

**REPORT TO THE JUAN DE FUCA WATER DISTRIBUTION COMMISSION  
MEETING OF TUESDAY, SEPTEMBER 4, 2018**

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**SUBJECT      JUAN DE FUCA WATER DISTRIBUTION SERVICE - 2019 OPERATING AND  
CAPITAL BUDGET**

**ISSUE**

The purpose of the report is to provide an overview of the 2019 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 (Appendix A).

**BACKGROUND**

This draft 2019 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 September. As in previous years, the draft 2019 JDF Water Distribution Service budget has been prepared considering the CRD Board's 2019 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.

**2018 Year End Financial Projections**

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

- Distribution System operating expenditures	\$94,438	(1.6%)
- Bulk water purchase	\$265,760	(4.9%)
- Capital transfers	\$485,309	(10.2%)
- Debt servicing – principal and interest expenditures	-\$31,620	(-2.1%)
- Revenue	\$825,237	(4.8%)
- Transfers from DCC reserves to fund DCC debt	-\$11,350	(-4.5%)

**Rate Base**

The rate base for 2019 has increased by \$3,922,342 from 2018. This increase relates to physical plant additions, including the new Skirt Mountain water distribution system assets, and capitalization values. (Pages 2 & 3 of the budget document).

### Revenue Requirement

The revenue requirement for 2019 has increased by \$789,394. This is resulting from an increase in operational expenses of \$262,596, decreased depreciation expenses of \$67,753 net of expired depreciation on existing assets, and a net increase in the return on the rate base of \$583,200. The increase in the return on the rate base is a result of the growing asset base, and updated rate of return on assets funded by equity based on the long term Canada bond rate. (Page 4 of the budget document).

### Operating Budget

The 2019 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 four years, the distribution system has and continues to expand at an accelerated rate. Since 2015 (to 2018 to-date), the new assets added to the system include 24 km of water main, 15 km of service laterals, 1,680 new service connections and meters, 233 fire hydrants, 677 valves, one large pump station and three large pressure control stations, 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. As noted last year, given the size of the developments and anticipated phasing and build-out timelines, it is expected that there will be an element of 'revenue lag', possibly several years, before revenue generated from retail water sales in these and other developments to offset the initial infrastructure operating and maintenance costs. Staff are not recommending any changes to the water rate structure at this time, as water demand is projected to increase throughout the service.

The net core 2019 operating budget increase is \$247,596, plus one additional budget request for an ongoing expenditure in the amounts of \$15,000. The core operating budget increase is primarily due to labour budget adjustments necessary to support increasing operations and maintenance tasks, corporate overhead allocation adjustments and contracted services cost increases. The ongoing expenditure is to provide partial funding for a new Industrial Automation Technician to support the growing number of electronic assets in the water service. The balance of the funding for the position will be provided through the other utility services. Operating budget forecasts for 2020 through 2023 have been presented for information.

### Capital Budget

There are a number of capital projects planned for 2019 with a total value of \$8,418,000, plus \$2,300,000 in Development Cost Charge (DCC) projects, and \$1,315,000 in projects cost shared with the Regional Water Supply Services (Pages 10-28 of the budget document). The major projects in 2019 include ongoing small diameter asbestos cement water main replacement, continuation of the large diameter water main replacement on Sooke Road, reservoir upgrades, residential meter replacements and an interconnection of the East Sooke distribution zones. In addition, construction will begin on the McCallum Pumpstation project and the Nicklaus Pumpstation upgrades under the Development Cost Charge program.

A five year capital plan has been presented for information. The total five year (2019-2023) capital plan budget is \$44.5 million, including \$3.8 million in carry forward projects (most of which are in-stream, multi-year projects).

#### Capital and Debt Expenditures

The 2019 capital expenditures will be partially funded through a transfer to the water capital fund budgeted at \$4,831,427, with the balance funded through debt. 2019 debt expenditures for existing and new debt servicing are budgeted to be \$1,653,363. Debt servicing expenditures have increased by \$168,325 from 2018. This increase is primarily due to a \$3,000,000 borrowing undertaken in 2018, under the 2015 loan authorization intended to allow borrowing to partially fund the five year capital plan. The long term debt obligations are summarized on the attached graphs (Appendix B).

A \$251,116 transfer to the vehicle/equipment replacement fund is planned in 2019.

The DCC projects will be funded entirely from the DCC reserve fund, which is projected to have a balance of \$5,550,174 at the beginning of 2019 (Page 30 of the budget document).

#### Bulk Water Purchase

Based on the proposed 2019 budgeted water demand and Regional Water Supply wholesale water rate, the bulk water purchase budget has been set at \$5,826,500.

#### Water Demand

Total water demand in the service area continues to increase year over year, primarily as a result of growth in the service area, but also due to the extended periods of warm, dry weather over spring and summer. The total 2018 year end demand is projected to be 8,600,000 cubic metres which is higher than the 2018 budgeted water demand of 8,200,000 cubic meters. The net revenue resulting from this additional demand is proposed to be included in the water capital fund transfer at year end 2018. The recommended 2019 water rate has been calculated using a budget demand of 8,600,000 cubic meters (Page 6 of the budget document).

#### Proposed 2019 Wholesale Water Rate

The proposed 2019 wholesale water rate is \$0.6775 per cubic metre, subject to the Regional Water Supply Commission's approval.

#### Proposed Agricultural Water Rate

The proposed 2019 agricultural water rate has been maintained at the 2018 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 2019 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, debt obligations, the bulk water purchase expense, and the budget demand volume established for 2019. The proposed 2019 Juan de Fuca Water

Distribution Service retail water rate is \$2.1132 per cubic metre, a 1.9% increase from the prior year (Page 7 of the budget document).

Retail and Wholesale Water Rate History and Projection

The retail and wholesale water rate history and projection is attached (Appendix C). 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 2019 Capital Budget and the Five Year Capital Plan;
2. Approve the 2019 Operating Budget;
3. Approve the 2019 Juan de Fuca Water Distribution Service retail water rate of \$2.1132 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.

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Attachments: 3

Appendix A: 2019 Juan de Fuca Water Distribution Service budget

Appendix B: Long Term Debt Obligations Summary

Appendix C: Retail and Wholesale Water Rate History and Projection