

**REPORT TO REGIONAL WATER SUPPLY COMMISSION
MEETING OF WEDNESDAY, OCTOBER 18, 2017**

SUBJECT REGIONAL WATER SUPPLY SERVICE - 2018 OPERATING AND CAPITAL BUDGET

ISSUE

The purpose of the report is to provide an overview of the draft 2018 Regional Water Supply 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 Regional Water Supply Service budget has been prepared for the Regional Water Supply Commission's (Commission) consideration. The Regional Water Supply Commission's Budget Subcommittee met on September 20, 2017 to review the draft 2018 service budget in order to make budget recommendations to the Commission in October, who will in turn, make budget recommendations to the CRD Board through the Committee of the Whole in November. The draft 2018 Regional Water Supply 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 service levels and adjustments related to regulatory compliance, and undertaking infrastructure improvements, and upgrades to maintain service levels across the region including incremental ongoing operational and maintenance requirements. 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:

- Supply System operating expenditures	\$392,276 (3.3%)
- Agricultural water rate funding	\$100,000 (8.3%)
- Capital fund transfer	\$17,766 (0.4%)
- Capital transfer to equipment (fleet) replacement fund	\$0 (0.0%)
- Capital transfer to debt reserve fund	-\$35,000 (-43%)
- Debt servicing – principal and interest expenditures	-\$69,792 (-0.6%)
- Revenue – bulk water sales	\$442,500 (1.5%)
- Revenue – other	-\$37,250 (6.3%)

2018 Budget

Rate Base

The rate base for 2018 has decreased by \$760,722 from 2017 (Page 3 of the budget document). This reduction relates to depreciation of existing physical plant, projected physical plant additions

and a higher value of construction work in progress between 2017 and 2018. The construction work in progress primarily relates to the Japan Gulch Disinfection Project. The changes in physical plant and work in progress are listed on page 4 of the budget document, and are used to project the 2017 year end total physical plant value, and determine the 2018 rate base.

Revenue Requirement

The revenue requirement for 2018 has increased by \$1,210,519. This is resulting from an increase in operational expenses of \$1,431,570, increased depreciation expenses of \$126,609 net of expired depreciation on existing assets, and a net decrease in the return on the base of \$348,200. The decrease in return on rate base is a result of more assets being funded by equity rather than debt compared to 2017 (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, and other operating expense adjustments such as chemical and electricity costs. The net core 2018 operating budget increase is \$806,118, and additional budget requests for one-time and ongoing expenditures in the amounts of \$75,000 and \$525,452 respectively. The core operating budget increase is primarily due to supply system operations labour budget adjustments necessary to support increasing repair and maintenance tasks and increasing safe work practice requirements. The one-time and ongoing expenditures include nine separate requests which are detailed on pages 6-12 of the budget document. Operating budget forecasts for 2019 through 2022 have been presented for information.

Agricultural Water Rate Funding

The total budget for the agricultural water rate funding has been increased by \$25,000 to \$1,225,000 to better align with the projected 2017 and anticipated 2018 claims, taking into consideration the higher than expected agricultural demand in 2015 and 2016 related to the unseasonal weather and the increasing spread between the agricultural water rate and the municipal water rates, which results in higher municipal refunds funded by this budget. The 2018 agricultural water rate has been maintained at the 2017 rate of \$0.2105 per cubic metre. Further analysis of the agricultural rate funding model and overall budget impact and an assessment of the benefit to the region that results from providing the agricultural water rate is recommended. Updating the region's agricultural land use inventory, crop production and agricultural water demand model would provide information that would help inform future budget decisions. It is proposed to further explore this initiative with the BC Ministry of Agriculture and CRD Regional Planning staff. A summary of the agricultural water volumes and agricultural water rate payments for 2011-2016 is attached (Attachment 2).

Capital Budget

There are a number of capital projects planned for 2018 with a total value of \$13,199,063, plus \$695,000 in projects cost shared with the Juan de Fuca Water Distribution Service (pages 18-56 of the budget document). The major projects in 2018 include continued restoration of the Leech Water Supply Area including road and bridge improvements, upgrades to the Japan Gulch Chloramination System, Sooke Lake Intake Tower screen upgrades, several dam projects, post disaster water supply equipment purchases and a bulk supply billing meter replacements.

A five year capital plan has been presented for information. The total five year (2018-2022) capital plan budget is \$55.372 million, including \$3.222 million in carry forward projects, the largest of which are noted above.

Capital and Debt Expenditures

The 2018 capital expenditures will be partially funded through a transfer to the water capital fund in the amount of \$5,301,214, with the balance funded through debt. 2018 debt expenditures for existing and projected new debt servicing are budgeted to be \$10,378,776. Debt servicing expenditures have decreased by \$1,800,825 from 2017, primarily due to the retirement of LA2862-078, originally borrowed in 2002 for \$27 million. The long term debt obligations are summarized on the attached graphs (Attachment 3). A loan authorization was completed in 2014 to allow borrowing to help fund the five year capital plan. It is expected that a new loan authorization process will be undertaken in the Fall of 2018 to allow borrowing in 2019.

Water Demand

As reported last year, water demand in the service area 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 and growth related demand. Although 2017 demand is projected to be lower than 2016 demand, the year end demand total is projected to be 45,700,000 which is higher than the 2017 budgeted water demand of 45,000,000 cubic metres. 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 45,000,000 cubic metres (Page 13 of the budget document).

Proposed 2018 Wholesale Water Rate

The recommended wholesale water rate has taken into consideration the revenue required to meet operating and capital expenditures, including debt obligations, and the budget demand volume established for 2018. The proposed 2018 wholesale rate is \$0.6644 per cubic metre (Page 14 of the budget document).

Wholesale Water Rate History and Projection

The wholesale water rate history and projection is attached (Attachment 4). The rates may be adjusted in the future to reflect actual revenue and expenditure circumstances and water demand volumes.

Recommendations from the Regional Water Supply Commission Budget Subcommittee

1. Approve the 2018 Capital Budget and the Five Year Capital Plan;
2. Approve the 2018 Operating Budget;
3. Approve the 2018 wholesale water rate of \$0.6644 per cubic metre; and
4. Approve the 2018 agricultural water rate of \$0.2105 per cubic metre.

RECOMMENDATIONS

That the Regional Water Supply 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 wholesale water rate of \$0.6644 per cubic metre; and
4. Approve the 2018 agricultural water rate of \$0.2105 per cubic metre.

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Attachments: 5