

PUBLIC UTILITIES

Water and Sewer

Description

The Water and Sewer Enterprise Fund accounts for the provision of water and sewer services to residents of Henrico County. All activities necessary to provide such services are accounted for in this fund, including construction, financing, and related debt service. The total cost of water and sewer services is funded by user charge revenue. No County taxes are used to support these services.

Henrico purchased all of its water requirements from the City of Richmond prior to April, 2004. At that time, the Water Treatment Facility (WTF) opened and began providing water to customers, thereby, reducing the quantity of water the County purchases from the City. In addition to water services, the Department is responsible for the installation and maintenance of fire hydrants throughout the County.

Sanitary sewers are separate from storm water collection facilities in the County, and the Department of Public Utilities is responsible for all sanitary sewer

services. The Henrico County Water Reclamation Facility (WRF) treats most of the County's wastewater, with a small amount treated by the City of Richmond. Portions of Goochland County, Hanover County and the City of Richmond are also served by the WRF.

Objectives

- To provide adequate quantities of safe drinking water in compliance with State and Federal regulations and County standards, at equitable rates, and to others with whom the County has contracted to provide service.
- To provide wastewater disposal in a manner consistent with State and Federal laws and regulations, V.P.D.E.S. permits and County standards, at equitable rates, and to others with whom the County has contracted to provide service.

Annual Fiscal Plan

<u>Description</u>	<u>FY08 Actual</u>	<u>FY09 Original</u>	<u>FY10 Approved</u>	<u>Change 09 to 10</u>
Personnel	\$ 18,599,128	\$ 19,970,410	\$ 20,352,116	1.9%
Operation Expenses	32,779,778	32,608,023	36,554,073	12.1%
Capital	318,830	1,238,249	1,226,774	(0.9%)
Debt Service	17,520,907	18,105,081	15,413,013	(14.9%)
Total	<u>\$ 69,218,643</u>	<u>\$ 71,921,763</u>	<u>\$ 73,545,976</u>	<u>2.3%</u>
Personnel Complement	320	320	320	0

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Performance Measures

	FY08	FY09	FY10	Change 09 to 10
Workload Measures				
Average No. of Fire Hydrants in Service	11,248	11,500	11,800	300
Miles of Water Mains	1,492	1,515	1,535	20
Miles of Sewer Mains	1,414	1,440	1,465	25
Number of Water Customers	94,186	94,800	95,800	1,000
Number of Sewer Customers	90,936	92,200	93,000	800

Budget Highlights

The Public Utilities' Water and Sewer Fund is an enterprise fund, supporting its operating and capital infrastructure expenditures with revenues derived from customer charges and water and sewer revenue bonds.

Resources

In FY2009-10, projected operating resources of \$92,535,499 will support water and wastewater operations and represents a reduction of 12.5 percent from the FY2008-09 adopted budget. The anticipated decline is a factor of the recessionary economic environment, the closing of the Water and Sewer Fund's single largest customer, and the rollback of connection fee increases approved in the FY2008-09 approved budget to prior year levels. Revenue estimates reflect no increase in water and sewer rates for FY2009-10 and a 1.0 percent growth in the customer base.

In addition to supporting operating requirements, resources must be sufficient to service debt, bond coverage requirements and future capital requirements within the five-year Capital Improvement Program. Due to the nature of the infrastructure maintained by the Water and Sewer fund, consistent infrastructure maintenance and replacement must be planned on a multi-year basis, as opposed to the year-to-year analysis included in each budget cycle.

On an annual basis, Public Utilities performs cash flow projections verifying that required current and future operating costs, capital infrastructure improvements, debt service, and bond coverage requirements are sufficient to cover a multi-year period. These projections are critical in ensuring that rate changes are sufficient in

meeting all of the obligations of the fund. The FY2009-10 budget adheres to that premise.

Payments and transfers from the General Fund in FY2009-10 total \$1,609,569 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Expenditures

The FY2009-10 budget of \$73,545,976 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 2.3 percent, or \$1,624,213. Excluding debt service costs, the FY2009-10 Water and Sewer operating budget is increasing \$4,316,281 or 8.0 percent over the FY2008-09 approved budget. This increase is being driven by a number of fixed operating cost increases in FY2009-10.

