

COMMISSION FINANCE COMMITTEE
MEETING MINUTES
April 15, 2021

PRESENT: Commissioners Elofson, Glenn, Lakdawala, Levenston, Lynch, Rodriguez, and Taraski.

PROPOSED FISCAL YEAR-2022 ANNUAL BUDGET REVIEW

The Finance Committee (Commissioners Rodriguez, Lynch and Elofson), Commissioners Glenn, Lakdawala, Levenston, and Taraski reviewed the proposed Fiscal Year 2022 annual budget. Staff presented details on the following:

- FY 2022 budget
- FY 2022 to FY 2031 Capital Improvement Program (CIP)
- Financial forecast and comparison to previous forecasts
- Wastewater treatment and collection rates for Small Communities; high strength surcharge; hauled waste; Fats, Oils and Grease (FOG); and wastewater facility charges; damaged meter and antenna fees; and
- Changes to the Revenue Policy.

The Finance Committee will present its report to the full Commission at the April 27, 2021 meeting. The entire budget package will be presented to the Commission at the May Commission meeting.

Attachment: [Presentation](#)

Public Comment: None

Next Committee Meeting Date: TBD

Meeting Adjourned: 9:58 am

SUBMITTED:

APPROVED:

Jennifer L. Cascio

Jennifer L. Cascio
Secretary

Stephen Rodriguez

Stephen Rodriguez
Committee Chair



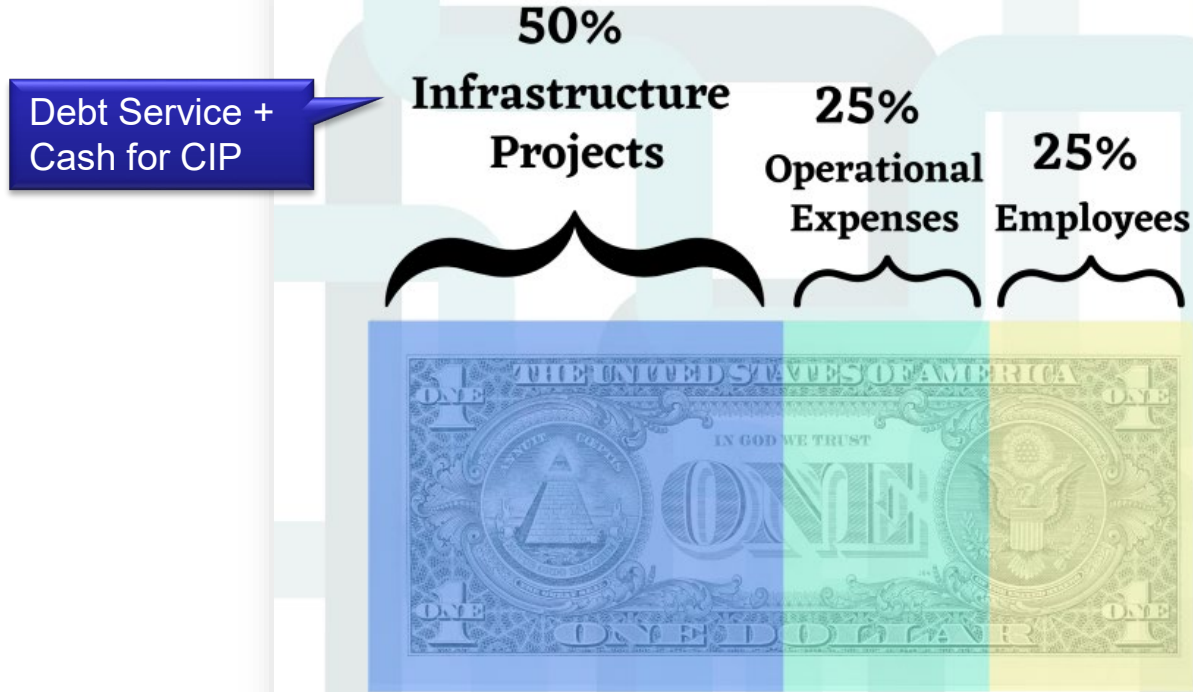
FY2022 Finance Committee
April 15, 2021

- FY22 Budget
- FY22-31 CIP
- Financial Forecast and Comparison of Previous Forecasts
- Rates
 - Small Communities
 - Surcharge
 - Hauled Waste and New Fats, Oils and Grease (FOG) Rate
 - Facility Charges
- Revenue Policy Changes

