

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

Description	FY11 Actual	FY12 Original	FY13 Approved	Change 12 to 13
Personnel	\$ 19,167,882	\$ 19,760,885	\$ 19,993,542	1.2%
Operation Expenses	37,151,329	37,452,511	37,452,511	0.0%
Capital	978,520	785,527	785,527	0.0%
Debt Service	14,499,755	20,391,286	22,783,414	11.7%
Total	<u>\$ 71,797,486</u>	<u>\$ 78,390,209</u>	<u>\$ 81,014,994</u>	<u>3.3%</u>
Personnel Complement	307	307	306 *	(1)

* One position was unfunded and moved to the Hold Complement in FY2012-13.

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	Performance Measures			Change 12 to 13
	FY11	FY12	FY13	
Workload Measures				
Average No. of Fire Hydrants in Service	11,969	12,100	12,300	200
Miles of Water Mains	1,548	1,563	1,583	20
Miles of Sewer Mains	1,450	1,465	1,475	10
Number of Water Customers	92,243	92,600	93,300	700
Number of Sewer Customers	89,355	89,800	90,400	600

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 FY2012-13, projected operating resources of \$99,946,776 will support water and wastewater operations and reflects an increase of 1.2 percent from the FY2011-12 adopted budget, including a proposed 5.0 percent increase in water and sewer rates.

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 cash flows are sufficient to cover current and future operating costs, capital infrastructure improvements, debt service, and bond coverage requirements over 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 FY2012-13 budget adheres to that premise.

Payments and transfers from the General Fund in FY2012-13 total \$756,608 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Expenditures

The FY2012-13 budget of \$81,014,994 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 3.3 percent, or \$2,624,785. Excluding debt service costs, the FY2012-13 Water and Sewer operating budget is increasing 0.4 percent or \$232,657 from the FY2011-12 approved budget, solely the result of increased personnel costs.

In addition to the operating budget, the Water and Sewer capital budget (found within the Capital budget component of this budget document) totals \$89,764,219 for FY2012-13. 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 FY2012-13 operating budget are as follows.

Personnel Expenses:

Personnel expenditures of \$19,993,542 represent an increase of \$232,657, or 1.2 percent, as compared to the approved budget for FY2011-12. This increase is due to increases in VRS, VRS Life, and healthcare expenditures.

Operating Expenses:

Operating expenses of \$37,452,511 represents no change from the prior year budgeted totals. Within the operating budget, identified savings in chemicals, electricity, and heating have been utilized to fund anticipated increases in maintenance and repairs and maintenance service contracts, to allow for the rebuilding of two large motors at the Water Treatment Facility and to fund increased service costs related to

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maintaining laboratory services and electrical testing equipment.

Capital Outlay Expenses:

Capital outlay expenditures in FY2012-13 total \$785,527, which represents no change from the FY2011-12 adopted budget.

Debt Service Requirements:

Debt service expenditures of \$22,783,414 represent a net increase of \$2,392,128 or 11.7 percent when compared to the current fiscal year. The reason for this increase is due to the full-year funding of an anticipated \$85 million issuance of new debt in FY2012-13. The FY2011-12 budget included funding for six months of principal and interest payments due to an anticipated issuance of new debt during the fiscal year if necessary. The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2011 was \$176.5 million, as well as the projected FY2012-13 debt issuance. 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, 2011, this coverage equaled 2.14 times the debt service requirements (Source: FY2010-11 Henrico County Comprehensive Annual Financial Report).

Debt service expenditures, in total, represent 28.1 percent of the FY2012-13 operating expenditures. As a note, 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.

FY2012-13 Capital Budget:

Specific details regarding the Water and Sewer Fund capital budget for FY2012-13 may be found within the capital budget component of this document.

The capital budget for the Water and Sewer Fund totals \$89,764,219. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund totals \$585,083,774. This amount represents 31.9 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2011-12 operating budget, the Water and Sewer fund represents 7.5 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 FY2012-13 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 operational cost increases. Because of the continued emphasis on multi-year planning and strong financial policies, the County of Henrico Department of Public Utilities possesses AAA bond ratings from two of the top three rating agencies, one of a few public utilities in the United States to possess two AAA bond ratings.

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 of fund equity that is available largely for future year infrastructure improvements in the Capital Improvement Program. For the past five years, this unrestricted fund equity has been noted as follows:

FY07: \$109,362,917

FY08: \$107,686,434

FY09: \$ 86,679,593

FY10: \$ 83,058,432

FY11: \$ 60,371,868

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