

**REPORT TO SAANICH PENINSULA WASTEWATER COMMISSION
MEETING OF THURSDAY, OCTOBER 15, 2020**

SUBJECT **Saanich Peninsula Wastewater Service - 2021 Operating and Capital Budget**

ISSUE SUMMARY

To provide an overview of the 2021 Saanich Peninsula Wastewater Service operating and capital budget, highlighting the changes from the 2020 budget and the proposed 2021 budget figures. The report generally follows the sequence of information provided in the attached draft budget document (Appendix A).

BACKGROUND

The draft 2021 Saanich Peninsula Wastewater Service budget has been prepared for the Saanich Peninsula Wastewater Commission's (the Commission) consideration. The Commission will make budget recommendations to the Capital Regional District (CRD) Board. As in previous years, the draft 2021 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 of service levels and adjustments related to regulatory compliance, and undertaking infrastructure improvements to maintain service levels across the service area. The following sets out the key components of the budget.

2020 Year-end Financial Projections

The estimated actual 2020 overall expense for trunk sewer and treatment plant operations is projected to be \$67,268 under budget due to lower expenditures in heat recovery operations and unplanned equipment repairs and maintenance, which helped offset higher than budgeted chemical costs this year. This operating expense variance is offset by a reduction in anticipated revenue from Panorama Recreation Center (PRC) due to the pool shutdown in response to COVID-19 and system shutdown early in the year as a result of corrective maintenance issues. The District Energy System (DES) is projected to generate about \$44,545 in revenue from the sale of energy to the PRC for the year. This revenue is \$101,426 below the budgeted revenue of \$145,971. The net impact of these expense and revenue differences is \$34,158 and as such, the 2020 capital reserve fund transfer is projected to decrease to \$274,605 to balance the year-end budget.

Operating Budget

A net increase in the 2021 operating expenses in the amount of \$519,371 is planned for trunk sewer and treatment plant operations; \$114,371 of this increase results from non-discretionary expense adjustments such as wage/salary increases, departmental support service allocations, and adjustments to other operating expenses such as chemical costs. The remaining \$405,000 of this increase is due to the cost for residuals disposal and treatment at the Residuals Treatment Facility (RTF), and beneficial end-use, as well as updated residuals trucking costs for bin hauling to the RTF, as directed by the Commission earlier this year.

The 2021 Saanich Peninsula Liquid Waste Management Plan (LWMP) program budgets including the LWMP administration budget, the Saanich Peninsula Stormwater Quality Management Program budget and the Saanich Peninsula Stormwater Source Control budget, have also been prepared. The budgets are reflecting a 1.7% requisition increase, with the exception of the LWMP program budget which has an on-going annual requisition increase of \$41,000 to fund development of the Saanich Peninsula inflow and infiltration management program in order to meet the LWMP commitment and manage this risk proactively. The marine monitoring program costs are included in the overall conveyance and treatment operating budget.

The planned transfer to the maintenance reserve fund in 2021 is \$49,650. At year-end 2020, the maintenance reserve fund balance is estimated to be \$500,984, which is available to fund significant maintenance tasks that do not occur annually, such as odour control system carbon replacement, outfall inspections, and DES heat exchanger cleaning.

Operating Revenue

Although the operating expenses are almost entirely funded through requisition based on each participant's percentage of total wastewater input, the DES system is budgeted to generate \$79,226 in revenue in 2021 from the sale of energy to the PRC. This level of revenue is determined by annual energy rate adjustments based on prior year natural gas market rates and projected energy consumption. The rate used to determine the 2021 revenue is based on the 2020 natural gas rate and anticipated reduced demand.

2021 cost sharing percentages based on prior year flows will be finalized in October and are not expected to change significantly from the 2020 cost sharing figures. The overall requisition for Saanich Peninsula trunk sewers, treatment and disposal for 2021 has been set at \$4,115,433 which is a 14.18% increase over 2020.

Capital Budget

The planned capital expenditures for 2021 total \$3,957,500 and are funded from reserves. This includes \$2,990,000 in projects initiated in 2020 or prior, most of which are instream, multi-year projects. The 2021 capital program consists of several new projects related to replacement of equipment that is at the end of the service life and projects required to address operational issues. Three major projects included in the 2021 budget are relining segments of the asbestos cement trunk sewer main and manhole replacements, and, at the wastewater treatment plant, concrete tank repairs and replacement of the rotary presses.

The planned transfer to the capital reserve fund in 2021 is \$336,913. At year-end 2020, with a \$1.7 million transfer from Development Cost Charges (DCC) reserve, the capital reserve fund balance is estimated to be \$1,521,718, which is available to fund major capital projects. The planned transfer to the equipment replacement fund in 2021 is \$115,708. At year-end 2020, the equipment replacement fund balance is estimated to be \$675,661 which is available to fund minor capital and operating machinery and equipment replacements.

The value of the five year (2021 to 2025) capital plan is \$8,020,000. With the current capital reserve and equipment replacement fund balances, planned contributions, transfers, and expenditures, there is sufficient funding available for the five year capital plan. Although there are projected funds remaining in the capital reserve after the application of the five year plan, there is

a limited balance available for unplanned expenditures. Given this declining reserve balance, the 2021 budget includes a 10% annual increase in transfers to reserves (both Equipment Replacement Fund and Capital) and, as noted above a \$1.7 million transfer from DCC reserve. Unforeseen capital expenditures may trigger the need to borrow funds in the near future in the Saanich Peninsula Wastewater Service. There is currently no debt associated with the Saanich Peninsula Wastewater Service.

The DCC program represents \$150,000 of the capital plan which reflects the projects included in the 2018 DCC program update. Pending ministry approval of the proposed 2020 DCC transfer to capital reserve (\$1.7 million), at year-end in 2020 the DCC reserve fund balance is estimated to be \$35,004.

RECOMMENDATION

The Saanich Peninsula Wastewater Commission recommends that the CRD Board:

1. Approve the 2021 Saanich Peninsula trunk sewers, treatment and disposal operating and capital budget and the 2021 Saanich Peninsula Liquid Waste Management Plan (LWMP) program budgets including the LWMP administration budget, the Saanich Peninsula Stormwater Quality Management Program budget and the Saanich Peninsula Stormwater Source Control budget; and
2. Balance the 2020 actual revenue and expense on the transfer to capital reserve fund.

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ATTACHMENT

Appendix A: Draft Budget Document