



**REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE
MEETING OF WEDNESDAY, OCTOBER 11, 2023**

SUBJECT **2024 Core Area Liquid Waste Management Service Operating and Capital Budget**

ISSUE SUMMARY

To provide an overview of the draft 2024 Core Area Liquid Waste Management Service (CALWM) budget, highlighting the changes from the 2023 budget and the proposed 2024 budget figures. The report generally follows the information provided in the attached draft budget document (Appendix A).

BACKGROUND

The 2024 CALWM budget has been prepared for the Core Area Liquid Waste Management Committee’s (the Committee) consideration. The Committee will make budget recommendations to the Capital Regional District (CRD) Board through the Committee of the Whole in October. The draft 2024 budget has been prepared considering the CRD Board’s 2024 Service and Financial Planning Guidelines, 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 sections of the report address the 2023 year end surplus and the 2024 operating and capital budgets.

2023 Year End Financial Projections

The Committee received a staff report at its June 28, 2023 meeting, proposing a financial plan amendment, which addressed the need for \$3 million (M) additional funding for additional landfill tipping fees for biosolids and for loss of revenue from the Residuals Treatment Facility (RTF) acceptance and processing of third-party liquid waste (sludge). This budget overage was funded from the service’s operational reserves.

The 2023 total operating budget, after the June 28 amendment, was \$33.8M. Of this total budget, \$32.7M is operating costs, with \$1.1M contributions to reserves. The estimated year end variance is projected to be a surplus of \$0.2M or 0.5%. The following table lists variances by budget item:

Budget Item	Variance (\$)
Supplies - Chemicals & Other	\$203,460
Electricity & Utilities	-\$365,962
Other Costs	-\$22,163
Total Operating Expenditures	-\$184,665
Total Revenue	\$0
Total Revenue	\$0
Reserve Fund Transfers	\$184,665

Operating Budget

Conveyance and Treatment Operations

The 2024 conveyance and treatment operations budget is \$33.4M which represents a 2.3% increase over the 2023 amended budget, however a 12.8% increase from the original 2023 budget. Costs increases identified within the 2023 financial plan amendment are expected to be ongoing in nature, so while mitigated through reserve in the prior year, now will be funded by requisition.

The most notable operating budget changes are as follows:

- **Supplies - Chemical & Other:** The unit price of process chemicals increased on average by over 20% in 2024. This increase in the price of chemicals was further compounded by an increase in consumption of carbon media to reduce plant odours. This resulted in an overall increase of \$0.9M over the 2023 budget.
- **Integrated Water Services Operations Allocations:** Increase resulting from collective agreement obligations and worker safety needs for the service. This led to a \$0.7M increase over the 2023 budget.
- **RTF Operations and Biotreatment and Disposal:** As defined in the contract with the RTF service provider there was a 6.9% increase in the RTF Operations Allocations. This was offset by an assumption that, in 2024, 50% of the biosolids will be diverted from landfill to an alternate beneficial use, resulting in a net decrease of \$1.1M.
- **Allocations – Overhead and Engineering:** increases as a result of inflation and support for corporate programs and technical support resulted in an increase of \$0.4M.
- **Utilities:** Other operational increases have been offset by a \$0.2M decrease in water and electricity costs.
- **To mitigate requisition impact, \$0.4M will be transferred from the operating reserve with a plan to replenish the reserve level in subsequent years.**

Odour control and process optimization continues to be an operational priority at the McLoughlin Point Wastewater Treatment Plant (MPWWTP). The budget includes a \$0.4M ongoing costs to support four Initiative Business Cases outlined in the Wastewater Community Needs Summary.

The production and beneficial use of biosolids continues to pose a challenge for managing the operating budget for the RTF. Long and short-term management plans to mitigate risk and continued optimization of the processes for this new facility should help us achieve a successful outcome.

Environmental Services Programs Operations

There are several environmental programs that the CA Wastewater Service participates in as part of the liquid waste management function which are also critical to achieving the CRD's commitments under the Liquid Waste Management Plan (LWMP). These programs are summarized below. The requisition impact in 2024 for these programs are within or under the benchmark increase of 3.5%.

