



January 16, 2012

REPORT TO: South Huron Council
FROM: Don Giberson, Environmental Services Director
SUBJECT: 2012 Operating Budget Adjustments and Impacts (File: ESD-F05)

Purpose

To provide Council with an overview of potential adjustments to Water and Sewer Operating budgets in order to bring them in line with a 3.8% increase over previous year operating and the potential impacts of the adjustments. Further, to provide Council with information regarding potential adjustments to the South Huron Sewers Operating and Capital Budgets to achieve a balanced budget in 2012; and the resulting impacts.

Overview of adjustments:

The following is a summary of status of the 2012 Water and Sewer Operating Budgets and the potential adjustments that Council could consider in order to bring them in line with a 3.8% increase over 2011;

1. Grand Bend Sewers

- a) The increase in proposed 2012 operating budget over 2011 budget is 0% and is within the target of a 3.8% increase over 2011 operating budget.

2. South Huron Sewers

- a) Increase in proposed 2012 operating budget over 2011 budget is 2.6% and is within the target of a 3.8% increase over 2011 operating budget.

- b) To eliminate 2012 operating budget deficit, including cumulative prior year deficits

Total cumulative prior year deficits (operating and capital) projected to the end of 2011 is estimated at \$590,393 and the 2012 proposed operating budget deficit is \$252,964. The total cumulative deficit (not including 2012 capital) is \$843,357. To eliminate the 2012 operating budget deficit, including cumulative prior year deficit, the following options are available:

- i. Transfer **\$782,201** from the South Huron Water Reserves to repay an equal amount that was borrowed from the Exeter Sewer Reserve in 2009 to fund the municipal portion of the Huron Park Water Tower ISF grant funded project;
- ii. Reduce contracted services by **\$35,000** by eliminating the "Exeter Inflow incentive program", "Review of sustainable renewable energy for water/wastewater facilities" project and "Review & Equipment upgrades at William Street Sanitary Pumping Station" project.
- iii. Transfer **\$26,156** from existing Exeter Sewer Reserve. These funds are separate from the Capital Replacement Reserve and are from budget surpluses prior to 2008. Please note that the current Exeter Sewer Reserve total is **\$535,991**.

- c) To achieve an overall balanced budget in 2012 (including capital)

The current proposed 2012 Sewer Capital Budget is \$585,125. The Sanders Street sewer project is currently proposed to be funded from the Exeter Sewer Reserve in the amount of \$363,000. The remaining sewer capital projects create a deficit in the amount of \$220,125. To achieve an overall balanced budget in 2012 the following options are available:

- i. Identify the source of funding for the replacement of truck #43 as the Capital Replacement Reserve in the amount of **\$35,000**.

- ii. Defer the “Replacement of the Lagoon Blower System” capital project (reducing the capital budget by **\$150,000**)
- iii. Transfer **\$37,125** from the existing Exeter Sewer Reserve to fund the Huron Street engineering (Main to Marlborough) capital project.

d) Potential reallocation of road restoration costs on street reconstruction projects.

Currently road restoration costs on all reconstruction projects are funded 100% by the Roads Budget. There is potential to reallocate a portion of the road restoration costs to the sewer capital budget (excluding any road upgrades and surface asphalt). If this option is selected, it would be proposed to transfer 30% of the road restoration costs to the sewer capital budget. The net effect would be:

- i. 2012 Sanders Street Sewer Reconstruction project (Edward to Eastern Ave) – reallocation of 30% of the road restoration cost would result in an increase of **\$166,500** to the 2012 South Huron Sewers Budget. To achieve a balanced budget in 2012 will require a transfer of the remaining funds in the Exeter Sewer Reserve in the amount of **\$111,710** and the transfer from the Capital Replacement Reserve in the amount of **\$54,790**.
- ii. 2013 Sanders Street Sewer Reconstruction project (Edward to Main St) – reallocation of 30% of the road restoration cost would result in an increase of **\$113,000** to the 2013 South Huron Sewer Budget.
- iii. Reallocation of road restoration costs for all future sewer reconstruction projects (beyond 2013) would result in increased costs for all future Sewer Capital Budgets and/or deferral of future year projects.

3. **South Huron Water**

a) When the **\$782,201** transfer to reserves (return of borrowed funds) is taken into consideration the increase in proposed 2012 operating budget over 2011 budget is 2.78% and is within the target of a 3.8% increase over 2011 operating budget.

b) Since the Sewer Budget portion of the “*Review of sustainable renewable energy for water/wastewater facilities*” project is proposed to be deferred, the Water Budget portion of this project is also proposed to be deferred. This results in a reduction in the South Huron Water contracted services of **\$20,000**.

c) Potential reallocation of road restoration costs on street reconstruction projects.

Currently road restoration costs on all reconstruction projects are funded 100% by the Roads Budget. There is potential to reallocate a portion of the road restoration costs to the water capital budget (excluding any road upgrades and surface asphalt). If this option is selected, it would be proposed to transfer 20% of the road restoration costs to the water capital budget. The net effect would be:

- i. 2012 Sanders Street Water Reconstruction project (Edward to Eastern Ave) – reallocation of 20% of the road restoration cost would result in an increase of **\$100,500** to the 2012 South Huron Water Budget.
- ii. 2013 Sanders Street Water Reconstruction project (Edward to Main St) – reallocation of 30% of the road restoration cost would result in an increase of **\$74,000** to the 2013 South Huron Water Budget.
- iii. Reallocation of road restoration costs for all future water reconstruction projects (2013 and beyond) would result in increased costs for all future Water Capital Budgets and/or deferral of future year projects.

