

PUBLIC UTILITIES

Water & Sewer

DESCRIPTION

The Water and Sewer Enterprise Fund accounts for the provision of water and sewer services to residents and businesses 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 charges and fees. 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.

FISCAL YEAR 2021 SUMMARY

Annual Fiscal Plan

Description	FY19 Actual	FY20 Original	FY21 Approved	Change 20 to 21
Personnel	\$ 21,773,154	\$ 22,966,323	\$ 23,665,477	3.0%
Operation	44,731,431	43,638,992	45,274,849	3.7%
Capital	580,799	781,922	1,135,653	45.2%
Debt Service	26,846,075	29,298,024	31,809,741	8.6%
Total	<u>\$ 93,931,459</u>	<u>\$ 96,685,261</u>	<u>\$ 101,885,720</u>	<u>5.4%</u>

Personnel Complement	312	314	314	0
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PERFORMANCE MEASURES

	FY19	FY20	FY21	Change 20 to 21
Workload Measures				
Average No. of Fire Hydrants in Service	13,388	13,600	13,700	100
Miles of Water Mains	1,640	1,650	1,658	8
Miles of Sewer Mains	1,522	1,530	1,538	8
Number of Water Customers	99,435	100,500	101,400	900
Number of Sewer Customers	96,383	97,500	98,400	900

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 FY2020-21, projected operating resources of \$140,155,635 will support water and wastewater operations, reflecting an increase of 4.8 percent from the FY2019-20 adopted budget.

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 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 FY2020-21 budget adheres to that premise. Payments and transfers from the General Fund to Water and Sewer in FY2020-21 total \$1,929,858 for debt service costs related to the Elko Tract infrastructure improvements.

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EXPENDITURES

The FY2020-21 budget of \$101,885,720 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 5.4 percent, or \$5,200,459. This is partially attributable to a \$2,511,717 increase to the debt service portion of the budget. A portion of the increase is driven by the personnel component, which totals \$23,665,477 and reflects an increase of \$699,154 or 3.0 percent. This increase is primarily attributable to rising health care costs and benefit adjustments. The operating and capital components reflect a collective increase of \$1,989,588 or 4.5 percent when compared to the prior fiscal year. The increase in the operating component is primarily due to the adjustment of numerous budgeted accounts to cover fixed cost increases. The increase in the capital component is due to various projected capital outlay needs in FY2020-21.

DEBT SERVICE REQUIREMENTS

Projected debt service expenditures of \$31,809,741 represents a net increase of \$2,511,717 or 8.6 percent when compared to the approved FY2019-20 budget. The debt service in the FY2020-21 budget is based on existing debt service plus costs associated with an anticipated \$40.0 million debt issuance in the second half of FY2020-21.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2019 was \$425,360,000. 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, 2019, this coverage equaled 2.01 times the debt service requirement. (Source: FY2018-19 Henrico County Comprehensive Annual Financial Report: Pledged Revenue Coverage – Table X)

Debt service expenditures, in total, represent 31.2 percent of the FY2020-21 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.

The FY2020-21 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 the following three bond rating agencies: Moody's Investors Service, Standard & Poor's and Fitch IBCA. It is one of only 14 public utilities in the United States to possess a triple AAA bond rating.

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:

FY15: \$ 55,689,150

FY16: \$ 84,663,117

FY17: \$ 101,851,492

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FY18: \$ 140,813,367

FY19: \$ 146,439,690

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