

PERFORMANCE MEASURES

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>Change 19 to 20</u>
Workload Measures				
Average No. of Fire Hydrants in Service	13,236	13,400	13,600	200
Miles of Water Mains	1,634	1,640	1,650	10
Miles of Sewer Mains	1,514	1,520	1,530	10
Number of Water Customers	98,527	99,500	100,500	1,000
Number of Sewer Customers	95,493	96,500	97,500	1,000

OBJECTIVES (CONTINUED)

- 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.

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, 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 FY2019-20, projected operating resources of \$131,776,186 will support water and wastewater operations, reflecting an increase of 4.0 percent from the FY2018-19 budget, and includes an increase in water and sewer rates of \$2.88 per month for the median residential customer.

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.

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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 for meeting all the obligations of the fund. The FY2019-20 budget adheres to that premise. Payments and transfers from the General Fund to Water and Sewer in FY2019-20 total \$1,928,921 for debt service costs related to the Elko Tract infrastructure improvements.

EXPENDITURES

The FY2019-20 budget of \$96,685,261 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 4.6 percent, or \$4,267,405. This is primarily attributable to a \$1,895,997 increase to the debt service portion of the budget. A portion of the increase is driven by the personnel component, which totals \$22,966,323 and reflects an increase of \$1,041,733 or 4.8 percent. This increase is primarily attributable to the budgeting of a raise, benefit adjustments as well as the movement of one vacant position from the Solid Waste to Water & Sewer personnel complement. This vacant position was reclassified and assigned to the Cobbs Creek Reservoir project. The operating component increased by \$1,333,280 or 3.2 percent when compared to the prior fiscal year. This increase is primarily due to rising costs associated with repairing water main breaks and the hydrant maintenance program. The capital component reflects a decrease of \$3,605 or 0.5 percent when compared to the prior fiscal year.

DEBT SERVICE REQUIREMENTS

Projected debt service expenditures of \$29,298,024 represents a net increase of \$1,895,997 or 6.9 percent when compared to the approved FY2018-19 budget. The debt service in the FY2019-20 budget is based on existing debt service plus costs associated with an anticipated \$74.0 million debt issuance in the second half of FY2019-20.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2018 was \$368,705,000. 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, 2018, this coverage equaled 2.80 times the debt service requirements. (Source: FY2017-18 Henrico County Comprehensive Annual Financial Report.)

Debt service expenditures, in total, represent 30.8 percent of the FY2019-20 Water & Sewer budget. 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 \$299,400,000. This amount represents 20.6 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2018-19 operating budget, the Water and Sewer fund represents 7.3 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 department.

The FY2019-20 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

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Department of Public Utilities possesses AAA bond ratings from the top three rating agencies, one of only a few public utilities in the United States to possess three 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:

FY14: \$ 24,886,066

FY15: \$ 55,689,150

FY16: \$ 84,663,117

FY17: \$ 101,851,492

FY18: \$ 140,813,367

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