

REPORT TO REGIONAL WATER SUPPLY COMMISSION MEETING OF OCTOBER 15, 2025

SUBJECT **Regional Water Supply Service 2026 Capital and Operating Budget**

ISSUE SUMMARY

To provide an overview of the draft 2026 Regional Water Supply Service budget, highlighting the 2025 budget variance and the proposed 2026 budget figures. The report generally follows the information provided in the attached draft budget document (Appendix A).

BACKGROUND

The draft 2026 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 through the Committee of the Whole in October. The budget recommendations are also necessary to establish the wholesale water rate and approve the rate by year end through adopting a rate bylaw. As in previous years, the draft 2026 Regional Water Supply Service budget has been prepared considering the CRD Board's 2026 service planning and financial expectations, which include identifying opportunities to realign or reallocate resources and seek potential efficiencies between departments and services, reviewing service levels and adjustments related to regulatory compliance, and undertaking infrastructure improvements and upgrades to maintain service levels within the Region. In addition, the budget also considers the July 16, 2025 direction from the Commission to staff, *"That staff be directed to include the proposed positions for the Dam Safety Program (2 FTE), Master Plan Program (4 FTE), Operations Coordinator (0.5 FTE) and Reliability Engineer (1 FTE) in the Regional Water Supply 2026 budget, and that staff be directed to incorporate future year's FTEs into the 2027-2030 financial plan for annual review"* (Appendix E).

The following sets out the key components of the budget.

2025 Year-End Financial Projections

Year-end revenue and expenditure projections have been established and estimated variances, including the proposed capital fund transfer, are summarized as follows:

Budget Item	Projected Variance Exceed/(Below) Budget (\$)	Projected Variance (%)
Expense		
Operating Expenditures	(385,428)	(1.95)%
Capital Fund Transfers	(88,753)	(0.44)%
Debt servicing - Principal and Interest	(132,705)	(5.13)%
Revenue		
Sales and Other Revenue	342,796	0.76%
Year-end Surplus	\$949,682	2.11%

Savings in operating expenditures are primarily due to temporary staff vacancies and savings in contracted services. Capital fund and debt servicing costs are lower than budget due to the deferral of debt-funded capital projects to 2026.

Surplus revenue is the result of projected higher water demand than budgeted. At the end of 2025 this surplus will be transferred to the capital fund to support future capital projects.

2026 Budget

Operating Budget

The 2026 operating budget reflects an inflationary increase in non-discretionary expenses such as estimated wage/salary increases, labour augmentation, corporate support service allocation increases, chemical and electricity costs, vehicle costs and other operating expense adjustments. The net core 2026 operating budget increase is \$1,390,586 (7.03%).

To meet the needs of the growing, aging system and commitments outlined in the Regional Water Supply Strategic plan, 7.5 FTEs are proposed to be added in 2026 to support the service. The 2026 Water Community Needs Summary and the July 16, 2025, staff report entitled *2026 Service Delivery – Staffing Requirements* summarize the proposed 2026 Initiative Business Cases (IBCs). These IBCs were incorporated into the 2026 budget to support the Regional Water Supply Service. Further details of the rationale for these additions and service level improvements are included in Appendix E. The new positions result in an ongoing additional budget request of \$1,044,497, while \$511,654 will be funded through the operating budget and the remaining \$532,842 will be funded through the capital program.

Initiative	Staff impacts (2026)	Business Driver - Rational	Incremental cost (2026)	Funding source
2a-2.3 Master Plan Program	4 New Ongoing (Q1 Start)	Includes four new positions to advance Master Plan projects with substantial upfront planning and engineering work, support for legal reviews and engagement with First Nations communities.	\$534,736	Capital & Fee-for-Service (100% RWS)
2b-1.1 Dam Safety Program – Integrated Water Services	2 New Ongoing (Q1 Start)	Includes two additional Dam Safety Surveillance positions to support the operation, maintenance, and surveillance of the dams, as well as regulatory compliance activities and resolving safety issues through capital and operational safety improvements.	\$310,912	Capital
2b-2.6 Operations Coordinator	1 New ongoing (Q1 Start)	Responsible for the administrative aspects of regulatory and operational risk management, addressing inefficiencies and day-to-day service delivery risks.	\$69,469	Fee-for-service (50% JDF/ 50% RWS)
2b-2.9 Reliability/ Operational Performance	1 New Ongoing (Q1 Start)	Responsible for improving the reliability of water service by collecting and analyzing asset performance data, developing optimized plans, and improving service reliability.	\$129,380	Fee for service (100% RWS)