In addition to the operating budget, the Water and Sewer capital budget (found within the Capital budget component of this budget document) totals \$33,802,600 for FY2009-10. This is noted because, as an Enterprise Fund, revenues generated by this operation must support both the operating expenditures in the current year as well as ensuring that capital budget expenditures over a multi-year period may be funded. Highlights of changes in the FY2009-10 operating budget are as follows.

Personnel Expenses:

Personnel expenditures of \$20,352,116 represent an increase of \$381,706, or 1.9 percent over the approved budget for FY2008-09. This increase is mostly attributed to rising benefit costs.

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Operating Expenses:

Operating expenses of \$36,554,073 reflect a \$3,946,050 or 12.1 percent increase when compared to prior year budgeted totals. This increase reflects a number of fixed cost increases anticipated in FY2009-10. Specifically, the FY2009-10 budget includes a \$900,000 increase in the payment to the City of Richmond for the purchase of water, a payment that totals \$8.5 million in the budget, as well as \$600,000 in anticipated payments to Cumberland County under the reservoir authority agreement. Operating costs associated with the Goochland Sewer Pump Station are anticipated to increase \$700,000 due to increased odor and corrosion control costs based on actual volumes and chemical rates. Another increase due to contract cost increases is the budget for chemicals, which is increasing \$1.5 million or 44.8 percent over the prior year budget. To partially offset these fixed cost increases, the Water and Sewer Fund has reduced a number of operating and capital outlay line items in FY2009-10, which generated savings of approximately \$575,000.

Capital Outlay Expenses:

Capital outlay expenditures in FY2009-10 total \$1,226,774, which represents a slight reduction of \$11,475 or 0.9 percent when compared to the current fiscal year.

Debt Service Requirements:

Debt service expenditures of \$15,413,013 represent a decrease of \$2,692,068 when compared to the current fiscal year. These savings were generated as a result of the refunding of approximately \$70.4 million in revenue bonds in February 2009, which generated \$5.7 million in debt service cost savings over 20 years. The structure of the refunding allows the Water and Sewer Fund a \$2.5 million debt service cost savings in FY2009-10. The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2008 was \$191.7 million. According to bond covenants for outstanding debt, the Water and Sewer Fund must ensure that net operating revenues be at least 1.25 times the debt service requirements. In the year that ended June 30, 2008, this coverage equaled 1.98 times the debt service requirements (Source: FY2007-08 Henrico County Comprehensive Annual Financial Report).

Debt service expenditures, in total, represent 23.6

percent of the FY2009-10 operating expenditures. This is a much higher percentage than what is seen in the General Fund (target of 7.75 percent of General Fund expenditures), and is representative of another difference between the County's General Fund and the Water and Sewer Fund.

FY2009-10 Capital Budget:

Specific details regarding the Water and Sewer Fund capital budget for FY2009-10 may be found within the capital budget component of this document.

The capital budget for the Water and Sewer Fund totals \$33,802,600, all of which is to be funded with Water and Sewer revenues in FY2009-10. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund totals \$416,948,680. This amount represents 22.3 percent of the total County five-year Capital Improvement Program. However, when looking at the County's current FY2008-09 operating budget, the Water and Sewer fund represents 6.9 percent of approved expenditures. The difference between the relative proportion required for Water and Sewer in the capital budget as opposed to the operating budget is indicative of the significant infrastructure maintenance and replacement requirements that are present in this operation.

The FY2009-10 budget for the Department of Public Utilities continues to plan for infrastructure improvement and replacement, it meets all debt service coverage requirements, and covers all known fixed cost increases in operational costs. Because of the continued emphasis on multi-year planning and strong financial policies, in December 2008, the County of Henrico Department of Public Utilities earned its second AAA bond rating, and is one of only a few public utilities in the United States to possess two AAA bond ratings. These ratings were re-validated in February 2009 at the time of the \$70.4 million revenue bond refunding.

Historical Depiction of Fund Equity (Outside of Restricted Equity for Accounts Receivable, and Debt Service Coverage Requirements):

At the end of each year, the annual audit offers a depiction in fund equity that is available largely for future year infrastructure improvements in the Capital

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Improvement Program. For the past five years, this unrestricted fund equity has been noted as follows:

FY04: \$ 58,078,833

FY05: \$ 42,639,411

FY06: \$ 34,249,640

FY07: \$109,362,917

FY08: \$107,686,434

Source: Annual Audit of the Water and Sewer Enterprise Fund, Respective Fiscal Year.