

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.

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.

The Department provides water and wastewater services to approximately 94 percent of the County's citizens, including the delivery of clean drinking water, sewer disposal, street lighting, refuse management and recycling services. The Solid Waste and Street Lighting functions are discussed in greater detail in a separate narrative within this document.

Annual Fiscal Plan

Description	FY15 Actual	FY16 Original	FY17 Approved	Change 16 to 17
Personnel	\$ 19,424,041	\$ 20,508,294	\$ 20,817,368	1.5%
Operation	41,314,229	40,422,511	40,797,511	0.9%
Capital	1,150,951	785,527	785,527	0.0%
Debt Service	16,645,662	18,707,306	22,280,470	19.1%
Total	\$ 78,534,883	\$ 80,423,638	\$ 84,680,876	5.3%

Personnel Complement	306	306	307	1
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* An Engineer II position was added to the personnel complement during FY2015-16 as part of the enhancement of the Development Review Process.

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Performance Measures				
	FY15	FY16	FY17	Change 16 to 17
Workload Measures				
Average No. of Fire Hydrants in Service	12,611	12,800	13,000	200
Miles of Water Mains	1,595	1,610	1,620	10
Miles of Sewer Mains	1,481	1,490	1,500	10
Number of Water Customers	95,994	97,000	98,000	1,000
Number of Sewer Customers	93,087	94,100	95,100	1,000

Ensuring the efficient delivery of services to citizens has required a commitment to making necessary investments in the System's operations and critical water and sewer infrastructure. In addition, in order to address system demands resulting from consumer growth, Public Utilities performs capacity improvements that are consistent with the County's broader planning and residential and commercial development objectives. The Department also engages in strategic, long-term infrastructure planning to ensure that citizens' and businesses' water and sewer capacity requirements are sufficiently met well into the future.

Resources

In FY2016-17, projected operating resources of \$117,120,360 will support water and wastewater operations, reflecting an increase of 7.8 percent from the FY2015-16 adopted budget, and includes a 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 FY2016-17 budget adheres to that premise. Payments and transfers from the General

Fund in FY2016-17 total \$1,928,621 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Expenditures

The FY2016-17 budget of \$84,680,876 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 6.7 percent, or \$3,948,164. This is primarily attributable to a \$3,573,164 increase to the debt service portion of the budget. The remainder of the increase in the operating component is due to the budgeting of additional funds for several identified operational needs. These needs include funding for tonnage fees on disposing of excavated material from water and sanitary sewer repair excavations. Funding for scheduled repairs and maintenance projects at the water reclamation facility, as well as additional funding to clean and televise the County's sanitary sewer mains through an annual contract to meet the new MS4 regulations and funding for safety programs.

The personnel component totals \$20,817,368 and reflects an increase of \$309,074, or 1.5 percent. The increase in personnel component is attributable to the 2.372 percent salary increase, the full-year impact of the raise provided in FY2015-16 as well as rising health care costs. It is important to note that the budgeted amount for VRS decreased due to a reduction in the contribution rate. There has been no change to the capital outlay portion of the budget from the prior fiscal year.

Debt Service Requirements:

Projected debt service expenditures of \$22,280,470 represents a net increase of \$3,573,164 or 19.1 percent when compared to the current fiscal year. The FY2016-17 budget includes a prorated debt service payment for a new, 30 year debt issuance of

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\$90,000,000 million at a 4.0 rate of interest and 1.5 percent issuance cost. Approximately \$62 million of the planned debt issuance is to provide funding for the Cobbs Creek Reservoir project, while the remainder will provide funding for a variety of Water and Sewer rehabilitation projects and address ongoing maintenance requirements for the County's water and sewer system infrastructure.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2015 was \$220.9 million, as well as the FY2015-16 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 Fund's debt service requirements. In the year that ended June 30, 2015, this coverage equaled 2.62 times the debt service requirements. (Source: FY2014-15 Henrico County Comprehensive Annual Financial Report)

Debt service expenditures, in total, represent 26.3 percent of FY2016-17 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 Enterprise Fund.

It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund totals \$467,475,000. This amount represents 30.8 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2015-16 operating budget, the Water and Sewer fund represents 7.1 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 FY2016-17 approved budget for the Department of Public Utilities continues to plan for infrastructure improvement and replacement, meet all debt service coverage requirements, and cover 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 only 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:

FY11: \$ 60,371,868
FY12: \$ 51,395,132
FY13: \$ 48,899,271
FY14: \$ 24,886,066
FY15: \$ 55,689,150

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