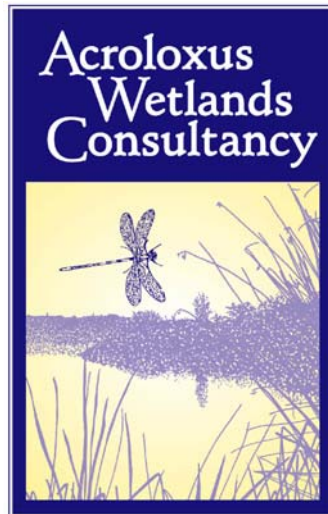


Garden Bay Waterworks District Conversion Plan

November 17th 2005



Acroloxus Wetlands Consultancy Ltd.
5146 Elliot Road, RR1 S7 C3
Garden Bay, B.C. V0N 1S0
www.acroloxus.com

Dr. Michael Jackson, President
Dale Jackson, Director
Phone/Fax: 1-604-883-9853
Email: acroloxus@dccnet.com

Dr. Michelle Evelyn, Director
Phone: 604-886-1910
Email: dastiles@telus.net

Jeff Howlett
Phone: 604-885-0883
Email: jeff@howlett-research.com

EXECUTIVE SUMMARY

With the aim of continuing and improving water supply services to the customers of both the Garden Bay Waterworks District (GBWD) and the Sunshine Coast Regional District Hotel Lake - Irvines Landing water system (SCRD-HL), the two operational districts entered into formal discussions in March 2005 concerning conversion of the GBWD Improvement District.

In August 2005, Acroloxus Wetlands Consultancy Ltd. was contracted to help facilitate this process. Extensive discussions between the GBWD and the SCRД have been undertaken to find mutually beneficial solutions to the questions surrounding the proposed merger. The results of these discussions are presented in this Conversion Plan.

Key elements of the Conversion Plan include:

1. Creation of a Local Advisory Committee

In ninety-five percent of conversions in British Columbia over the past five years, the regional district has simply taken over the Improvement District. Due to the importance of local representation, however, the GBWD and the SCRД wish to maintain the high caliber of local input into the operation of the system by creating a permanent North Pender Harbour Water Advisory Committee.

The Committee will be made up of five voting members – the Area A Director together with four property-owning residents of the Service Area with representatives from both original service areas. The Area Planning Committee Chair will be a sixth, non-voting member of the Committee. In conjunction with SCRД staff, the Committee will help to develop budgets, capital plans, and bylaws, and to recommend rates and taxes for the new Service Area.

Annual General Meetings will be held to present information about the operations, infrastructure, and financial statements of the new Service Area, and provide community members with an opportunity to nominate and vote to select representatives to be recommended for appointment to the Advisory Committee.

2. Establishment of a North Pender Harbour Water Service Area

The new Service Area will combine existing GBWD customers with SCRД Hotel Lake customers. Infrastructure for the two systems will be linked and the SCRД will take over day to day operations and administration of the new Service Area.

The new Service Area will be financially independent. All money created and expended will stay within the North Pender Harbour Service Area and the taxes and tolls for the area will be calculated separately from the rest of the SCRД.

Benefits of Conversion Include:

- **Government Grants.** As an Improvement District, the GBWD is not eligible for government grants for capital programs. The new Service Area, as part of a regional district, would be eligible for grants for capital programs such as infrastructure improvements (multi-barrier water treatment, water metering, etc.)
- **Insurance.** The Directors of the GBWD are currently operating in a voluntarily capacity with high contingent personal liabilities. Some will stand down in 2006 and replacements may be very hard to find – particularly of the very high caliber, energy and commitment of the current Directors. Conversion removes personal risk for Advisory Committee members.
- **Expertise.** The new Service Area will be run by professionals rather than volunteers. It will benefit from the SCRD depth of knowledge and professional engineering skills; use of SCRD operational equipment and advantages of increased purchasing power; and access to modern technology, including billing systems, IT Department and GIS systems.
- **Redundancy.** Linking the Garden Bay and Hotel Lake systems provides back-up systems giving extra capacity in case of fire, pump failure or contamination. The combined system would have redundancy in all major components allowing tanks and pumps to be taken off line for repair without interrupting service.
- **Local Staffing.** The current GBWD system operator will be offered employment with the SCRD to look after the new combined system. Local staffing will improve day-to-day operations and increase the frequency of water quality monitoring on the Hotel Lake system.
- **Infrastructure Improvements.** A recent engineering review identified deficiencies in water storage capacity in the GBWD system, and recommended installation of an additional storage tank and two new pumps. However, with a merger, the infrastructure of the GBWD system can be linked to the SCRD-HL infrastructure, eliminating this requirement.
- **Environmental Benefits.** Linking the two systems creates a more balanced and flexible water supply that helps alleviate any environmental concerns associated with a single source of supply.
- **Financial Benefits.** Joining the systems results in reduced net capital and operating costs.

Financial Implications of Conversion:

Financial implications of the conversion have been considered in a detailed financial analysis which evaluates the current operations of both systems, discusses the changes that conversion is expected to bring, and outlines a 10-year financial plan for the new Service Area that incorporates these projected changes. The analysis also documents and assesses the relative financial contributions of the parties in the merger. Integral to this is an analysis of future infrastructure requirements.

Key conclusions of this financial analysis include:

- Both parties bring financially well-managed water systems to the merger.
- Integrating the two systems into a new Service Area not only has nominal associated costs, it results in net capital cost savings.
- Joining the systems is expected to result in annual operating cost savings.
- Using reasonable assumptions, additional revenue is projected with little or no associated increases in operating costs.
- The new Service Area can maintain operations and accommodate an orderly upgrade to its system over a period of time, without the need for a rate increase, over the medium term. Given the projected operating surpluses, rate increases will be largely determined by capital programs undertaken
- With the added provision of government grants, the stronger, more financially capable Service Area formed by the merger is better able to serve the needs of ratepayers and undertake significant capital programs, such as water metering and multi-barrier treatment systems
- Both parties contribute significant, positive merger benefits in several areas, including savings in operations, administration, and insurance.
- Both the GBWD and SCRD-HL systems contribute intangible benefits that have not been quantified, in areas including finance (i.e. access to government grants, more favorable borrowing terms), operations (having dedicated professional staff), and from having a more balanced and flexible water system.

Conclusions

The merging of the GBWD and the SCRD-HL water systems offers many benefits for the customers of both service areas. Linking the infrastructure of the two systems will provide redundancy in all systems, back-up in case of repairs or emergencies, and increased capacity for fire fighting. The new Service Area will be run by professionals rather than volunteers and will gain from the depth and breadth of expertise and resources within the SCRD organization. The new Service Area will be eligible for government grants for capital improvements, including multi-barrier water treatment, which in turn will improve water quality. Strong public input into the system will be maintained through the creation of a permanent local Water Advisory Committee which will play an important role in helping to develop budgets, capital plans and bylaws for the New Service Area. A ten-year financial projection indicates that the new Service Area will remain financially viable and be self-sustaining.

This Conversion Plan Report is divided into three sections:

Section 1 summarizes investigation of issues and progress to date.

Section 2 outlines a proposed strategy for implementing conversion (The Implementation Plan) based on agreements reached between representatives of the two parties.

Section 3 provides a Financial Plan that considers the financial implications of maintaining the status quo versus linking the two systems into a single operating Service Area.



Garden Bay Waterworks District Conversion Plan

November 17th 2005

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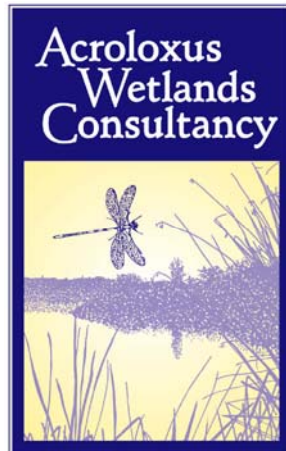
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Garden Bay Waterworks District Conversion Plan

SECTION ONE:

Issues and Challenges





Garden Bay Waterworks District Conversion Plan November 17th 2005

SECTION 1. Issues and Challenges

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1. INTRODUCTION

The discussions between delegations from the board of the GBWD and the management of the SCR D began in March 2005 following concerns from both parties over a number of issues regarding water supply and storage, liability insurance and environmental considerations (See Table 1 below for a full calendar of meetings that have taken place to date).

After preliminary discussions during March and April 2005, and following approval from the members of the GBWD and the board of the SCR D, it was decided to further explore the possibilities of joining the two systems into a single service area through a conversion process as outlined in the Improvement District Conversion Guide (B.C. Ministry of Community, Aboriginal and Women's Services – 2004).

In August 2005, Acroloxus Wetlands Consultancy Ltd was contracted to help facilitate deliberations between the two parties and to formulate a Conversion Plan that could be put to the public for consultation and to the boards of the GBWD and the SCR D for approval.

The purpose of this section "Issues and Challenges" is to highlight areas that were identified following detailed discussions with the two parties and investigations of our own into the conversion process. Through this evaluation process, which was used as a basis for a meeting between the two parties on September 28th 2005, agreement has now been reached on a number of crucial questions. These are identified in the subsequent sections of the report as requirements in the conversion process and as financial considerations in the financial plan. This section therefore serves to give a background to the course of events and the reasoning that has led to the current understanding between the two parties. A history of the Garden Bay Waterworks District is included as Appendix A.

Table 1. Summary of Discussions between SCRD and GBWD

March 10, 2005	SCRD Board directs staff to engage in discussions to investigate establishment of joint water board for Hotel Lake and Garden Bay service areas
March 18, 2005	SCRD and GBWD hold strategic planning session
April 14, 2005	SCRD resolution passed
April 27, 2005	SCRD and GBWD hold meeting to continue dialogue
April 30, 2005	GBWD AGM – customers give mandate to explore conversion
May 13, 2005	Meeting between SCRD and GBWD
June 6, 2005	SCRD puts out RFP seeking consultant to facilitate discussions between parties, assess conversion options, develop implementation plan
Aug 17, 2005	Meeting between AWC, GBWD, and SCRD
Aug 22, 2005	AWC receives contract to facilitate discussions between GBWD, assess conversion options, and develop implementation plan
Sept 7, 2005	Meeting between AWC and SCRD
Sept 9, 2005	Meeting between AWC and GBWD
Sept 23, 2005	Meeting between AWC and SCRD
Sept 28, 2005	Meeting between AWC, GBWD, and SCRD
Oct 4, 2005	Meeting between AWC, GBWD, SCRD and SC Engineering
Oct 13, 2005	SCRD Board meeting - resolution passed
Oct 17, 2005	GBWD Board meeting - resolution passed
Oct 27, 2005	Meeting between AWC, GBWD, and SCRD to comment on draft report
Nov 2, 2005	Meeting between AWC, GBWD and SCRD to continue with draft report
Nov 9, 2005	Meeting between AWC, GBWD and SCRD to continue with draft report
Nov 15, 2005	Meeting between AWC, GBWD and SCRD to finalize report

2. THE NEED AND DESIRABILITY FOR CHANGE

The Directors of the GBWD are currently operating in a voluntarily capacity with high contingent personal liabilities. Some may stand down in 2006 and replacements may be very hard to find – particularly of the very high caliber, energy and commitment of the current Directors. The GBWD Board considered the idea of conversion some time ago and instigated discussions with the SCR D.

