

DATE: February 18, 2020

FILE: 1700-02/2020/Function 300-301

TO: Chair and Directors
Comox Valley Water Committee

Supported by Russell Dyson
Chief Administrative Officer

FROM: Russell Dyson
Chief Administrative Officer

R. Dyson

RE: 2020 - 2024 Financial Plan – Comox Valley Water System – Function 300-301

Purpose

To provide the Comox Valley Water Committee with the proposed 2020 - 2024 Financial Plan and work plan highlights for the Comox Valley Water Supply System (CVWS), function 300, and sub-function 301, implementation of the Comox Lake Watershed Protection Plan (WPP).

Recommendation from the Chief Administrative Officer:

THAT the 2020 – 2024 Proposed Financial Plan for the Comox Valley Water Supply System, function 300 and 301, be approved.

Executive Summary

The CVWS is currently in the process of completing the Comox Valley Water Treatment Project (CVWTP). The 2020-2024 Financial Plan includes the significant capital spending required to complete the CVWTP. The bullets below provide a summary of the 2020-2024 Financial Plan:

- Tax Impact:
 - As previously approved, the bulk water rate increases to \$0.83/m³ in 2020 and \$0.85/m³ in 2021.
 - Under the CVWTP funding strategy the previous bulk water rate forecast will accommodate debt servicing for borrowing required for the CVWTP, and will result in an average incremental cost of \$86 per property, per year at project completion in 2021, compared to 2017 water rates.
 - However, the proposed 2020-2024 financial plan includes further increases to the bulk water rate commencing in 2023, attributable to reduced projected population growth and water consumption.
 - Service revenue requirements are unchanged from the last financial plan, but municipal projections for water demand have come down significantly.
 - To maintain the required revenue for the service, bulk water rates are forecast to increase from \$0.85/m³ to \$0.96/m³ in 2023
- A 27.5 per cent increase in personnel costs for the service is budgeted for 2020, arising from the previously approved new water operator III position and a new senior treatment operator in preparation for completion of the CVWTP in May of 2021, combined with increases to benefits and wages scheduled in the CUPE agreement.
- There is a modest reduction in operating costs of \$21,000 in 2020, however an increase in overall expenditures is due primarily to the contribution of \$750,000 for the Cumberland Community Forest Society land purchase. The only 2019 surpluses booked to date are \$140,000 for three carry forwards. The final 2019 surplus will very likely increase once year end is completed.

- Capital:
 - A design-build team was procured in 2019 and construction of the CVWTP is underway. Funding for CVWTP and other capital projects will be from a combination of grant funding, capital works reserves, development cost charges (DCCs) reserves and new debt.
 - A condition assessment of the pre-stressed concrete forcemain that runs from the Puntledge River to the Tsolum River is also scheduled for completion in 2020.
- Watershed Protection (sub-function 301):
 - In parallel with construction of the CVWTP, the Comox Valley Regional District (CVRD) is implementing the WPP.
 - In 2019 a management planning process for the newly acquired Coal Beach property on Comox Lake was initiated, further proper functioning condition assessment was completed, and the education and outreach program implementation started.
 - The 2020 work plan will include completion of the Coal Beach management plan, further proper functioning condition assessments of the sub-watersheds, and a review of the WPP risk assessment.

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Board Strategic Drivers

The CVRD Board has set four strategic drivers to guide service delivery. Not all services will be influenced by all drivers. Table No. 1 below notes the degree of influence the drivers have on projects and work plans.

Table No.1: Strategic Drivers

Fiscal Responsibility:	Climate Crisis and Environmental Stewardship and Protection:
<ul style="list-style-type: none"> • Revenue for the service is largely derived from the sale of bulk water. Increases to bulk water rates can lead to decreased consumption projections. • Operating expenses for the service in 2020 are not increasing over 2019-2023 financial plan. • An asset management plan for the service is now complete and will be brought forward, along with key recommendations to the Water Committee in 2020. • The large water treatment project is over 50 per cent funded by grants. 	<ul style="list-style-type: none"> • The CVWS is contributing towards the purchase of land by the Cumberland Community Forest Society for protection of the Perseverance and Comox Lake Watersheds. • All rural connections are now metered with a conservation rate structure, and Courtenay and Comox are both well on their way to having all commercial and some residential connections metered. Water conservation is a priority for all partners.


