

## REPORT TO CORE AREA LIQUID WASTE MANAGEMENT COMMITTEE MEETING OF OCTOBER 15, 2025

**SUBJECT**      **Core Area Wastewater Service 2026 Capital and Operating Budget**

### **ISSUE SUMMARY**

To provide an overview of the draft 2026 Core Area Wastewater Service budget, highlighting the changes from the 2025 budget and the proposed 2026 budget. The report generally follows the information provided in the attached draft budget document (Appendix A).

### **BACKGROUND**

The 2026 Core Area Wastewater Service budget has been prepared for the Core Area Liquid Waste Management Committee's (Committee) consideration. The Core Area Wastewater Service Budget is comprised of two budgets: 3.798 Debt – Core Area Wastewater Capital (Appendix B) and 3.717 Core Area Wastewater Operations (Appendix C). These two budgets are aggregated into a combined view, which is presented in Appendix A. The combined view provides the overall service impacts.

The Committee will make budget recommendations to the Capital Regional District (CRD) Board through the Committee of the Whole in October. The draft 2026 budget has been prepared considering the CRD Board's 2026 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 sets out the key components of the budget.

### **2025 Year-End Financial Projections**

A budget amendment of \$1.6 million (M) was approved on July 9, 2025, to address higher-than-expected biosolids disposal costs. The amendment was funded through a transfer from the Operating Reserve. Following this adjustment, the 2025 total operating budget increased to \$38.8M, with projected year end expenditure of \$38.16M, resulting in a \$0.635M surplus that will be transferred back to the operating reserve at year end. The table below summarizes the estimated variances.

<b>Operating Budget Variance Drivers</b>	<b>Impact \$</b>
Allocation - IWS Operations	\$125,486
Electricity & Utilities	\$220,795
Operating - Other	\$101,030
Allocation - EPRO, Engineer	-\$75,536
Repairs & Maintenance	-\$149,000
Supplies - Chemicals & Other	-\$805,395
RTF Operations and Biotreatment and Disposal	-\$53,150
<b>Total Variance</b>	<b>-\$635,770</b>
Transfer to Reserve Fund	\$635,770

Staff are projecting overage in Electricity & Utility cost because of higher spending on potable water after the repair and calibration of the potable water meter at the McLoughlin Point Wastewater Treatment Plant.

The most notable projected savings are related to chemical costs; these savings are a result of the first phase of a process optimization trial focusing on reducing the consumption of Ferric Chloride and PolyFloc while still achieving high quality effluent targets.

The Operating Reserve Fund is projected to have a balance of \$4.0M after the surplus transfer.

### **2026 Operating Budget**

#### **Conveyance and Treatment Operations**

The 2026 conveyance and treatment operations budget is \$39.15M which represents a 3.02% increase over the 2025 budget of \$38.00M.

The most notable operating budget changes are as follows:

- **Allocation Infrastructure and Water Services (IWS) Operations:** Increase of \$0.532M, driven by higher labour charge-out rates increases in line with the projected collective agreement.
- **Allocation Standard Overhead:** Increase of \$0.232M.
- **Allocation EPRO, Engineering:** Net increase of \$0.252M, related to the establishment of the new Environmental Innovation division (\$0.081M), along with inflationary increases across Environmental Monitoring, Marine Protection, Infrastructure Engineering, and Facilities Management (\$0.171M). This allocation includes support related to engineering planning and capital delivery, as well as support for the following programs: Environmental Innovation, **Marine Monitoring / Assessment Program and Inflow and Infiltration Enhancement Program.**
- **Residuals Treatment Facility (RTF) Operations and Biotreatment and Disposal:** Increase of \$0.158M over the 2025 amended budget. The increase is to account for inflationary adjustments to the Hartland Resource Management Group (HRMG) contract.
- **Operating Other:** Net reduction of \$0.135M, including a \$0.25M decrease from one-time backwash tank cleaning in 2025, partially offset by inflationary increases for ongoing services.
- **Repairs and Maintenance:** Reduction of \$0.399M, reflecting lower cyclical maintenance needs, including inspections, repairs, and equipment replacements.
- **Electricity & Utilities:** Increase of \$0.346M, due to higher potable water use in alignment with 2025 actuals and inflationary costs.
- **Supplies - Chemical and Other:** Increase of \$0.164M, reflecting inflationary pressures and uncertainty related to chemical contract renewal in 2026.

#### **Service Realignment - Biosolids Thermal Process**

This five-year budget also includes the cost of constructing a new permanent Biosolids Advanced Thermal Plant. The project was originally considered as a demonstration/concept facility under the Service Liquid Waste Management Planning – Core and West Shore; however, since short-lived demonstration facilities are not eligible for debt financing, and the procurement process yielded a fully commercially operational facility with a 20-year service life, the CRD Board directed staff to proceed with a permanent asset. Accordingly, it is appropriate to move this project into the Core Area Wastewater Service operating and capital budgets.

There are no budget impacts to the Core Area Wastewater Service in 2026, with capital costs beginning in 2027 and operating costs commencing in 2029 and continuing thereafter. It is estimated that in 2029 there will be an added \$1.5M in operating cost, with a related \$2M reduction in Biosolids Disposal costs.

### **Environmental Services Programs Operations**

As part of the requirements to achieving CRD's regulatory commitments under the Core Area Liquid Waste Management Plan (LWMP), the CRD supports several programs.