The SCR D has identified the need to enhance the security of the water supply and improve infrastructure in the Hotel Lake system in order to meet the short-term demand created by new developments.

The SCR D has a well-established history of providing water services to Sunshine Coast residents and has helped several other improvement districts on the Coast who were having trouble meeting statutory commitments or who were unable to continue operating on a voluntary basis. With past conversions, all parties agreed that it was preferable for the SCR D to absorb the improvement district into their system. However, in this case the GBWD and the SCR D both wish to consider other governance alternatives in order to maintain the high efficiencies of the existing system and to allow continued local input in planning and operation of the system.

2.1. The Parties

GBWD:

- Run an efficient, well-administered system which provides a high quality of service to their customers
- Are in a strong financial position with a healthy bank balance and a positive cash-flow given the size of their operation
- Have substantial financial resources which they have worked hard to accumulate and do not want to see the benefits of their labours lost to their customers
- Know that risks of being sued are real and, even if insured, realize that court process can be lengthy and may be accompanied by considerable costs
- Have directors with a history of successful negotiation with developers who have provided substantial contributions to improve infrastructure.
- Envisage many mutual benefits from conversion
- Do not wish to see any increase in rates as a result of conversion
- Want to protect GBWD customers from future rate increases
- Concerned that SCR D Board decisions and changes in board members could mean that future planning is not bound by previous agreements

SCRD:

- Have years of experience with supplying water to households and businesses throughout the Sunshine Coast
- Have developed tried-and-tested programs and expertise in infrastructure management, operational and administrative issues and in use of technical innovations
- Have access to potential Government grants and programs
- Can provide solution to existing liability issue
- See mutual benefits from conversion but consider that they are offering many extra benefits to GBWD customers for comparatively little return
- Concerned that the local community will hold majority control over decision-making process

2.2. Potential Issues with the Status Quo**GBWD:**

- Water storage capacity will need to be increased as new developments progress
- With addition of new developments there may not be enough storage capacity in the event of an incident, such as a fire.
- Some fire hydrants are only able to provide limited fire flows at present
- Improvements in infrastructure are required to accompany new developments
- Current Water Licenses are not sufficient to meet all the planned development.
- No access to government grants or favourable funding arrangements

SCRD:

- Current demands on the Hotel Lake system are high
- In the long term, Hotel Lake alone may not be a satisfactory source for a variety of reasons including environmental concerns
- Plan to connect Hotel Lake system to GBWD system could involve complex additions to infrastructure
- Concern with water stagnation in 100,000 gallon tank at Daniel Point

2.3. Benefits of Conversion

GBWD:

- Creates sufficient water storage capacity to meet all current planned development.
- Offers solution to liability insurance problem
- Grants become available for capital programs such as infrastructure improvements
- Hotel Lake provides a back-up system with extra capacity in case of fire, pump failure or contamination problem
- Provides a more flexible and secure source of water
- Gain from expertise of SCRD – depth of knowledge and engineering skills
- Use of operational equipment and advantages of increased purchasing power
- SCRD brings benefits of economies of scale
- Access to modern technology, such as billing system, IT dept and GIS systems
- High level of service will not diminish and will improve for some customers
- Storage for fire flows will improve

SCRD:

- Inherits a well managed, mature, fully operational system
- Provides a more flexible and secure source of water
- Alleviates water chlorination and stagnation problems in Hotel Lake system
- Garden Bay Lake provides a back-up system with extra capacity in case of fire, pump failure or contamination problem
- Local staffing improves day-to-day operation of system
- Linking two lake systems helps to address local environmental concerns over Hotel Lake
- Increased frequency of water quality monitoring

3. GOVERNANCE OPTIONS AFTER CONVERSION

Background:

According to the British Columbia Ministry of Community, Aboriginal and Women's Services (MCAWS), in ninety-five percent of conversions in the province over the past five years, the Regional District has simply taken over the improvement district. Due to the importance of local representation, however, both the GBWD and the SCR D have agreed that rather than simply absorb the improvement district, in this instance two alternative avenues of governance be considered – Local Commission or Local Committee.

In both a committee and a commission structure, the Regional District determines the extent of the powers delegated to the local body. The local body can be an advisory body to the RD board, or the RD board may delegate full operational and administrative responsibility. Types of committee or commission powers may include: developing budgets, recommending tax and user rates, developing capital plans, recommending service construction standards, overseeing contracts, and dealing with any issues related to the management and operation of the district services. Committee and commissions cannot be delegated the ability to pass bylaws.

In most committees, the local body typically includes five members – the Area Director together with four other representatives. In a commission structure, members are elected directly by local residents, on an annual or triennial basis. In a committee structure, members are appointed by the regional district board, typically based on the recommendation of the Area Director. In one conversion example found, the committee is required to hold Annual General Meetings where local people are given the opportunity to nominate and vote on individuals to be recommended for appointment to the committee.

Assent of voters is required to establish a commission. However, no voter assent is required to establish a committee.

4. CONCLUSIONS

Incorporating the two systems through conversion into a single service area is identified as the logical solution for all parties concerned as it offers considerable benefits in terms of increased administrative, operational and emergency cover for all the existing customers. Having agreed that this was the case, there was a need to decide on the most suitable form of governance and outline the series of steps required to complete the conversion. It was also important to assess the financial contributions that each of the parties would be bringing to the table and to establish costs of conversion for each party. Furthermore, in order to satisfy the interests of the customers and to explore the consequences of a merger, a budget and financial projection was required to consider ongoing operational, administrative and capital costs.

These details are presented in the following two sections: the Implementation Plan in Section 2 and the Financial Plan in Section 3.

5. APPENDICES

Appendix A – History of the Garden Bay Waterworks District

Garden Bay is one of three small coastal communities collectively known as Pender Harbour, centrally located on the Sechelt Peninsula, 75 km north of Langdale on the Sunshine Coast. Garden Bay lies to the north, Madeira Park to the south and Irvines Landing to the west. The land use within Garden Bay is primarily residential with two marinas and several small businesses.

The Garden Bay Waterworks District (GBWD) has been in existence for nearly 45 years. It was incorporated by letters patent issued on December 29, 1960. John Daly held the first GBWD Annual General Meeting on February 27, 1961 when boundaries were mapped out and the first volunteer board was formed.

Garden Bay Lake provides residents with a reliable and clean source of drinking water. Water was first pumped from the lake in 1929 to supply Saint Mary's community hospital - a flagship of the Columbia Coast Mission's work. St Mary's moved to Sechelt in 1964 and the old facility (also known as the Old Mission Hospital) was converted to The Sundowner Inn.

A pelton wheel was installed at Garden Bay to provide a power supply for the hospital. The wheel ran off a gravity feed from Garden Bay Lake but has since been de-commissioned.

On February 16th, 1976, Garden Bay Waterworks amalgamated with Scott Bay Waterworks. Scott Bay Waterworks provided water to the central Garden Bay area from a 4" stave pipe gravity fed from nearby Hotel Lake.

On January 14, 1982, the Whittaker Property became directly joined into the Garden Bay Lake water supply system. The Whittaker property, which previously drew water directly from Hotel Lake, was connected to the Garden Bay Lake water storage tank.

During the period 1960 to 2005, the Garden Bay Waterworks District provided many services including:

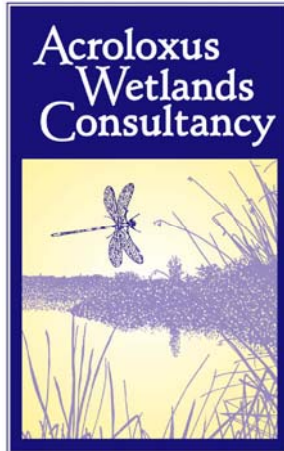
- Water quality testing for the past 30 years and, more recently, daily chlorine level and weekly coliform tests.
- Building a new pump house in 1986.
- Take over of the Fritz & Arthur Subdivision System (lots 16-81, inclusive), after it was deeded to the GBWD in clear title in consideration of the GBWD supplying water service to the property.

- Obtaining an easement with Tri Lakes Development Ltd. for a new water tank in 1994 (100' by 100' northeast of present easement).
- Building a new 54,000 gallon water storage tank in 1995.
- Developing an emergency response plan.
- Installing a deep water intake line on Garden Bay Lake in 2004, with a 1200 foot long line to a depth of 92 feet.

Garden Bay Waterworks District Conversion Plan

SECTION TWO:

Implementation Plan





Garden Bay Waterworks District Conversion Plan November 17th 2005

SECTION 2. Implementation Plan

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1. INTRODUCTION

Following discussions of the issues raised in Section 1, representatives from the two parties have agreed upon a conversion plan that would include the following primary features:

- 1) Establishment of a new distinct service area to include GBWD customers together with SCRD Hotel Lake customers, which for the purposes of this document we have described as the “*North Pender Harbour Water Service Area.*”
- 2) Creation of a governance body for the new service area, which for the purposes of this document we have described as the “*North Pender Harbour Water Advisory Committee.*”
- 3) Transfer of GBWD assets and liabilities, along with responsibility for the administration and operation of its services, to the SCRD.

2. GOALS

The goal of this document is to outline an Implementation Plan that:

- Conforms to the BC Government Improvement District Conversion Guidelines
- Addresses concerns of the GBWD and SCRD and the water users
- Identifies a process that is as fair and equitable as possible to a majority of stakeholders

To achieve conversion, the plan is required to:

- Receive strong public support
- Be endorsed by the boards of the SCRD and the GBWD
- Meet legislative requirements and regulations

3. NORTH PENDER HARBOUR WATER SERVICE AREA

3.1. Geographic Area of Service

The proposed North Pender Harbour Water Service Area will combine existing GBWD customers with SCRD Hotel Lake customers (Figure 1). At present, these include approximately 543 customers. The addition of new developments currently underway in Garden Bay (Farrington Cove, Pender Harbour Landing and Rockwater Estates (formerly known as Pinehaven) would add an additional 119 customers in the short to medium term.

There are also two additional groups - 15 South Pender Harbour Water District customers in Oyster Bay who would like to join the North Pender Harbour Water Service Area. The North and South Oyster Bay residents are currently awaiting the outcome of a government grant application. The SCRD applied for this grant on their behalf, for infrastructure to link into the system.

In total, the new North Pender Harbour Water Service Area is expected to serve approximately 662 customers by 2006.

