

**REPORT TO THE JUAN DE FUCA WATER DISTRIBUTION COMMISSION  
MEETING OF TUESDAY, OCTOBER 3, 2017**

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**SUBJECT      JUAN DE FUCA WATER DISTRIBUTION SERVICE - 2018 OPERATING AND  
CAPITAL BUDGET**

**ISSUE**

The purpose of the report is to provide an overview of the 2018 Juan de Fuca Water Distribution Service budget, highlighting the proposed significant changes and additions. The report generally follows the sequence of information provided in the attached draft budget document (Attachment 1).

**BACKGROUND**

This draft 2018 Juan de Fuca (JDF) Water Distribution Service budget has been prepared for the JDF Water Distribution Commission's (Commission) consideration. The Commission will make budget recommendations to the CRD Board through the Committee of the Whole in November. The draft 2018 JDF Water Distribution Service budget has been prepared considering the CRD Board's 2018 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 of service levels and adjustments related to regulatory compliance, and undertaking infrastructure improvements to maintain service levels across the service area, including incremental ongoing operational and maintenance requirements in the expanding service area. The following sets out the key components of the budget.

**2017 Year End Financial Projections**

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

- Distribution System operating expenditures	\$249,733 (4.7%)
- Bulk water purchase	\$255,000 (5.0%)
- Capital fund transfer	\$278,177 (8.2%)
- Capital transfer to equipment (fleet) replacement fund	\$0 (0.0%)
- Capital transfer to debt reserve fund	-\$7,000 (-51.6%)
- Debt servicing – principal and interest expenditures	-\$24,650 (-1.5%)
- Revenue – water sales	\$765,160 (5.0%)
- Revenue – other	\$500 (0.3%)

**Rate Base**

The rate base for 2018 has increased by \$12,484,507 from 2017. This increase relates to physical plant additions and capitalization values, and a higher value of construction work in progress between 2017 and 2018. The construction work in progress primarily relates to the water main installation project underway on Bear Mountain Parkway (Pages 3 & 4 of the budget document).

### Revenue Requirement

The revenue requirement for 2018 has increased by \$1,354,688. This is resulting from an increase in operational expenses of \$458,002, increased depreciation expenses of \$197,986 net of expired depreciation on existing assets, and a net increase in the return on the rate base of \$685,300. The increase in the return on the rate base is primarily a result of an upward adjustment to the rate of return on assets funded by equity, to equal the long term Canada bond rate (Page 5 of the budget document).

### Operating Budget

The 2018 operating budget reflects an increase in non-discretionary expenses such as negotiated wage/salary increases, departmental support service allocation increases, maintenance expense increases due to new infrastructure additions, and other operating expense increases such as electricity costs.

As a result of a significant growth in new land development in the service area over the last three years, the distribution system has and continues to expand. Since 2015 (to 2017 to-date), the new assets added to the system include 16 km of water main, 9 km of service laterals, 1,573 new service connections and meters, 170 fire hydrants, 527 valves, and one large pump station, all of which require regular maintenance to ensure reliable performance. With at least four major developments underway in the service area including South Skirt Mountain, Bear Mountain, Royal Bay and Centre Mountain, it is expected that the water system asset base will continue to grow significantly in the near future as initial water servicing infrastructure is installed which will impact operating and maintenance costs. Given the size of the developments and anticipated phasing and build-out timelines, it is expected that there will be a 'revenue lag', possibly several years, before enough revenue is generated from retail water sales in these and other developments to offset the initial infrastructure operating and maintenance costs.

The net core 2018 operating budget increase is \$363,122, plus additional budget requests for one-time and ongoing expenditures in the amounts of \$50,000 and \$44,880 respectively. The core operating budget increase is primarily due to distribution system operations contract for services and labour budget adjustments necessary to support increasing operations and maintenance tasks and increasing safe work practice requirements. The one-time and ongoing expenditures include two separate requests which are detailed on pages 6-8 of the budget document. Operating budget forecasts for 2019 through 2022 have been presented for information.