In addition to the initiatives listed above that have staffing implications in 2026, the following initiatives have staffing implications in 2027 or beyond:

2027 (3 FTE)	2a-2.3 Master Plan Program (1 FTE, Project Engineer)
	2a-5.2 Equipment/Watershed Operator (1 FTE, Watershed Protection)
	2a-5.3 Seasonal Watershed Protection (0.75 FTE, Watershed Protection)
	2b-2.7 Contract Support Service (0.25, FTE shared with other services)
2028 (3.75 FTE)	2a-2.3 Master Plan Program (1 FTE, Senior Project Manager)
	2a-5.3 Seasonal Watershed Protection (0.75 FTE, Watershed Protection)
	2a-5.4 Forest Management Plan Implementation (1 FTE, Watershed Protection)
	2b-2.5 Utility Operator (1 FTE, Water Operations)
2029 (1.6 FTE)	2a-5.3 Seasonal Watershed Protection (0.6 FTE, Watershed Protection)
	2a-5.5 Forest Hydrology Technician (1 FTE, Watershed Protection)

These future year positions have been incorporated into the 5-year budget; however, the position will be reviewed and approved as part of the 2027 budget and beyond.

In addition to the groups that support the provision of water service to the various wholesale customers, there are several environmental programs that are critical to the sustainability of the Regional Water Supply Service, these programs are summarized below.

- **Water Quality Operations Program** – As the core component of the Water Quality portfolio, the Program designs and executes the water quality monitoring and reporting for the source water as well as the treated water in the transmission system and across the CRD-owned and municipal distribution systems. The program also provides technical and scientific support to operations, planning and engineering in the Greater Victoria Drinking Water System.
- **Cross Connection Control Program** – Also part of the overall Water Quality portfolio, this Program reduces the risk of drinking water contamination by identifying potential cross connections and enforcing national and provincial plumbing code requirements.
- **Laboratory Services Program** – Provides a wide range of laboratory services for the CRD drinking water and wastewater operations. Lab services for drinking water operations are integral to the Regional Water Supply.
- **Demand Management Program** – Researches and tracks the various water uses in the Greater Victoria Drinking Water System to design and execute targeted initiatives and campaigns aimed at influencing residential, industrial, institutional or agricultural water demand.

Operating budget forecasts for 2027-2030 are presented in Appendix A for information. These are projections subject to refinement in future years.

It is anticipated that the Regional Water Supply Service will become the direct service provider to the seven First Nations who historically received water from the Regional System. In 2024, two bulk water service agreements have been signed, and the associated two First Nations are in the process of transitioning to be direct customers of the Regional Water Supply. The budget has been prepared to reflect 'conveyance fee' payments, in the amount of \$500,000 for 2026, that will

fund operating expenses for those water systems required to convey water from the Regional Water Supply system to First Nations Reserve boundaries across Greater Victoria. The conveyance fee payments are subject to the completion of water service agreements with the participating Nations and operating agreements with the 'conveyors' that could include the Juan de Fuca Water Distribution Service, the Saanich Peninsula Water Service, the District of Central Saanich and the District of North Saanich. Agreements will all be applied retroactively to January 1, 2023, meaning that the Nations will receive a credit commensurate with the difference between the Juan de Fuca Water Distribution retail rate it paid during this period and the Regional Water Supply bulk water rate it would have paid.

Capital Budget

Various capital projects are planned for 2026 with a total value of \$71,922,336, including \$58,559,336 in carry forward projects, with most of the total budget being attributed to large initiatives and in-stream, multi-year projects, such as:

- Goldstream Field Office building project;
- Transmission main upgrade projects;
- Storage Tank Assessments/Improvements;
- Master Plan Planning/Implementation; and,
- Dam safety improvement projects.

There is also \$1,893,125 in projects cost-shared 50%/50% with the Juan de Fuca Water Distribution Service (pages 10 to 36 of Appendix A).

The five-year capital plan is presented for consideration. The value of the five-year (2026-2030) capital plan is currently \$350,907,336, plus \$4,288,125 in projects cost-shared with the Juan de Fuca Water Distribution Service.

A strategy for delivering and implementing the projects identified in the 2022 Regional Water Supply Master Plan was started in 2025 and will continue into 2026. This strategy will look for efficiencies and provide more detailed timelines of the major projects such as the future filtration plant and the deep northern intake over the next 30 years.

