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## REPORT TO FINANCE COMMITTEE MEETING OF JUNE 4, 2014

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### **SUBJECT CAPITAL REGIONAL DISTRICT (CRD) 2013 FINANCIAL PERFORMANCE**

#### **ISSUE**

This report provides the Board with an update on the 2013 Financial Performance as compared to the approved 2013 annual budget.

#### **BACKGROUND**

Further to the Board's request to move towards increased reporting by the CRD, staff have prepared this report to provide an overview of the 2013 Financial Performance as it relates to the 2013 annual budget.

Budgets are generally prepared based on current information at the time they are produced. However, changing operational priorities and unforeseen operational constraints can sometimes lead to results that differ from expectations. Surpluses generated from operations are generally carried forward and used to reduce the appropriate service requisitions.

The CRD is a diversified regional government that provides a wide range of services to its stakeholders. For management reporting purposes, the CRD's operations and activities are organized and reported by Funds. Funds were created for the purpose of recording specific activities to attain certain objectives in accordance with special regulations, restrictions or limitations. CRD services are provided by departments and their activities are reported within their respective Funds.

#### **HIGHLIGHTS**

##### **Variance Analysis – Capital Expenditures**

The overall capital expenditures for the CRD were under spent by \$75.5 million. The majority of the variance, as with total capital, relates to the Seaterra Program. Other variances are summarized as follows:

##### **Water Utility Services**

Across all of the water utility services, the capital program was underspent by \$6 million.

- Regional Water Supply Service – the \$1.0 million capital under expenditure was primarily a result of beginning design work but deferring construction until 2014 on multi-year projects such as the Japan Gulch Disinfection Process Upgrade project and the Supply Main #14.
- Juan de Fuca Water Distribution Service – the \$1.6 million capital under expenditure was primarily a result of beginning design work but deferring construction until 2014 on multi-year projects such as the Sooke Road water main project and the pump station upgrade.
- Juan de Fuca Water Distribution Service Development Cost Charge (DCC) Capital Projects – the \$1.7 million capital under expenditure was primarily due to deferring design and construction of DCC projects that are subject to private land development project requirements.
- Saanich Peninsula Water Service – the \$1.0 million capital under expenditure was primarily due to deferring the construction of the Sidney supply main replacement to 2014.
- Electoral Area water utility services – the \$700,000 capital under expenditure was primarily due to construction delays on the multi-year water treatment project in Magic Lake Estates, Pender Island.

Sewer Utility Services

Across all of the sewer utility services, the capital program was underspent by \$51.6 million.

- Seaterra Program - the capital program was underspent by \$49 million due to program delays.
- The Core Area Trunk Sewer and Saanich Peninsula Sewer Services - capital programs were underspent by \$800 thousand as a result of deferring inspection/construction work to 2014, including the Clover and Macaulay outfall inspections, trunk flow metering improvements, and upgrades to the Saanich Peninsula Wastewater Treatment Plant.
- Electoral Area sewer utility services – the \$1.8 million capital under expenditure was primarily due to construction delays on the multi-year sewage treatment projects in Magic Lakes Estates, Pender Island and at the SSI Liquid Waste and Ganges treatment facilities, Salt Spring Island.

Environmental Health Services

The variance of \$1 million relates to a few projects that were implemented as planned in 2013. The underspending is mainly due to a shift in the cash flow. Work on these projects continues in 2014.

Regional Parks and Recreation Services

In Regional Parks the variance relates to the development of the E&N rail trail project. There were some construction project delays in the completion of phase 1. Work on this project continues in 2014 and the budget will be expended by the end of this year. Phase 2 of the trail development was delayed to complete the detailed engineering drawings and staffing capacity. The construction contract has been tendered and will be awarded in July of this year. The other variance relates to monies identified in the capital plan to acquire lands for playing fields on Salt Spring Island. The Salt Spring Parks and Recreation Commission has been unsuccessful in their attempts however they are continuing to pursue alternate sites and are hopeful that the money will be expended in 2014.

General Government and Others

The \$3 million variance relates to the delay in construction of the two fire halls. It is anticipated that construction will begin in 2014 and monies will be expended accordingly.

Capital Region Housing Corporation (CRHC)

The housing capital budget was underspent by \$400,000 due to delay in capital replacement items.

The summary of 2013 capital expenditures is as follows:

	<b>Millions</b>		
	<b>2013 Budget</b>	<b>2013 Actual</b>	<b>Variance</b>
Water Utility Services	25.4	19.4	(6.0)
Sewer Utility Services	69.5	17.9	(51.6)
Environmental Health Services	3.6	2.6	(1.0)
Regional Parks and Recreation Services	18.1	6.2	(11.9)
General Government Services & Others	10.9	7.9	(3.0)
Capital Region Housing Corporation	4.1	3.7	(0.4)
	<b>131.6</b>	<b>57.7</b>	<b>(73.9)</b>

**Variance Analysis – Operating**

Overall the 2013 operations resulted in an operating surplus position of \$4.6 million. This is primarily due to expenditures being lower than budgeted. An overview of the 2013 financial performance is provided below.

