

Columbia Basin Trust

2015/16 – 2017/18 SERVICE PLAN



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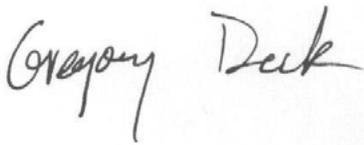
or visit the Trust website at

cbt.org

Accountability Statement

The 2015/16 – 2017/18 Columbia Basin Trust service plan was prepared under the Board’s direction in accordance with the *Budget Transparency and Accountability Act*, the BC Reporting Principles and the Trust’s obligations under the *Columbia Basin Trust Act*. The plan is consistent with government’s strategic priorities and fiscal plan, while guided by the priorities of residents in the Columbia Basin. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 22, 2015, have been considered in preparing the plan. The performance measures presented are consistent with Columbia Basin Trust’s mandate and goals, and focus on aspects critical to the organization’s performance. The targets in this plan have been determined based on an assessment of Columbia Basin Trust’s operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink that reads "Gregory Deck". The signature is written in a cursive style and is positioned above a faint, light-colored rectangular stamp or watermark.

Greg Deck, Board Chair

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Strategic Direction and Context

Strategic Direction

The respective roles and responsibilities of the provincial government and the Trust are established in numerous agreements and legislation, including the 1995 *Financial Agreement* and the *Columbia Basin Trust Act*. The Trust also operates under the Taxpayer Accountability Principles.

Under the Province's Mandate Letter, the Trust has agreed to the following two specific priority actions for 2015/16: (View it at cbt.org/mandateletter.)

- Continue a Basin-wide engagement process to fully understand local and regional priorities and determine how best the Trust can work collaboratively with communities to address these priorities in the coming years.
- Advance discussions with local government, First Nations and provincial partners to develop an aligned Board appointment process (within the existing Board appointment process legislated in the *Columbia Basin Trust Act*) that ensures the Board of the Trust has the requisite balance of skills to lead the organization.

The *Columbia Basin Management Plan* strategic priorities provide a high-level road map to focus the Trust's work in the Basin. Greater direction is captured in specific five-year strategic plans.

Operating Environment

Over the next few years, the Trust expects its revenue to increase substantially (to over \$55 million in 2016/17). There are two drivers for this. First, a new power sales agreement at Arrow Lakes Generating Station will come into effect partway through 2015/16. Second, the Waneta Expansion Project is expected to begin commercial operation in spring 2015.

This growth means the Trust will have an increased opportunity to help communities address their priorities, and we are engaging with Basin residents to determine how we can best serve their needs.

As part of our ongoing efforts to improve our business practices and meet the demands of delivering benefits with the increased revenue, we are also enhancing the capacity of our corporate support mechanisms. This includes refining our enterprise risk management framework, introducing a new records management platform, developing a disaster recovery and business continuity plan, and reviewing our website and online presence.

Other factors that could have significant impact in the coming year include:

- 1) **Waneta Expansion Project:** A delay in completion of the project may result in increased costs and/or revenues not being received as forecast. We continue to work with the project partners to oversee construction and ensure the budget and schedule are maintained.
- 2) **Dependence on Power Investments:** Approximately 80 per cent of the Trust's revenue comes from power investments; this will increase in 2015/16 and 2016/17. In the event of a material disruption to this revenue stream, it is possible we would need to re-evaluate budgets to ensure net income targets are achieved. To partially mitigate this risk, we will continue to focus on diversifying investments and actively monitoring revenue and expenditure forecasts.

Performance Plan

Goals, Strategies, Measures and Targets

The Trust has two core functions:

- Invest capital and manage the assets of the Trust (managed by the **Investment Program**)
- Use the income earned to deliver benefits to the Basin (work referred to as **Delivery of Benefits**).

These are supported by **Corporate Operations**, which includes communications, accounting, administration, information technology and human resources.

As all three of these areas are vital to the Trust, they each have their own goals, strategies and performance measures, outlined below. Each goal, strategy, performance measure and target were carefully selected to help us achieve our mandate to manage our assets for the ongoing social, economic and environmental benefit of the region.

The Taxpayer Accountability Principles are reflected in how we work in all of these areas, and are guided by a robust code of conduct, a commitment to performance management, a culture of cost-consciousness, and respectful and transparent communications with residents and the Province.

Goal 1: Investment Program

Generate a predictable, sustainable and appreciating income stream to fund Delivery of Benefits obligations and corporate operating expenses.

