

**REPORT TO REGIONAL WATER SUPPLY COMMISSION  
MEETING OF WEDNESDAY, SEPTEMBER 19, 2018**

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**SUBJECT      REGIONAL WATER SUPPLY SERVICE - 2019 OPERATING AND CAPITAL BUDGET**

**ISSUE**

This report provides an overview of the draft 2019 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 (Appendix A).

**BACKGROUND**

This draft 2019 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 in order to establish the wholesale water rate and approve the rate by year end through adopting a rate bylaw. As in previous years, the draft 2019 Regional Water Supply 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 service levels and adjustments related to regulatory compliance, undertaking infrastructure improvements and upgrades to maintain service levels within the region including incremental ongoing operational and maintenance requirements. 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:

- Supply System operating expenditures	\$41,056	(0.3%)
- Agricultural water rate funding	\$275,000	(22.4%)
- Capital fund transfers	\$822,701	(14.5%)
- Debt servicing – principal and interest expenditures	-\$28,147	(-0.3%)
- Revenue	\$991,110	(3.2%)

**2019 Budget**

**Rate Base**

The rate base for 2019 has increased by \$2,095,656 from 2018. This increase relates to physical plant additions, including the Japan Gulch Treatment Plant upgrades and the Lubbe Dam improvements and capitalization values. The changes in physical plant and work in progress are listed on page 4 of the budget document, and are used to project the 2018 year end total physical plant value and determine the 2019 rate base.

### Revenue Requirement

The revenue requirement for 2019 has increased by \$1,604,443. This is resulting from an increase in operational expenses of \$474,604, a decrease in depreciation expenses of \$627,801, net of expired depreciation on existing assets, and an increase in the return on the base of \$1,757,600. The increase in the return on the rate base is a result of the growing asset base and more assets/capital improvements being funded by equity rather than debt compared to 2018. See page 3 of the budget document.

### Operating Budget

The 2019 operating budget reflects an inflationary increase in non-discretionary expenses such as negotiated wage/salary increases, departmental support service allocation increases, and other operating expense adjustments such as electricity costs. Recent tender pricing for liquid chlorine and ammonia will likely result in higher chemical costs than budgeted in 2019, however the budget allowances will be reviewed once the new facilities are in regular operation. The net core 2019 operating budget increase is \$404,602, plus additional budget requests for one-time and ongoing expenditures in the amounts of \$25,000 and \$20,000 respectively. The one-time expenditure is for 2019 funding (year two of five) in the amount of \$25,000 to support the National Science and Engineering Research Council (NSERC) watershed research. The ongoing expenditure is for partial funding for a new Industrial Automation Technician to support the growing number of electronic assets in the water service, with the balance of the funding for the position being provided through the other utility services. See page 5 of the budget document. 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 \$13,563,000, plus \$1,315,000 in projects cost-shared with the Juan de Fuca Water Distribution Service (pages 10-54 of the budget document). The major projects in 2019 include continued restoration of the Leech Water Supply Area including road and bridge improvements, Sooke Lake Intake Tower screen upgrades, several dam projects including remediation of Butchart Dam No. 5 and post disaster water supply equipment purchases and program implementation.

A five year capital plan has been presented for information. The total five year (2019 to 2023) capital plan budget is \$50.950 million, plus \$3.265 million in projects cost-shared with the Juan de Fuca Water Distribution Service. This includes \$4.429 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 in the amount of \$7,895,491, with the balance funded through debt. 2019 debt expenditures for existing and projected new debt servicing are budgeted to be \$8,955,921. Debt servicing expenditures have decreased by \$1,422,855 from 2018, primarily due to the retirement of Loan Authorization LA2862-079/080, originally borrowed in 2003 for a total of \$7 million. The long term debt obligations are summarized on the attached graphs (Appendix B). A loan authorization was completed in 2014 to allow borrowing to help fund the five year capital plan. It is expected that the final borrowing under this \$12.5 million authorization will take place in the Spring of 2019 and a new loan authorization process will be undertaken in 2020.

### Agricultural Water Rate Funding

The total budget for the agricultural water rate funding has been increased by \$25,000 to \$1,250,000. The 2019 agricultural water rate has been maintained at the 2018 rate of \$0.2105 per cubic metre. This year, the region's agricultural land use inventory, crop production and agricultural water demand model is being updated through the British Columbia Ministry of Agriculture in partnership with the CRD, which will provide information that will help inform future rate and budget decisions. A summary of the agricultural water volumes and agricultural water rate payments for 2011 to 2017 is attached (Appendix C).

### Water Demand

Total water demand across the Regional Water Supply Service area continues to exceed the annual budgeted demand figure as a result of the extended period of warm, dry weather through the spring and summer, but also due to the continued rate of development and growth. The total 2018 year end demand is projected to be 46,500,000 cubic metres which is higher than the 2018 budgeted 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 2018. The recommended 2019 water rate has been calculated using a budget demand of 46,500,000 cubic metres. See page 6 of the budget document.

### Proposed 2019 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 2019. The proposed 2019 wholesale rate is \$0.6775 per cubic metre. (Page 7 of the budget document).

### Wholesale Water Rate History and Projection

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

## **RECOMMENDATIONS**

That the Regional Water Supply Commission recommend that the Capital Regional District Board to:

1. Approve the 2019 Capital Budget and the Five Year Capital Plan;
2. Approve the 2019 Operating Budget;
3. Approve the 2019 wholesale water rate of \$0.6775 per cubic metre; and
4. Approve the 2019 agricultural water rate of \$0.2105 per cubic metre.

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Attachments: Appendix A: 2019 Regional Water Supply Service Budget  
Appendix B: Long Term Debt Obligations Summary  
Appendix C: Agricultural Water Volumes and Rate Payments for 2011 – 2017  
Appendix D: Wholesale Water Rate History and Projection