



**REPORT TO REGIONAL WATER SUPPLY COMMISSION  
MEETING OF WEDNESDAY, OCTOBER 16, 2019**

**SUBJECT      REGIONAL WATER SUPPLY SERVICE - 2020 OPERATING AND CAPITAL BUDGET**

**ISSUE**

To provide an overview of the draft 2020 Regional Water Supply Service budget, highlighting the changes from the 2019 budget and the proposed 2020 budget figures. The report generally follows the information provided in the attached draft budget document (Appendix A).

**BACKGROUND**

This draft 2020 Regional Water Supply Service budget has been prepared for the Regional Water Supply Commission’s (Commission) consideration. The Commission will make budget recommendations to the Capital Regional District (CRD) Board in order to establish the wholesale water rate and approve the rate by year end through adopting a rate bylaw. As in previous years, the draft 2020 Regional Water Supply Service budget has been prepared considering the CRD Board’s 2020 service planning and financial expectations, which include identifying opportunities to realign or reallocate resources and seek potential synergies or efficiencies between departments and services, reviewing service levels and adjustments related to regulatory compliance, undertaking infrastructure improvements and upgrades to maintain service levels within the region including incremental ongoing operational and maintenance requirements. The following sets out the key components of the budget.

**2019 Year End Financial Projections**

Year end revenue and expenditure projections have been established and estimated variances are summarized as follows:

- Supply System operating expenditures	\$96,831	(0.7%)
- Agricultural water rate funding	\$200,000	(16%)
- Capital fund transfers	\$857,284	(10.4%)
- Debt servicing – principal and interest expenditures	-\$354,667	(-4.0 %)
- Revenue	\$799,448	(2.5%)

**2020 Budget**

**Rate Base**

The rate base for 2020 has increased by \$451,459 from 2019. This increase relates to physical plant additions, including the Japan Gulch Treatment Plant upgrades and the Lubbe Dam improvements and capitalization values. The changes in physical plant and work in progress are listed on page 4 of the budget document, and are used to project the 2019 year end total physical plant value and determine the 2020 rate base.

### Revenue Requirement

The revenue requirement for 2020 has increased by \$1,940,456. This is resulting from an increase in operational expenses of \$1,226,458, an increase in depreciation expenses of \$35,598, net of expired depreciation on existing assets, and an increase in the return on the base of \$678,400. The increase in the return on the rate base is a result of the growing asset base, an increase in the equity funded assets/capital improvements and an updated rate of return on assets funded by equity based on the long term Canada bond rate. See page 3 of the budget document.

### Operating Budget

The 2020 operating budget reflects an inflationary increase in non-discretionary expenses such as negotiated wage/salary increases, departmental support service allocation increases, and other operating expense adjustments such as chemical and electricity costs. The net core 2020 operating budget increase is \$430,962, plus additional budget requests for one-time and ongoing expenditures in the amounts of \$175,000 and \$370,500 respectively. These requests are summarized as follows:

- \$25,000 one-time funding (year three of five) to support the on-going National Science and Engineering Research Council (NSERC) watershed research
- \$150,000 one-time funding for field sampling/consulting services to establish baseline water quality and hydrology data in the Leech River.
- \$90,000 labour budget increase for 0.5 FTE (full time equivalent staff position) – water operator position (shared with JDF Water Distribution Service), necessary to fulfill confined space entry requirements
- \$180,000 labour budget increase for 1.0 FTE – water operator position, necessary to complete increased annual maintenance and monitoring of the 14 dams in the Regional Water Supply in order to meet Dam Safety requirements
- \$23,000 labour budget increase – service level emergency planning and response coordinator position (shared between multiple CRD services)
- \$112,000 labour budget increase for 1.0 FTE – work order planner/scheduler, to improve the effectiveness and efficiency of the Regional Water Supply System plant maintenance program
- \$291,220 negotiated wage/salary labour budget and internal allocation increases
- \$75,000 increase to general consulting services budget
- \$30,242 minor operating budget adjustments

Operating budget forecasts for 2021 – 2024 have been presented for information.

### Capital Budget

There are a number of capital projects planned for 2020 with a total value of \$19,691,000, including \$6,274,000 in carry forward projects, most of which are in-stream, multi-year projects such as the Butchart Dam No. 5 project with a \$3,000,000 budget carried forward from 2019, which has been delayed due to the delay in completion of the Lubbe Dam No. 4. Project. There is also \$1,505,000 in projects cost-shared with the Juan de Fuca Water Distribution Service (pages 11-47 of the budget document). The major projects in 2020 include construction of new supply meter vaults to replace the existing St. Giles and Cecelia meters, seismic remediation of Butchart Dam No.5, seismic instrumentation installations on the Sooke Lake Reservoir and Goldstream Reservoir dams, decommissioning of the Charters Creek dam, and continued

restoration of the Leech Water Supply Area including road and bridge improvements.

