

Columbia Basin Trust

2017/18–2019/20 SERVICE PLAN



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Accountability Statement

The 2017/18–2019/20 Columbia Basin Trust (Trust) service plan was prepared under the direction of the Columbia Basin Trust Board of Directors (Board) 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 (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. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of February 1, 2017, have been considered in preparing the plan. The performance measures presented are consistent with the Taxpayer Accountability Principles, 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, appearing to read "Rick Jensen". The signature is fluid and cursive, with a large initial "R" and "J".

Rick Jensen, 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 three specific priority actions for 2017/18:

1. Continue development and implementation of new initiatives in response to the 2014/15 community engagement process, and ensure these new initiatives are aligned with the renewed *Columbia Basin Management Plan* and implemented in an effective and efficient manner.
2. Maintain an active and cooperative relationship with partners in power project management and operations to ensure the projects deliver optimized financial returns and are managed in the best long term interests of the owners.
3. The Trust will work with the Ministry of Energy and Mines, Ministry of Finance, and Columbia Power Corporation to explore structural options to further enhance value to both the Province and Basin residents while mitigating risk.

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 the Trust's specific five-year strategic plans.

Operating Environment

Over the next few years, the Trust expects its revenues to remain relatively stable. The Trust continues to have a solid stream of income with revenues from power projects accounting for approximately 85 to 88 per cent of total revenues.

In addition to the ongoing work the Trust has in many initiative areas, the Trust is moving forward with research and development of potential new programs and initiatives to address the 13 strategic priorities identified in the *Columbia Basin Management Plan*.

Work will also continue work in the areas of enterprise risk management, business continuity planning and regular testing of the plan, as well as further steps in the development of a robust electronic records management system.

Other factors that could have a significant impact on the Trust's operating environment in the coming fiscal year are:

1. The human resources required to develop and implement new programs are significant; ensuring the Trust has the right skilled staff is an ongoing challenge. We are making efforts to support employees in a performance culture; however, compensation constraints and the challenges of recruiting in a small region are barriers.
2. The Province, the Trust and Columbia Power Corporation are exploring structural options of our jointly owned power projects to further enhance value to the Province and Basin residents. The outcomes of this exploration are uncertain; however, it may result in staff resources being redirected to executing a preferred structural option.
3. Over 85 per cent of the Trust's revenue comes from power investments. If this revenue stream were materially disrupted, it would negatively impact the Trust's ability to achieve net income targets. To partially mitigate this risk, the Trust will continue to diversify investments and actively monitor 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 include accounting, administration, communications, human resources, information technology and planning and evaluation.

All three of these areas are vital to the Trust and as such they each have their own goals, strategies and performance measures outlined below. The goals, strategies, performance measures and targets are selected to help the Trust achieve its mandate to manage its assets for the ongoing social, economic and environmental benefit of the region as required under the *Columbia Basin Trust Act*.

The Taxpayer Accountability Principles are reflected in how the Trust works in all of these areas. The Trust is also guided by a robust code of conduct, a commitment to performance management, a culture of cost-consciousness, and respectful and transparent communications with Basin 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 to originate high-quality investment opportunities.
- Develop strong working relationships with the management of companies in which the Trust has invested 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 engaged with Columbia Power Corp. and Fortis Inc. during the transition from construction to operation at the Waneta Expansion Project. Continue to work closely with partners during the operating phases of all power projects.

Performance Measures: Investment Program

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
1. Return on Power Projects (calculated as a cash-based return on investment)	14.1%*	10.5%	10%	10%	10%
2. Return on Private Placements (calculated as a cash-based return on investment)	5.6%	6%	6%	6%	6%
3. Return on Market Securities	(1.7)%	6%	6%	6%	6%

*2015/16 financial return from Power Projects has been restated from the previously reported 11.9%.

Discussion

For **Power Projects**, the structure of investments—as defined by various agreements between the Province, Columbia Power Corp., Fortis Inc. and the Trust—is challenging to reconcile against those commonly observed in the private market. It is difficult to compare the performance of Power Projects against other hydroelectric facilities. The Trust’s targeted returns on Power Projects are based on historical performance and forecasted returns over the next five years, which are a function of contracted power sale prices, anticipated plant availability and forecasted expenses. Returns for power projects are calculated using a cash-based return on investment methodology. Commencing in 2016/17, the Trust instituted a refinement to the methodology based on a return on invested capital model. Each of the Trust’s Power Project investments has entered the operational phase, thus a transition in performance evaluation is deemed to be appropriate. This change in methodology is accompanied by an increase in the Trust’s target rate of return from 8 per cent, as stated in the past, to 10 per cent per year going forward.