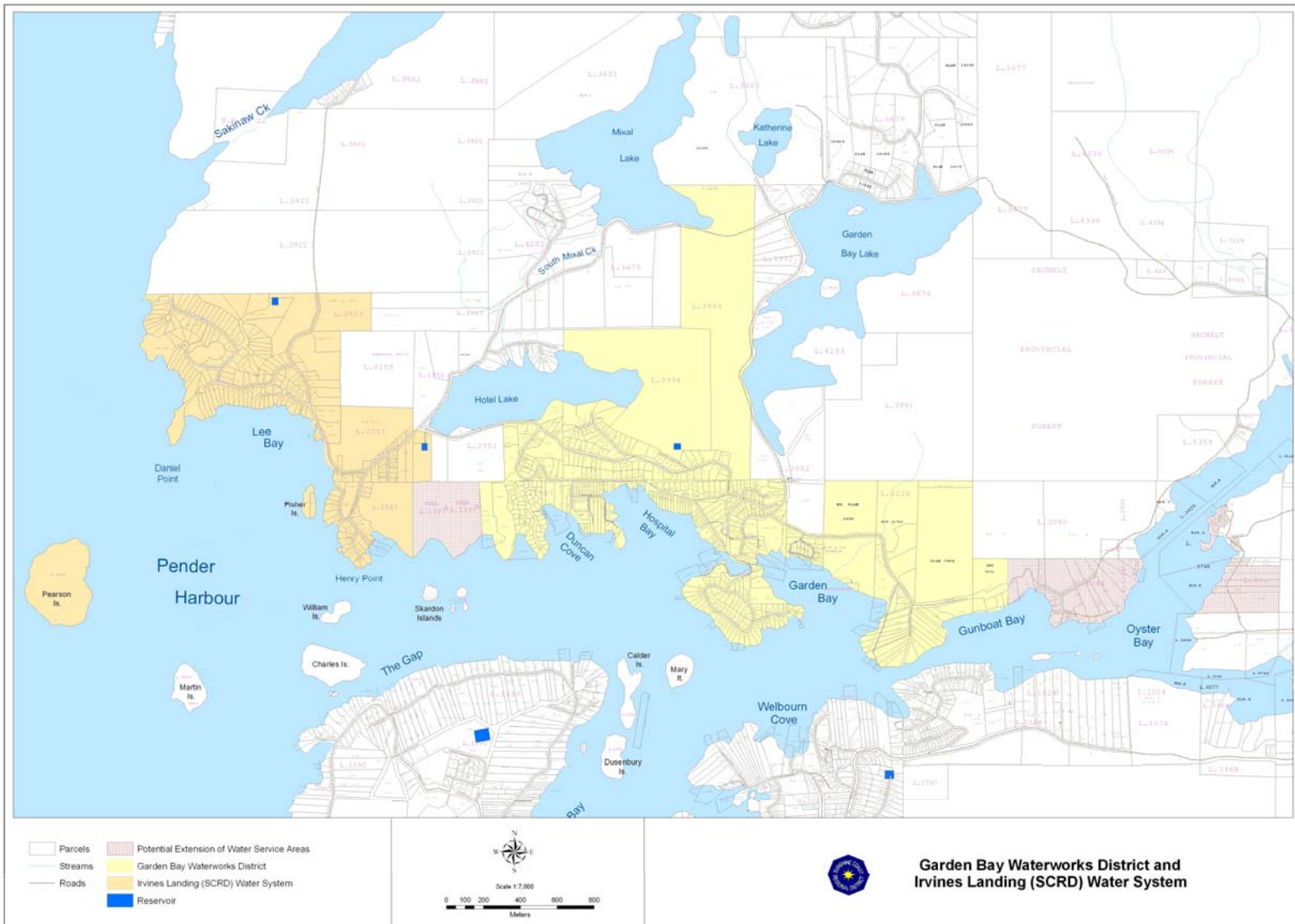


Figure 1: Proposed North Pender Harbour Water Service Area

3.2. Independent Finances

The North Pender Harbour Water Service Area will be financially independent. All revenues or deficits will stay in the North Pender Harbour Water Service Area and will not affect the SCRD general operating budget. The rates, taxes and tolls for the new service area will be calculated separately from the rest of the SCRD customers.

3.3. Operations and Administration

The SCRD will be responsible for the operation and administration of North Pender Harbour Water Service Area. The SCRD will manage day to day operations, sample water quality including daily chlorine measurements and weekly coliform counts, set construction standards, approve contracts, and oversee capital improvements and repairs. The SCRD will be responsible for billing, accounting, financial statements and minute taking at North Pender Harbour Water Advisory Committee meetings. Existing GBWD staff member will be offered employment with the SCRD.

3.4. Annual General Meetings

The North Pender Harbour Water Service Area will hold Annual General Meetings. At the AGM, information about the operations, infrastructure and budget of North Pender Harbour Water Service Area will be presented to the community, along with audited financial statements. The community will also have the opportunity to nominate and vote to select representatives to be recommended for appointment to the North Pender Harbour Water Advisory Committee.

3.5. Start-Up

The two parties (SCRD and GBWD) will contribute similar values of assets to start up the North Pender Harbour Water Service Area. Values of assets will be quantified so as not to create an imbalance in net financial contributions made by both parties.

4. NORTH PENDER HARBOUR WATER ADVISORY COMMITTEE

4.1. Composition

The North Pender Harbour Water Advisory Committee will consist of five members. They will include the Area A Director together with four property-owning residents of the Service Area. Committee members must all be Canadian citizens, property owners and at least 18 years of age. At least one Committee member must be a property owner from the original Garden Bay Waterworks District area and at least one member must be a property owner from the original Hotel Lake Service Area (see Figure 1).

4.2. Selection of Committee Members

Each year, new committee members will be nominated by residents at the North Pender Harbour Water Advisory Committee AGM. The list of Committee member nominees thus created will be submitted to the Area A Director who, in turn, will recommend appointees to the board of the SCR D. The SCR D board will consider and be responsible for final appointment of members to the Committee. There will be 5 voting members selected accordingly plus a sixth non-voting member - the APC Chair.

Committee Members will serve without compensation, but will be reimbursed for receipted expenses. They will serve 3-year terms. Terms will be staggered.

4.3. Role of Committee

In conjunction with SCR D staff, the North Pender Harbour Water Advisory Committee will help to develop budgets, capital plans, and bylaws, and to recommend rates, taxes and DCCs for North Pender Harbour Water Service Area.

The existing GBWD office will be maintained as a base for the North Pender Harbour Water Advisory Committee. Initially, the Committee will meet monthly. Thereafter, the timetable of meetings will be determined by the Committee members.

It is recommended that one or more members of the North Pender Harbour Water Advisory Committee will be represented on the Area A Planning Committee (APC). It is suggested that the chair of the APC sit on the board of the new committee as a non-voting member and vice versa.

5. TIMETABLE FOR CONVERSION

To implement conversion, 12 steps have been identified. These steps are detailed below and are outlined in chart form in Appendix A. Attached in Appendix B is a BC Ministry of Community, Aboriginal and Women's Services document which describes conversion of a fire district, by way of example.

5.1. Approval in Principle

The SCR D and GBWD must review the Conversion Plan and agree to approve the plan in principle or recommend changes before presenting their findings for public review and proceeding with the conversion process.

5.2. Restructure Implementation Grant Application

The SCR D may apply for a Restructure Implementation Grant from the B.C. government to assist with the administrative costs associated with the conversion. These costs can include the integration of accounting and billing processes as well as the transfer of files, licenses, easements, contracts and equipment.

Following approval in principle, the SCR D should address a letter to the Ministry of Community, Aboriginal and Women's Services (MCAWS) so that the Ministry can confirm its eligibility and the amount of the grant. The SCR D may be eligible for a grant of \$10,000 for water services to 100-500 water connections or customers, or \$15,000 for water services to more than 500 water connections or customers.

5.3. Public Consultation

The GBWD will hold a special public meeting where findings of the proposed conversion process will be presented and where residents will have an opportunity to have discussions with the board and to vote in a straw poll on approval of the conversion.

In addition, the SCR D should hold a public open house to provide details to existing Hotel Lake customers about the proposed conversion and establishment of the North Pender Harbour Water Service Area. It is recommended that both of these meetings should take place in mid-November 2005.

5.4. GBWD and SCR D Board Approval

On the assumption that the Conversion Plan receives strong public support and once comments from the public have been included, the final Conversion Plan must be approved by both the SCR D and the GBWD Boards. It is anticipated that decisions on

conversion will be put to the respective boards for discussion and approval during or before December 2005.

5.5. Cabinet Order

Once the conversion plan is approved by both the GBWD and SCRD boards, the parties will then be able to apply for a BC Government Cabinet Order that will revoke the incorporation of the improvement district and transfer responsibility for the administration and operation of its services to the SCRD, along with its assets and liabilities. (Attached in Appendix C is a sample MCAWS letter of acknowledgement and in Appendix D is a sample Order in Council.)

5.6. Restructure Implementation Grant Receipt

Once the Cabinet order has been approved to dissolve the GBWD and transfer responsibility for its services to the SCRD, the Ministry of Community, Aboriginal and Women's Services should release the Restructure Implementation Grant funds to assist with the administrative costs associated with the conversion.

5.7. SCRD Bylaw #1

If the Cabinet is to approve the Order, the SCRD must prepare and pass a service area establishment bylaw. The Order in Council may specify a date by which the SCRD must adopt a service area establishment bylaw. During the period between approval of the Cabinet Order and the effective date a number of transfer details can be addressed.

According to the BC Government Improvement District Conversion Guide, it is policy that no significant changes in geographical extent of the Service Area are permitted at the time of conversion. Therefore, to create the new service area, it is recommended that two SCRD Bylaws are created. Bylaw #1 – the merger bylaw – will merge the GBWD service area into the greater SCRD service area. Bylaw #2 – the new service area boundary bylaw - will delineate the boundary of the new North Pender Harbour Service Area to include both GBWD and Hotel Lake customers service areas.

5.8. Land and Water License Transfer

GBWD representatives will be required to complete land transfer documents to convey the freehold land parcel in Garden Bay and all rights of way or easements into the name of the SCRD. After the Cabinet order has passed, the SCRD must ask Land and Water BC to transfer GBWD water licenses to the regional district. The SCRD must also make a request to the Land Title Office to transfer the ownership of GBWD lands, easements and statutory rights-of-way from the improvement district into the name of the regional district.

5.9. Operations and Administrative Transfer

GBWD Board members will work together with SCRD staff to transfer operational and administrative control of the GBWD system to the SCRD. Operational and administrative contracts and agreements will need to be transferred or cancelled by GBWD. All records including minutes, financial records, correspondence and all other relevant documentation should be collected and handed over to the SCRD. Financial statements prepared to the date of transfer should include an inventory of assets and bank statements. GBWD bank accounts should be closed and balances transferred or signatories changed to those of SCRD.

5.10. SCRD Bylaws #2 and #3

Once transfer is complete, Bylaw #2 – the new service area boundary bylaw - will delineate the boundary of the new North Pender Harbour Service Area to include both GBWD and Hotel Lake service areas. Bylaw #3 – the advisory committee establishment bylaw – will provide the essential details for committee membership, meeting conduct, administration and delegation of powers (see Appendix E for details from three other conversions).

