget.

The 2025 operating budget reflects an increase in non-discretionary expenses such as anticipated wage/salary increases, departmental support service allocations, and other operating expenses such as Provincial discharge fees, equipment repairs, electricity costs, and chemical costs.

The budget captures the interest expenses (\$68,250) associated with the \$3 million long-term borrowing planned for capital projects in 2025 and the one-time allocation of \$20,000 for cyclical maintenance expenses, covering Heat Exchanger Dismantle and Cleaning that would be considered over and above routine maintenance. These cyclical maintenance expenses are funded through a transfer from the Operating Reserve Fund.

2025 Capital Budget

There are several projects planned for 2025 with a total value of \$5,525,000 including \$50,000 to review the Development Cost Charges (DCC) program. The 2025 capital program consists of projects related to replacement of equipment that is at the end of its service life and projects required to address operational issues, projects include:

- Odour control upgrades at the wastewater treatment plant
- Replacement of pumps at Keating pumpstation
- Electrical and controls related upgrades

The 2025 capital program is funded from existing reserve funds: \$100,000 from the Capital Reserve and \$230,000 from the Equipment Replacement Funds.

A five-year capital plan is presented for information. The value of the five-year (2025-2029) capital plan is \$14,740,000. The current capital reserve and equipment replacement fund balances, planned contributions, transfers, and expenditures, is insufficient to fund the five-year capital plan. The budget assumes capital financing will be required beginning in 2025. Based on Capital Reserve Guidelines, debt will be required and will result in a budget interest payment of \$68,250, this is the main driver of the 2.45% increase in the Operating Costs. The loan authorization approval process began in 2024 to authorize \$7.72 million to partially fund the 2025-2029 capital plan, with the loan expected to be accessible in 2025.

Reserve Funding

There are currently three reserve funds established for this service. Reserves serve several specified purposes including stabilizing revenue requirements and funding capital renewal and replacement. The service has the following reserve funds:

Operating Reserve: This reserve is available to fund significant maintenance tasks that do not occur annually, such as odour control system carbon replacement, outfall inspections, and DES heat exchanger cleaning. The planned transfer to the operating reserve fund in 2025 is \$20,000. By the end of 2024, the operating reserve fund balance is estimated to be \$1,188,828, which includes an estimated surplus transfer of \$96,886. As this plant continues to age, it is important to maintain a healthy operating reserve to offset any unexpected operational emergencies.

Capital Reserve: There are two portions in the Reserve Fund:

- Development Cost Charges (DCC) is deposited in the DCC portion and expenditures are restricted to fund growth.
- Surplus funds from the Operating budget are deposited to the Capital Reserve portion and expenditures provide for capital works.

In 2025, the planned transfer to the capital reserve fund is \$386,000. At year-end 2024 the capital reserve fund balance is estimated to be \$990,945, inclusive of a \$96,886 estimated surplus transfer. At year-end in 2024 the DCC reserve fund balance is estimated to be \$322,155.

Equipment Replacement Reserve: This reserve is available to fund minor capital and operating machinery and equipment replacements. The planned transfer to the equipment replacement fund in 2025 is \$531,300. At year-end 2024, the equipment replacement fund balance is estimated to be \$1,336,021.

Internal Recovery – Other

Partially offsetting the operating expenses are internal recoveries of \$158,602 (\$81,160 from heating recovery and \$77,442 from laboratory recovery). The DES revenue is from the sale of energy to the Panorama Recreation Centre. The estimated revenue is determined by annual energy rate adjustments based on prior year natural gas market rates and projected energy consumption. The rate used to determine the 2025 revenue is based on the 2024 natural gas rate and anticipated demand. The remaining internal recoveries relate to Saanich Peninsula Wastewater Laboratory and Facilities activities provided to other services.

Requisition

The requisition is allocated to the participants based on the percentage allocation of actual flow data from the previous year, from October 1, 2023, to September 30, 2024. The cost-sharing percentages for 2025 will be determined in October and are not anticipated to undergo significant changes compared to 2024. The overall 2025 requisition for Saanich Peninsula trunk sewers, treatment and disposal is \$4,927,822 representing a 5.95% increase over 2024.