### Capital Budget

There are a number of capital projects planned for 2018 with a total value of \$7,940,000, plus \$2,857,100 in Development Cost Charge (DCC) projects, and \$695,000 in projects cost shared with the Regional Water Supply Services (Pages 15-29 of the budget document). The major projects in 2018 include ongoing small diameter asbestos cement water main replacement, large diameter water main replacements on Jacklin Road and Sooke Road, as well as the McCallum Pump Station and Millstream Road water main extension DCC projects.

A five year capital plan has been presented for information. The total five year (2018-2022) capital plan budget is \$37.3 million, including \$3.8 million in carry forward projects (most of which are in-stream, multi-year projects).

### Capital and Debt Expenditures

The 2018 capital expenditures will be partially funded through a transfer to the water capital fund budgeted at \$4,444,346, with the balance funded through debt. 2018 debt expenditures for existing and new debt servicing are budgeted to be \$1,485,038. Debt servicing expenditures have decreased by \$206,811 from 2017, primarily due to the retirement of LA2913-078, originally borrowed in 2002 for \$4 million. The long term debt obligations are summarized on the attached graphs (Attachment 2). A new loan authorization was approved in 2015 to allow borrowing to partially fund the five year capital plan.

A \$246,192 transfer to the vehicle/equipment replacement fund is planned in 2018.

The DCC projects will be funded entirely from the DCC reserve fund, which is projected to have a balance of \$4,300,401 at the beginning of 2018.

### Bulk Water Purchase

Based on the proposed 2018 budgeted water demand and Regional Water Supply wholesale water rate, the bulk water purchase budget has been set at \$5,448,080.

### Water Demand

As reported last year, water demand in the service area (and per capita demand) has declined for many years recently primarily due to the ongoing residential replacement of low efficiency appliances and higher flow plumbing fixtures with high efficiency and low flow units, as well as decreasing outdoor summer demand due to changes in attitudes and behaviours with respect to water conservation. However, since 2015 actual demand has exceeded budgeted demand, primarily due to increased demand resulting from extended periods of warm and dry weather as well as growth related demand. Although 2017 demand is projected to be lower than 2016 demand, the total year end demand is projected to be 8,400,000 cubic metres which is higher than the 2017 budgeted water demand of 8,000,000 cubic meters. The net revenue resulting from this additional demand is proposed to be included in the water capital fund transfer at year end 2017. The recommended 2018 water rate has been calculated using a budget demand of 8,200,000 (Page 9 of the budget document).

### Proposed 2018 Wholesale Water Rate

The proposed 2018 wholesale water rate is \$0.6644 per cubic metre, subject to the Regional Water Supply Commission's approval.

### Proposed Agricultural Water Rate

The proposed 2018 agricultural water rate has been maintained at the 2017 rate of \$0.2105 per cubic metre, subject to the Regional Water Supply Commission's approval. The Regional Water Supply agricultural water rate budget funds the difference between the municipal retail water rate and the agricultural water rate.

### Proposed 2018 Juan de Fuca Water Distribution Service Retail Water Rate

The recommended retail water rate has taken into consideration the revenue required to meet operating and capital expenditures, including debt obligations, the bulk water purchase expense,

and the budget demand volume established for 2018. The proposed 2018 Juan de Fuca Water Distribution Service retail water rate is \$2.0739 per cubic metre (Page 10 of the budget document).

**Retail and Wholesale Water Rate History and Projection**

The retail and wholesale water rate history and projection is attached (Attachment 3). The rates may be adjusted in the future to reflect actual revenue and expenditure circumstances and water demand volumes.

**RECOMMENDATION**

That the Juan de Fuca Water Distribution Commission recommends that the Capital Regional District Board:

1. Approve the 2018 Capital Budget and the Five Year Capital Plan;
2. Approve the 2018 Operating Budget;
3. Approve the 2018 Juan de Fuca Water Distribution Service retail water rate of \$2.0739 per cubic metre, adjusted if necessary by any change in the Regional Water Supply wholesale water rate; and
4. Amend the Water Distribution Local Service Conditions, Fees and Charges Bylaw accordingly.

Submitted by:	Ted Robbins, BSc, CTech, General Manager, Integrated Water Service
Concurrence:	Ben Semmens, BCom, CPA, CMA, Senior Financial Advisor, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer, Financial Services
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

TR:mm

Attachments: 3