5.11. Completion

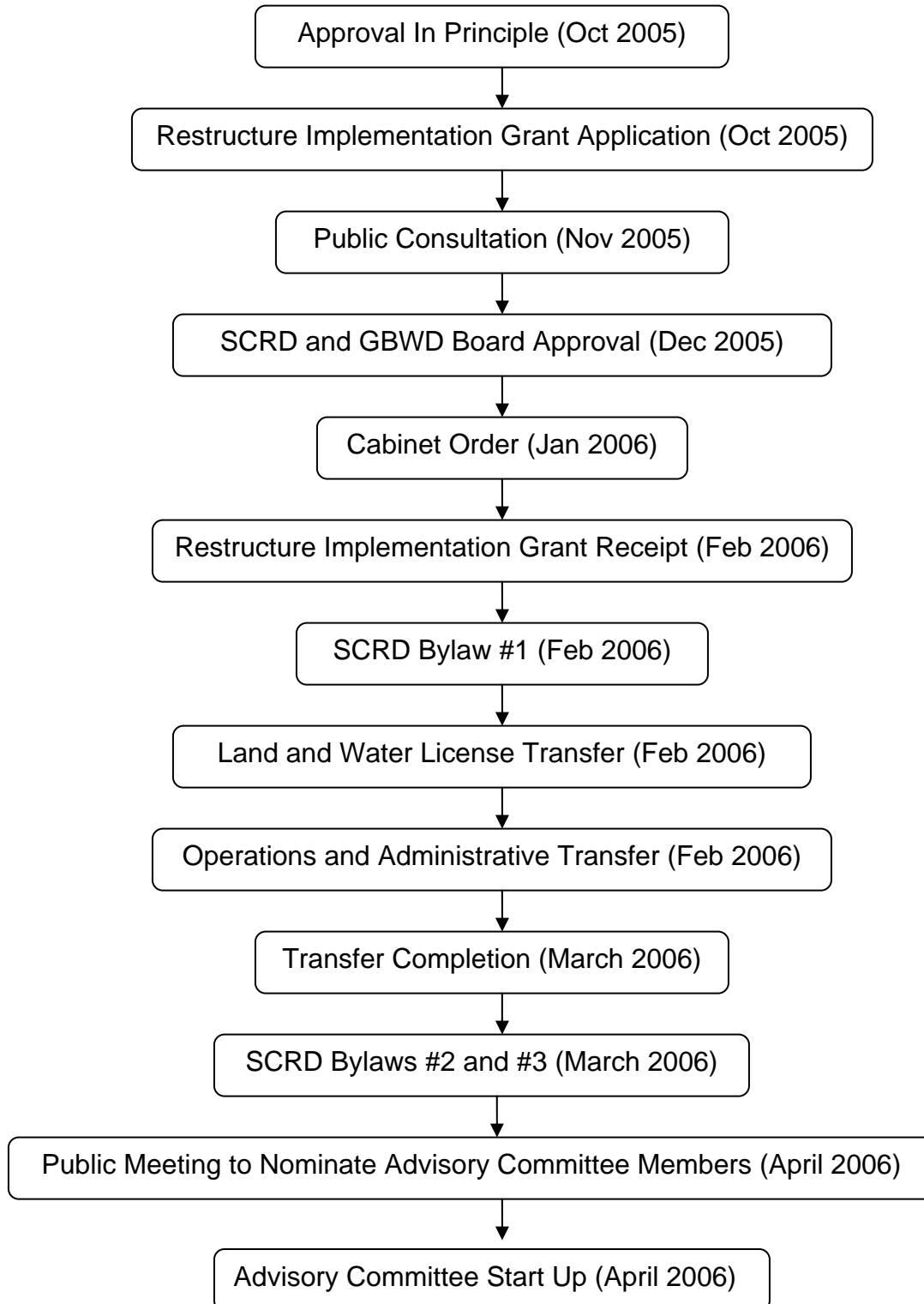
The desired date for completion of the transfer is the end of March 2006. The transfer must be completed by April 30, 2006, when the terms of office of many GBWD board members will expire.

5.12. Public Meeting to Nominate Advisory Committee Members

The final GBWD AGM must be held prior to April 30, 2006. The new Pender Harbour Water Advisory Committee would be best set up within 60 days of the GBWD AGM, and would provide the opportunity for community members to nominate the initial four community members to sit on the new North Pender Harbour Water Advisory Committee. These names would then be passed on to the Area A Director, who in turn would make recommendations to the SCRD. The Committee would consist of the four appointees together with the Area A director and the Area Planning Committee (APC) Chair. The SCRD should appoint four representatives, half with 2-year terms and half with 3-year terms, to provide for staggered elections of Committee members.

6. APPENDICES

Appendix A: Required Steps in Conversion Implementation Plan



Appendix B: Process for Transferring an Improvement District

The Improvement District Board of Trustees passes a resolution in favour of transferring responsibility for the fire department to the Regional District (the RD). A copy of the resolution is sent to the RD and the Ministry of Community Services.

The RD Board considers the Improvement District resolution. If the RD Board is in favour of taking over responsibility for the improvement district's services, they will need to pass a resolution and send a copy to the Improvement District and the Ministry of Community Services. At that same meeting, the Regional Board will also need to consider when they will pass a service area establishment bylaw.

Option 1. If the Regional Board passes the bylaw at that meeting, it can be given three readings and then submitted to the Inspector of Municipalities for approval. Following approval by the Inspector, the bylaw will require approval by the electors of the Improvement District. The RD can obtain the approval of the electors by referendum or by holding an alternative approval process. Both processes would take from six to eight weeks.

Option 2. If the Regional Board does not pass the bylaw at that meeting, it can be passed after Cabinet approves the transfer. The Cabinet Order can provide the RD with an exception to the requirement for the approval of the electors.

When the resolutions from the Improvement District and the RD are received by the Ministry of Community Services, a Cabinet Order is drafted to transfer all of the Improvement District assets, liabilities and bylaws to the RD. It generally takes four to five weeks from the time the Order is drafted to the time that Cabinet considers it. The Order can either provide that the transfer is effective from the date of Cabinet approval or at a future date. At the same time as the Order is drafted, a letter is sent from the Ministry to the Improvement District and the RD outlining the administrative considerations for transferring responsibility for the fire department from one jurisdiction to the other.

If the RD Board decided to go with Option 1, then they can adopt the service area establishment bylaw.

If the RD Board decided to go with Option 2, then the RD Board will need to give three readings to a service area establishment bylaw and submit it to the Inspector of Municipalities for approval. Once the Inspector has approved the bylaw, it can be adopted by the RD Board.

If the RD Board agreed to it, they can establish an advisory committee or commission.

The Ministry of Community Services sends a grant to the RD to cover the administrative costs for transferring services from the Improvement District to the RD.

Note: When considering a request to transfer an improvement district to a local government, Cabinet generally wants to know whether the public supports it. While a vote is not required for the transfer itself, the Improvement District and/or the RD may want to undertake a public information process.

Appendix C: Sample Administrative Transfer Letter



Corporate Officer
Regional District of
Address

Dear _____ :

In view of the resolution passed by the Regional District Board in favour of transferring responsibility for the services administered by the _____ Improvement District, to the Regional District of Central Okanagan, the Ministry will prepare an Order in Council for consideration by Cabinet that will authorize the transfer of its assets, liabilities and bylaws. The Order will provide that the area of the _____ Improvement District be a service area under Part 24 of the *Local Government Act* and that the service area establishment bylaw can be adopted under Section 802 with the consent of at least two-thirds of the participants [optional – this sentence is not necessary if the regional district establishes the service area before the OIC is passed.]

If Cabinet approves the Order, the transfer will take place on (a specific date or the date that the Order is approved by Cabinet) (and the Regional District will have until _____, _____ to adopt a service area establishment bylaw.) [optional – the second part of this sentence is not necessary if the regional district establishes the service area before the OIC is passed.] During the period between approval of the Cabinet Order and the effective date of the Order there will be a number of details that may need to be addressed while the _____ Improvement District (the improvement district) is still in place. The following is a partial listing:

A. Administrative

1. Documents at the Land Title Office will need to be completed by representatives of the Improvement District in order to convey any rights-of-way or property owned by Improvement District into the name of the Regional District.
2. All Improvement District bylaws will transfer to the Regional District which will then be responsible for enforcing them. Attached is an index of all bylaws passed by the Improvement District. Those bylaws which still appear to be relevant have been highlighted. The Regional District should repeal those bylaws which conflict with their own as soon as possible, ideally within one year.

3. The official seal of the Improvement District should be destroyed after the transfer takes place.
4. Steps should be taken to transfer all relevant contracts and agreements to the Regional District that may exist (e.g., vehicle registrations, utility accounts, and leases), or they may need to be cancelled.
5. Any Improvement District employee contracts or hiring agreements will need to be reviewed with regard to notice or severance provisions.
6. All records, including minute books, financial records, correspondence, etcetera, should be transferred to and retained by the Regional District for historical purposes. Care should be taken with personnel records to ensure the protection of employees' privacy.

B. Financial

1. Preparations should be made for financial statements to be completed for the Improvement District as at the date of transfer. As part of the audit process, an inventory of the Improvement District's assets should be taken. This includes office equipment.
2. All Improvement District bank accounts should be closed and the money transferred to the appropriate Regional District account or the signing authority on the existing accounts should be changed to include representatives from the Regional District.
3. Any reserve funds that the Improvement District has established are to be accounted separately by the Regional District to ensure they are not spent for any purposes except those for which they were originally collected.
4. The following outstanding debts are shown on the last financial statements for the Improvement District. The Regional District will assume the debt payments which are due on _____, _____ in each year.

Bylaw	Balance	Matures
--------------	----------------	----------------

For information purposes, I have also enclosed copies of the Letters Patent for the Improvement District. If I can be of further assistance, please do not hesitate to contact me.

Sincerely

Don Sutherland
 Director
 Advisory Services Branch

pc: _____ Improvement District / Attachments

Appendix D: Sample Order in Council

PROVINCE OF BRITISH COLUMBIA

ORDER OF THE LIEUTENANT GOVERNOR IN COUNCIL

Order in Council No. _____, *Approved and Ordered*

Lieutenant Governor

Executive Council Chambers, Victoria

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and consent of the Executive Council, orders that

1. Letters Patent dated _____, _____ incorporating the _____ Improvement District be revoked and the _____ Improvement District be dissolved.
2. All property, both real and personal, and all rights, powers and privileges arising out of any contract, agreement, collective agreement, covenant, or otherwise whatsoever, and all tasks, debts, actions, causes of actions, and all claims and demands whatsoever either at law or in equity pertaining to the _____ Improvement District shall transfer to, vest in, and belongs to the _____ Regional District (the Regional District).
3. Nothing in this Order shall impair or affect the rights of any creditor of the _____ Improvement District and the Regional District shall be liable for and subject to and shall pay, discharge, carry out and perform all debts, liabilities, obligations, contracts and duties of the _____ Improvement District.
4. Each bylaw, right, power, privilege, contract, resolution, order, regulation, restriction, license and permit of whatsoever kind and description passed, made, enacted, entered into and granted, and in effect, or in force in, or issued to, or by the _____ Improvement District insofar as they are within the powers of the Regional District, shall remain in full force and effect in and for the Regional District and each may be enforced, amended, or repealed by the Regional Board in the same manner as if they were passed, made, enacted, entered into, or granted by the Regional District.
5. A service area for the Regional District is established for the area comprising the _____ Improvement District for the operation of a fire department and a service area establishment bylaw shall be adopted by the Regional Board under section 781 (2) of the *Local Government Act* no later than _____, _____.
(optional – not necessary if the regional district establishes the service area before the OIC is passed)
6. This Order is effective _____, _____. (optional - an effective date is not always specified)

Minister of Community Services and Minister
Responsible for Seniors' and Women's Issues

Presiding Member of the Executive Council

(This part is for administrative purposes only and is not part of the Order.)

