

2016 Chairperson's Report to the AGM

2015 was a busy year as you can see from the highlights laid out in our year end report. And this is a period of change all over BC when it comes to Water Issues. Everyone has begun to implement the requirements contained in the new Water Act for BC and the comprehensive Island Health report **Water, Water Everywhere**. And the challenging drought conditions last summer reinforced for everyone on the Island, the importance of well functioning water systems.

Before I get into details I want to introduce our trustees and thank them for the great job they have done for us all this year. Bev Allen, Jeff Cain, Irene Doyle, Keith Nickerson and Suzy Parkin. I also want to take a moment for us all to remember Gordon Braithwaite who passed away recently, for all his years of service. Gordon was a valuable trustee for 9 years and made an excellent contribution to our community, his good counsel will be missed.

I also want to thank Don Buchner our system operator, Leigh Campbell our administrator and Sharon Recalma office assistant for all their hours of work and diligence on our behalf. They play key roles in ensuring our water system works well.

You have received a 2015 Report for the Waterboard, a Maintenance Report on the system from our operator Don Buchner, our audited Financial Statements and our auditor's report for 2015 in your AGM package. All of these materials will be available on our website as well. www.qbhlwater.ca

The new legislation and increased oversight by Island Health are embodied in the new terms of the Water Licence we will be signing this year. Key items required under that licence are:

1. Completion of a detailed professionally developed Watershed Protection Plan for the District;
2. Increased testing and monitoring for water quality.
3. Development of an Asset Management Plan and long term funding strategy for infrastructure renewal.

The Water District staff and Board have been busy developing our plans to address each of these issues in the coming year.

1. **Watershed Protection Plan** -- Staff and the Board members have done education sessions on watershed protection, have received proposals from a

number of reputable companies who do this work and are investigating possible sources of grant funding. We will be moving forward in 2016 to get this project underway.

2. **Increased testing** -- We are now doing weekly testing of our system as per the Island Health requirements and we will be carrying out detailed water tests on each of our wells this fall. This higher level of monitoring is key to maintaining our current status of no chlorination of our water supply. Island Health monitors all results and makes the final decision on whether further water treatment such as chlorination will be required.
3. **Asset Management Plan and long term funding strategy** -- We now have an Asset Management Plan developed in 2014 which we are updating regularly. That plan estimates that at a minimum we will be replacing upwards of \$5.4 million of assets during the next 10 - 15 years. We have begun the engineering for the first project under this plan, the upgrading of the watermain on Leon Rd and Kenmuir Rd and expect to be going out to tender on this project soon. Once we get the bids back we will have a much better idea of how realistic our long term cost estimates are. At this time we have the Financial reserves to carry out this project. But the real challenge we all face going forward is how we will fund this infrastructural renewal program in the years ahead.

I want to finish up my comments tonight by outlining what the Board has been doing on this the key long term issue of funding for Infrastructure Renewal, what we have found out and lay out our current thinking on what our water rates will need to be going forward.

What we have done:

- Updated our Capital Expenditure Charge bylaw and submitted a revised 5 year Expenditures and Revenue Budget for review and approval by the Ministry
- Met with the Municipal Funding expert of RBC to discuss possible long term borrowing to meet some of our Infrastructure Renewal Costs
- Developed a long term Capital Model for the Water District
- Developed a Financial model based on current water usage to estimate the impacts of changes to our tolls and parcel tax rates for planning purposes
- Researched the history of water tolls and parcel tax rates since 1970 in the Water district
- Prepared a detailed Background Briefing Note on Funding our Infrastructure Renewal Program (available on the website or at the office)

What we Found Out

- In its **Water, Water Everywhere Report Section 15 Full Cost Accounting**, Island Health states that “Water rates should reflect the true cost of the service being provided including future needs, and ensure that full cost accounting is achieved.” In 2016, full cost recovery for Qualicum Bay Water would be revenues of \$317,000 which would cover operating costs of \$170,000 and depreciation costs of \$147,000. Our preliminary projected 2016 revenue from all sources totals \$239,200 leaving a **shortfall of \$78,000**. To move to full cost recovery means generating an average of \$142 more per account each year bringing our targeted revenue per account to \$620.
- **How did we get in this situation?**
- The real value of the Residential toll in 2016 \$ decreased from \$37.66 monthly in 1970 to a low of \$9.28 in 1991 before slowly increasing to \$17.85 in 2016.

History of QBHL Domestic Water Rates Since 1970			
Year	Cost per year	Cost per month	Cost per day
1970	\$556.07	\$46.34	\$1.52
1991	\$189.96	\$15.83	\$0.52
2012	\$326.97	\$27.25	\$0.90
2016	\$367.27	\$30.61	\$1.01
Full cost 2020	\$455.20	\$37.93	\$1.25
2026 with borrowing	\$660.00	\$55.00	\$1.81

Note: all amounts in 2016 \$ for Tolls plus parcel tax

- If previous Water boards had just adjusted their tolls to reflect inflation over the past 46 years the QBHL Water board would have raised a minimum of \$3.5 million more from users through tolls. If Parcel Taxes had kept pace with inflation they would have contributed at least a further \$774,000. And if those extra funds had been invested at a return of 2% per year they would have generated a further \$1.4 million over the 1970-2016 period. A total of \$5.6 million which would just about cover our long term capital needs.
- It looks like the first QBHL trustees got things right and everyone since then has been paying less than we should have.

What we need to Do

- We will be moving to **Full Cost Recovery** over the next four years through yearly increases to our tolls, overage rates and Parcel taxes.
- As a first step our Quarterly tolls will increase by \$5 to \$58.55 and overage charges will increase by \$0.20/m³ to \$0.91/m³ on July 1, 2016.

- In order to meet the balance of our capital needs to complete our Infrastructure renewal investments it is projected we will need to borrow \$1.9 million beginning in 2025 which will require us to pay interest costs of at least \$144 per connection per year. If we increase the parcel tax by \$80 each year in 2026 and 2027 our capital funds stay positive and allow us to repay the debenture in 20 years.
- In 2016, QBHL water rates at \$1.01 per day are the second lowest of the 14 Oceanside area water systems surveyed. Average costs across the 14 systems is \$1.58 (ranging from \$0.95 to \$2.41).
- Moving to Full Cost recovery in 2020 will be \$1.25 per day and still below the current average rate.
- And our projected 2026 rate of \$1.81 per day is still less than the top 4 rates at this time.
- Even with full cost recovery Qualicum Bay water is a bargain and 'worth every penny'