In 2016/17 the Trust expects returns on Power Projects to be modestly higher than the new target at 10.5 per cent. The projects continue to operate well, with minimal unplanned outages and managed operating costs. Ongoing investment in maintenance and reliability activities provides a level of comfort that this will remain the case well into the future.

For **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 the Trust can base a performance objective. As with Power Projects, the performance objectives were developed by evaluating historical performance as well as market conditions anticipated in the next five years. The continued low interest rate environment has motivated a review of the previous Private Placement return target of 8 per cent, and commencing in 2016/17 the Trust has adopted a lower target of 6 per cent. The Trust continues to follow a cash-based return on investment methodology.

In 2016/17, returns on Private Placements are expected to exceed those of the prior year and meet the new target of 6 per cent. Investments in Basin-based businesses continue to grow significantly, and demand for Trust support is robust. The Trust is also pursuing opportunities to expand real estate investments which it expects to have a positive impact on future Private Placement performance.

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

In 2016/17, returns on Market Securities are expected to meet the long-term 6 per cent target. It is critical to note that forecasting financial market returns (particularly in the short term) is challenging, and it is possible the realized returns in the current fiscal year will be materially higher or lower than the 6 per cent forecast. Notwithstanding this inherent challenge in predicting returns, the Trust continues to believe that 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

- Maintain strong relationships in communities to ensure awareness of Trust roles and uphold our knowledge of current needs and opportunities.
- Develop timely solutions that meet community needs.
- Advance the strategic priorities outlined in the *Columbia Basin Management Plan* through appropriate partnerships and supports.
- Generate understanding of the Trust’s contribution to strengthening community well-being.

Performance Measures: Delivery of Benefits

Performance Measure ¹	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Target	2018/19 Target	2019/20 Target
1. Residents’ perception of positive impact ²	80%	N/A	81%	N/A	Over 70%	N/A
2. Partners’ perception of positive impact ³	97%	N/A	96%	N/A	Over 90%	N/A

Data Source:

¹ The Trust engaged a professional market research firm to conduct these surveys. The results for these measures represent the percentage of those surveyed who are familiar with the Trust and agree that the Trust is making a positive difference in their community. Assessment of the targets takes place internally every two years (which is why every other year does not have results).

² The maximum margin of error on the total sample of 808 residents is $\pm 3.5\%$, at the 95 per cent level of confidence (i.e. 19 times out of 20).

³ Of 170 partners who were contacted to participate in the study, a total of 100 completed the survey, representing a 59 per cent response rate. The maximum margin of error on the total sample of 100 partners is ± 6.3 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 the organization has a broad mission and mandate, the Trust plays a variety of roles (funder, facilitator, information resource, etc.) and the Trust’s activities often have qualitative as opposed to quantitative outcomes.

As the Trust is accountable to Basin residents, and as the organization ultimately supports efforts of residents and the well-being of the region, the Trust is measuring whether Basin residents feel the

organization is making a positive difference and how these perceptions change over time. The Trust is also measuring similar perceptions of our partners who deliver many of our programs and initiatives to residents.

This gives meaningful feedback on whether key stakeholders feel the Trust is progressing with its mission, and provides an indication of its impact and overall effectiveness. Trust staff also continually engage directly with key stakeholders to monitor perceptions and ensure that relevant Basin needs are effectively addressed.

The Trust first measured perceptions in 2010 and has since conducted the surveys every two years. The name of the measure has been adjusted slightly to reflect more closely the perceptions sought through the surveys and have clearer meaning to stakeholders – previously, the measure was worded as “Assessment by Basin residents of the Trust’s effectiveness”.

The Trust now has [13 strategic priorities](#) in place until 2020 including affordable housing, agriculture, arts, culture and heritage, broadband, community priorities, early childhood and childhood development, economic development, environment, First Nations relationships, land acquisition, non-profit support, recreation and physical activity and renewable and alternative energy. Some of these priorities are a continuation or extension of existing activities and partnerships, and are included in individual program line forecasts, whereas others entail further research, engagement and partnership development and are expected to be funded through the “Programs Under Development” line forecast in the future. In addition, based on input from Basin residents, the Trust is exploring new approaches to meet the needs of the region that will include the development and management of assets for community benefit. The accounting treatments for these types of benefits will differ from how typical ‘grants’ are accounted for, as these community assets will be capitalized whereas grants are expensed. As such, future surpluses for the Trust are forecast to increase and be utilized for new capital and community investments.

The Trust has revised its strategies for Delivery of Benefits to better reflect its approach to this entire suite of priorities. It will continue to explore opportunities to complement the biennial survey measures with others that are more specific to understanding the Trust’s progress in each of its core mandate areas.