Authority under which Order is made:

Act and section: Local Government Act, Sections 735 and 781

Other (specify): _____

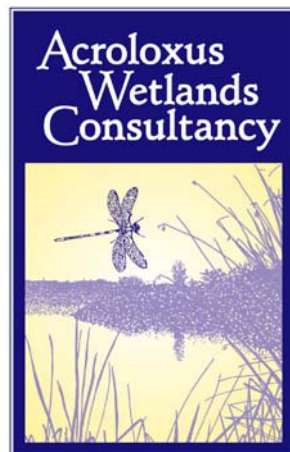
Appendix E: Examples of other Conversions in B.C.

Improvement District Conversion	GVRD and Cove Bay (3 areas)	Capital RD and Beddis	Thompson Nicola RD and Vavenby
Committee Composition	6 members: Must be residents, plus Electoral Area Director. Also 2 non-voting members (engineer and system operator)	5 members: 4 persons plus Electoral Area Director - 3 must be owners of real property - 1 owner, resident or other person	5 members: Must be residents or owners of property Plus non voting Electoral Area Director
Appointed By	Chair of RD Board based on recommendations of Area Director	Chair of RD Board - community nominates members to be appointed at each AGM – names forwarded to Secretary of RD Board	Chair of RD Board based on recommendations of Area Director
Length of Term of Service	3 years No remuneration	2 years	2 years Receipted expenses for monitoring system
Powers Granted by RD	Full administrative and daily powers: Minute keeping; annual budget; recommendations for capital projects and contracts; All admin powers of construction, equipping and supervising operation and maintenance; Authorizing expenditure in budget; Recommending bylaws.	All administrative & policy powers: Must establish policy re operation and provision of services e.g. levels of user charge, frontage taxes. Each year must approve and submit a budget – expenditure and revenue.	Advisory powers only: Assist with preparation of annual budget-finalized by Manager of Utility Services May assist Technician with physical operations and maintenance. Keep and forward minutes of meetings. May contract secretary e.g. as a minute keeper.
Powers Retained by RD	Lawmaking powers retained	Operational powers performed by RD staff. Right of approval of rules procedures and policies retained by RD Board.	RD retains management of service area
Community Input	Each of 3 areas has representative on Committee	AGM - 30 day notice posted to all owners and residents in service area	5 residents on Committee

Garden Bay Waterworks District Conversion Plan

SECTION THREE:

Financial Plan





Garden Bay Waterworks District Conversion Plan November 17th 2005

SECTION 3. Financial Plan

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1. INTRODUCTION

The Garden Bay Waterworks District (GBWD) and Sunshine Coast Regional District (SCRD) have entered into negotiations to consider the creation of a new service area to facilitate the integration of the GBWD and the SCR D's Hotel Lake water system (SCR D-HL). The Implementation Strategy in Section Two outlines the changes that would occur as a result of conversion. In this final section, the financial implications of conversion are considered and presented in a Financial Plan.

The primary drivers which have monetary effects include:

- Transferring the customers, assets and liabilities, and operational and administrative responsibility from the GBWD to the SCR D.
- Creating a new entity for budgeting and reporting purposes – according to the plan, the new service area will stand alone. All revenues generated and other monies received in the new service area are to be used within it (i.e. for operating, capital, and financial obligations) and will not affect the SCR D general operating budget. This makes it possible to isolate this area from an analytical point of view and treat it as an independent entity for financial modeling purposes.
- Creating a uniform rate structure for the new service area.

This document provides a brief operating comparison of both systems, discusses the changes that conversion are expected to bring, outlines a 10-year financial plan for the new service area that incorporates these projected changes, and documents and assesses the relative financial contributions of the parties in the merger. Integral to this is an analysis of future infrastructure requirements.

Future projections are based on the actual financial statements and budgets of GBWD, adjustments based on explanations and representations made by the GBWD, cost estimates offered by SCR D-HL, amounts for capital expenditures as detailed in recent engineering studies (Appendix C), and representations made by the respective parties concerning anticipated changes to these amounts. The basis of any capital estimates are premised on achieving the service level standards recommended under existing bylaws.

In addition to government mandates and/or regulatory changes, water conservation or supply issues could also have a material effect on any projected cash flow statement of either the current water systems or future service area.

Summaries of the current operations, infrastructure, customer base, and outlook for the GBWD and the SCR D-HL systems are provided in Appendices A and B respectively.

2. OPERATING COMPARISON - Data presented as of Sept 30, 2005

Current water taxes and tolls are very similar for the GBWD and SCRD-HL residential customers (Table 1).

	Garden Bay	Hotel Lake
Water Tax	\$185	\$171
Tolls	\$125	\$151
	\$310	\$322

The current GBWD system serves 350 residential customers, including 302 developed properties which pay both taxes and tolls and 48 undeveloped lots which pay taxes only. There are also 14 commercial customers. The SCRD-HL system serves 193 residential customers, including 100 developed lots which pay both taxes and tolls and 93 undeveloped lots which pay taxes only (Table 2). There is one commercial customer (Table 3).

	Garden Bay	Hotel Lake
Total Current Users	302	100
Total Now Paying Tax	350	193
Total Commercial	14	1
Total Potential Residential Lots (est.)	482	234

Based on these customer numbers and adding revenue from commercial accounts, expected yearly revenues are estimated at approximately \$121,500 for the GBWD and over \$48,500 for the SCRD-HL system (Table 3).

Expected Revenue	Garden Bay	Hotel Lake
Taxes	64,750	33,003
Tolls	37,750	15,100
Commercial (est.)	19,000	480
	\$121,500	\$48,583

From a reporting perspective, the GBWD maintains a set of audited books whereas the SCRD-HL income and expenses have been estimated. A comparison is shown in Table 4.

Table 4. Revenue and Expense Comparison		
	"Normal"	Estimate
	GBWD	SCRD - HL
Revenue		
Taxes & Tolls	125,000	48,000
Penalties & Sundry	1,500	576
Interest	-	-
Total	126,500	48,576
Expenses		
Administration		
Admin (Back Office)	13,250	1,865
Infrastructure Support	-	5,000
Office / Misc.	7,700	-
Professional Fees	4,600	-
	25,550	6,865
Operations		
Fees / licenses / insurance	18,000	-
Repairs & Maint.	36,000	16,428
Utilities	9,000	2,220
	63,000	18,648
Interest - LTD		
	-	-
Total Expenses	88,550	25,513
Surplus Before Capital Items	37,950	23,063

Note: The "normalized" GBWD figures shown in Table 4 were derived by removing certain extraordinary items from the 2005 budget to provide for "normal" amounts for operations, repairs, and office expenses (see Table 5). Due to several extraordinary / unusual items in the 2003 and 2004 actual statements, the 2005 budget offers a good basis for estimating these "normal" amounts. The impact of debt and cash balance has been eliminated for several reasons: 1) the high yield debt will actually be retired in 2007 with a sizable, growing, yet low-yielding sinking fund, 2) to include the short term effects of the existing debt would tend to distort the true forecast operating performance and thus has been treated separately, and 3) capital expenditure levels, which have yet to be determined, could easily change any forecast interest income and expense levels.

Expense amounts for the SCRD-HL are based on allocations of estimated expenditures.

In the absence of extraordinary items, both systems appear to be in solid operating shape, providing a surplus position before capital and financial items.

Table 5. "Normalized" GBWD Income Statement

GARDEN BAY WATERWORKS DISTRICT (GBWD)				
Income Statement	2003	2004	Budget 2005	Going Forward "Normal"
Revenue				
Taxes & Tolls	103,851	110,635	125,000	125,000
Connection Fees	1,000	10,350	2,000	
Capital Levies		8,000		
Penalties & Sundry	1,165	1,298	1,500	1,500
Interest	8,423	10,243	4,000	
Total	114,439	140,526	132,500	126,500
Expenses				
Administration				
Admin	13,029	13,223	13,000	13,250
Conference / conventions	55	119		
Office / Misc.	9,451	7,038	7,700	7,700
Professional Fees	3,467	2,789	4,600	4,600
	26,002	23,169	25,300	25,550
Operations				
Fees / licenses / insurance	12,194	17,679	21,360	18,000
Repairs & Maint.	33,586	24,154	36,800	36,000
Utilities	8,864	9,162	9,000	9,000
	54,644	50,995	67,160	63,000
Interest - LTD	18,759	18,759	18,759	
Total Expenses	99,405	92,923	111,219	88,550
Surplus Before Capital Items	15,034	47,603	21,281	37,950

3. TEN-YEAR FINANCIAL PROJECTION

3.1. Basis

A ten-year financial projection for the North Pender Harbour Water Service Area has been completed to present a reasonable scenario of future financial performance. This has been completed according to the following parameters.

- Utilizing the normalized GBWD Income Statement (Table 5).
- Adding in the SCRD-HL system, with revenue calculated based on stated customers and estimated costs.
- Adding in the effects of the GBWD debt (interest charges and additions to the sinking fund to retire the debenture in 2007). The sinking fund stood at \$143,579 as of 12/31/04 and will increase to the face amount of the debenture (\$185,000) by 12/15/07.
- The one-time income effects anticipated from developer contributions to the GBWD has been included in 2006.
- Adding in the effects of anticipated merger benefits and costs (discussed below).
- Utilizing the current GBWD water tax and toll rate structure.
- Reducing the tax rate in 2006 by \$20 (from the current \$185 to \$165). SCRD-HL residents would see their overall tax and toll rate decline by \$32 to harmonize rates across the service area.
- Projecting future increases in revenues anticipated to result from increases in both the tax base (i.e. lots in new GBWD and SCRD-HL developments paying the water tax) and toll base (new customers hooking in to the system and paying the added tolls).
- Incorporating interest income into revenues based on the projected average cash balance (the average of beginning and ending cash balances) and calculated using a 2% interest rate.
- Adjusting future expense amounts for inflation, deemed for the purposes of this analysis to be 2% per year, which is in line with that currently experienced in the Canadian and B.C. economies, and represents the mid-point (1% - 3%) of the target established by the Bank of Canada.
- Including capital items that have been recommended by the recent engineering studies – these are discussed in Section 4 (Infrastructure Considerations). Items

required to integrate the two systems are assumed completed in 2006 with pipe replacement assumed to occur over time.

