

**REPORT TO JUAN DE FUCA WATER DISTRIBUTION COMMISSION
MEETING OF TUESDAY, OCTOBER 1, 2019**

**SUBJECT JUAN DE FUCA WATER DISTRIBUTION SERVICE - 2020 OPERATING AND
CAPITAL BUDGET**

ISSUE

To provide an overview of the 2020 Juan de Fuca Water Distribution Service budget, highlighting the proposed significant changes from the 2019 budget. The report generally follows the sequence of information provided in the attached draft budget document (Appendix A).

BACKGROUND

The draft 2020 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 Capital Regional District (CRD) Board through the Committee of the Whole in October. As in previous years, the draft 2020 JDF Water Distribution Service budget has been prepared considering the CRD Board's 2020 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.

2019 Year End Financial Projections

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

• Distribution System operating expenditures	\$93,592	(1.6%)
• Bulk water purchase	\$203,250	(3.5%)
• Capital expenditures and transfers	\$453,703	(8.9%)
• Debt servicing - principal and interest expenditures	-\$11,085	(-0.7%)
• Revenue	\$739,460	(4.0%)
• Transfers from DCC reserves to fund DCC debt	\$0	(0%)

Rate Base

The rate base for 2020 has increased by \$5,099,146 from 2019. This increase relates to physical plant additions, including the new Skirt Mountain water distribution system assets, and the Jacklin Road and Metchosin Road distribution mains, and capitalization values. (Pages 2 & 3 of the budget document).

Revenue Requirement

The revenue requirement for 2020 has increased by \$1,172,994. This is resulting from an increase in operational expenses of \$688,719, increased depreciation expenses of \$263,550 net of expired depreciation on existing assets, and a net increase in the return on the rate base of \$209,100. 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 2020 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 five years, the distribution system has and continues to expand at an accelerated rate. Since 2015 (to 2019 to-date), the new assets added to the system include 29 km of water main, 20 km of service laterals, 2,240 new service connections and meters, 310 fire hydrants, 828 valves, 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 2020 operating budget increase is \$352,919, plus additional ongoing budget requests in amounts totaling \$335,800. The core operating budget increase is primarily due to labour budget adjustments resulting from negotiated wage/salary increases and corporate overhead allocation adjustments. The ongoing budget requests are summarized as follows:

- \$150,000 budget increase for contracted services supporting increased operations and maintenance of new assets
- \$76,000 labour budget increase for one additional full time equivalent (FTE) position - water billing financial clerk
- \$90,000 labour budget increase for 0.5 additional FTE - water operator position (shared between the Regional Water Supply System and JDF Water Distribution System operations), necessary to fulfill confined space entry requirements
- \$13,800 labour budget increase – Service level emergency planning and response coordinator position (shared between multiple CRD services)
- \$6,000 in operating budget increases for training and development and communications

Operating budget forecasts for 2021 through 2024 have been presented for information.

Capital Budget

There are a number of capital projects planned for 2020 with a total value of \$14,215,000, plus \$1,105,000 in projects that are in progress or are multi-year projects, \$4,520,000 in Development Cost Charge (DCC) projects, and \$1,505,000 in projects cost shared with the Regional Water Supply Service (Pages 10-26 of the budget document). The major projects in 2020 include accelerated small diameter asbestos cement water main replacement including the Goldstream Avenue main replacement from Veterans Memorial Parkway to Spencer Road, existing reservoir upgrades and design of the new Sun River and Deer Park reservoirs, pumpstation upgrades including design of the new Rocky Point pumpstation, and residential meter replacements. In addition, construction will begin on the McCallum Pumpstation, and South Skirt Mountain Tank 4 and Pumpstation 7 projects under the Development Cost Charge program.

A five year capital plan has been presented for information. The total five year (2020-2024) capital plan budget is currently \$56.8 million.

Capital and Debt Expenditures

The 2020 capital expenditures will be partially funded through a transfer to the water capital fund budgeted at \$5,200,860, with the balance funded through debt. 2020 debt expenditures for existing and new debt servicing are budgeted to be \$1,749,868. Debt servicing expenditures have increased by \$96,505 from 2019. This increase is primarily due to a \$5,100,000 borrowing budgeted in 2020, 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) based on the long term capital plan and anticipated funding requirements.

A \$213,945 transfer to the vehicle/equipment replacement fund is planned in 2020.

The DCC projects will be funded entirely from the DCC reserve fund, which is projected to have a balance of \$5,156,926 at the beginning of 2020 (Page 28 of the budget document).

Bulk Water Purchase

Based on the proposed 2020 budgeted water demand and Regional Water Supply wholesale water rate, the bulk water purchase budget has been set at \$6,201,520.

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 periods of warm, dry weather over spring and summer. The total 2019 year end demand is projected to be 8,900,000 cubic metres which is higher than the 2019 budgeted water demand of 8,600,000 cubic meters. The net revenue resulting from this additional demand is proposed to be included in the water capital fund transfer at year end 2019. The recommended 2019 water rate has been calculated using a budget demand of 8,900,000 cubic meters (Page 6 of the budget document).

Proposed 2020 Wholesale Water Rate

The proposed 2020 wholesale water rate is \$0.6968 per cubic metre, subject to the Regional Water Supply Commission's approval.

Proposed Agricultural Water Rate

The proposed 2020 agricultural water rate has been maintained at the 2019 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 2020 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 2020. The proposed 2020 Juan de Fuca Water Distribution Service retail water rate is \$2.2159 per cubic metre, a 4.86% 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.

RECOMMENDATIONS

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

1. Approve the 2020 Capital Budget and the Five Year Capital Plan;
2. Approve the 2020 Operating Budget;
3. Approve the 2020 Juan de Fuca Water Distribution Service retail water rate of \$2.2159 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, B.Sc., C.Tech., General Manager, Integrated Water Service
Concurrence:	Nelson Chan, M.B.A., C.P.A., C.M.A., Chief Financial Officer, Financial Services
Concurrence:	Ted Robbins, B.Sc., C.Tech., Acting Chief Administrative Officer

TR:dd

Attachments: 3

- Appendix A: 2020 Juan de Fuca Water Distribution Service budget
- Appendix B: Long Term Debt Obligations Summary
- Appendix C: Retail and Wholesale Water Rate History and Projection