Strategies

- Communicate directly with financial partners throughout the Basin in order to originate high-quality investment opportunities.
- Develop strong working relationships with the management of companies in which the Trust has invested in order to fully appreciate risk, as well as uncover future opportunity.
- Identify and develop investment opportunities that target areas of quality risk not otherwise addressed by conventional lenders.
- Remain fully engaged with Columbia Power Corporation and Fortis Inc. during the development of the Waneta Expansion Project. Continue to work closely with partners during the operating phases of all power projects.

Performance Measures: Investment Program

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Return on Power Projects (calculated as a cash-based return on investment)	11.2%	12%	8%	8%	8%
Return on Private Placements (calculated as a cash-based return on investment)	6.1%	6.5%	8%	8%	8%
Return on Market Securities	14.2%	10%	6%	6%	6%

Discussion

In the case of **Power Projects**, the structure of investments—as defined by various agreements between the Province of BC, Columbia Power Corporation and the Trust—is challenging to reconcile against those commonly observed in the private market. As such, it is difficult to compare the performance of Power Projects against other hydroelectric facilities. Despite this, we arrived at performance objectives by evaluating historical performance and balancing those returns against those forecast over the next five years. We chose a cash-based return on investment methodology, which clearly links the returns to cash that would be available for Delivery of Benefits and corporate operations.

In 2014/15, returns on Power Projects are expected to exceed the 8 per cent target. The projects continue to operate well, with minimal unplanned outages. Ongoing investment in maintenance and reliability activities provides a level of comfort this will remain the case well into the future. The expected completion of the Waneta Expansion Project in spring 2015, as well as a new power sales agreement at Arrow Lakes Generating Station commencing January 2016, will further enhance expected returns from Power Projects. Understanding this to be the case, the current 8 per cent long-term objective will require review. This review could result in a change to the long-term target, an amendment to the methodology used to calculate returns, or some combination thereof.

In the case of **Private Placements**, the Trust is limited to investing in a relatively small geographic region. With the exception of a few larger credit unions (too small a sample size to establish performance benchmarks), there are no reasonable market comparables from which we can base a performance objective. As with Power Projects, we arrived at performance objectives by evaluating historical performance and balancing those returns against those forecast over the next five years. We again chose a cash-based return on investment methodology.

In 2014/15, returns on Private Placements are expected to be comparable to the prior fiscal year. Investments in Basin-based businesses continue to grow significantly; however, the relatively low interest rate may result in the returns from these investments lower than the 8 per cent target. This won't significantly impact the budget, as these returns make up a relatively small percentage of the Trust's revenues.

To determine the **Market Securities** target, we considered forecasted returns of similarly constructed securities portfolios, as well as historical returns observed in the general marketplace. Information in support of this objective was provided by the BC Investment Management Corporation.

In 2014/15, returns on Market Securities are expected to exceed the 6 per cent target. Although financial markets are volatile and inherently difficult to predict in the short term, we continue to believe the 6 per cent long-term objective is appropriate.

Goal 2: Delivery of Benefits

Deliver benefits that serve to strengthen the social, economic and environmental well-being of the Basin and its residents and communities.

Strategies

- Encourage long-term stewardship of the Basin’s natural assets and help build the ability to take action to meet environmental challenges.
- Actively foster and support local and regional economic resiliency and well-being.
- Help communities respond to social issues and make social considerations part of strengthening community well-being.
- Work with communities and youth to enhance youth opportunities and engagement.
- Support Basin residents to increase their awareness and understanding of water issues, and take steps to address these issues.
- Support local communities and regions in identifying and meeting their priorities.

Performance Measures: Delivery of Benefits

Performance Measure ¹	2010/11 Results	2012/13 Results	2014/15 Results	2015/16 Target	2016/17 Target	2017/18 Target
Assessment by Basin residents of the Trust’s effectiveness	74%	74%	80%	N/A	Over 70%	N/A
Assessment by the Trust partners of the Trust’s effectiveness	96%	94%	97%	N/A	Over 90%	N/A

Data Source: The Trust engaged a professional market research firm to conduct these surveys.

¹ Assessment of these targets takes place every two years.

² The maximum margin of error on the total sample of 800 residents is $\pm 3.5\%$, at the 95 per cent level of confidence (i.e. 19 times out of 20).

³ Of 97 partners who were contacted to participate in the study, a total of 71 completed the telephone survey, representing a 73 per cent response rate. The maximum margin of error on the total sample of 71 partners is ± 6.1 per cent, at the 95 per cent level of confidence (i.e. 19 times out of 20). This level of accuracy accounts for the finite population factor that is applied to samples taken from populations of limited size.