- **Regional Source Control Program** – The program is aimed at reducing contaminants that industries, institutions and households discharge into sanitary sewers. The program will be more important than ever in point-of-discharge contaminant reduction to protect the sewage collection and treatment systems, the quality of the treatment plant sludge and biosolids, the marine receiving environment, and public and worker health and safety.

- **Septage Disposal Program** – The program provides oversight for the contract between the CRD and SPL Wastewater Recovery Ltd. which provides septage receiving and processing services for the CRD.
- **Onsite Sewage System Management Program** – The program manages septic system maintenance through bylaw compliance monitoring and educational materials to reduce the impacts of failing septic systems on human health and the environment.
- **Core Area Liquid Waste Management Plan (LWMP) Administration** – The program manages the LWMP and oversees implementation of the commitments. The program also conducts all reporting and plan amendment preparation for the service.
- **Harbours Studies Program** – The program provides for the CRD to work in partnership with other stakeholders, including communities, local governments and senior governments, to protect and improve the environmental quality of Victoria and Esquimalt harbours.
- **Core Area Stormwater Quality Management Program** – Using an integrated watershed management approach, the program coordinates the management of stormwater quality, including investigations to assess shoreline discharges and contaminant sources, to protect the marine environment.
- **Inflow and Infiltration Enhancement Program** – The program provides for the CRD to engage with the participants to identify and reduce the amount of rain and ground water that enters the sanitary sewer systems. The program budget is funded through the conveyance and treatment budget.
- **Marine Monitoring Program** - The program provides for the marine environment sampling and testing and regulatory reporting related to the effluent discharges from CRD wastewater facilities. The program budget is funded through the conveyance and treatment budget.

Capital Budget

Capital Plan

The plan includes projects that will replace infrastructure at end-of-service life to ensure the system continues to operate reliably without service interruptions or risk to property, public health or the environment. The plan also includes projects that add conveyance capacity 'just in time' in order to convey flows to 2045 and utilize the ultimate design capacity of existing conveyance facilities, such as pump stations, and the MPWWTP.

As planned and approved in the close out report, the operating, debt and capital reserves received funds from the Core Area Wastewater Treatment Project (CAWTP) fund for the purpose of funding outstanding and future capital and operating obligations.

The capital budget for 2024 is \$32.8M and the total 2024-2028 capital budget is \$80.8M (see Appendix B). There are projects planned in each of the major asset categories including pump station upgrades, gravity sewer and manhole upgrades and replacements, pressure pipe upgrades, flow meter installations and replacements, system control and communications upgrades, and outfall retrofits.

Reserve Funding

There are currently four 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 (2023 estimated year-end balances):

- **Operating Maintenance Reserve (\$2.0M):** used to pay for significant Operations and Maintenance (O&M) expenses that do not occur on an annual basis, including the overages related to the biosolids, chemicals, tipping fees in 2023. Based on the CRD Operating Reserve Guidelines the Operating Maintenance Reserve is currently under funded, therefore 2024 operating maintenance reserve fund contributions are set at \$0.7M as a start to approach a reasonable target level of \$3.5M as per the guideline. It is planned that \$0.4M will be utilized in 2024, resulting in a \$0.3M increase to the fund in 2024.
- **Equipment Replacement Reserve (\$6.2M):** used to pay for ‘minor’ equipment replacement that typically has a service life of less than five years and/or a value of less than \$25,000. In 2024 and 2025 there will not be a contribution to the equipment replacement reserve fund, this will be reinitiated in 2026.
- **CAWTP Debt Retirement Reserve (\$17.8M):** used to accumulate funds sufficient to pay down the treatment program debt issuances, in full, as they hit their 10-year renewal option. The establishment of this fund aligns with the financing strategy approved by the CRD Board in 2019, which was designed to deliver the most cost-effective financing structure, with the lowest overall cost to the participants. The combined annual contribution to the Debt Retirement Reserve and the debt servicing costs for the CAWTP financing totals \$12M. Contribution to the Debt Retirement Reserve will continue to increase as debt on the CAWTP is paid down. This strategy is aimed at achieving full repayment of the CAWTP project debts at their first renewal in 10 years. After repayment, capacity will be used to reach capital reserve targets for the capital long range plan.
- **Capital Replacement Reserve (\$14.6M):** used to pay for ‘major’ equipment and infrastructure replacement that has a service life of five to 25 years or more. The replacement and funding of other components of the wastewater system that have a service life of up to 75 years, such as gravity trunk sewers and forcemains, large pumps, electrical distribution systems, concrete tanks and superstructures and major building components, will be part of the long-term capital plan and largely funded through a combination of reserves and long-term financing. Due to recent significant cost increases and in an effort to minimize the impact on requisitions, the reserve contribution has been temporarily reduced by \$1.0M, now set at \$2.1M instead of the previous \$3.1M. In 2025, the contribution will be reinstated to \$3.1M, and an additional \$1.0M will be added back in 2028 to offset the reduction in 2024. The reserve will be used to fund \$2.8M of the 2024 capital plan.