A five year capital plan has been presented for information. The total five year (2020 to 2024) capital plan budget is \$75.461 million, plus \$3.575 million in projects cost-shared with the Juan de Fuca Water Distribution Service. The major projects planned over the next five years include replacement of segments of the #3 and #4 transmission mains, replacement of the ultraviolet disinfection units at the Japan Gulch – Goldstream facility, and the potential need for a pH adjustment facility.

#### Capital and Debt Expenditures

The 2020 capital expenditures will be partially funded through a transfer to the water capital fund in the amount of \$9,107,214, with the balance funded through existing cash reserves and borrowed funds (capital funds on hand). See pages 9-10 of the budget document for the funding source summary. 2020 debt expenditures for existing debt servicing are budgeted to be \$8,463,204. Budgeted debt servicing expenditures have decreased by \$492,717 from 2019, primarily due to a lower negotiated interest rate on an existing loan that has reached year 10 of a 15 year term, resulting in approximately \$300,000 in interest savings annually. Also, the \$3 million borrowing planned in 2019 was not required to fund the capital program due to the availability of capital reserve funds so the budgeted principal and interest costs were not incurred. There is no borrowing required in 2020. The long term debt obligations are summarized on the attached graphs (Appendix B). A \$12.5 million loan authorization was completed in 2014 to allow borrowing to partially fund the 2014-2019 year capital plan. The authorization expires in 2019 and a total of \$9.5 million was borrowed under the authorization. A new loan authorization process will be undertaken in early 2021 to allow borrowing in the fall.

#### Agricultural Water Rate Funding

The total budget for the agricultural water rate funding has been increased by \$250,000 to \$1,500,000. The 2020 agricultural water rate has been maintained at the 2019 rate of \$0.2105 per cubic metre. The completion of the region's agricultural land use inventory, crop production and agricultural water demand model through the British Columbia Ministry of Agriculture in partnership with the CRD has been delayed. The final report and model are expected before year end, which will provide information that will help inform future rate and budget decisions. A summary of the agricultural water volumes and agricultural water rate payments for 2011 to 2018 is attached (Appendix C).

#### Water Demand

Total water demand across the Regional Water Supply Service area continues to exceed the annual budgeted demand figure as a result of the continued rate of development and growth across the service area, but also due to the periods of warm, dry weather through the spring and summer. The total 2019 year end demand is projected to be 48,000,000 cubic metres which is higher than the 2019 budgeted demand of 46,500,000 cubic metres. The net revenue resulting from this additional demand is proposed to be included in the water capital fund transfer at year end 2019. The recommended 2020 water rate has been calculated using a budget demand of 48,000,000 cubic metres. See page 6 of the budget document.

Proposed 2020 Wholesale Water Rate

The recommended wholesale water rate has taken into consideration the revenue required to meet operating and capital expenditures, including debt obligations and the budget demand volume established for 2020. The proposed 2020 wholesale rate is \$0.6968 per cubic metre. (Page 7 of the budget document).

Wholesale Water Rate History and Projection

The wholesale water rate history and projection is attached (Appendix D). The rates may be adjusted in the future to reflect actual revenue and expenditure circumstances and water demand volumes.

**RECOMMENDATIONS**

That the Regional Water Supply Commission recommends that the Capital Regional District Board:

1. Approve the 2020 Capital Budget and the Five Year Capital Plan;
2. Approve the 2020 Operating Budget;
3. Approve the 2020 wholesale water rate of \$0.6968 per cubic metre;
4. Approve the 2020 agricultural water rate of \$0.2105 per cubic metre;
5. Direct staff to balance the 2019 actual revenue and expense on the transfer to the water capital fund; and
6. Direct staff to amend the Water Rates Bylaw accordingly.

Submitted by:	Ted Robbins, B.Sc., C.Tech., General Manager, Integrated Water Services
Concurrence:	Nelson Chan, M.B.A., C.P.A., C.M.A., Chief Financial Officer, Financial Services
Concurrence:	Robert Lapham, M.C.I.P., R.P.P., Chief Administrative Officer

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Attachments: 4

- Appendix A: 2020 Regional Water Supply Service Budget
- Appendix B: Long Term Debt Obligations Summary
- Appendix C: Agricultural Water Volumes and Rate Payments for 2011 – 2018
- Appendix D: Wholesale Water Rate History and Projection