Capital and Debt Expenditures

The 2026 capital expenditures will be partially funded through a transfer to the water capital fund budgeted at \$21,000,000, with the balance funded from existing cash reserves and borrowed funds (pages 10 and 32 of Appendix A). The 2026 debt expenditures for existing debt servicing are budgeted to be \$3,215,038. Debt servicing expenditures will increase by \$627,783 (24.26%) over 2025 due to new debt for the Kapoor land purchase (\$32,300,000) exceeding maturing debt issuances in 2026. Additional projected water sales revenue and the corresponding capital reserve fund transfer will reduce the borrowing needs in 2026.

Loan Authorization Bylaw 4382 authorizing borrowing of \$46,000,000 was approved in 2021 to allow continued partial funding of the five-year capital plan. To date, \$4,000,000 has been borrowed, leaving \$42,000,000 remaining to fund the five-year capital plan. Staff will bring forward a temporary borrowing bylaw in 2026 to facilitate timely access to debt funds under bylaw 4382 to finance ongoing capital investment.

The upcoming debt retirements on existing borrowings are summarized on the next page:

Loan Number	Retirement Date	Loan Amount
LA3661-116	April 2026	\$1,500,000
LA3661-118	April 2027	\$4,500,000
LA3661-124	April 2028	\$1,700,000
LA3902-131	April 2030	\$3,000,000
LA3902-137	April 2031	\$1,500,000
LA3902-145	April 2033	\$5,000,000
LA4382-159	June 2039	\$4,000,000

When assessing key financial health indicators, the service maintains an affordable level of debt over the next five years. The percentage of revenue dedicated to debt costs is forecast to be between 6% and 25%.

Debt funding for capital investment in each of the next five years does not exceed 75% for years 2026 – 2030, consistent with the 60-80% benchmark for engineering infrastructure set by the CRD. While the capital plan includes projects forecasted to occur in the later years for informational purposes, the costs provided are Class D estimates and are refined as part of the capital planning process.

A summary indicator table is provided below:

Year	% Revenue for Debt	Capital Funded by Debt
2026	6.59%	0.70%
2027	9.57%	57.79%
2028	14.98%	75.44%
2029	22.45%	66.90%
2030	25.15%	51.39%

The Regional Water Supply five-year capital plan and 2022 Master Plan reflect a capital program developed to meet today's service requirements and growth needs while also ensuring the future resilience of the utility for generations to come. Through development of the Development Cost Charge (DCC) program and long-term asset management plan completions, the future debt needs will be refined. Capital and debt funding decisions are made in alignment with the life span of the assets to address inter-generational equity, balancing the cost of infrastructure between past, current and future users. The current long-term debt obligations are summarized on the attached graphs (Appendix B).

A \$670,484 transfer to the vehicle/equipment replacement fund is planned in 2026. The reserve fund balance is estimated at \$2,905,151 at year-end 2025 (Page 37 of Appendix A).

Agricultural Water Rate Funding

The Regional Water Supply agricultural water rate budget funds the difference between the municipal retail water rate and the CRD agricultural water rate. While the bulk water rate has increased annually, the agricultural rate has been held at \$0.2105 per cubic metre since the rates

was assessed in 2010. At their meeting of November 26, 2024, the Water Advisory Committee recommended that the Regional Water Supply Commission maintain the current agricultural water rate. This was presented to the Regional Water Supply Commission at their meeting of January 15, 2025.

In the absence of any other direction, the 2026 agricultural water rate is maintained at the same 2025 rate of \$0.2105 per cubic metre, subject to the Regional Water Supply Commission's approval. The total budget for the agricultural water rate funding has been increased by \$50,000 to \$1,900,000.

A summary of the agricultural water volumes and agricultural water rate payments for 2011 to 2024 is attached as Appendix C.

Water Demand

Total water demand across the Region has generally continued to increase year over year primarily due to the continued rate of development and growth. These factors are expected to result in actual demand exceeding budget demand in 2025; the 2025 year-end demand is projected to be 500,000 cubic metres over the budget of 51,200,000 cubic metres.

The recommended 2026 water rate has been calculated using a budget demand of 51,400,000 cubic metres (Page 6 of Appendix A), which is a 200,000 cubic metre increase over the 2025 budget.