Funding Sources (Revenue)

There is a significant reduction in one-time funding from reserve by \$3.6M in 2024, compared to 2023. The reduced one-time funding will be balanced through a related increase in requisition.

Requisition

The 2024 requisition is \$53.2M after incorporating the requisition for capital, which includes debt servicing of the new and existing conveyance and treatment system works, and system operations. The 2024 requisition represents an 8.16% increase over the 2023 requisition. This increase is largely due to the delay in receiving revenue from the RTF as well as the additional cost of chemical increases, partial disposal of waste sludge, increased labour cost, and issuance of new long-term debt.

ALTERNATIVES

Alternative 1

The Core Area Liquid Waste Management Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

1. Approve the 2024 Core Area Liquid Waste Management Service operating and capital budgets as presented;
2. Direct staff to balance the 2023 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2024 Capital Budget for changes after year end.

Alternative 2

The Core Area Liquid Waste Management Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

1. Approve the 2024 Core Area Liquid Waste Management Service operating and capital budgets as amended;
2. Direct staff to balance the 2023 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2024 Capital Budget for changes after year end.

IMPLICATIONS

Financial Implications

The operating budget reflects costs by type required to support the wastewater treatment service level. The capital budget includes a five-year infrastructure investment to maintain the current system and required replacement of the aging conveyance lines. Together, with reserve contributions, the five-year plan sustains the service at the level required to ensure community needs are met. If the proposed budget is amended, the implications could vary depending on how the budget is amended and the impact on specific programs and initiatives, on-going operations, or the capital work program. 'One-time' reductions in reserve fund contributions could be considered by the Committee to help mitigate the budget and rate increases, but additional financing would result longer term.

CONCLUSION

This 2024 Core Area Liquid Waste Management Service budget has been prepared for the Core Area Liquid Waste Management Committee's (Committee) consideration. The Committee will make budget recommendations to the Capital Regional District (CRD) Board for final budget approval in March 2024. The 2024 budget reflects the operating costs of the McLoughlin Point Wastewater Treatment Plant (WWTP) and the conveyance system, as well as the existing and new capital costs and reserve fund contributions. The operating budget will continue to be refined as the operation of the WWTP is optimized as the CRD gains experience with the new operation. The CRD has resumed investment in the renewal of the conveyance system infrastructure that existed prior to the Core Area Wastewater Treatment Project, to ensure the system continues to operate reliably and without impacts on public health or the environment. The financial

implications of the 2024 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 Core Area Liquid Waste Management Committee recommends the Committee of the Whole recommend to the Capital Regional District Board:

1. Approve the 2024 Core Area Liquid Waste Management Service operating and capital budgets as presented;
2. Direct staff to balance the 2023 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2024 Capital Budget for changes after year end.

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ATTACHMENTS

- Appendix A: Budget Summary
- Appendix B: Five Year Capital Plan
- Appendix C: Long-term Budget Overview