The following two programs are included within the Core Area Wastewater Service budget and funded under the Allocation EPRO, Engineering line item:

- **Marine Monitoring / Assessment 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.
- **Inflow and Infiltration Enhancement Program:** The program is co-managed with IWS Engineering and 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.

In addition, many of the Core Area participants also participate in additional services related to our regulatory commitments under the Core Area LWMP. These additional services are requisitioned separately from the Core Area Wastewater Service but are listed here for information. The total requisition change for these services in 2026 is zero.

- **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. The District of North Saanich has been added to the service for 2025.
- **Core Area Liquid Waste Management Plan 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.
- **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.
- **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.
- **Septage Disposal Program:** This program is funded by service fees and provides oversight for the contract between the CRD and SPL Wastewater Recovery Ltd., which provides septage receiving and processing services for the CRD.

## **2026 Capital Budget**

### **Capital Plan**

A five-year capital plan is presented for information (Appendix B). 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' to convey flows to 2045 and utilize the ultimate design capacity of existing conveyance facilities, such as pump stations, and the McLoughlin Point Wastewater Treatment Plant (MPWWTP).

The capital budget for 2026 is \$22.59M and the total 2026-2030 capital budget is \$100.05M. There are projects planned in each of the major asset categories including wastewater treatment plant upgrades, pump station upgrades, biosolids advanced thermal plant, gravity sewer and manhole upgrades and replacements, pressure pipe upgrades, replacements, system control and communications upgrades and outfall/overflow improvements.

The budget assumes capital financing will be required in 2026 depending on the progress of projects. Based on Capital Reserve Guidelines, debt will be required. The loan authorization approval process is planned to start in Q4, 2025, to authorize \$50.425 million to fund the 2026 to 2030 capital plan in part, including the \$9M required for the Biosolids Advanced Thermal Demonstration Plant.

### **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 (**2025 estimated year-end balances**):

- **Operating Maintenance (O&M) Reserve (\$4.0M):** Used to cover significant O&M expenses that do not occur on an annual basis, including the overages related to the biosolids disposal and cyclical maintenance cost. According to the CRD Operating Reserve Guidelines, the target balance for this reserve is \$4.5M–\$18M, and the fund is currently underfunded. As part of the Operating Budget Amendment for Biosolids Disposal that went to the Board on June 6, 2025, staff noted this reserve was under funded and proposed a \$600,000 increase to the annual contribution beginning in 2026 in order address the gap, staff recommend deferring this increase until 2027 to minimize the increase to requisition.
- **Equipment Replacement Reserve (\$6M):** 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. To reduce the impact on the 2026 requisition, the contribution will remain at \$100,000 (the same as in 2025), with the intent to increase to \$400,000 in 2027.
- **Core Area Wastewater Treatment Plant (CAWWTP) Debt Retirement Reserve (\$25.4M):** Used to accumulate funds sufficient to pay down the treatment program debt issuances, in full, as they reach 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 CAWWTP financing totals \$12M. Contribution to the Debt Retirement Reserve will continue to increase as debt on the CAWWTP is paid down. This strategy is aimed at achieving full repayment of the CAWWTP 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 (\$18.5M):** 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. To minimize the impact on requisition in 2025, reserve contributions were reduced by \$1M. In 2026, contributions will be reinstated to \$3.1M. The reserve will also fund \$2.3M of the 2026 capital plan, including \$0.08M in carry-forward projects from 2025.

### **Requisition**

The 2026 requisition is \$62.04M after incorporating the requisition for capital, which includes debt servicing of the new and existing conveyance and treatment system works, and system operations. The 2026 requisition represents a 6.7% increase over the 2025 requisition. This increase is due to the additional cost of chemical increases, cyclical maintenance, higher insurance premiums, increased labour charges, and issuance of new long-term debt.

### **ALTERNATIVES**

#### *Alternative 1*

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

1. Approve the 2026 Core Area Wastewater Service operating and capital budgets as presented;
2. Direct staff to balance the 2025 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2026 Capital Budget for changes after year end.

#### *Alternative 2*

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

1. Approve the 2026 Core Area Wastewater Service operating and capital budgets as amended;
2. Direct staff to balance the 2025 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2026 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 requires 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. While in the past, reserves may have been used to ease the short-term burden on the requisition, given the current balance, this approach would create higher long-term costs and potential delays in critical infrastructure projects, which could compromise service reliability and increase future financial pressures.

### **CONCLUSION**

This 2026 Core Area Wastewater Service budget is presented for the Core Area Liquid Waste Management Committee's (Committee) consideration. The Committee will make budget recommendations to the Capital Regional District (CRD) Board through the Committee of the Whole in October. The 2026 budget reflects the operating costs of the Core Area Wastewater System, as well as the existing and new capital costs and reserve fund contributions. The operating budget will continue to be refined as operational efficiencies are realized. The financial implications of the 2026 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 that the Capital Regional District Board:

1. Approve the 2026 Core Area Wastewater Service operating and capital budgets as presented;
2. Direct staff to balance the 2025 actual revenue and expenses on the transfer to the operating reserve; and
3. Direct staff to update carry forward balances in the 2026 Capital Budget for changes after year end.

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### **ATTACHMENTS**

Appendix A: Core Area Wastewater - Combined View

Appendix B: Debt – Core Area Wastewater Capital

Appendix C: Core Area Wastewater Operations

Presentation: Core Area Wastewater Service 2026 Budget Review