FY22 Budget At-A-Glance

• Revenue	\$357M	9% Rate Increase
• Operating Expenses	- \$178M	1.5% YOY Increase
• Debt Service	- \$65M	\$5.1M Projected New
• PAYGO (Cash for CIP)	= \$114M	\$58M FY21 Carry-over
• FY22 Capex	= \$290M	Clean Water Loans WIFIA Line of Credit
• Financed Amount	= \$176M	
• 10-year CIP = \$3.0B		
• 20-year CIP = \$5.1B		

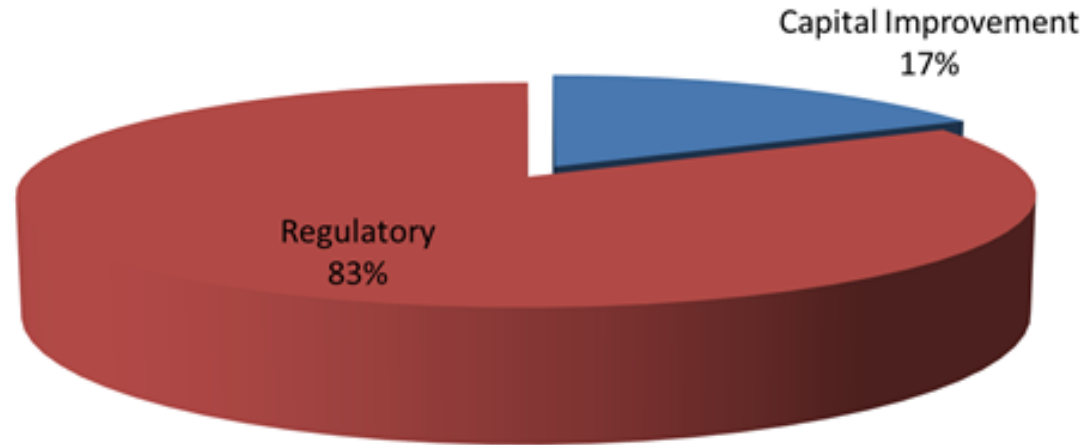
Where does HRSD spend money? 50% is for Infrastructure