Goal 3: Corporate Operations

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

Strategies

- Actively monitor and manage key organizational risks.
- Continually review business practices and support structures for efficiencies.
- Ensure effective flow of knowledge, learning and communications.
- Instill and continuously reinforce fiscal responsibility.
- Nurture a progressive culture and workforce to adapt to changing organizational and community needs.
- Maintain a supportive, rewarding and inspiring environment to drive organizational success.

Performance Measures: Corporate Operations

Performance Measure	2015/16 Actual	2016/17 Forecast	2017/18 Target	2018/19 Target	2019/20 Target
1. Maturity of planning practices ¹	3.5	4	4	4	4
2. Maturity of risk management practices ¹	3.5	4	4	4	4
3. Budget variance for corporate operations ²	(5.6%)	(4.8%)	Under 5%	Under 5%	Under 5%
4. Ratio of regional reinvestment ³	86%	97%	TBD	TBD	TBD

Data Source:

¹ Results and targets are assessed internally by executive management on a scale of 1 to 4. Scales are defined for each measure where 1 means there are no high-level plans in place or corporate risks identified and 4 reflects a fully mature state, meaning that associated plans and documents are in place and are being acted upon and updated accordingly.

² 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. Negative values indicate that actual results are lower than budgeted.

³ Ratio of regional reinvestment measures the percentage of annual revenue that is committed to the Trust's two core functions - Delivery of Benefits and the Investment Program. This is a new measure, and 2015/16 and 2016/17 results will be used to establish a benchmark and targets for future years.

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. In 2016/17, the Trust expects to reach its target of 4. The Trust's strategic priorities have been renewed until 2020, and its focus now is towards developing more detailed plans to support each priority, along with associated monitoring and evaluation approaches and regular communication of progress.

The **risk management practices** measure helps ensure that the organization makes progress toward developing and implementing an enterprise-wide risk management framework. In 2016/17, the Trust expects to reach its target of 4. Over the past year, the Trust moved forward with implementing testing of its Business Continuity Plan (Plan), which included participating in exercises and simulations using various scenarios that could disrupt business and testing how the Trust would react and respond to the disruption as set out in the Plan.

The **budget variances** measure helps assess ability to forecast appropriately, set realistic budgets and manage resources effectively. In 2016/17, the Trust expects to be below budget by 4.8 per cent.

In conjunction with the Trust renewing its strategic priorities, it has revised the Corporate Operations strategies to reflect the evolving corporate needs and requirements to support these priorities. We are also adding a new performance measure called **ratio of regional reinvestment** as a way to capture what the Trust has distributed back into the region annually, through our two core functions - Delivery of Benefits and Investments. We will use this year to establish a benchmark and develop appropriate targets. The Trust will continue to explore other Corporate Operations measures which can reflect the revised strategies.

Financial Plan

Summary Financial Outlook

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
Total Revenue (\$000)					
Power Projects	\$ 40,647	\$ 50,982	\$ 52,202	\$ 52,830	\$ 53,853
Private Placements: Commercial Loans	1,722	1,850	2,250	3,310	3,812
Private Placements: Real Estate	1,262	1,435	1,512	1,594	1,623
Market Securities	2,099	1,200	1,200	600	600
Short-Term Investments	745	800	800	800	800
Broadband Operations	449	742	683	855	1,070
Other	1,772	1,787	3,061	410	410
Total	\$ 48,696	\$ 58,796	\$ 61,708	\$ 60,399	\$ 62,168
Total Expenses (\$000)					
Delivery of Benefits					
Broadband Initiatives ¹	5,096	3,399	3,975	3,500	3,500
Community Initiatives	17,694	20,485	9,126	12,090	9,590
Economic Initiatives	1,347	1,630	2,169	2,505	2,505
Other Initiatives	416	1,673	1,725	1,825	1,825
Social Initiatives	1,328	1,386	2,950	1,250	1,250
Water and Environment Initiatives	4,941	3,387	3,070	2,370	1,690
Youth Initiatives	720	4,335	850	95	1,495
Programs Under Development	-	2,604	13,161	11,799	14,183
Total Delivery of Benefits	31,542	38,899	37,026	35,434	36,038
Administration Expenses (See page 12)	6,247	6,722	7,182	7,465	7,630
Total	37,789	45,701	44,328	43,049	43,818
Annual Surplus	\$ 10,907	\$ 13,175	\$ 17,500	\$ 17,500	\$ 18,500
Total Debt	\$ 925	\$ 892	\$ 858	\$ 823	\$ 787
Accumulated Surplus	\$ 426,780	\$ 441,155	\$ 459,855	\$ 477,955	\$ 497,055