Saanich Peninsula Liquid Waste Management Plan (LWMP)

The 2025 Saanich Peninsula LWMP program budgets have been included in Appendix A, following the Saanich Peninsula Wastewater budget. The Saanich Peninsula LWMP includes the following three budget and associated proposed increases:

- Saanich Peninsula - Stormwater Quality Management – 2.75% increase in alignment with inflation.
- Saanich Peninsula - Source Control Stormwater – 3% increase in alignment with inflation. In 2025 there is a \$10,000 one-time cost which will be funded from the operating reserve, this will fund efforts to add a new Code of Practice for Recycling Yards to the regulatory bylaw.
- L.W.M.P. (Peninsula) – a 3% increase in alignment with inflation.

ALTERNATIVES

Alternative 1

The Saanich Peninsula Wastewater Commission recommends that the Committee of the Whole recommends that the Capital Regional District Board:

1. Approve the 2025 Saanich Peninsula trunk sewers, treatment and disposal operating and capital budget and the 2025 Saanich Peninsula Liquid Waste Management Plan (LWMP) program budgets including the LWMP administration budget, the Saanich Peninsula Stormwater Quality Management Program budget and the Saanich Peninsula Stormwater Source Control budget, and the Harbours Environmental Action Service (Peninsula) budget;
2. Direct staff to update carry forward balances in the 2025 Capital Budget for changes after year end; and
3. Direct staff to balance the 2024 actual revenue and expense on the transfer to capital reserve fund.

Alternative 2

The Saanich Peninsula Wastewater Commission recommends that the Committee of the Whole recommends that the Capital Regional District Board:

1. Approve as amended, the 2025 Saanich Peninsula trunk sewers, treatment and disposal operating and capital budget and the 2025 Saanich Peninsula Liquid Waste Management Plan (LWMP) program budgets including the LWMP administration budget, the Saanich Peninsula Stormwater Quality Management Program budget and the Saanich Peninsula Stormwater Source Control budget, and the Harbours Environmental Action Service (Peninsula) budget;
2. Direct staff to update carry forward balances in the 2025 Capital Budget for changes after year end; and
3. Direct staff to balance the 2024 actual revenue and expense on the transfer to capital reserve fund.

IMPLICATIONS

If the proposed budget is amended, the implications could vary depending on how the budget is amended and the impact on specific programs, on-going operations, or the capital work program. One-time reductions in reserve fund contributions could be considered by the Commission to help mitigate the budget and rate increases, but reducing contributions to reserves would limit the ability to address future infrastructure needs and respond to unforeseen emergencies.

CONCLUSION

This 2025 Saanich Peninsula Wastewater Service budget is presented for the Saanich Peninsula Wastewater Commission's consideration. The Commission will make budget recommendations to the Capital Regional District Board through the Committee of the Whole in October. The draft 2025 Saanich Peninsula Wastewater Service budget reflects the operating costs of the Saanich Peninsula Wastewater Treatment Plant and the conveyance system, as well as the environmental program and capital costs. The financial implications of the 2025 operating and capital budget vary by participant, depending on the operating and capital cost apportionments associated with annual flow and allocated treatment capacity.

RECOMMENDATION

The Saanich Peninsula Wastewater Commission recommends that the Committee of the Whole recommends that the Capital Regional District Board:

1. Approve the 2025 Saanich Peninsula trunk sewers, treatment and disposal operating and capital budget and the 2025 Saanich Peninsula Liquid Waste Management Plan (LWMP) program budgets including the LWMP administration budget, the Saanich Peninsula Stormwater Quality Management Program budget and the Saanich Peninsula Stormwater Source Control budget, and the Harbours Environmental Action Service (Peninsula) budget;
2. Direct staff to update carry forward balances in the 2025 Capital Budget for changes after year end; and
3. Direct staff to balance the 2024 actual revenue and expense on the transfer to capital reserve fund.

Submitted by:	Alicia Fraser, P. Eng., General Manager, Integrated Water Services
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ATTACHMENT(S)

Appendix A: 2025 Saanich Peninsula Wastewater Service Budget