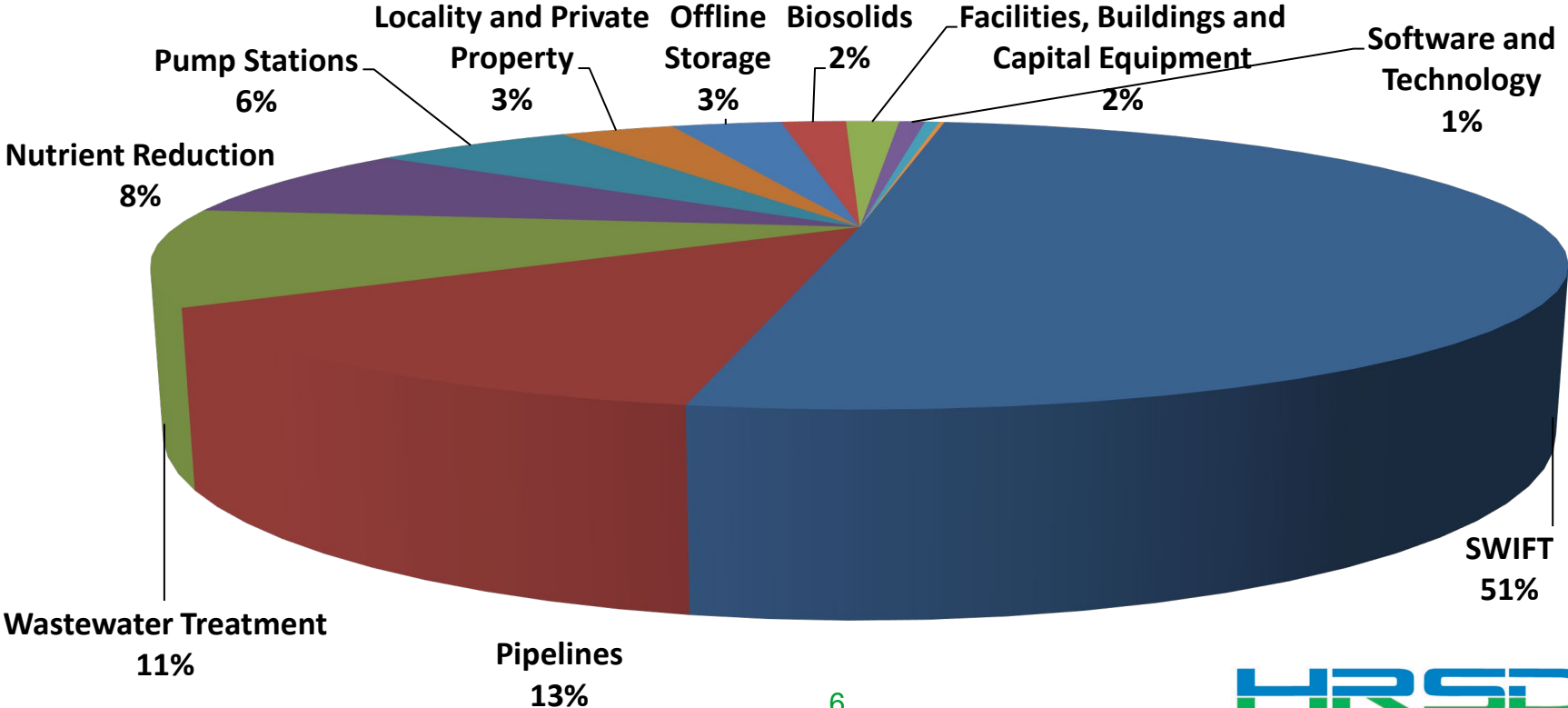
FY2022-2031 CIP Stats

- FY22-31 = \$3.0B
- 202 Projects
- Includes RWWMP
 - SWIFT projects through FY36
 - \$222M high priority wet weather improvements in FY20-31
 - \$179M high priority wet weather improvements in FY31-41 (\$300M inflated)