Community Partnerships:	Indigenous Relations:
<ul style="list-style-type: none"> • The service itself is a partnership between Courtenay, Comox, and all three electoral areas working together to deliver high quality drinking water to almost 50,000 community members. • Implementation of the Comox Lake Watershed Protection Plan is guided by the watershed advisory group, with representation from all key watershed stakeholders. 	<ul style="list-style-type: none"> • The CVRD is working closely with the K’ómoks First Nation (KFN) to partner on the conveyance and delivery of water to the south region. • As a result of the Mutual Benefit Agreement signed with the KFN in 2018, the KFN now sits as an observer on the Water Committee and is working towards a future voting role on the committee.

Financial Plan Overview

The 2020 - 2024 proposed five-year Financial Plan for the CVWS, function 300 and sub-function 301, including service establishment information, the requisition summary and the operating and capital budgets, is available within the full proposed budget binder, provided in both searchable PDF and e-reader formats, located on the CVRD financial plan web page at www.comoxvalleyrd.ca/currentbudget.

Table No. 2 summarizes the 2020 proposed budget as compared to the 2019 adopted budget. Significant variances from 2019 adopted budget will be discussed in the Financial Plan sections that follow.

Table No. 2: Financial Plan Highlights

 2020 Proposed Budget			
#300 Comox Valley Water Supply System			
Operating	2019 Budget	2020 Proposed Budget	Increase (Decrease)
Revenue			
Senior Government Grants			-
Sale Services User Fees	7,213,907	6,998,510	(215,397)
Other Revenue/Recoveries	98,673	98,980	307
Transfer from Reserve		750,000	750,000
Prior Years Surplus	144,187		(144,187)
	\$ 7,456,767	\$ 7,847,490	\$ 390,723
Expenditures			
Personnel Costs	1,086,468	1,386,325	299,857
Operating	1,985,839	1,964,614	(21,225)
Contribution to Reserve	3,273,734	2,257,928	(1,015,806)
Transfer to Other Functions	24,880	24,899	19
Transfer to Other Governments		750,000	750,000
Debt Charges	1,085,846	1,463,724	377,878
	\$ 7,456,767	\$ 7,847,490	\$ 390,723
Capital			
Funding Sources			
Senior Government Grants	14,573,307	36,256,366	21,683,059
Other Revenue/Recoveries	75,240	10,000	(65,240)
Short Term Debt Proceeds		14,646,464	14,646,464
Transfer from Reserve	10,410,698	10,472,780	62,082
	\$ 25,059,245	\$ 61,385,610	\$ 36,326,365
Funding Applied			
Capital Projects & Equip	25,059,245	61,385,610	36,326,365
	\$ 25,059,245	\$ 61,385,610	\$ 36,326,365

Highlights of the 2020 - 2024 Proposed Financial Plan for function 300 and 301 include:

Revenue Sources

The CVWS is funded through the sale of bulk water to its customers and as such revenue for the service is directly related to the amount of water consumed. Increases to the bulk water rate bylaw were approved by the Comox Valley Water Committee in 2016, including an increase from \$0.75/m³ to \$0.80/m³ in 2019 and an increase to \$0.83/m³ in 2020. The approved 2019 to 2023 Financial Plan included further increases in 2020 (\$0.83/m³) and 2021 (\$0.85/m³).

However, the proposed 2020-2024 Financial Plan includes further increases to the bulk water rate, commencing in 2023, attributable to reduced population growth, and a modest, but consistent continued trend downward in per capita water consumption. Service revenue requirements are unchanged from the last financial plan, with year over year increases from 2023 to 2024 in line with 2022 to 2023, but municipal projections for water demand have come down significantly. To maintain the required revenue for the service, bulk water rates are forecast to increase from \$0.85/m³ to \$0.96/m³ in 2023. The relationship between water consumption projections, bulk water rate and revenue is illustrated in Table No. 3.

Table No. 3: Revenue Projection Comparison for CVWS

	2019-2023 Adopted Financial Plan			2020-2024 Proposed Financial Plan		
	Bulk Water Rate (\$/m ³)	Water Consumption Projections (m ³)	Water Rate Revenue	Bulk Water Rate (\$/m ³)	Water Consumption Projections (m ³)	Water Rate Revenue
2019	\$0.80	9,017,384	\$7,213,907	-	-	-
2020	\$0.83	9,183,749	\$7,622,512	\$0.83	8,431,940	\$6,998,510
2021	\$0.85	9,353,601	\$7,950,561	\$0.85	8,506,549	\$7,230,566
2022	\$0.85	9,492,030	\$8,068,225	\$0.85	8,547,169	\$7,265,094
2023	\$0.85	9,669,123	\$8,218,755	\$0.96	8,623,817	\$8,278,864
2024	-	-	-	\$0.96	8,701,495	\$8,353,435

Personnel

With the CVWTP due for completion at the end of May 2021, the CVWS will need to hire a new senior Level IV water treatment operator in 2020 so they can be involved in the final stages of construction and commissioning of the new facility. That new operator position will be almost fully allocated to the regional service.