Proposed 2026 Wholesale Water Rate

The wholesale water rate is calculated using the water rate model. The water rate model considers the rate base and revenue requirements, which are determined using the various inputs outlined in the preceding sections of this report.

Rate Base

The rate base includes facilities, equipment, infrastructure and other assets used in providing the Regional Water Supply service. The 2026 rate base has increased by \$11,240,035 from 2025. This increase relates to physical plant additions, offset by current year depreciation and the change in prior year estimates of additions and disposals. This indicator highlights that we are continuing to invest in our infrastructure at a greater rate than the existing infrastructure is depreciating. The changes in physical plant and work in progress are listed on pages 3 and 4 of the budget document (Appendix A) and are used to project the 2025 year-end total physical plant value and determine the 2026 rate base.

Revenue Requirement

The revenue requirement for 2026 increased by \$3,682,423. This is resulting from an increase in operational expenses of \$1,440,586 as outline above, an increase in depreciation expenses of \$561,337, and an increase in the return on the rate base of \$1,680,500.

The proposed 2026 wholesale rate is \$0.9314 per cubic metre, a 7.91% increase over the 2025 rate. The increase in annual bulk water cost for the average household using 239 cubic metres per year would be \$16.31 (Page 7 of Appendix A).

Wholesale Water Rate History and Projection

The wholesale water rate history and projection is attached as Appendix D. The rates may be

adjusted in the future to reflect actual revenue and expenditure circumstances and water demand volumes

ALTERNATIVES

Alternative 1

The Regional Water Supply Commission recommends that the Committee of the Whole recommend that the Capital Regional District Board:

1. Approve the 2026 Operating and Capital Budget and the Five-Year Capital Plan;
2. Approve the 2026 wholesale water rate of \$0.9314 per cubic metre;
3. Approve the 2026 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2025 actual revenue and expense on the transfer to the water capital fund;
5. Direct staff to update carry forward balances in the 2026 Capital Budget for changes after year end; and
6. Direct staff to amend the Water Rates Bylaw accordingly.

Alternative 2

The Regional Water Supply Commission recommends that the Committee of the Whole recommend that the Capital Regional District Board:

1. Approve the 2026 Operating and Capital Budget and the Five-Year Capital Plan as amended;
2. Approve the 2026 wholesale water rate as amended (amended rate);
3. Approve the 2026 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2025 actual revenue and expense on the transfer to the water capital fund;
5. Direct staff to update carry forward balances in the 2026 Capital Budget for changes after year end; and
6. Direct staff to amend the Water Rates Bylaw accordingly.

IMPLICATIONS

Financial Implications

If the proposed budget is amended, the implications could vary depending on how the budget is amended and the impact on specific initiatives (i.e., new initiatives), 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 additional capital financing could result in the longer term.

Any changes in the recommended wholesale water rate would have to be incorporated in the Juan de Fuca Water Distribution Service and Saanich Peninsula Water Service budgets and rates.

CONCLUSION

The draft 2026 Regional Water Supply Service budget is presented for the Regional Water Supply Commission's (Commission) consideration. The Commission will make budget recommendations to the Capital Regional District (CRD) Board through the Committee of the Whole in October. The

draft 2026 Regional Water Supply Service budget was prepared considering the Commission and CRD Board's 2026 service planning and financial expectations, along with direction provided from this Commission. A proposed increase in operating and capital funding combined with an adjusted revenue budget, is resulting in a recommended wholesale water rate of \$0.9314 per cubic metre, a 7.91% increase over the 2025 rate.

RECOMMENDATION

The Regional Water Supply Commission recommends that the Committee of the Whole recommend that the Capital Regional District Board:

1. Approve the 2026 Operating and Capital Budget and the Five-Year Capital Plan;
2. Approve the 2026 wholesale water rate of \$0.9314 per cubic metre;
3. Approve the 2026 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2025 actual revenue and expense on the transfer to the water capital fund;
5. Direct staff to update carry forward balances in the 2026 Capital Budget for changes after year end; and
6. Direct staff to amend the Water Rates Bylaw accordingly.

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ATTACHMENTS

Appendix A: Draft 2026 RWS Service Budget
Appendix B: Debt Outstanding vs. Water Capital Fund Balance
Appendix C: Agricultural Water Rate Funding Comparisons 2011-2024
Appendix D: Wholesale Water Rate - Historical and Projections
Appendix E: Staff Report to Commission - July 16, 2025
Presentation: Regional Water Supply Service 2026 Budget Review