

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.

Resources

In FY2013-14, projected operating resources of \$102,298,175 will support water and wastewater operations and reflects an increase of 2.4 percent

Annual Fiscal Plan

<u>Description</u>	<u>FY12 Actual</u>	<u>FY13 Original</u>	<u>FY14 Approved</u>	<u>Change 13 to 14</u>
Personnel	\$ 18,819,650	\$ 19,993,542	\$ 20,234,453	1.2%
Operation Expenses	36,058,744	37,452,511	38,922,511	3.9%
Capital	691,906	785,527	785,527	0.0%
Debt Service	16,420,866	22,783,414	21,273,746	(6.6%)
Total	\$ 71,991,166	\$ 81,014,994	\$ 81,216,237	0.2%
 Personnel Complement*	 307	 306	 306	 0

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

Public Utilities (cont'd)

	Performance Measures			Change 13 to 14
	FY12	FY13	FY14	
Workload Measures				
Average No. of Fire Hydrants in Service	12,167	12,300	12,500	200
Miles of Water Mains	1,558	1,570	1,585	15
Miles of Sewer Mains	1,456	1,475	1,475	0
Number of Water Customers	92,946	93,300	94,000	700
Number of Sewer Customers	90,068	90,400	91,100	700

from the FY2012-13 approved budget, which includes 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 FY2013-14 budget adheres to that premise.

Payments and transfers from the General Fund in FY2013-14 total \$1,931,608 for debt service, all of which will support the debt service costs related to the Elko Tract infrastructure improvements.

Expenditures

The FY2013-14 budget of \$81,216,237 includes expenditures for personnel, operating, capital outlay and debt service. Overall, the Water and Sewer operating budget is increasing by 0.2 percent, or \$201,243. Excluding debt service costs, the FY2013-14 Water and Sewer operating budget is increasing 2.9 percent or \$1,710,911 from the FY2012-13 approved budget. The increase is due to both increased personnel costs as well as an increase in the operating portion of the budget to support maintenance needs at the Water

Treatment Facility (WTF) and the Water Reclamation Facility (WRF).

In addition to the operating budget, the Water and Sewer capital budget (found within the Capital budget component of this budget document) totals \$16,733,480 for FY2013-14. 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 FY2013-14 operating budget are as follows.

Personnel Expenses:

Personnel expenditures of \$20,234,453 represent an increase of \$240,911, or 1.2 percent, when compared to the approved budget for FY2012-13. The increase is attributable to costs resulting from State legislation (Senate Bill 497) requiring a 5.0 percent employee contribution to employee pensions. The implementation of this legislative mandate resulted in an increase in salaries and corresponding benefits costs, partially offset by a decrease in the cost of VRS Retirement. The increase in personnel was partially offset by the budgeting of a vacancy savings rate of 2.0 percent totaling \$341,397.

Operating Expenses:

Operating expenses of \$39,708,038 represent an increase of \$1,470,000, or 3.9 percent, from the prior year budgeted totals, specifically to address maintenance needs at both the Water Reclamation and Water Treatment Facilities. The increase in costs related to maintenance at the Water Reclamation Facility (WRF) totals \$770,000. The increase in costs related to maintenance at the Water Treatment Facility (WTF) totals \$700,000, and includes the replacement of carbon for three filters at the facility.

Public Utilities (cont'd)

The maintenance at both facilities is required due to the ageing of the plants, and several items of machinery and equipment approaching their useful lives, therefore requiring ongoing maintenance.

Capital Outlay Expenses:

Capital outlay expenditures in FY2013-14 total \$785,527, which represents no change from the FY2012-13 adopted budget.

Debt Service Requirements:

Debt service expenditures of \$21,273,746 represent a net decrease of \$1,509,668 or 6.6 percent when compared to the current fiscal year. The reason for this decrease is partly due to the full-year funding of principal and interest payments for an anticipated \$85 million issuance of new debt in FY2012-13 at a 5.0 percent rate of interest that hasn't yet occurred. It is anticipated that \$100 million of new debt will be issued in FY2012-13 at an approximate rate of interest of 4.0 percent, resulting in a reduction in the projected principal and interest payments. The budget for FY2013-14 reflects a full year of funding for the anticipated issuance of \$100 million during FY2012-13. Also contributing to the decrease is the retirement of 2002 Refunding Bonds, which will not require debt service funding in the coming fiscal year.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2012 was \$168.4 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, 2012, this coverage equaled 2.18 times the debt service requirements (Source: FY2011-12 Henrico County Comprehensive Annual Financial Report).

Debt service expenditures, in total, represent 26.1 percent of the FY2013-14 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.

FY2013-14 Capital Budget:

Specific details regarding the Water and Sewer Fund capital budget for FY2013-14 may be found within the capital budget component of this document.

The capital budget for the Water and Sewer Fund totals \$16,733,480. It should be noted that the five-year Capital Improvement Program for the Water and Sewer fund totals \$404,858,529. This amount represents 24.1 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2012-13 operating budget, the Water and Sewer fund represents 7.8 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 FY2013-14 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 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:

FY08: \$107,686,434
FY09: \$ 86,679,593
FY10: \$ 83,058,432
FY11: \$ 60,371,868
FY12: \$ 51,395,132

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