	\$ 000's		
	2013 Budget	2013 Actuals	Variance
<b>Water Utility Services</b>			
Revenue	50,558	48,945	(1,613)
Expenditure	50,558	48,676	1,881
Surplus (Deficit)	-	268	268
<b>Sewer Utility Services</b>			
Revenue	26,546	26,656	110
Expenditure	26,546	26,111	435
Surplus (Deficit)	-	545	545
<b>Environmental Health Services</b>			
Revenue	22,467	22,562	95
Expenditure	22,467	22,545	(78)
Surplus (Deficit)	-	17	17
<b>Regional Parks &amp; Recreation</b>			
Revenue	30,301	30,893	592
Expenditure	30,301	30,721	(420)
Surplus (Deficit)	-	172	172
<b>General Government Services</b>			
Revenue	43,654	42,597	(1,058)
Expenditure	43,654	39,263	4,391
Surplus (Deficit)	-	3,334	3,334
<b>CRHC</b>			
Revenue	14,829	14,720	(108)
Expenditure	14,574	14,426	148
Surplus (Deficit)	254	294	40
<b>CRD Consolidated</b>			
<b>Revenue</b>	<b>188,354</b>	<b>186,373</b>	<b>(1,981)</b>
<b>Expenditure</b>	<b>188,100</b>	<b>181,742</b>	<b>6,358</b>
<b>Consolidated Surplus (Deficit)</b>	<b>254</b>	<b>4,631</b>	<b>4,377</b>

**Water Utility Services**

The negative variance in total revenue across all of the water utility services was due to lower than planned water consumption in 2013. However, there was a positive variance in expenses primarily due to the refinancing of a portion of the MFA debt resulting in lower than budgeted interest expenses.

**Sewer Utility Services**

The positive variance in total expenditures across all of the sewer utility services was primarily due to the borrowing for the Millstream remediation project being lower than anticipated. This reduction in borrowing resulted in decreased interest expense and principal payments for 2013.

**Recreation & Cultural**

The positive variance in Recreation and Culture is due mainly to an increase in donations and sponsorships, while the increased expenses are related primarily to an increase in wages and transfers to Capital Reserves.

**General Government & Other**

There is a surplus of \$3.3 million within General Government. Approximately \$2 million is related to the Regional Housing Trust Fund; grants were not awarded due to a lack of acceptable applications. A further surplus of \$600,000 relates to monies being set aside for the Island Corridor Foundation. A significant portion of the remaining \$700,000 is attributed to

unexpended budgets due to vacant staff positions and employee transitions across various areas within the organization.

**Housing**

Based on BC Housing Operating Agreements CRHC is required to manage accumulated operating surplus/deficits.

**Ratio Analysis**

In addition to variance analysis staff have also analyzed the following financial ratios to indicate CRD's overall financial position (Attachment 1).

**Debt Service Costs / Total Revenue**

It is important for the CRD to monitor the debt levels carried; as debts approach maturity, it allows higher future capacity to invest in the organization, such as long term capital projects.

**Interest Costs / Revenue**

Interest rates have been declining over the last several years resulting in a lower cost of borrowing for CRD.

**Current Ratio**

The current ratio is one measure of liquidity – the ability of the local government to meet current obligations through existing current assets. The current ratio is presented as a measure of relative organizational financial performance only. Overall the current ratio only has a limited effect as the CRD has the ability to raise funds through taxation and debt financing according to the tax basis. The CRD's current ratio is favourable.

**CONCLUSION**

The 2013 financial performance of the CRD was favourable as it relates to the budget and reflects the CRD's consistent financial performance.

**RECOMMENDATION**

That the Finance Committee recommend to the Capital Regional District Board that:

This report be received for information.



Rajat Sharma, MBA, CMA  
Senior Manager, Financial Services



Diana E. Lokken, CPA, CMA  
General Manager, Finance and Technology Dept.  
Concurrence



Robert Lapham, MCIP, RPP  
Chief Administrative Officer  
Concurrence

Attachment 1 – CRD Financial Indicators

## Capital Regional District Financial Indicators

### 1) Debt Service Costs / Total Revenue

This is the percentage of revenue committed to the payment of interest and principal on temporary and long-term debt. A high percentage indicates greater use of reserves for the repayment of debt, and less ability to adjust to unplanned events and changing circumstances. CRD's debt services costs are fairly consistent year over year.

	2013 Actual		2012 Actual		2011 Actual	
Debt Service Costs	49,016,499	<b>26.5%</b>	45,539,634	<b>25.7%</b>	41,496,780	<b>24.8%</b>
Total Revenue	184,821,201		177,414,836		167,164,819	

### 2) Interest Costs / Total Revenue

This is the percentage of revenue committed to payment of interest on temporary and long-term debt for CRD services. A high percentage indicates greater use of revenues for servicing interest on outstanding debt, and less ability to adjust to unplanned events and changing circumstances.

	2013 Actual		2012 Actual		2011 Actual	
Interest Costs	21,064,316	<b>11.4%</b>	21,092,904	<b>11.9%</b>	20,922,266	<b>12.5%</b>
Total Revenue	184,821,201		177,414,836		167,164,819	

### 3) Current Ratio

The current ratio is a measure of the liquidity of an organization, meaning CRD's ability to meet current obligations through current assets of the organization.

	2013 Actual		2012 Actual		2011 Actual	
Current Assets	45,662,141	<b>2.00 : 1</b>	47,749,533	<b>2.16 : 1</b>	54,033,000	<b>3.29 : 1</b>
Current Liabilities	22,781,645		22,124,284		16,412,236	