

**REPORT TO REGIONAL WATER SUPPLY COMMISSION  
MEETING OF WEDNESDAY, OCTOBER 21, 2020**

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**SUBJECT     Regional Water Supply Service - 2021 Operating and Capital Budget**

**ISSUE SUMMARY**

To provide an overview of the draft 2021 Regional Water Supply Service budget, highlighting the changes from the 2020 budget and the proposed 2021 budget figures. The report generally follows the information provided in the attached draft budget document (Appendix A).

**BACKGROUND**

The draft 2021 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 2021 Regional Water Supply Service budget has been prepared considering the CRD Board's 2021 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.

**2020 Year End Financial Projections**

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

Budget Item	Variance (\$)	Variance (%)
Supply System operating expenditures	-\$719,914	-4.9%
Agricultural water rate funding	\$0	0%
Capital fund transfers	\$130,239	1.4%
Debt servicing - principal and interest expenditures	\$0	0%
Revenue	-\$589,675	-1.7%

The lower than budgeted operating expenditures were primarily due to labour costs associated with delays/deferrals of filling new staff positions and backfilling vacant staff positions during the early phase of the pandemic. The revenue shortfall is explained later in the report.

## **2021 Budget**

### **Rate Base**

The rate base for 2021 has increased by \$1,585,880 from 2020. This increase relates to physical plant additions, including the final capitalization of the Japan Gulch (Goldstream) Treatment Plant upgrades and the Lubbe Dam improvements. The changes in physical plant and work in progress are listed on page 4 of the budget document and are used to project the 2020 year end total physical plant value and determine the 2021 rate base.

### **Revenue Requirement**

The revenue requirement for 2021 has increased by \$862,755. This is resulting from an increase in operational expenses of \$786,079, an increase in depreciation expenses of \$450,776, net of expired depreciation on existing assets, offset by a decrease in the return on the rate base of \$374,100. Although the asset base continues to grow, the decrease in the return on the rate base for 2021 occurs due to lower debt levels in the service.

### **Operating Budget**

The 2021 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 chemical and electricity costs. The net core 2021 operating budget increase is \$122,083, plus additional budget requests for one-time and on-going expenditures in the amounts of \$275,000 and \$289,000 respectively. These requests are summarized as follows:

- \$25,000 one-time funding (year four of five) to support the on-going National Science and Engineering Research Council (NSERC) watershed research
- \$150,000 one-time funding for field sampling/consulting services to establish baseline water quality and hydrology data in the Leech River
- \$100,000 one-time funding for the agricultural water rate review and options study
- \$55,000 labour budget increase for 0.4 FTE (full time equivalent staff position) – water sampling technician to support Leech River and supplementary North Basin to establish baseline water quality data
- \$190,000 labour budget increase for 1.0 FTE – water operator position, necessary to support increasing confined space entry and dam safety requirements
- \$44,000 labour budget increase for 1.0 FTE – (net budget adjustment after a \$81,000 decrease in auxiliary labour budget) watershed security position, necessary to provide regular scheduled wildfire and security patrols on alternate shift (including weekends and holidays), replacing auxiliary patrol shifts

The budgets for drinking water quality sampling, testing and reporting, as well as the cross connection control and demand management programs for the Regional Water Supply Service are included in the overall operating budget.

Operating budget forecasts for 2022-2025 have been presented for information.

### Capital Budget

There are a number of capital projects planned for 2021 with a total value of \$22,748,350, including \$11,861,350 in carry forward projects, most of which are in-stream, multi-year projects such as the Butchart Dam No. 5 project with a \$2,900,000 budget carried forward from 2020, which has been delayed due to the delay in the completion of the Lubbe Dam No. 4 project. Approximately \$4,000,000 in dam safety related capital work is on-going including instrumentation integration and upgrades. There is also \$1,570,000 in projects cost-shared with the Juan de Fuca Water Distribution Service (pages 10-54 of the budget document). The major projects in 2021 aside from the carry forward projects include replacing the gatehouse at the Goldstream entrance to the water supply area, bulk supply meter replacements at the Alderley, Holland and Maplewood chambers, and catchment land acquisition.