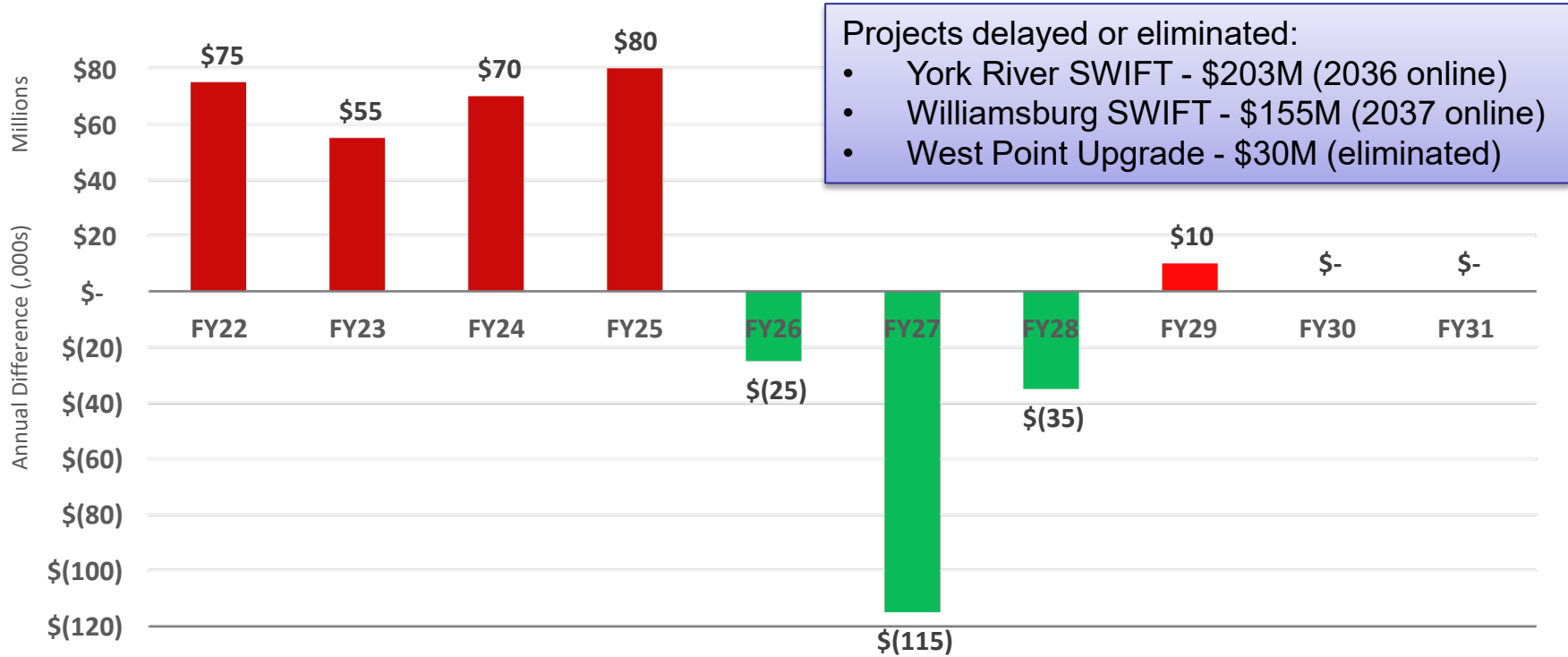
FY22 to FY31 Program - Regulatory Driven Projects