Discussion

Measuring the Trust’s performance in the area of Delivery of Benefits is a challenge given that the organization has a broad mission and mandate, that the Trust plays a variety of roles (funder, facilitator, information resource, etc.) and that our activities often have qualitative as opposed to quantitative outcomes.

Therefore, as the Trust is accountable to Basin residents, and as the organization ultimately supports efforts of residents and the well-being of the region, we are measuring:

- whether Basin residents feel the Trust is making a positive difference in their lives and communities
- how these perceptions change over time.

This gives us meaningful feedback on whether our key stakeholders feel we are fulfilling our mission, and helps us understand our impacts and overall effectiveness.

We’re also measuring the perceptions of our partners, which deliver many of our programs and initiatives to residents.

We first measured perceptions in late 2010, and have since conducted the surveys every two years.

The Basin-wide public engagement currently taking place to fully understand local and regional priorities may impact how the Trust works with communities in the coming years. Once we know the outcome of this engagement, we will re-examine the performance measures for Delivery of Benefits activities.

Goal 3: Corporate Operations

Support and enable the effective management of the Investment Program and Delivery of Benefits programs and initiatives.

Strategies

- Maintain risk management registers.
- Review and implement improvements to the various business processes that support the Trust’s activities, including processes related to contract management, records management and information management systems.
- Ensure the Trust is viewed as an employer of choice, including by developing human resources strategies and supports, such as an individualized employee performance framework and appropriate benefits.
- Implement appropriate sustainability principles and practices in the Trust’s everyday activities, including through the execution of a corporate carbon neutral plan.

Performance Measures: Corporate Operations

Performance Measure	2013/14 Actual	2014/15 Forecast	2015/16 Target	2016/17 Target	2017/18 Target
Maturity of planning practices	3	3.5	3.5	4	4
Maturity of risk management practices	3	3.5	3.5	4	4
Budget variance for corporate operations	(5.3%)	(7.6%)	Under 5%	Under 5%	Under 5%

Discussion

The **maturity of planning practices** measure helps ensure that planning—including prioritization, business and operational planning and the allocation of resources—is fully indoctrinated within the organization. Practices are assessed on a scale of 1 to 4, where 1 means there are no high-level plans and 4 reflects a fully mature state.

In 2014/15, we expect to reach our target of 3.5. For 2015/16, the target stated in the previous service plan was 4. This has been changed to 3.5, as current planning and public consultation activities mean that a fully mature state may not yet be fully realized by then.

The **risk management practices** measure helps ensure the organization makes progress toward developing and implementing an enterprise-wide risk management framework. Practices are assessed on a scale of 1 to 4, where 1 means we have not identified the types of corporate risks that can undermine our ability to achieve our mandate and priorities, and 4 reflects a fully mature state.

In 2014/15, we expect to reach our target of 3.5. For 2015/16, the target stated in the previous service plan was 4. This has been changed to 3.5; although we have developed an enterprise-wide risk register, it is felt that we will not meet the required benchmark that “the nature and level of risk that the Trust is willing to accept at different levels in the organization is a well understood concept.”

The **budget variances** measure helps us assess our ability to forecast appropriately, set realistic budgets and manage our resources effectively. Budget variance is calculated as the difference between the budget for Corporate Operations, approved by our Board of Directors in November each year, and actual results, as reported in our consolidated financial statements at the fiscal year-end.

In 2014/15, we expect to be under budget by 7.6 per cent, due to lower expenditures in the staff remuneration category.