- Adding in the capital and operating costs of implementing a water metering program, based on a comprehensive study commissioned by the SCRD in 2002. Note – the impact of any change in water tax and toll rates associated with water metering has not been dealt with as part of this analysis. Capital costs were assumed to be funded largely with grants (i.e. 2/3 of the cost with 1/3 paid for by the service area).
- The capital and operating costs associated with implementing a multi-barrier water treatment program were also included. Capital costs were assumed to be funded largely with grants (i.e. 2/3 of the cost with 1/3 paid for by the service area). Amounts given are indicative only and are not actual estimates.
- An increase in rates was assumed to occur in 2011 for inflation (bringing water taxes and tolls to about \$320 in that year). Actual rate increases would be decided on by the SCRD in conjunction with the Advisory Committee and will depend on priorities and requirements as they evolve.

The following adjustments have been made to account for revenue and operating changes going forward.

- Customer Base

- A) Taxpayers. The GBWD expects to add an additional 100+ new taxpayers in the district over 2005-06 as several new developments come on stream (see Appendix A for details). This would generate over \$20,000 in new revenue on an ongoing basis. The SCRD-HL anticipates adding an additional 41 taxpayers in 2006, which would generate an additional \$7,585 in revenue annually.

- B) Customers Paying Tolls. Build out in the SCRD-HL system is understood to be occurring on an orderly basis, with about 5 to 10 new users being added to the system each year (and thus paying tolls in addition to taxes). With the GBWD, several new developments are expected to come on stream and several new users will also be added each year.

- Insurance. Both the GBWD General Liability Insurance (\$13,800 for 2005) and the GBWD Trustee Liability Insurance (\$1,700 for 2005) would be eliminated. It is assumed that additional insurance provided by the SCRD (through MIA) might increase – a provision of \$1,000 has been made. Thus, there is a net merger benefit of \$14,500.

-

Administration. The SCRD will operate the new service area and the cost of the GBWD part-time administrative position will not be required (\$13,250 reduction). The SCRD has stated that it expects to charge the service area a 10% administrative fee, based on operating costs (note – this amount excludes costs of capital programs). There will also be a billing fee, based on an estimated 1/6 FTE and allocated based on the number of customers in the new service area – this converts to about \$225 (\$500 has been included in the projection). An amount has also been provided for senior SCRD infrastructure administrative staff (Infrastructure Support) – an amount of \$10,000 has been included for the new service area. The net savings amount to \$1,283, another benefit of merging the two water systems.

- Office. The GBWD estimates office expenses of approximately \$7,700, which includes \$2,200 for rent. The SCRD-HL and GBWD have estimated that office expenses, including rent, would be roughly \$4,000. This provides another net benefit of \$3,700.
- Operations. It is envisioned that the current GBWD operator, who is now an employee of GBWD will become part of SCRD staff and perform expanded duties. The operator is currently on salary at \$14,000. Accordingly, the amounts estimated by the SCRD-HL would be eliminated (totaling \$9,928), with additional time for the current operator (an amount of \$7,500 has been agreed to by the parties). This provides another net benefit of nearly \$2,500 from merging the two water services.

Table 6 outlines the “Pro Forma” Income Statement of the new service area.

Table 7 provides a ten-year financial projection for the new service area to assess the general level of financial performance which the new service area might be expected to realize.

Table 6. Pro Forma "Normalized" Income Statement Estimate of New Service Area

GBWD, SCRD-HL PRO FORMA 2005 ("Normalized" - No Debt)									
	"Normal" GBWD	Estimate SCRD - HL	Total	Adjustments					2005 Pro Forma
				Elim. Debt	Insur.	Audit	Ops	Admin	
Revenue									
Taxes & Tolls	125,000	48,000	173,000						173,000
Penalties & Sundry	1,500	576	2,076						2,076
Interest	-		-	-					-
Total	126,500	48,576	175,076	-	-	-	-	-	175,076
Expenses									
Administration									
Admin (Back Office)	13,250	1,865	15,115					(6,283)	8,832
Infrastructure Support		5,000	5,000					5,000	10,000
Office / Misc.	7,700		7,700					(3,700)	4,000
Professional Fees	4,600		4,600			no diff.			4,600
	25,550	6,865	32,415	-	-	-	-	(4,983)	27,432
Operations									
Fees / licenses / insurance	18,000		18,000		(14,500)				3,500
Repairs & Maint.	36,000	16,428	52,428				(2,428)		50,000
Utilities	9,000	2,220	11,220						11,220
	63,000	18,648	81,648	-	(14,500)	-	(2,428)	-	64,720
Interest - LTD	-		-	-					-
Total Expenses	88,550	25,513	114,063	-	(14,500)	-	(2,428)	(4,983)	92,152
Surplus Before Capital Items	37,950	23,063	61,013	-	14,500	-	2,428	4,983	82,924

Insurance	
Eliminate General Liability Insurance	(13,800)
Eliminate GBWD Trustee Insurance	(1,700)
Add Insurance Through MIA	1,000
Operations	
Eliminate SCRD-HL Hourly Estimates	(9,928)
Add more time for Operator	7,500
Admin	
Eliminate GBWD admin position	(13,250)
Eliminate former SCRD-HL back office admin	(1,865)
Add new back office admin (10% of revised costs)	8,332
New Billing Expense for GBWD (1/6 FTE)	500
Add'l Infrastructure Support	5,000
Office	
Current Office Expense	(7,700)
New Expense Incl. Rent	4,000

Table 7. Ten-year Financial Projection for New Service Area

Cost Inflation		2%											
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
New Customers - Taxes													
GBWD													
Farrington Cove	54		54										
Pender Harbour Landing	40		40										
Pine Haven	23		23										
Oyster Bay	15		-										
SCRD-HL			41										
			158	-	-	-	-	-	-	-	-	-	-
Total Retail Customers - Tax Base													
GBWD		350	467	467	467	467	467	467	467	467	467	467	467
SCRD-HL		193	234	234	234	234	234	234	234	234	234	234	234
Total		543	701	701	701	701	701	701	701	701	701	701	701
Tax Rate													
		\$ 165	\$ 165	\$ 165	\$ 165	\$ 165	\$ 165	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182
Total Revenue - Taxes		89,595	115,665	115,665	115,665	115,665	115,665	127,704	127,704	127,704	127,704	127,704	127,704
New Customers - Tolls													
GBWD													
Existing Developments	48		2	2	2	2	2	2	2	2	2	2	2
Farrington Cove	54		5	5	5	5	5	5	5	5	5	5	5
Pender Harbour Landing	40		4	4	4	4	4	4	4	4	4	4	4
Pine Haven	23		4	4	4	4	4	3	-	-	-	-	-
Oyster Bay	15		-										
SCRD-HL			5	5	5	5	5	5	5	5	5	5	5
			20	20	20	20	20	19	16	16	16	16	16
Total Retail Customers - Toll Base													
GBWD		302	317	332	347	362	377	391	402	413	424	435	446
SCRD-HL		100	105	110	115	120	125	130	135	140	145	150	155
Total		402	422	442	462	482	502	521	537	553	569	585	601
Average # Customers Through Year			412	432	452	472	492	512	529	545	561	577	593
Toll Rate													
		\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 138	\$ 138	\$ 138	\$ 138	\$ 138	\$ 138
Total Revenue - Tolls		95,500	52,750	54,000	56,500	59,000	61,500	70,592	73,007	75,216	77,424	79,632	81,840

Table 7. Ten-year Financial Projection for New Service Area - Continued

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Revenue													
Taxes & Tolls - Residential	150,603	168,415	169,665	172,165	174,665	177,165	198,296	200,711	202,919	205,127	207,335	209,543	
Commercial	19,480	19,480	19,480	19,480	19,480	21,086	21,086	21,086	21,086	21,086	21,086	21,086	
Penalties & Sundry	2,076	2,322	2,339	2,373	2,408	2,442	2,733	2,767	2,797	2,828	2,858	2,888	
Interest	-	6,276	5,408	3,291	1,689	1,089	674	397	226	642	1,507	2,367	
Total Revenue	172,159	196,492	196,891	197,309	198,242	201,782	222,789	224,960	227,028	229,682	232,786	235,885	
Expenses													
Administration													
Admin (incl. billing)	10%	8,832	8,832	8,999	9,226	12,620	12,936	13,258	13,593	13,953	14,262	14,566	14,867
Infrastructure Support		10,000	10,000	10,200	10,404	10,612	10,824	11,041	11,262	11,487	11,717	11,951	12,190
Office / Misc.		4,000	4,000	4,080	4,162	4,245	4,330	4,416	4,505	4,595	4,687	4,780	4,876
Professional Fees		4,600	4,600	4,692	4,786	4,882	4,979	5,079	5,180	5,284	5,390	5,497	5,607
		27,432	27,432	27,971	28,577	32,358	33,069	33,794	34,540	35,318	36,055	36,795	37,540
Operations													
Fees / licenses / insurance		3,500	3,500	3,570	3,641	3,714	3,789	3,864	3,942	4,020	4,101	4,183	4,266
Repairs & Maint.		50,000	50,000	51,000	52,020	53,060	54,122	55,204	56,308	57,434	58,583	59,755	60,950
Utilities		11,220	11,220	11,444	11,673	11,907	12,145	12,388	12,636	12,888	13,146	13,409	13,677
Metering - Reading / Data Entry				574	1,662	2,614	3,492	4,368	4,807	4,903	5,002	5,102	
Metering - O&M Replacement				-	219	547	953	1,453	2,047	2,438	2,719	2,906	
Metering - Operations Savings				-	(1,231)	(1,758)	(2,285)	(2,813)	(2,813)	(2,813)	(2,813)	(2,813)	
Op. costs for multi barrier system					32,127	32,770	33,425	34,093	34,775	35,471	36,180	36,904	
		64,720	64,720	66,014	67,909	101,458	104,228	107,041	109,988	113,160	115,829	118,434	120,992
Interest - LTD		18,759	18,759	18,759									
Total Expenses		110,911	110,911	112,744	96,486	133,816	137,297	140,834	144,528	148,478	151,884	155,229	158,532
Surplus Before Capital Items		61,248	85,581	84,147	100,823	64,426	64,484	81,955	80,432	78,550	77,798	77,352	

3.2 Observations

Currently, both the GBWD and the SCRD-HL systems are in good standing – both are well operated and produce a surplus, excluding capital items. On an “as is” basis, the combined operating surplus (before capital and financial items) of the two separate systems total over \$60,000.

Combining the systems may result in cost savings of about \$22,000 annually.

In the future, using reasonable assumptions, revenue is expected to increase as a result of adding new customers (particularly from the short term effects of adding new taxpayers).

These figures have been projected based on maintaining a relatively high level of operations and service levels.

After the debt is paid off in 2007, in 2008 the surplus before capital items is projected to be approximately \$100,000 which incorporates the \$20 rate reduction.

