

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 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

<u>Description</u>	<u>FY16 Actual</u>	<u>FY17 Original</u>	<u>FY18 Approved</u>	<u>Change 17 to 18</u>
Personnel	\$ 19,961,637	\$ 20,817,368	\$ 21,262,571	2.1%
Operation	43,659,324	40,797,511	42,075,332	3.1%
Capital	743,939	785,527	785,527	0.0%
Debt Service	19,976,244	22,280,470	25,638,101	15.1%
Total	<u>\$ 84,341,144</u>	<u>\$ 84,680,876</u>	<u>\$ 89,761,531</u>	<u>6.0%</u>

Personnel Complement	306	307 *	307	0
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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.

Performance Measures

	FY16	FY17	FY18	Change 17 to 18
Workload Measures				
Average No. of Fire Hydrants in Service	12,880	13,000	13,200	200
Miles of Water Mains	1,607	1,620	1,630	10
Miles of Sewer Mains	1,491	1,500	1,510	10
Number of Water Customers	96,811	97,800	98,800	1,000
Number of Sewer Customers	93,939	94,800	95,800	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, 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 FY2017-18, projected operating resources of \$123,157,584 will support water and wastewater operations, reflecting an increase of 5.2 percent from the FY2016-17 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 the obligations of the fund. The FY2017-18 budget adheres to that premise. Payments and transfers from the General Fund to Water and Sewer in FY2017-18 total \$1,928,621 for debt service costs related to the Elko Tract infrastructure improvements. The FY2017-18

budget also includes a payment of \$75,000 from Water and Sewer to OPEB.

Expenditures

The FY2017-18 budget of \$89,761,531 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 6.0 percent, or \$5,080,655. This is primarily attributable to a \$3,357,631 increase to the debt service portion of the budget. A portion of the increase is driven by the personnel component, which totals \$21,262,571 and reflects an increase of \$445,203 or 2.1 percent. This increase is attributable to a 2.5 percent salary increase for FY2017-18 as well as rising health care costs.

The remainder of the budgetary increase is due to a \$1,277,821 increase in operating expenses. The additional Operations & Maintenance appropriations for FY2017-18 will be accommodated within the 5.0 percent requested rate increase, and is for ongoing maintenance work at the Water Reclamation Facility. 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 \$25,638,101 represents a net increase of \$3,357,631 or 15.1 percent when compared to the approved FY2016-17 budget. The debt service in the FY2017-18 budget is based on existing debt service plus the addition of an anticipated \$140.0 million debt issuance in January, 2018 at 5.0 percent interest rates for 30 years with a 1.5 percent issuance cost which is reflected in the rate model. Approximately \$96 million of the planned debt issuance is to provide funding for the Cobbs Creek Reservoir project, \$34 million will provide funding for the Water Reclamation Facility and 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.

Public Utilities (cont'd)

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2016 was \$285.5 million, as well as the FY2016-17 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, 2016, this coverage equaled 2.44 times the debt service requirements. (Source: FY2015-16 Henrico County Comprehensive Annual Financial Report)

Debt service expenditures, in total, represent 29.0 percent of FY2017-18 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 \$263,950,000. This amount represents 25.0 percent of the total County five-year Capital Improvement Program. However, when looking at the County's FY2016-17 operating budget, the Water and Sewer fund represents 8.4 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 FY2017-18 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:

FY12: \$ 51,395,132
FY13: \$ 48,899,271
FY14: \$ 24,886,066
FY15: \$ 55,689,150
FY16: \$ 84,663,117

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