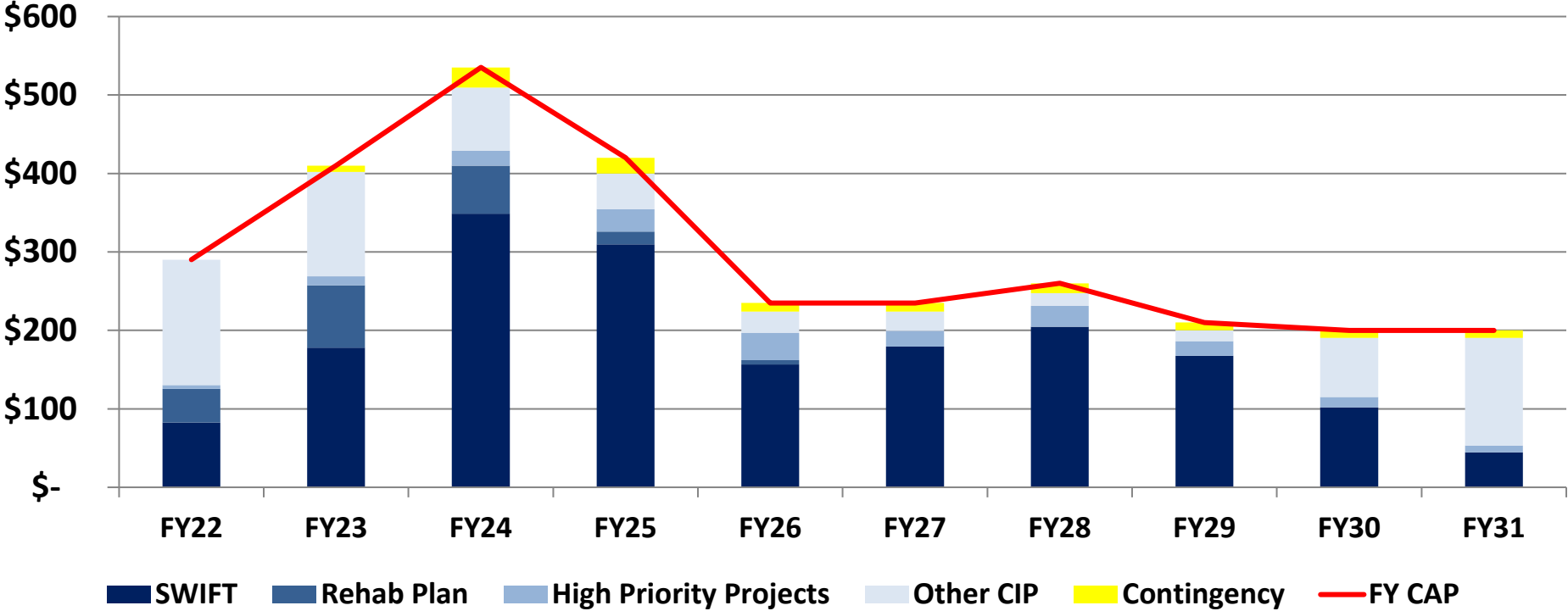
Project Types



FY2022-2031 Adjustments to Annual CIP Spending Targets



Annual CIP Spend by Major Program



$$\text{Debt Service Coverage Ratio} = \frac{\text{REVENUES} - \text{EXPENSES}}{\text{Principal} + \text{Interest}}$$

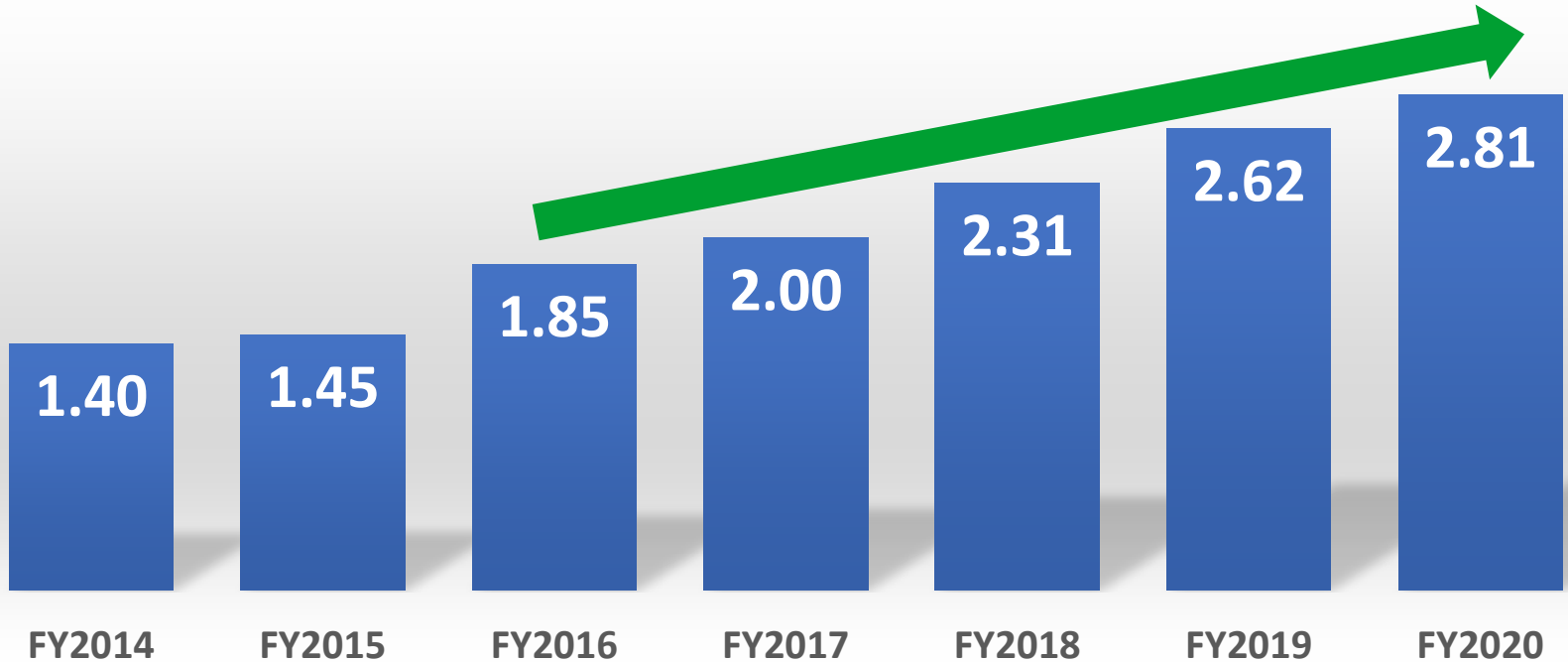
- *How much income will you generate to pay Debt Service (principal + interest)?*
- *Will bond investors get paid back?*
- *Higher is better*

