

REPORT TO LYALL HARBOUR BOOT COVE WATER LOCAL SERVICE COMMITTEE MEETING OF NOVEMBER 13, 2025

SUBJECT Lyall Harbour/Boot Cove Water Service 2026 Operating and Capital Budget

ISSUE SUMMARY

To present the 2026 Operating and Capital Budget for Committee review and recommendation for the approval of the Capital Regional District (CRD) Board and for inclusion in the CRD Five-Year Financial Plan, in accordance with Bylaw No. 1875, "Lyall Harbour/Boot Cove Water Local Services Committee Bylaw 1, 1990".

BACKGROUND

The CRD is required by legislation under the *Local Government Act* (LGA) to prepare an annual Operating and Capital budget and a five-year Financial Plan. CRD staff have prepared the financial plan shown in Appendix A.

The Operating Budget includes the regular annual costs required to operate the service. The Capital Expenditure Plan shows the anticipated expenditure for capital additions. These may include purchases of new assets or infrastructure, upgrades or improvements to existing assets, or asset review and study work potentially leading to future capital improvements.

In preparing the Operating Budget, CRD staff considered:

- Actual expenditures incurred between 2023 and 2025.
- Anticipated changes in level of service (if any).
- Maximum allowable tax requisition.
- Annual cost per taxpayer and per single family equivalent (SFE).

Factors considered in the preparation of the Capital Expenditure Plan included:

- Available funds.
- Projects already in progress.
- Condition of existing assets and infrastructure.
- Regulatory, environmental, and health and safety factors.

Adjustments for surpluses or deficits from 2025 will be made in January 2026. The CRD Board will give final approval to the budget and financial plan in March 2026.

The Financial Plan for the years 2027 to 2030 is forecasted and can be updated in future years.

BUDGET OVERVIEW

Operating Budget

It is projected that the 2025 operating expenses will be approximately \$51,030 over budget. Factors contributing to the operating overage include emergency response and corrective maintenance primarily due to the following events:

- Ongoing annual leak detection efforts that exceed operating contingencies.
- Unanticipated additional expenses for the replacement of the water treatment plant filtration media.
- Chlorine chemical feed pump troubleshooting and corrective maintenance.
- Ultraviolet system troubleshooting and corrective maintenance.

These events resulted in additional labour, material and supply costs that exceed operating budget contingencies.

The debt servicing cost will be \$9,833 below the budget since the planned new borrowing of \$460,000 in 2025 is now deferred to 2026.

It is projected that the 2025 operating revenue will be over budget by approximately \$6,113 primarily due to Municipal Finance Authority (MFA) debt reserve earnings due to maturing MFA debt issue LA3587-110 in 2025. This surplus is slightly offset by lower User Fees due to losing one service connection in 2025.

As a result, there is an overall estimated operating deficit of approximately \$35,084 (\$51,030 - \$9,833 - \$6,113). To balance the operating budget at the end of year, the actual deficit will be recovered by 2025 reserve fund transfers, namely the Capital Reserve Fund (CRF) and/or Operating Reserve Fund (ORF). In the event the deficit cannot be fully recovered by reserve transfers in 2025, the deficit must immediately be included as an expenditure to be recovered from revenue in the 2026 financial plan as required by the LGA Section 374(11).

Operating costs for 2026 (excluding one-time cyclical program funded by the ORF in 2025 for the filtration media replacement in the amount of \$16,500, and in 2026 for water system flushing program in the amount of \$20,000) has increased by \$13,164 (6.7%) compared to 2025. The increase is primarily to account for core inflation and an adjustment to water quality sampling and testing costs for the service.

Municipal Finance Authority (MFA) Debt

Loan Authorization Bylaw 3587 (LA3587) to borrow \$430,000 was approved and adopted in 2008 to construct a new treatment plant, storage tank, and installation of meters.

MFA issued LA3587-106 for \$250,000 borrowing, and \$18,110 of total debt servicing cost was retired in 2024. Issue 110 will be retired in 2025. Therefore, both issues against LA3587 will not be a part of 2026 operating expenditures. The table below is for reference information.

Table 1 – Existing Debt Summary

MFA Issues	Term	Borrowing Year	Retirement Year	Refinance Year	Original Interest Rate	Current Interest Rate	Principal	Principal Payment	Interest Payment	Total Annual Debt Cost
LA3587-106	15	2009	2024	2019	4.13%	2.25%	\$250,000	\$12,485	\$5,625	\$18,110
LA3587-110	15	2010	2025	2020	4.50%	1.28%	\$180,000	\$9,663	\$2,304	\$11,967
Total							\$430,000	\$22,148	\$7,929	\$30,077

Operating Reserve Fund (ORF)

The ORF is used to fund cyclical maintenance activities, equipment and supplies purchases that typically do not occur on an annual basis, to mitigate the changes in expense and revenue requirement year over year. Typical maintenance activities include hydrant/standpipe maintenance, reservoir cleaning and inspection and ground water well servicing. Additionally, the ORF is used to respond to unforeseen events and operating emergencies.

The ORF transfers planned in the budget are evaluated and guided by the CRD Operating Reserve Guidelines endorsed by the CRD Board. The target balance for the service ranges from \$48,000 to \$110,000.

It is proposed that the 2026 transfer to the ORF be set at \$30,000. The ORF balance at the end of 2025 is projected to be approximately \$9,592. There is \$35,000 planned maintenance to be funded by the ORF over the next five years.

Capital Reserve Fund (CRF)

The CRF is to be used to pay for capital expenditures that are not funded by other sources such as grants, operating budget, or debt.