Also in 2020, hiring of a new water distribution operator is proposed, with just over half of that new position being allocated to the CVWS. This increase in operators, combined with changes to the Canada Pension Plan, Workers Compensation Board increases, and wage increases scheduled in the CUPE agreement are anticipated to result in a 27.5 per cent increase in 2020 personnel costs for the service.

As approved in the previous two financial plans, a Level III treatment operator and a Level II treatment operator is planned to be hired in 2021 prior to facility commissioning.

Operations

The majority of the budgeted 2020 operating expenses remained unchanged from 2019 amounts. A one per cent decrease in operating costs is proposed for 2020. An increase in the overall operational expenses is due to the CVRD's one-time contribution of \$750,000 to the Cumberland Community Forest Society. This land purchase is fully funded by reserves. See Appendix A for a table highlighting the significant operating expense variances.

Sub-function 301 tracks expenditures for the WPP. Implementation of the WPP will allow for compliance with Island Health regulations, minimize operations and maintenance costs of the CVWS, and ensure the ongoing safe reliable supply of drinking water for the community.

Implementation of the WPP progressed significantly in 2019, including installation of additional water quality monitoring stations within the watershed, hydrodynamic modeling of the lake, continued implementation of a proper functioning condition (PFC) assessment program and education and outreach program for the watershed, and initiation of the management planning process for the newly acquired Coal Beach property on the east end of Comox Lake.

Implementation of the WPP will continue in 2020 and includes completing the Coal Beach property management planning process, continuing the PFC assessment program, further developing emergency spill response resources, continued implementation of the education and outreach program, and an update to the watershed protection plan risk assessment given the new intake location and treatment infrastructure coming in 2021.

Capital

The primary driver for the significant capital spending over the next four years is the CVWTP, which is mandated by regulations, will bring the CVRD in line with other jurisdictions across BC and is vital to provide safe, secure water to the Comox Valley. See Appendix B for a detailed list of budgeted capital projects.

Revenue for capital projects will be funded through a combination of capital works reserves, DCC reserves, long term debt and grant funding. All capital in 2019 was funded by reserves and grant funding and new debt for the purpose of the CVWTP will begin in 2020.

Capital project works completed in 2019 include:

- CVWTP
 - Completion of the request for proposal process and award of a design-build contract to AECON Water Infrastructure Inc.
 - Construction commenced on the water treatment plant and pump station sites
- Repair of a significant leak of the water transmission main under the Puntledge River

Projects scheduled for 2020 include:

- Continued work and completion of upgrades to the bulk water standpipe, including installation of a new bulk water kiosk.
- Condition assessment of the pre-stressed concrete forcemain from the Puntledge River to the Tsolum River to help inform condition and remaining service life of the line.
- Continued work on the development of a route for extension of water services south (this project is being managed by CVRD staff but fully funded from others and grant funding).
- Procurement of a computerized maintenance management system for the CVWS.
- Construction of the CVWTP, with a capital budget for 2020 of \$60.4 million, will include construction of the water treatment plant, raw water pump station and transmission mains. Funding in 2020 will include \$36 million from grants, \$14.6 million of new debt and \$9.5 million from reserves.

Reserves

The 2020-2024 Proposed Financial Plan optimizes use of available capital works and DCC reserves, to help fund the significant capital costs associated with delivering the CVWTP, but leaving the reserves in good shape by the end of the proposed financial planning period.

As of December 31, 2019 reserves for the service are estimated to be:

- Future expenditure reserve fund balance for the CVWS - 3,117,173;
- Capital works reserve fund balance - 13,828,650;
- DCC reserve fund balance - \$7,238,323.

The future expenditure reserve fund is normally used for liability and exposure expenses, however in 2020, \$750,000 will be used to fund the purchase of land within Perseverance Creek watershed. The capital works reserve fund is used to fund priority capital projects required in the service, while DCC reserves can only be used to fund projects that are identified by the DCC bylaw and increase the capacity of the service. Final reserve fund balances at December 31, 2019 will be available following the year end close.