According to these calculations and based on best available evidence, the new service area can be expected to maintain operations and accommodate an orderly upgrade to its system for the future (this will depend on the extent of cost increases).

The net cash flow surplus could be used in several ways, including:

- a) Paying for recommended infrastructure programs, such as continued pipe replacement, water metering, and a multi barrier program.
- b) Reducing water taxes and tolls.
- c) Providing for other mandated infrastructure and other programs which are not planned or budgeted for at this time.
- d) Contributing towards future planning needs.

For the purposes of this analysis, all of the programs in “a” above were assumed to be implemented. The capital costs associated with the water metering program are assumed to occur over a five year period. The capital costs of the multi barrier system are assumed to occur over one year, and financed with debt (to the extent that \$100,000 is left as a cash balance at the end of the year).

4. INFRASTRUCTURE CONSIDERATIONS

Infrastructure considerations have been investigated from the point of view of assessing future financial performance and also with respect to how they may affect the relative contributions of the parties.

4.1. GBWD Infrastructure Requirements

A recent review of the community water system was conducted by Sunshine Coast Engineering, with a report completed in May, 2005. The review included defining the physical infrastructure of the existing system and reviewing the system capacity under domestic demand and fire flow conditions. The impact of three proposed developments to the West and a further expansion to the East was investigated.

According to the study, the existing GBWD system is deemed to be flexible and able to meet current domestic and fire flow volumes. However, deficiencies exist where fire hydrants are serviced by 102 mm (4") lines (limited fire flows). From the point of view of new development, the system may not have sufficient reserve capacity for fire fighting. Recommendations included a program of upgrading pipes, installing a new tank, and upgrading the pump house. Rough order of magnitude costs were estimated as follows:

Install additional 240 m ³ tank	\$75,000
Install 2 new 2500 LPM pumps	\$40,000
Replace approx. 2000 m of 100 mm piping with 200 mm	\$400,000

Under a merger, the need for the additional tank and pumps would be eliminated (\$115,000), but there would be an additional cost (\$30,000) to install new Pressure Reducing Valves in the SCRD-HL system.

There are several issues that are as yet unresolved:

- About 2/3 of the piping expenditure is related to Claydon Road, which currently services about 20 residences. The Fire Chief is apparently now satisfied with the situation, having completed field testing using real equipment.
- Much of the 4" piping at the GBWD system is believed to be made from asbestos cement, and eventually would be replaced.

As a practical matter, both parties acknowledge that existing infrastructure in water systems is never perfect and improvements are made to satisfy standards where new development is occurring, where there is an obvious need for major improvement(s), and as funds are available to fund other identified items. The GBWD and SCRD-HL feel that pipe replacement would likely be undertaken over the medium to long-term (i.e. 10 years) as an ongoing program.

Financially speaking, therefore, the GBWD does not appear to have major infrastructure concerns and ought to be able to sustain its financial health for the foreseeable future as a stand-alone entity, particularly after the debenture is extinguished.

4.2. SCRD-HL Infrastructure Requirements

The Hotel Lake system currently has two “zones” – a lower zone fed from Hotel Lake with a cement storage tank and an upper zone that provides a large storage tank (104,000 gallons) fed by water from two booster pumps.

A recent capacity review of the community water system was conducted by Sunshine Coast Engineering, with a draft report completed in October 2005. This review identified two significant deficiencies:

1. Insufficient storage capacity in the lower zone
2. The need to upgrade the Hotel Lake pumps to meet increased demand caused by new development in the Daniel Point area.

More importantly, this review recommended combining the two zones by eliminating the Hotel Lake tank and the Orca Road booster station and pumping water directly from Hotel Lake to the large tank above Daniel Point. This option would be simpler and cost less than keeping the two zones as they exist today. For this option, two new 1500 LPM pumps would be required (in addition to the cost of removing the existing tank and booster pumps). Implementing this option would result in an increase in pressure in what is now the lower zone by about 75 psi and as a result pressure reducing valves might need to be installed.

Install 2 new 1500 pumps	\$60,000
Remove existing tank	\$5,000
Remove booster pumps	\$5,000
Replace 490m of piping	\$98,000

4.3. Integrating the Infrastructure of the Two Systems

The recent SCRD-HL engineering review also considered the infrastructure issues associated with joining the GBWD and SCRD-HL systems. The proposed subdivision of properties to the east of Irvines Landing and the expansion of the GBWD system to service these new developments makes this a relatively straightforward proposition. The physical connection of the two systems could occur where the new development of Pender Harbour Landing abuts the existing 150mm line on Irvines Landing Road.

The main advantage identified with integrating the two systems is that there is no need to upgrade the GBWD pump house and to install new pumps. It would be necessary however to install new PRV valves at the SCRD-HL tank (\$30,000)

To connect the two systems, \$10,000 has been estimated for 50m of new 200mm pipe; with the connection made at the new Pender Harbour Landing property.

The report also mentions significant benefits of joining the two systems:

"The requirement for upgrading the Garden Bay system, as described in Reference A, would be reduced."

"The combined system would have redundancy in all major components allowing tanks and pumps to be taken off line for repair without interrupting service."

"The total amount of stored water available for fire fighting would increase."

"The amount of water drawn from each of the lakes could be controlled."

"An opportunity to add additional redundancy, by creating a loop from the new development of Pender Harbour Landing to the bottom of Irvines Landing Road, would be created."

4.4. Observations - Infrastructure

From the information obtained, several general observations are apparent.

- Both sides have substantial, but manageable, infrastructure requirements and there is no great imbalance in these given the relative sizes of the systems and their respective revenue bases. While the GBWD may have a greater need to invest in infrastructure in the future (which may be obviated or mitigated) these could be funded through its existing cash balance and from operations (over an extended period).
- There are substantial identifiable benefits to integrating the two systems.
- The cost of integration is very low.

5. RELATIVE CONTRIBUTIONS OF THE PARTIES

Each party brings to the merger a series of existing assets and liabilities and the combination of the two systems results in quantifiable benefits. An assessment of the balance of contributions between the parties has been conducted. A summary is shown in the table below (Table 8), followed by a discussion of the items involved.

Table 8: Relative Contributions of GBWD and SCRD-HL to the New Service Area

	GBWD	SCRD-HL	Comments
1 Financial Items			
Cash - ING (10/5/05)	277,442		excludes \$32,794.40 (Oyster Bay)
SCCU (10/5/05)	38,458		
Net Debt	(41,421)		
Accts Rec., GST Rebate (9/26/05)	7,645		
Lot 1, Garden Bay Rd.	80,000		
Payable - other	(30,000)		
Future developer contributions			
Farrington Cove	received		
Pinehaven	40,000		received
Pender Harbour Landing	162,000		includes the benefit of PHL funding 50 m pipe, valves for connection
Oyster Bay	now held at ING (if incl. will be shown in ING acct)		
Total - Financial Items	534,125	-	
2 Capital Items			
Major Infrastructure Required			
GBWD New Tank, Pump Req.		85,000	Net \$30,000 for PRVs vs. \$115,000 from GBWD investing in pumps, existing tanl
Hotel Lake Improvements	5,000	(65,000)	
Pipe Upgrades	(400,000)	(98,000)	
Longer Term Improvements			to be part of new system and shared throughout system
Multi barrier, water metering			
Total - Capital Items	(395,000)	(78,000)	
3 Existing Operations			
Capitalized Value of Surplus	399,474	242,768	based on "normalized", estimated amounts
4 Adjustments for Operations Changes			
			Yearly Benefit
Insurance	-	152,632	14,500
Admin	-	13,505	1,283
Office	-	38,947	3,700
Operations	25,558	-	2,428
Operations - Other			not quantified (operator able to look after other SCRD infrastructure)
Total	25,558	205,084	21,911
5 Adjustments for Revenue Improvements			
GBWD \$20,000+ in new tax revenue per year ov	203,211	71,211	<i>Not normally quantified, but significant differential in this case</i>
			<i>Note - better existing efficiencies in HL system (higher relative tax revenue captured above in "Operations" changes)</i>
Total After Revenue Items	767,367	441,063	
	64%	36%	
Number of customers - 2006 taxpayers	467	234	
6 Intangibles			
Better fire protection (backup, storage)			shared
Balanced, distributed water system			shared
Access to 2 water supplies			shared, more benefit to HL
Access to government grants		x	uncertain, more benefit to GBWD
Access to lower cost debt facility		x	uncertain future need, more benefit to GBWD
Trustees replaced by prof. staff		x	more benefit to GBWD (but only if trustees resign)
Less expensive contractor	x		
Savings from having to pay GBWD for water	x		could be clear benefit to HL

5.1. Financial Assets and Liabilities – data as of 30th Sept 2005

The GBWD has the following assets and liabilities:

- Cash of \$277,442 (ING), which *excludes* \$32,794 in a separate account for Oyster Bay – this may have to be returned if these residents do not receive their grant and become part of the GBWD.
- Various accounts at the Sunshine Coast Credit Union – totaling \$38,458.
- Net debt at year end 2004 of (\$41,421) - \$185,000 Debenture less Sinking Fund (held by the Province) of \$143,579.
- GBWD also has accounts receivable and a GST rebate totaling \$9,539.
- Lot 1, Garden Bay Road – estimated value of \$80,000 - \$85,000 by a local realtor.
- Sundry accounts payable of \$30,000.

The SCRD-HL system has no cash balance or term deposits. It has not yet been determined whether any SCRD accounts receivable or other financial assets will be rolled in to the new service area.

The GBWD is expecting the following contributions from new developments:

- Pinehaven - \$40,000 is outstanding. (This represents the final amount due. \$60,000 has already been received to date)
- Pender Harbour Landing - \$162,000 is expected to be received in 2006. (This includes 40 lots @ \$4,000/lot + \$2,000 subdivision charge)
- Oyster Bay – amounts have been received but are not included. (see above)

In the SCRD-HL system, no new developer contributions (i.e., DCC's) are projected.

5.2. Capital / Infrastructure Items

A recent engineering review of the GBWD system, conducted by Sunshine Coast Engineering in May 2005, identifies a need for a new water tank and an upgrade to the pump house, at a total cost of \$115,000. However, with a merger, the infrastructure of the GBWD system can be linked to the SCRD-HL infrastructure, eliminating this requirement. To link the systems, new PRVs must be installed at the SCRD-HL tank, at an estimated cost of \$30,000. The difference between these two amounts (\$85,000) is a benefit that the SCRD-HL brings to the new entity.

A recent engineering review of the SCRD-HL system, conducted by Sunshine Coast Engineering in October 2005, identifies \$70,000 worth of tank and pump improvements required in the system. Of this total, \$5,000 represents the cost of removing the existing tank at Hotel Lake. If the two systems are merged, the removal of the existing tank can be completed by the GBWD (by having the Pender Harbour Landing developer remove it with equipment that is already onsite). Thus, the GBWD can capture the \$5,000 benefit, while the SCRD-HL system will bring a net liability of \$65,000 to the merger.