Target = 2.0x
Policy = 1.4x

2.0 means that you have **two times more money available** to pay for your loan payment

Financial Forecast Strategy Execution

Historical Total Debt Service Coverage Ratio (DSCR)



New custom financial model called Orion

- Incorporates the latest debt service optimization modeling
- More certainty (WIFIA, Clean Water, Regional Wet Weather Plan)

REVENUES

- Projected rate increases reduced from year 2028 and beyond

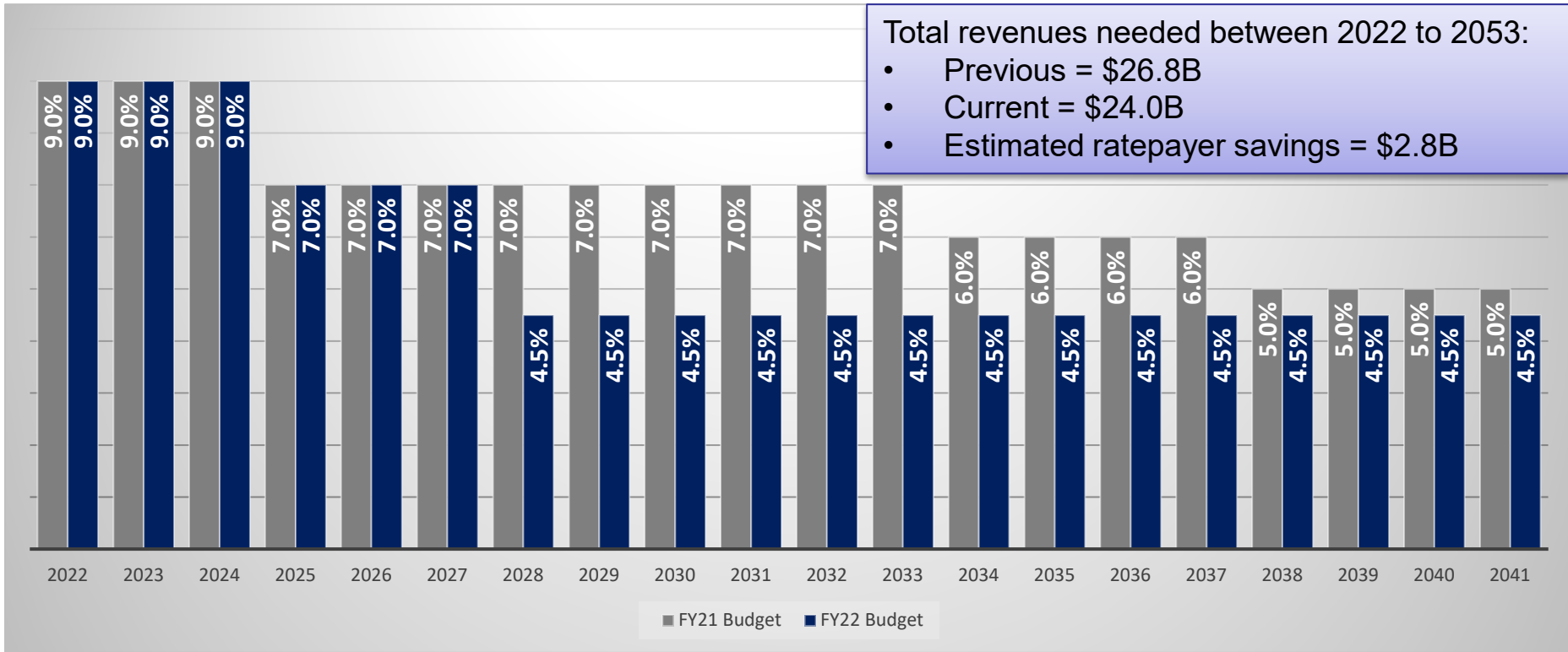
EXPENSES

- Regional Wet Weather Plan Amendment Assumed to be Approved
 - \$200 million in wet weather projects between 2030-2040
 - \$2.8 Billion less needed through year 2053

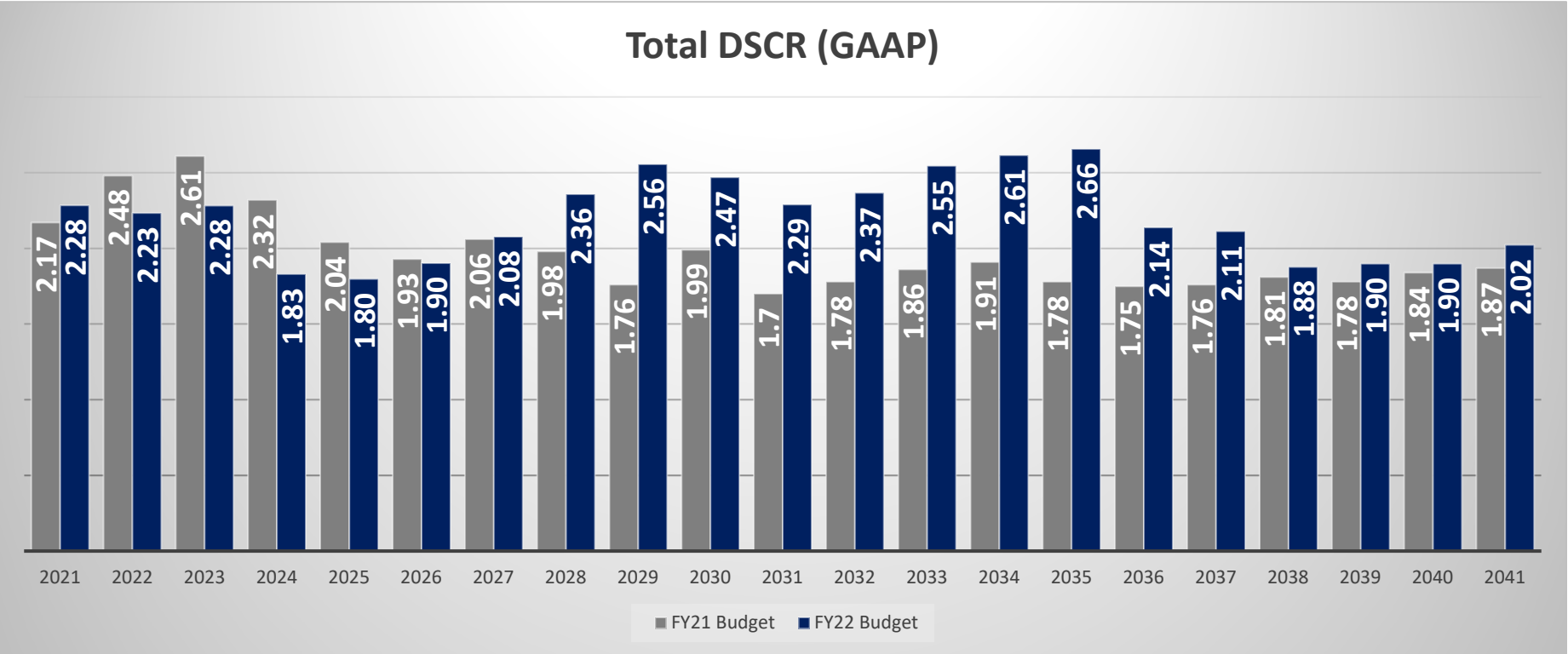
FINANCING

- WIFIA tranches included
- Water Quality Improvement Fund (WQIF) Grants Estimated