Tax Impacts

The projected increases to the bulk water rate will result in an average incremental cost per property of approximately \$86 per year at project completion (year 2021), compared to annual costs in 2017. Depending on the jurisdiction, the further increases to the bulk water rate in 2023 and 2024 may or may not result in a further incremental cost to residents.

Citizen/Public Relations

In 2017 the CVRD awarded a contract to Zinc Strategies, a communications consultant, to assist the CVRD with communications for water and wastewater capital projects. Zinc has played a crucial support role to internal CVRD communications in development of educational information for the CVWTP in 2019. Zinc will continue to play a critical supporting role to CVRD communications for the CVWTP in 2020.

In spring 2018, a contract was awarded for a four-part outreach, education and communications project to address water efficiency and watershed protection. Significant communications and outreach was initiated in 2019 and will continue in 2020. This comprehensive project is targeting all residents as well as visitors to the Comox Valley, with the goal of raising awareness about the value of water quality and quantity and how to act responsibly to ensure protection of our water resources into the future.

Attachments: Appendix A – “Operating Expense Variances”
Appendix B – “Capital Project Summary”

Appendix A- Function 300-301 Operating Expense Variances

Account Code	Description	2019 Budget Value	2020 Proposed Budget
02-2-300-220	Salaries and Wages: Addition of two new positions, changes to Canada Pension Plan and benefits, and contractual CUPE increases.	\$769,991	\$1,005,425
02-2-300-381	Legal Fees: With procurement of a design-build team complete for the Comox Valley Water Treatment Project, legal fees are reduced back down to the allowance amount.	\$98,792	\$30,000
02-2-300-387	Other Professional Fees: Planned professional fees include: <ul style="list-style-type: none"> • Safe work procedures and assessments (CFWD). • Continued work on asset management planning. • Coal Beach property management planning process. • Water restriction enforcement. • Municipal natural asset initiative. 	\$278,895	\$217,500
02-2-300-438	Contracts/ Services/ Equipment: Provision for additional electrical preventative work.	\$50,000	\$85,000
02-2-300-496	Transfer to Other Governments: Contribution to Cumberland Community Forest land acquisition.	\$0	\$750,000
02-2-300-506	Debt Services-Interest: Beginning interim financing for the Comox Valley Water Treatment Project.	\$659,464	\$1,037,342
02-2-301-284	Meeting Expense (301): Adjustment to better reflect actual costs.	\$15,000	\$5,000
02-2-301-354	Education Programs (301): Watershed Protection Plan education and outreach program.	\$50,000	\$70,000
02-2-301-468	Minor Capital (301): Equipment purchase in support of Watershed Protection Plan goals.	\$10,000	\$25,000
02-2-301-485	Contribution to Capital Works Reserve: Annual capital projects/equipment needs.	\$35,000	\$25,000

Appendix B – 2020-2024 Capital Projects - Comox Valley Water Supply System, Function 300-301

Capital	Project Description	2020 Proposed Budget	2021 Financial Plan	2022 Financial Plan	2023 Financial Plan	2024 Financial Plan
Annual Capital Equipment	Annual capital equipment replacements.	\$85,000	\$180,000	\$80,000	\$80,000	\$80,000
Vehicle Capital Purchase	Annual vehicle replacements as required by the CVRD's fleet management policy.	\$90,000	\$100,000	\$100,000	\$85,000	
Annual Capital Projects	- Condition assessment of pre-stressed concrete forcemain (CFWD). - Fiber connection for East Courtenay reservoir. - SCADA upgrades. - Completion of bulk standpipe upgrades.	\$550,000	\$300,000	\$300,000		
Comox Valley Water Treatment Project	Required for compliance with Island Health and the Drinking Water Treatment Objectives for Surface Water Sources.	\$60,410,610	\$28,997,093	\$32,917,566	\$3,624,637	
Extension of Water Service South	A project to be built and owned by the CVRD but fully funded by K'ómoks First Nation and other users of the new infrastructure.	\$20,000	\$2,700,000	\$16,090,000		
Maintenance Management System (MMS) (CFWD)	Purchase of MMS software to streamline preventative maintenance of water infrastructure.	\$80,000				
Comox Lake Land Corp Purchase	Complete development of a management plan for the Coal Beach property.	\$150,000				
Total		\$61,385,610	\$32,277,093	\$49,487,566	\$3,789,637	\$80,000

Note: All projects approved in the financial plan will be procured in accordance with Bylaw No. 510 and the Board approved Procurement Policy. Any project the Board wishes to receive additional information on prior to the procurement and/or contract award should be highlighted at this time.