The CRF transfers planned in the budget are evaluated and influenced by the funding required to support the five-year capital expenditure plan and the emergency response to infrastructure failures, also guided by the CRD Capital Reserve Funding Guidelines endorsed by the CRD Board. The target balance to be maintained for the service is approximately \$653,000.

It is proposed that the budgeted transfer to the CRF be set at \$31,205 in 2026. The CRF balance at the end of 2025 is projected to be \$46,445.

Capital Expenditure Plan

The five-year plan includes \$2,250,000 of expenditures for the period 2026 to 2030 to be funded by a combination of the services' CRF, grant funding, and new debt (debt funded projects are not approved until after the successful petition and loan authorization is in place).

A complete list of capital projects can be found in Appendix A. Some of the most significant debt funded capital projects include:

- Dam Improvement and Regulatory Requirements (22-02), including \$890,000 between previously approved Community Works Funds (CWF), grant funding, and debt funding, to complete the works determined through the Dam Safety Review (DSR) and design processes.
- New Ground Water Well Assessment (25-01) is proposed for quality and quantity testing for the feasibility of incorporating an existing groundwater well into the water supply.
- Storage Tank Condition Assessment and Repair Details (26-01) is an initial budget to assess leaks that have developed in the tank and to develop a remediation plan.
- Water System Improvements (29-01) is a placeholder budget for future improvements that will be further refined following results of groundwater assessment and asset management planning.

Funding of any debt allocated projects is subject to a successful loan authorization bylaw, which will follow the petition process that was undertaken in 2025. Table 2 below provides the future debt servicing cost simulation based on the Five-Year Capital Plan. This simulation is for analytical purposes only with the estimated indicative interest rate provided by MFA at the time of simulation.

Table 2 – Future New Debt Simulation

<i>Future Borrowing(s) Estimation</i>	<i>Term</i>	<i>Borrowing Year</i>	<i>Retirement Year</i>	<i>Estimated Interest Rate</i>	<i>Principal</i>	<i>Principal Payment</i>	<i>Interest Payment</i>	<i>Total Annual Debt Cost</i>
	25	2026	2051	4.80%	\$785,000	\$20,020	\$37,680	\$57,700
	25	2027	2052	4.85%	\$415,000	\$10,584	\$20,128	\$30,712
	25	2028	2053	4.85%	\$300,000	\$7,651	\$14,550	\$22,201
	25	2029	2054	4.85%	\$500,000	\$12,752	\$24,250	\$37,002
Total					\$2,000,000	\$51,007	\$96,608	\$147,615

At the commencement of each loan, 1% of the gross amount borrowed is withheld and retained by MFA as Debt Reserve Fund (DRF). To provide the full amount to fund the capital project, this 1% DRF amount is budgeted in the operating budget in the year of borrowing. However, there is no principal payment required in the year of borrowing. The estimated debt servicing cost of \$147,615 equates to approximately \$853.26 per parcel.

Capital Projects Fund

As specific capital projects are approved, the funding revenues for them are transferred into the Capital Projects Fund from multiple funding sources if applicable, including the CRF, grant funding, external contributions, and debt. Any funds remaining upon completion of a project are transferred back to the CRF for use on future capital projects or its original funding source(s).

User Charge and Parcel Tax

The service is funded by fixed user charge and parcel tax. Properties connected to the water system pay the annual user charge and all properties within the local service area are responsible for the parcel tax. Table 3 below summarizes the 2026 over 2025 changes for parcel tax and user charge.

Table 3 – Parcel Tax and User Charge Summary

<i>Budget Year</i>	<i>Parcel Tax</i>	<i>Taxable Folios Numbers</i>	<i>Parcel Tax per Folio*</i>	<i>User Charge</i>	<i>SFE** Numbers</i>	<i>User Charge per SFE</i>	<i>Parcel Tax & User Charge</i>
2025	\$147,829	174	\$894.20	\$134,860	170	\$793.29	\$1,687.49
2026	\$163,210	173	\$992.94	\$144,300	169	\$853.85	\$1,846.79
Change (\$)	\$15,381	-1	\$98.74	\$9,440	-1	\$60.56	\$159.30
Change (%)	10.40%	-0.57%	11.04%	7.00%	-0.59%	7.63%	9.44%

*Includes 5.25% collection fee charged by the Ministry of Finance (not CRD revenue)

**Single Family Equivalent

The 2026 fixed user charge per SFE based on the budget will be included in the fees and charges bylaw for approval by the CRD Board, effective January 2026.

ALTERNATIVES

Alternative 1

That the Lyall Harbour/Boot Cove Water Local Service Committee recommends that Electoral Areas Committee recommend that the Capital Regional District Board approve the 2026 Operating and Capital Budget and the Five-Year Financial Plan for the Lyall Harbour/Boot Cove Water Service as presented.

Alternative 2

That the Lyall Harbour/Boot Cove Water Local Service Committee recommends that Electoral Areas Committee recommend that the Capital Regional District Board approve the 2026 Operating and Capital Budget and the Five-Year Financial Plan for the Lyall Harbour/Boot Cove Water Service as amended.

RECOMMENDATION

That the Lyall Harbour/Boot Cove Water Local Service Committee recommends that Electoral Areas Committee recommend that the Capital Regional District Board approve the 2026 Operating and Capital Budget and the Five-Year Financial Plan for the Lyall Harbour/Boot Cove Water Service as presented.

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Concurrence:	Varinia Somosan, CPA, CGA, Senior Manager, Financial Services / Deputy CFO
Concurrence:	Stephen Henderson, General Manager, Electoral Area Services
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ATTACHMENT(S)

Appendix A: 2026 Budget - Lyall Harbour/Boot Cove Water Service Budget