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

Administration Expenses

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
Administrative Expenses (\$000)					
Staff Remuneration and Development	\$ 4,242	\$ 4,556	\$ 4,796	\$ 5,000	\$ 5,100
Office and General	667	623	658	750	800
Amortization	389	415	436	450	450
Professional Fees	260	320	445	400	400
Corporate Travel and Meetings	192	243	254	260	260
Communications	172	180	190	200	200
Board and Committee	132	182	200	200	210
Information Technology	193	203	203	205	210
Total Administration Expenses	\$ 6,247	\$ 6,722	\$ 7,182	\$ 7,465	\$ 7,630

Revenues over the next three years are expected to remain stable and we are predicting a surplus in all three years covered by the service plan.

Based on input from Basin residents, the Trust is exploring new approaches to delivering benefits and meeting the needs of the region and this will now include the development and management of assets for community benefit. The accounting treatments for these types of benefits will differ from how typical 'grants' are accounted for, as these community assets will be capitalized whereas grants are expensed. The net impact of this shift in approach is a reduction in reported expenses and a resulting increase to the Trust's Annual Surplus. As such, future surpluses for the Trust are forecast to increase and be utilized for new capital and community investments.

Total funds available for distribution through Delivery of Benefits programs and initiatives (both grants and capital investment) are budgeted at \$45 million in 2017/18. This includes forecasted grants in the amount of \$37 million, as shown in the financial forecast, as well as \$8 million in capital investments. The Trust will continue to move forward with focusing on current and ongoing initiatives, as well as the implementation of the 13 new strategic priorities and the development of new programs and initiatives to address them.

General operating expenses are also expected to increase marginally over the next three years which is primarily attributable to increased staff resources required for program delivery.

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

Financial Forecast Item	Key Assumptions, Risks and Sensitivities
Power Projects Revenue	<ul style="list-style-type: none"> Moving forward, approximately 88 per cent of Trust revenues will come from Power Projects. If the projects experience operational challenges and revenues are reduced, the Trust's ability to deliver benefits or make new investments may be impacted.
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 \$510,000 on revenue given the current level of investment. The Trust's annual return expectation for Market Securities is 6 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 6 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 \$300,000 on revenue, given the current level of investment. The Trust assumes an annual interest rate of 2 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 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: ourtrust.org/governance
- Board of Directors: ourtrust.org/board
- Executive Committee: ourtrust.org/contact

Organizational Overview

Learn more at ourtrust.org/about.

Appendix B:

Subsidiaries

Operating Companies

All of the Trust's subsidiaries operate in accordance with the Taxpayer Accountability Principles. Their business activities are in alignment with the Trust's mandate, strategic priorities and fiscal plan. Subsidiary financials are consolidated into the Trust's financial statements.

Columbia Basin Broadband Corporation

Columbia Basin Broadband Corporation (CBBC) is a wholly owned subsidiary of the Trust formed in 2011. CBBC is working with Basin communities and rural areas to improve connectivity through a region-wide fibre optic cable network which will contribute to economic and social development in the Basin.

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.

CBBC audited financial statements for 2015/16 can be viewed online at ourtrust.org/cbbcfinancials.

The CBBC Board comprises the following members, whose terms expire March 31, 2017:

- Ron Miles, Chair
- Wendy Booth
- Greg Deck
- Andrew Kyle
- Rick Leggett
- Rhonda Ruston

Summary Financial Outlook Table

	2015/16 Actual	2016/17 Forecast	2017/18 Budget	2018/19 Budget	2019/20 Budget
(\$000)					
Revenues	\$1,496	\$2,159	\$3,334	\$855	\$1,070
Expenses	\$5,053	\$3,394	\$3,975	\$3,398	\$3,875
Deficit	(\$3,557)	(\$1,235)	(\$641)	(\$2,543)	(\$2,805)

Columbia Basin Development Corp.

Columbia Basin Development Corp. (CBDC) is a wholly owned subsidiary of the Trust formed in 2016. The Trust Board approved a financial commitment of \$20 million to CBDC to lead and support efforts to advance economic growth, job creation, innovation and entrepreneurial opportunity for a prosperous and sustainable Basin economy.

CBDC is in the early stages of developing a business plan and resulting financial forecasts. These forecasts will be reported in future Service Plans.

The CBDC Board comprises the following members:

- Mike Delich, Chair
- Kevin Andruschuk
- Mike Cattle
- Rick Jensen
- Alan Mason
- Am Naqvi

Holding Companies

For commercial and legal reasons, the Trust has eight subsidiaries that hold its 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.