Financial Plan

Summary Financial Outlook

(\$m)	2013/14 Actual	2014/15 Forecast	2015/16 Budget	2016/17 Budget	2017/18 Budget
Total Revenue (\$000)					
Power Projects	\$22,825	\$ 22,046	\$ 27,750	\$ 47,975	\$ 48,950
Market Securities	1,380	1,000	1,200	1,200	1,200
Short-term Investments	1,208	890	1,000	1,000	1,000
Loan Income	1,135	28	-	-	-
Private Placements: Commercial Loans	1,121	1,460	1,780	1,950	2,150
Private Placements: Real Estate	886	1,177	1,228	1,287	1,356
Recoveries	382	340	347	347	347
Broadband Services	292	430	500	500	500
Rental Revenue	124	-	-	-	-
Total	29,353	27,371	33,805	54,259	55,503
Total Expenses (\$000)					
Community Initiatives	9,782	10,016	9,700	10,615	10,675
Economic Initiatives	7,018	1,770	2,610	2,868	2,878
Water and Environment Initiatives	4,949	3,757	3,889	4,260	4,290
Social Initiatives	2,058	1,820	2,365	2,581	2,601
Youth Initiatives	1,281	1,927	1,344	1,458	1,478
Broadband Initiatives ¹	1,234	3,000	3,500	3,500	3,500
Other Initiatives	764	3,967	8,157	7,267	7,307
Investment Initiatives	511	540	600	640	660
Programs Under Development	-	-	-	20,921	21,921
Total	27,597	26,797	32,165	54,110	55,310
Annual Surplus	\$1,756	\$ 574	\$ 1,640	\$ 149	\$ 193
Total Debt	\$1,029	\$ 1,000	\$ 970	\$ 939	\$ 907
Accumulated Surplus	\$414,646	\$ 416,780	\$ 419,920	\$421,659	\$ 423,532

¹ Broadband Initiatives includes direct Columbia Basin Broadband Corporation expenses, as well as other broadband initiatives delivered through the Trust. See Appendix B for separate financial information for this subsidiary.

In 2015/16, overall revenues are expected to increase by approximately \$6.4 million, with the majority of the increase attributed to Power Project earnings.

The Waneta Expansion Project is expected to become operational in spring 2015, and a full year of revenue from operations has been included in the 2015/16 forecast. This project is the most significant capital expenditure for the Trust; if the project is not completed on time, or incurs costs in excess of budgeted amounts, it may negatively impact our financial performance.

Significant increases to Power Project revenues are also anticipated in 2016/17 and 2017/18. These are due to the inclusion of Waneta Expansion annual revenues, plus a new power sales agreement with BC Hydro at Arrow Lakes Generating Station coming into effect partway through 2015/16. The loan provided to Columbia Power Corporation was paid out in April 2014, and therefore no loan income has been included in future forecasts.

Revenues from Private Placements (commercial loans and real estate) are expected to continue to grow modestly over the next three years.

Forecasts for Market Securities for the 2015/16 to 2017/18 period are based on the assumption that markets will realize returns consistent with long-term averages.

We are predicting a surplus in all three years covered by this service plan.

Delivery of Benefits and Administration Expenses

(\$m)	2013/14 Actual	2014/15 Forecast	2015/16 Budget	2016/17 Budget	2017/18 Budget
Delivery of Benefit Expenses (\$000)					
Community Initiatives	\$7,783	\$8,059	\$7,525	\$8,275	\$8,275
Economic Initiatives	6,830	1,470	2,280	2,508	2,508
Water and Environment Initiatives	3,590	2,867	2,900	3,190	3,190
Social Initiatives	1,674	1,280	1,765	1,941	1,941
Broadband Initiatives¹	1,234	3,000	3,500	3,500	3,500
Youth Initiatives	660	1,387	744	818	818
Other Initiatives	320	2,777	6,836	5,847	5,847
Programs Under Development	-	-	-	20,921	21,921
Total DOB Expenses	22,091	20,840	25,550	47,000	48,000
Less Benefits Recovered/Rescinded	(393)				
	21,698				
Administration Expenses (\$000)					
Staff Remuneration and Development	\$3,924	\$3,930	\$4,455	\$4,600	\$4,700
Office and General	532	571	590	800	900
Amortization	438	410	395	470	470
Professional Fees	404	357	390	410	410
Corporate Travel and Meetings	189	196	210	230	230
Communications	185	171	190	200	200
Board and Committee	146	170	185	200	200
Information Technology	81	152	200	200	200
Total Administration Expenses	5,899	5,957	6,615	7,110	7,310
Total DOB and Administration	\$27,597	\$26,797	\$32,165	\$54,110	\$55,310

¹ Broadband Initiatives includes direct Columbia Basin Broadband Corporation expenses, as well as other broadband initiatives delivered through the Trust. See Appendix B for separate financial information for this subsidiary.

Total funds available for distribution through Delivery of Benefits programs and initiatives are forecast to be \$20.8 million in 2014/15 and \$25.5 million in 2015/16. These budgets are expected to increase significantly to \$47 million in 2016/17 and \$48 million in 2017/18. The Trust is currently undertaking an extensive public consultation and has allocated \$20.9 million in 2016/17 and \$21.9 million in 2017/18 to Programs Under Development to address outcomes from this process.

