

# 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>FY09 Actual</u>	<u>FY10 Original</u>	<u>FY11 Approved</u>	<u>Change 10 to 11</u>
Personnel	\$ 19,685,513	\$ 20,352,116	\$ 19,516,872	(4.1%)
Operation Expenses	32,527,344	36,554,073	36,663,397	0.3%
Capital	467,033	1,226,774	805,674	(34.3%)
Debt Service	17,530,142	15,413,013	14,783,503	(4.1%)
Total	<u>\$ 70,210,032</u>	<u>\$ 73,545,976</u>	<u>\$ 71,769,446</u>	<u>(2.4%)</u>
Personnel Complement	320	320	308 *	(12)

\* Reflects the elimination of thirteen vacant positions within the Water and Sewer Fund, partially offset by the shift of one position from Solid Waste to Water and Sewer in FY2009-10.

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Performance Measures

	FY09	FY10	FY11	Change 10 to 11
<b>Workload Measures</b>				
Average No. of Fire Hydrants in Service	11,597	11,800	11,900	100
Miles of Water Mains	1,515	1,535	1,555	20
Miles of Sewer Mains	1,432	1,465	1,475	10
Number of Water Customers	94,886	92,800 *	93,600	800
Number of Sewer Customers	91,631	90,000 *	90,800	800

\* Revisions downward in FY10 from FY09 do not reflect loss of customers, but reflect a system error from FY09 that was realized with the transition to a new cashier system.

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 FY2010-11, projected operating resources of \$94,919,385 will support water and wastewater operations and reflects an increase of 2.3 percent from the FY2009-10 adopted budget. This increase is mostly attributed to two factors. First, revenue estimates reflect a 5.0 percent increase in water and sewer rates. Second, on January 1, 2010, water and sewer connection fees were increased by approximately 64.0 percent combined. These connection fee increases were approved in the FY2008-09 approved budget, and were originally scheduled to be implemented on October 1, 2008; however, as a means to stimulate economic development, these fee increases were deferred until January 1, 2010.

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 FY2010-11 budget adheres to that premise.

Payments and transfers from the General Fund in FY2010-11 total \$772,219 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Expenditures

The FY2010-11 budget of \$71,769,446 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is decreasing by 2.4 percent, or \$1,776,530. Excluding debt service costs, the FY2010-11 Water and Sewer operating budget is decreasing \$1,147,020 or 2.0 percent from the FY2009-10 approved budget. This decrease is the result of a number of targeted operating budget reductions in FY2010-11.

In addition to the operating budget, the Water and Sewer capital budget (found within the Capital budget component of this budget document) totals \$36,629,912 for FY2010-11. 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 FY2010-11 operating budget are as follows.

Personnel Expenses:

Personnel expenditures of \$19,516,872 represent a decrease of \$835,244, or 4.1 percent, as compared to the approved budget for FY2009-10. This decrease is

### *Public Utilities (cont'd)*

attributable to the elimination of 13 vacant positions, as well as a 2.5 percent vacant position savings adjustment of \$418,673. Partially offsetting these reductions is a new position that was shifted to Water and Sewer from Solid Waste in FY2009-10.

#### Operating Expenses:

Operating expenses of \$36,663,397 reflect a \$109,324 or 0.3 percent increase when compared to prior year budgeted totals. This increase is somewhat misleading, as it results from an anticipated \$1.0 million increase to the City of Richmond for the purchase of water, a cost that exceeds \$9.5 million in the FY2010-11 budget. Mostly offsetting this large increase is a shift of over \$420,000 in capital outlay expenditures and a number of targeted operating budget reductions, including reductions in non-fixed costs, the elimination of travel and tuition expenditures, realized efficiencies in automotive/motor pool costs, and the elimination of a previously budgeted \$598,000 payment to Cumberland County associated with a reservoir project that has since been cancelled.

#### Capital Outlay Expenses:

Capital outlay expenditures in FY2010-11 total \$805,674, which represents a \$421,100, or 34.3 percent, reduction when compared to the current fiscal year. As noted above, this reduction in capital outlay expenditures partially offsets a \$1.0 million anticipated increase to the City of Richmond for the purchase of water in FY2010-11.

#### Debt Service Requirements:

Debt service expenditures of \$14,783,503 represent a net decrease of \$629,510 when compared to the current fiscal year. This decrease is the result of the refunding of \$93.3 million in Water and Sewer revenue bonds, \$70.4 million in January 2009 and \$22.9 million in December 2009. Partially offsetting the savings realized from the bond refundings is new debt service costs associated with the issuance of \$9.8 million in Recovery Zone Economic Development Bonds (RZEDBs) in December 2009. The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2009 was \$181.4 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.

As noted above, the Water and Sewer Fund issued \$9.8 million in RZEDBs in December 2009. RZEDBs are taxable bonds that were created by the American Reinvestment and Recovery Act (ARRA) in February 2009 to assist local and state governments in their economic development initiatives in distressed areas. These bonds offer a 45.0 percent interest rate subsidy on the issued bonds, which will result in a true interest cost of 3.39 percent. The RZEDB proceeds will be applied to the acquisition, construction, and reconstruction of sewer rehabilitation projects within three recovery zones. As designated by the Board of Supervisors, the County's three recovery zones are the Broadwater Area Recovery Zone (Highland Springs), the Strawberry Hill Recovery Zone 1 (Monument Avenue Area), and the Strawberry Hill Recovery Zone 2 (Lakeside).

As mentioned earlier, in addition to the issuance of new debt in December 2009, the Water and Sewer Fund also refunded \$22.9 million in variable rate bonds with fixed interest rate bonds that achieved a true interest cost of 3.57 percent. It should also be noted that in February 2009, \$70.4 million in Water & Sewer revenue bonds were refunded, generating a savings of \$5.7 million in debt service costs over 20 years.

Debt service expenditures, in total, represent 25.9 percent of the FY2010-11 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.

#### FY2010-11 Capital Budget:

Specific details regarding the Water and Sewer Fund capital budget for FY2010-11 may be found within the capital budget component of this document.

The capital budget for the Water and Sewer Fund totals \$36,629,912, all of which is to be funded with Water and Sewer revenues in FY2010-11. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund totals \$502,207,542. This amount represents 23.7 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2009-10 operating budget, the Water and Sewer

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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 FY2010-11 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 by a top three rating agency, one of a few public utilities in the United States to possess two AAA bond ratings. These strong ratings have twice been re-validated, once in February 2009 with the refunding of \$70.4

million in bonds, and again in December 2009 with the refunding of \$22.9 million in bonds and the issuance of \$9.8 million in RZEDBs.

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

FY05: \$ 42,639,411  
FY06: \$ 34,249,640  
FY07: \$109,362,917  
FY08: \$107,686,434  
FY09: \$ 86,679,593

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