A five year capital plan has been presented for information. The value of the five-year (2021-2025) capital plan is currently \$124,828,350, plus \$3,860,000 in projects cost-shared with the Juan de Fuca Water Distribution Service. A significant portion of the capital plan budget is attributed to the project to replace vulnerable sections of the No. 4 Transmission Main. As the Commission is aware, an application has been submitted under Infrastructure Canada's Disaster Mitigation and Adaptation Fund, which if successful, would provide approximately \$23,600,000 (Regional Water Supply Service share) in grant funding towards this project; the application also included Saanich Peninsula Water Service and First Nations funding components. If the project proceeds, financing will be required in order to fund the service's funding share and a new loan authorization would be required in 2021. If unsuccessful, staff will be seeking a capital plan amendment in 2021 and continue with a phased approach to the No. 4 Transmission Main replacement, beginning with the Goldstream Avenue segment.

Other major projects over the next five years include replacement of segments of the No. 3 Transmission Main, construction of a new watershed field operations centre, replacement of the ultraviolet disinfection units at the Japan Gulch (Goldstream) facility, and the potential need for a pH adjustment facility.

### Capital and Debt Expenditures

The 2021 capital expenditures will be partially funded through a transfer to the water capital fund budgeted at \$9,297,180, with the balance funded existing cash reserves and borrowed funds and new debt. See pages 9-10 of the budget document for the funding source summary. 2021 debt expenditures for existing and new debt servicing are budgeted to be \$8,333,667. Debt servicing expenditures will decrease by \$129,537 over 2020.

The last loan that could be borrowed under the current loan authorization was undertaken in 2018; the loan authorization is now expired. The loan authorization was for \$12,500,000, but only \$9,500,000 was borrowed as the balance was funded through budgeted capital contributions and water sales revenue surpluses over the past five years. The upcoming debt retirements on existing borrowings are summarized as follows:

Loan Number	Retirement Date	Loan Amount
LA3419-103	April 2023	\$7,000,000
LA3451-103	April 2023	\$60,000,000
LA3419-104	November 2023	\$8,000,000
LA3419-105	June 2024	\$9,000,000
LA3419-106	October 2024	\$1,000,000
LA3661-112	October 2025	\$6,500,000
LA3661-116	April 2026	\$1,500,000
LA3661-118	April 2027	\$4,500,000
LA3661-124	April 2028	\$1,700,000
LA3902-131	April 2030	\$3,000,000
LA3902-137	April 2031	\$1,500,000
LA3902-145	April 2033	\$5,000,000

A new loan authorization in the amount of \$46,000,000 is proposed to allow continued partial funding of the five year capital plan. The loan authorization bylaw and approval process is addressed under a separate staff report. The long term debt obligations are summarized on the attached graphs (Appendix B).

The recently incurred debt and proposed future debt will change the funding make-up of the capital plan. When assessing key financial health indicators, the service maintains an affordable level of debt over the next five years. The percentage of revenue dedicated to debt costs is forecast to be between 14-24%, which is less than an annual benchmark rate of 25%, albeit close to the upper recommended limit until the Leech Water Supply Area land acquisition debt is retired in 2023. The debt funding for capital investment is around 50% for two of the next five years. This allows the potential to leverage grant funding to address Transmission Main replacements as noted previously, while three other larger loans are retired between 2023-2025. A summary indicator table is provided below:

Year	% Revenue for Debt	Capital Funded by Debt
2021	23.9%	7.9%
2022	24.3%	52.5%
2023	24.2%	49.4%
2024	13.5%	34.5%
2025	15.4%	0.0%

A \$297,540 transfer to the vehicle/equipment replacement fund is planned in 2021. The reserve fund balance is estimated at \$2,049,161 at year end 2020 (See reserve schedule – Page 55 of the budget document).

#### Agricultural Water Rate Funding

The total budget for the agricultural water rate funding has been increased by \$100,000 to \$1,600,000. The 2021 agricultural water rate has been maintained at the 2020 rate of \$0.2105

per cubic metre. The Regional Water Supply agricultural water rate budget funds the difference between the municipal retail water rate and the CRD agricultural water rate. As directed by the Commission, an agricultural water rate review and options study is planned for 2021. A summary of the agricultural water volumes and agricultural water rate payments for 2011 to 2019 is attached for information (Appendix C).

