

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.

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 2024 SUMMARY

Description	Annual Fiscal Plan			
	FY22 Actual	FY23 Original	FY24 Approved	Change 23 to 24
Personnel	\$ 18,054,418	\$ 22,662,663	\$ 24,253,350	7.0%
Operation	51,059,792	54,503,443	60,104,957	10.3%
Capital	558,151	1,862,788	2,168,488	16.4%
Debt Service	16,939,163	31,831,998	30,289,851	(4.8%)
Total	<u>\$ 86,611,524</u>	<u>\$ 110,860,892</u>	<u>\$ 116,816,646</u>	<u>5.4%</u>

Personnel Complement 307 316 322 6

FY24-Added 1-Senior Business Manager, 2- Instrumentation Specialist III, 1-Water Quality Compliance Specialist, 1-Chemist, and 1- Laboratory Analyst III to there personnel compliment.

PERFORMANCE MEASURES

	<u>FY22</u>	<u>FY23</u>	<u>FY24</u>	<u>Change 23 to 24</u>
Workload Measures				
Average No. of Fire Hydrants in Service	13,849	13,950	14,050	100
Miles of Water Mains	1,669	1,675	1,685	10
Miles of Sewer Mains	1,539	1,545	1,550	5
Number of Water Customers	101,667	102,500	103,300	800
Number of Sewer Customers	98,591	99,400	100,100	700

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. Additionally, funding has been provided by the America Rescue Plan to assist new customers with connecting to the system. This effort is being supported with \$1,000,000 from the General Fund to assist new customers with the cost to connect to the water & sewer system.

The Department provides water and wastewater services to approximately 94% 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 FY24, projected operating resources of \$151,868,267 will support water and wastewater operations, reflecting a increase of 2.8% from the FY23 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.

The total resources for FY24 includes a total of \$7,150,500 of General Fund resources. There are three areas supported by the General Fund. First is \$2,150,500 to support debt service to support Elko Tract infrastructure improvements. Second is \$1,000,000 to assist new customers with the cost to connect to the Water & Sewer system. Finally, \$4,000,000 from the General Fund is to support water & sewer improvements related to economic development projects. The funding for infill connections and EDA projects, new funding for FY24, equates roughly

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to the value of 1 penny on the County's Real Estate tax rate. 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 FY24 budget adheres to that premise.

EXPENDITURES

The FY24 budget of \$116,816,646 includes expenditures for personnel, operating, capital outlay, and debt service and is equal to the budget target. Overall, the Water and Sewer operating budget is increasing by 5.4%, or \$5,955,754. The increase reflects pay increases for all employees and benefit rate increases and funding for: 1 – Senior Business Manager, 2 – Instrumentation Specialist III, 1 – Water Quality Compliance Specialist, 1 – Chemist and 1 – Laboratory Analyst III.

DEBT SERVICE REQUIREMENTS

Projected debt service expenditures of \$29,648,861 represents a net decrease of \$1,542,147 or 4.9% when compared to the approved FY23 budget. The debt service in the FY24 budget is based on existing debt service.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2021, was \$432,145,000. According to bond covenants for outstanding debt, the Water and Sewer Fund must ensure that net operating revenues are at least 1.25 times the Fund's debt service requirements. In the year that ended June 30, 2022, this coverage equaled 2.25 times the debt service requirement. (Source: Annual Comprehensive Financial Report June 30, 2022: Pledged Revenue Coverage Table X).

Debt service expenditures, in total, represent 27.0% of the FY24 Water & Sewer budget. As a note, this is a much higher percentage than what is seen in the General Fund (target of 7.75% of General Fund expenditures) and is representative of another difference between the County's General Fund and the Water and Sewer Enterprise Fund.

The FY24 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 15 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: (Source: Annual Audit of the Water and Sewer Enterprise Fund, Respective Fiscal Year.)

FY18: \$ 140,813,367

FY19: \$ 146,439,690

FY20: \$ 158,493,173

FY21: \$ 196,635,341

FY22: \$ 194,438,660