Impacts:

The following is a summary of the impacts on service/facilities the above changes to the Water and Sewer operating budgets may have.

- d) By not returning **\$782,201** (ie. the amount that was borrowed from the Exeter Sewer Reserve in 2009 to fund the municipal portion of the Huron Park Water Tower ISF funded project) would result in South Huron Sewers continuing to indicate an artificial prior year deficit.
- e) Reducing South Huron Sewers contracted services by **\$35,000** eliminates the under-utilized “*Exeter Inflow incentive program*”. It also results in deferring the “*Review of sustainable renewable energy for water/wastewater facilities*” project and “*Review & Equipment upgrades at William Street Sanitary Pumping Station*” project.
- f) Reducing South Huron Water contracted services by **\$20,000** defers the “*Review of sustainable renewable energy for water/wastewater facilities*” project. This project could be considered for the 2013 budget if corresponding funds are available in the South Huron Sewers Budget.
- g) Reducing the capital budget by **\$150,000** by deferring the “Replacement of the Lagoon Blower System” capital project, would result in lost potential for savings in future operating costs (ie. hydro).
- e) Reallocation of 30% of the road restoration costs for the Sanders Street Sewer reconstruction project would result in an increase in the 2012 South Huron Sewers Budget of **\$166,500** and creates a budget deficit. To achieve a balanced budget in 2012 will require a transfer of the remaining funds in the Exeter Sewer Reserve in the amount of **\$111,710** and the transfer from the Capital Replacement Reserve in the amount of **\$54,790**.
- f) Reallocation of 20% of the road restoration costs for the Sanders Street Water reconstruction project would result in an increase in the 2012 South Huron Water Budget of **\$100,500**; but has no other impact on the South Huron Water Budget.
- g) Reallocation of road restoration costs for the all future street reconstruction projects (2013 and beyond) would result in increased costs for all future Water and Sewer Capital Budgets and/or deferral of future year projects. This may also result future increases in water and sewer user fees.

Summary of Sewer Budget Amendment Options		
Operating Budget (current status)		(\$843,357)
<u>To eliminate operating budget deficit, including cumulative prior year deficits</u>		
i)	Transfer from the South Huron Water Reserves to repay an equal amount borrowed to fund Huron Park Water Tower ISF funded project.	\$782,201
ii)	Reduce contracted services	\$35,000
iii)	Transfer from Exeter Sewer Reserve to fund remaining deficit.	<u>\$26,156</u>
Net Amount		\$0.00
Capital Budget (current status)		(\$222,125)
<u>To achieve an overall balanced budget in 2012 (including capital)</u>		
i)	Identify the source of funding for the replacement of truck #43 as the Capital Replacement Reserve	\$35,000
ii)	Defer the “Replacement of the Lagoon Blower System” capital project	\$150,000
iii)	Transfer from Exeter Sewer Reserve to fund the Huron Street engineering.	<u>\$37,125</u>
Net Amount		\$0.00
<u>Potential reallocation of road restoration costs</u>		
i)	Increase capital budget for 2012 Sanders Street Sewers	(\$166,500)
ii)	Transfer from the Exeter Sewer Reserve to fund 2012 Sanders Street Sewers	\$111,710
iii)	Transfer from Capital Replacement Reserve to fund 2012 Sanders Street Sewers	<u>\$54,790</u>
Net Amount		\$0.00

Recommendation:

THAT South Huron Council receive the report from Don Giberson, Environmental Services Director, RE: 2012 Operating Budget Adjustments and Impacts (File: ESD-F05).

The following is a summary of options for South Huron Council to consider:

1. Transfer \$782,201 from the South Huron Water Reserves to repay an equal amount borrowed from the Exeter Sewer Reserve in 2009 to fund the municipal portion of the Huron Park Water Tower ISF grant funded project.
2. Reduce contracted services by \$35,000 in the 2012 South Huron Sewers Budget to eliminate the "*Exeter Inflow incentive program*", "*Review of sustainable renewable energy for water/wastewater facilities*" project and "*Review & Equipment upgrades at William Street Sanitary Pumping Station*" project.
3. Transfer \$26,156 from the existing Exeter Sewer Reserve to balance the 2012 South Huron Sewers Operating Budget.
4. Identify the source of funding for the replacement of truck #43 as the Capital Replacement Reserve in the amount of \$35,000.
5. Transfer \$37,125 from the existing Exeter Sewer Reserve to fund the Huron Street engineering (Main to Marlborough) capital project.
6. Increase the South Huron Sewers Budget by \$166,500 for the increased costs associated with reallocating 30% of the road restoration costs to the Sanders Street Sewer Reconstruction capital project.
7. Transfer of the remaining funds in the Exeter Sewer Reserve in the amount of \$111,710 and the transfer from the Capital Replacement Reserve in the amount of \$54,790 to fund the increased costs associated with reallocating 30% of the road restoration costs to the Sanders Street Sewer Reconstruction capital project.
8. Reduce contracted services by \$20,000 in the 2012 South Huron Water Budget to eliminate the "*Review of sustainable renewable energy for water/wastewater facilities*" project.
9. Increase the South Huron Water Budget by \$100,500 for the increased costs associated with reallocating 20% of the road restoration costs to the 2012 Sanders Street Water Reconstruction capital project.
10. Direct that road restoration costs (excluding any road upgrades and surface asphalt) for all future combined water/sewer/road reconstruction projects (2013 and beyond), be funded 20% by the Water Capital Budget; 30% by the Sewer Capital Budget; and 50% by the Roads Capital Budget.