### Water Demand

Although total water demand across the Region has generally continued to increase year over year recently due to the continued rate of development and growth, the total 2020 year end demand is projected to be 47,100,000 cubic metres which is 900,000 cubic metres under budget.

The cooler than normal temperatures and above average precipitation in June (140% of the monthly average precipitation), did significantly affect total daily demand in June which can often be a high demand month. In addition, staff have analyzed the impact of the COVID-19 pandemic on local water demand, particularly across the residential and business sectors. Overall, the Regional Water Supply System experienced a net reduction of 6% in total water demand over the March – August 2020 period compared to the previous three year average over the same period. This equates to a reduction in consumption of 624,000 cubic metres of water across the Region for these six months alone. At the Regional level, May demand was down 12.9% and June demand was down 17.7% compared to 2019 demand. These reductions are primarily tied to school, office, restaurant and hotel closures, and virtually no tourism. In summary, the pandemic health directives and public response have had a negative impact on water demand across all water service areas.

The recommended 2021 water rate has been calculated using a budget demand of 48,000,000 cubic metres (Page 6 of the budget document), which is the same volume used in the 2020 budget.

### Proposed 2021 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 2021. The proposed 2021 wholesale rate is \$0.7148 per cubic metre, a 2.58% increase over the 2020 rate. The increase in annual bulk water cost for the average household using 235 cubic metres per year would be \$4.23 (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.

## **ALTERNATIVES**

### *Alternative 1*

That the Regional Water Supply Commission recommends that the Capital Regional District Board:

1. Approve the 2021 Operating and Capital Budget and the Five Year Capital Plan;
2. Approve the 2021 wholesale water rate of \$0.7148 per cubic metre;
3. Approve the 2021 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2020 actual revenue and expense on the transfer to the water capital fund; and
5. Direct staff to amend the Water Rates Bylaw accordingly.

#### *Alternative 2*

That the Regional Water Supply Commission recommends that the Capital Regional District Board:

1. Approve the 2021 Operating and Capital Budget and the Five Year Capital Plan as amended;
2. Approve the 2021 wholesale water rate as amended (amended rate);
3. Approve the 2021 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2020 actual revenue and expense on the transfer to the water capital fund; and
5. Direct staff to amend the Water Rates Bylaw accordingly.

#### **IMPLICATIONS**

If the proposed budget is amended, the implications could vary depending on how the budget is amended and the impact on specific initiatives (i.e. new initiatives), on-going operations, or the capital work program. 'One-time' reductions in reserve fund contributions could be considered by the Commission to help mitigate the budget and rate increases, but additional capital financing could result in the longer term. Staff have not recommended amending the agricultural water rate based on previous Commission direction and the rate review planned for 2021. Any changes in the recommended wholesale water rate would have to be incorporated in the Juan de Fuca Water Distribution Service and Saanich Peninsula Water Service budgets and rates; both service Commissions have approved their proposed 2021 budgets and rates.

#### **CONCLUSION**

The draft 2021 Regional Water Supply Service budget has been prepared for the Regional Water Supply Commission's consideration. The budget has been prepared considering the Commission and CRD Board's 2021 service planning and financial expectations. A proposed increase in operating and capital funding combined with a conservative revenue budget, is resulting in a recommended wholesale water rate of \$0.7148, a 2.58% increase over the 2020 rate.

#### **RECOMMENDATION**

That the Regional Water Supply Commission recommends that the Capital Regional District Board:

1. Approve the 2021 Operating and Capital Budget and the Five Year Capital Plan;
2. Approve the 2021 wholesale water rate of \$0.7148 per cubic metre;
3. Approve the 2021 agricultural water rate of \$0.2105 per cubic metre;
4. Direct staff to balance the 2020 actual revenue and expense on the transfer to the water capital fund; and
5. Direct staff to amend the Water Rates Bylaw accordingly.

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## **ATTACHMENTS**

Appendix A: 2021 Regional Water Supply Service Budget

Appendix B: Long Term Debt Obligations Summary

Appendix C: Agricultural Water Volumes and Rate Payments for 2011 – 2019

Appendix D: Wholesale Water Rate History and Projection