These recent engineering reviews also recommended pipe replacements in both systems. In the SCRD-HL system, a recommendation was made to replace 490 m of pipe at a cost of \$98,000.

In the GBWD system, deficiencies have been identified related to fire hydrants serviced by 4" lines (limited fire flows). The effect of replacing 2000m of these lines is included at a cost of \$400,000.

5.3. Existing Operations

To assess the value of the existing systems as they stand now, the projected income levels of the two parties (see Table 4) was quantified to capture the present value of these net revenue streams. This was accomplished through capitalizing these amounts based on an appropriate "discount rate". In equity markets, this would normally be a rate which accounts for the time value of money, risks, and is related to expected rates of return and opportunity costs for capital. Similarly, with debt instruments, prices are usually determined by discounting future income streams by the appropriate interest rate, adjusted for risk. In the case of a non-profit entity that can and does raise debt funding for capital projects, an appropriate discount rate would be the debt rate (i.e. operating savings reduce the debt load). Accordingly, a rate of 9% has been used to value operating improvements. The amounts shown are calculated by dividing the net revenue by the discount rate (i.e. for the GBWD, \$37,950 / 9%).

5.4. Longer Term Improvements

It is the wish of both parties that the levels of service continue to improve. There are now statutory requirements in place requiring multi-barrier water treatment systems. The major short-term "requirements" are believed to have been captured in the analysis and these longer term improvements should not affect the net assets or liability that each party brings to the merger at this stage.

5.5. Adjustments for Operations Changes

Table 7 documents the expected operational changes and the associated costs. The net amounts are shown in Table 8 and capitalized in a similar fashion as the existing operations (see 5.3).

5.6. Revenue Improvements

There is a clear short term tax revenue improvement anticipated in the GBWD. New developments are expected to add an additional 100+ new taxpayers to the district by 2006. These customers are expected to generate about \$19,300 in new tax revenue on an ongoing basis. Similarly, the SCRD-HL is expected to bring on about 43 new taxpayers in the near term, generating an additional \$6,700 in revenue annually.

These improvements have been capitalized as with the existing operations and adjustments to operating changes – and based on the reduced tax rate (assumed to be instituted in 2006).

With respect to toll revenue, within the SCRD-HL system, undeveloped lots are being developed at a rate of 5 to 10 properties per year. As these customers become water users, they start to pay tolls in addition to the taxes that they are already paying. The several new developments in the GBWD system are also expected to result in 10+ new toll payers annually.

5.7. Intangible Benefits

Intangible benefits associated with the creation of a new service area include:

- Shared benefits - the new system is predicted to be flexible and evenly distributed. The access to two water supplies offers each system substantial advantages in risk management and water quality management.
- Other benefits not quantified but provided by the parties include various financial, operational, and water access costs.

These have not been quantified in this analysis.

6. CONCLUSIONS

There are several important conclusions from a financial perspective.

- Both parties bring financially well-managed water systems to the merger.
- Integrating the two systems into a new Service Area not only has nominal associated costs, it results in net capital cost savings.
- Joining the systems is expected to result in annual operating cost savings.
- Using reasonable assumptions, additional revenue is projected with little or no associated increases in operating costs.
- The new Service Area can maintain operations and accommodate an orderly upgrade to its system over a period of time, without the need for a rate increase, over the medium term. Given the projected operating surpluses, rate increases will be largely determined by capital programs undertaken
- With the added provision of government grants, the stronger, more financially capable Service Area formed by the merger is better able to serve the needs of ratepayers and undertake significant capital programs, such as water metering and multi-barrier treatment systems
- Both parties contribute significant, positive merger benefits in several areas, including savings in operations, administration, and insurance.
- Both the GBWD and SCRD-HL systems contribute intangible benefits that have not been quantified, in areas including finance (i.e. access to government grants, more favorable borrowing terms), operations (having dedicated professional staff), and from having a more balanced and flexible water system.

7. APPENDICES

Appendix A. GBWD System Summary

Customer Base. The GBWD operates and maintains a community water system in Garden Bay, B.C. The water system was established in 1960 and has evolved and expanded as the community has grown. It now serves:

- **302** residential customers that pay both the water tax and the tolls (current users)
- An additional **48** properties that pay the water tax (total **350** paying water tax), and
- **14** commercial customers.

This district is beginning to approach maturity as the defined boundaries begin to run into Crown Land.

However, there are several current and planned developments that may increase the GBWD customer base to approximately **482** residential customers (including Oyster Bay) as shown below (**134** additional lots in total). No additional commercial customers are anticipated.

In addition to developers paying all direct costs for water infrastructure and connection to the GBWD for their development, they also will pay the GBWD amounts that are negotiated with the GBWD. The GBWD does not charge developers specific Developer Cost Charges (“DCCs”).

Development	# Lots	Anticipated Developer Contribution	Status / Comments
Farrington Cove	54	Received	▪ Breaking ground, 3 now paying water tax.
Pine Haven / Rockwater	23	\$40,000	▪
Pender Harbour Landing	40	\$160,000	▪ Amount is net of expected \$10,000 expected to connect GBWD with SCRD-HL (50 m of pipe plus valves etc.).
Oyster Bay	15	Received	▪ \$32,000 now held in trust account – will be returned if government grant is not approved

Infrastructure. Water is pumped from Garden Bay Lake to a 240,000 litre storage tank located above Lane Road. The pump house is located near the junction of Garden Bay Road and Lockhaven Road. The primary pumps are two 40 H.P. vertical shaft pumps. A third smaller backup pump is also installed. There is also a 110,000 litre storage tank located near Panorama Drive. This tank is not in use.

Operations. Current operations include: ❶ maintenance and monitoring, ❷ administration (finance, reporting, billing), ❸ capital improvements, ❹ trustee oversight.

1. Maintenance and monitoring. The staff position of “Pumphouse and Waterworks Operator” was offered to the employee effective January 1, 2003. Salary is now \$14,000. Duties include daily duties (ensuring pumps are running properly, taking and recording pump meter readings, checking and changing out chorometers, etc.) weekly duties (operate the spare third pump), bi-weekly duties (taking samples to Sechelt Health Unit), monthly duties (run gen set, provide preventive maintenance to pumps as required, ensuring sufficient chlorine and other supplies are present, ensuring the oil tank for the gen set is topped up, etc.), quarterly duties (obtain and record meter readings from the District meters), and annual duties (take water samples from the lake for analysis, ensure the water tank warning light is functioning, have a diver check and clean the intake pipe and diffuser for growth, arrange annual maintenance of the gen set. Emergency repairs are in addition to these duties and paid on an hourly basis (\$25 / hr).
2. Administration. This staff position was established by the Board of Trustees under bylaw # 97 (May 15, 2001). Responsibilities are split into corporate administration (taking minutes, maintaining / safekeeping or records, signing and certifying copy of bylaws / documents, accepting notices and documents, keeping the Improvement District seal), and financial administration (receiving money paid, keeping all funds and securities of the district, expending and disbursing money, investing funds allowed under Section 745(4) of the Local Government Act, preparing / maintaining / keeping safe accurate records and full accounts, and compiling / supplying information on the financial affairs of the district required by the Inspector of Municipalities).

The Administrator is expected to be normally in attendance during office hours (7 hours per week). Arrangements must be made for remote monitoring of telephones when not in attendance. The salary is based on an average of 13 hours per week, or about \$13,000 per year. This position has recently been vacated.

3. Capital projects. In November, 2002, GBWD entered into a contract with Indian Isle Construction (1982) Ltd. pursuant to which Indian Isle would provide service in the form of repairing, replacing, maintaining water lines as required. Labour costs would be \$25 per hour for employees and \$30 per hour for the President. Indian Isle would be required to maintain WCB coverage. A list of equipment and hourly rate charges was specified (Ex 150 Excavator - \$85, Kx 161 Excavator - \$70, JCB C/W Compactor - \$85, JCB Backhoe - \$80, Dump Truck - \$65). Materials required

would be purchased at Curtis Lumber (Sunshine Coast) Ltd. on the account of the GBWD.

4. Trustees. According to B.C.'s Local Government Act (Part 23), the powers of an improvement district are to be exercised and its property is to be managed by elected trustees. The Trustees of GBWD exercise a very hands-on approach to managing the waterworks, providing a significant cost savings benefit to ratepayers.

The GBWD appears to be run relatively efficiently insofar as there is no superfluous overhead or "supernormal" contractor profits. However, the GBWD cannot be said to enjoy economies of scale, particularly with its administrative operations. There is also a very significant insurance charge for General Liability that has recently increased materially.

Appendix B. SCRD-HL System Summary

Customer Base. The SCRD operates and maintains a community water system in the Hotel Lake / Irvines Landing / Daniel Point area. It now serves:

- **100** residential customers that pay both the water tax and the tolls (current users)
- An additional **93** properties that pay the water tax (total **193** paying water tax), and
- **1** commercial customer.

As with the GBWD, the area is beginning to approach maturity. It is estimated that there is potential for a total of **234** lots, excluding the potential for a condominium development at Irvines Landing. The area continues to experience new development at Daniel Point, where approximately 5 to 10 new lots are brought online each year to the water system.

Infrastructure. Water is pumped from Hotel Lake to a 51,500 litre concrete storage tank located south of Hotel Lake Road. The pump house is located near the junction of Hotel Lake Road and Irvines Landing Road. The pump house contains two 10 H.P. pumps with capacities of approximately 416 LPM each. Only one pump is operated at one time. The tank feeds a low-pressure distribution network primarily consisting of 150 mm mains running south and west along Irvines Landing Road and Lee Road.

A booster station is located on Orca Road. Two Grunfos 7.5 HP multi stage pumps pump water to a 473,000 litre steel storage tank located on the hillside above Daniel Point. This tank feeds a second, higher pressure zone, which consists primarily of 200 mm mains. It is in this upper zone where most of the service expansion is expected to occur. A manually controlled 50 mm bypass pipe allows water to flow back down from the upper zone to the lower zone if required.

Operations. Current operations include: ❶ maintenance and monitoring, ❷ administration (finance, reporting, billing), ❸ capital improvements, ❹ trustee oversight.

1. Maintenance and monitoring. Now completed by SCRD staff which visit the area about 3 times per week. Monitoring the Hotel Lake system is only one of the duties of staff, and the expenses associated with this job are estimated, based on an allocation of time and vehicle costs. Duties include: i) daily checks (4 hrs / wk), ii) filter maintenance (15 hrs / year), iii) hydrant flushing (24 hrs each two years), and iv) vehicle cost (235 hrs). The SCRD estimates that about 1/3 of these costs are simply travel-related.
2. Administration. There are two aspects to administrative charges – i) corporate overhead, and ii) billing. Both functions are part of the larger SCRD system. Allocations of overhead to the various SCRD departments are based on their various needs, including HR.

3. Capital projects. The SCRD has a significant Works department that undertakes capital projects and does not normally contract out these operations. Where advisable, the SCRD attempts to use local equipment (i.e. backhoe, excavators, etc.).

Because the SCRD-HL is administered by the SCRD organization, there are clear economies of scale.

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