General operating expenses are expected to increase modestly over the next three years. This increase is mostly attributable to moderate increases in staffing.

The following notes the key assumptions, risks and sensitivities we considered in setting our projections:

Financial Forecast Item	Key Assumptions, Risks and Sensitivities
Power Projects Revenue	<ul style="list-style-type: none"> • In 2015/16, more than 82 per cent of Trust revenues will come from Power Projects. If the projects experience operational challenges and revenues are reduced, our ability to deliver benefits may be impacted. • 2015/16 revenues assume the Waneta Expansion Project is completed on time and on budget. In the event of a delay in commencing operation, or interruption to the operation once it starts, revenues can be expected to fall significantly. This could impact our ability to deliver benefits as planned.
Market Securities Revenue	<ul style="list-style-type: none"> • Financial markets are volatile and returns may vary significantly when measured over the short term. A one per cent change in return would have an approximate impact of \$450,000 on revenue given the current level of investment. • The Trust's annual return expectation for Market Securities is six per cent.
Private Placements Revenue	<ul style="list-style-type: none"> • Fluctuating interest rates have a direct effect on the income from business loans. • Changes in the economic environment influence the performance of business loans. New investments continue to be made and the portfolio is growing. • The Trust's long-term annual return expectation for Private Placements is eight per cent.
Short-term Investments Revenue	<ul style="list-style-type: none"> • Fluctuating interest rates have a direct impact on returns from short-term investments. A one per cent change in interest rates would have an approximate impact of \$350,000 on revenue given the current level of investment. • The Trust assumes an annual interest rate of two per cent on income securities.
Staff Remuneration and Development, General Operating Expenses	<ul style="list-style-type: none"> • These forecasts include the incremental additions of new staff. Depending on the timing of when positions are filled, expenses may be reduced: e.g. if staff members are hired later in the fiscal year. These forecasts do not include unanticipated staffing costs (e.g. coverage for unexpected leave).

Appendix A:

Hyperlinks to Additional Information

Corporate Governance

Learn more about our:

- Governance: cbt.org/governance
- Board of Directors: cbt.org/board
- Executive Committee: cbt.org/staff

Organizational Overview

Learn more at cbt.org/overview.

Appendix B:

Subsidiaries

Operating Companies

Columbia Basin Broadband Corporation (CBBC) is a wholly owned subsidiary of the Trust formed in 2011. In September 2013, the Board approved a financial commitment of \$6.5 million over five years to CBBC. The Board has also approved a further financial commitment of \$3.5 million to CBBC for the period 2015/16 – 2017/18. CBBC is working with Basin communities and rural areas to improve connectivity through a region-wide fibre optic cable network.

As we consider the activities of CBBC a delivered benefit to Basin residents, any losses incurred by CBBC will be addressed through the Delivery of Benefits budget. The forecasts shown for CBBC are based on a number of assumptions, particularly the timing of various technical and community-based projects related to connectivity. Forecasts of revenues, expenses and capital expenditures will vary depending on how these projects evolve.

Summary Financial Outlook Table

(\$m)	2013/14 Actual	2014/15 Forecast	2015/16 Budget	2016/17 Budget	2017/18 Budget
(\$000)					
Revenues	\$292	\$430	\$500	\$500	\$500
Expenses	1,023	1,800	2,300	2,300	2,400
Deficit	(731)	(1,370)	(1,800)	(1,800)	(1,900)
Capital Expenditures	\$1,177	\$1,800	\$1,900	\$500	\$500

Holding Companies

For commercial and legal reasons, the Trust has a number of subsidiaries that hold our interests in investments.

- CBT Commercial Finance Corp. holds Trust interests in business loans and investments.
- CBT Real Estate Investment Corp. holds Trust interests in real estate.
- CBT Property Corp. is a subsidiary of the Trust and holds interests in corporate real estate.
- CBT Energy Inc. (CBTE) is the main Trust subsidiary related to power projects.
- CBT Arrow Lakes Power Development Corp. is a subsidiary of CBTE and holds interests in the Arrow Lakes Generating Station joint venture with Columbia Power.

- CBT Brilliant Expansion Power Corp. is a subsidiary of CBTE and holds interests in the Brilliant Expansion joint venture with Columbia Power.
- CBT Power Corp. is a subsidiary of CBTE and holds interests in the Brilliant Dam joint venture with Columbia Power.
- CBT Waneta Expansion Power Corp. is a subsidiary of the Trust that holds interests in the limited partnership and in the general partnership formed to complete the Waneta Expansion Project.