Projected Wastewater Rates - \$2.8B in Ratepayer Savings



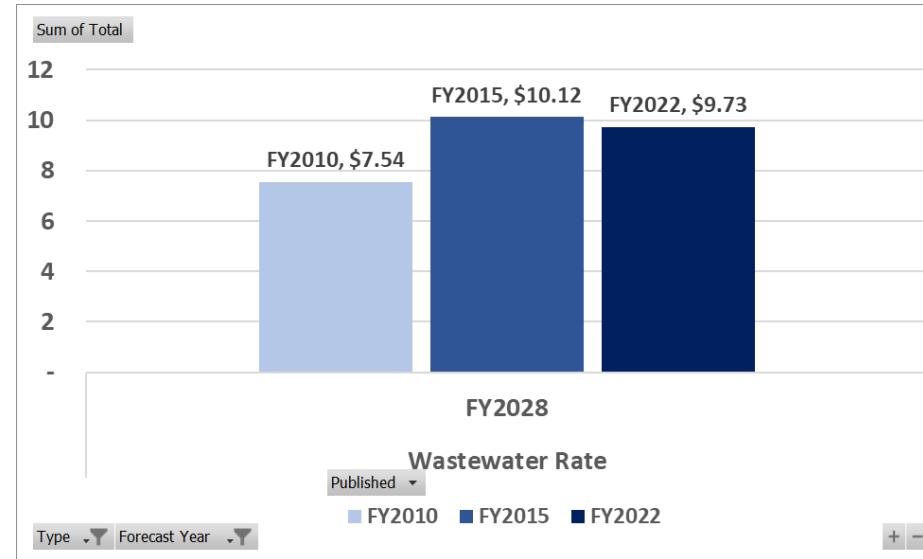
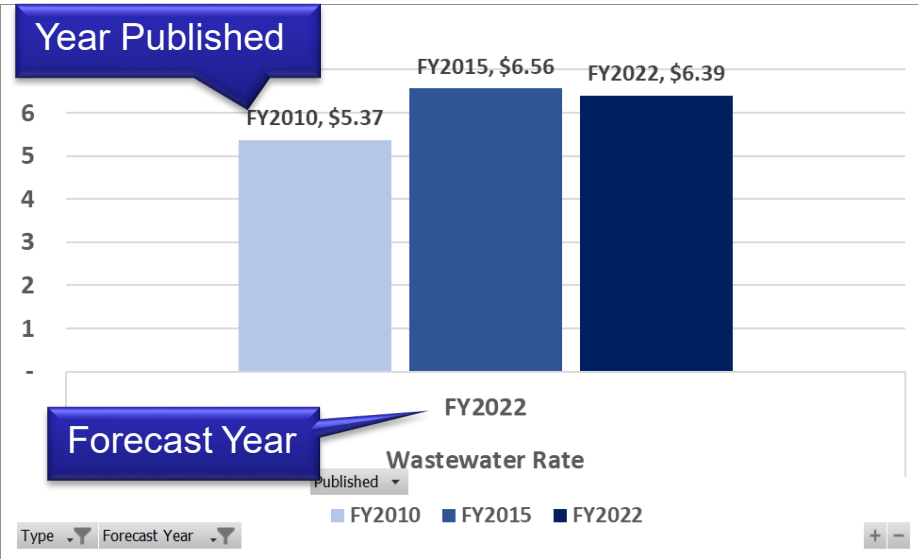
20-Year Financial Forecast – Debt Service Coverage Target = 2.0x



Forecast Comparison – How close were we?

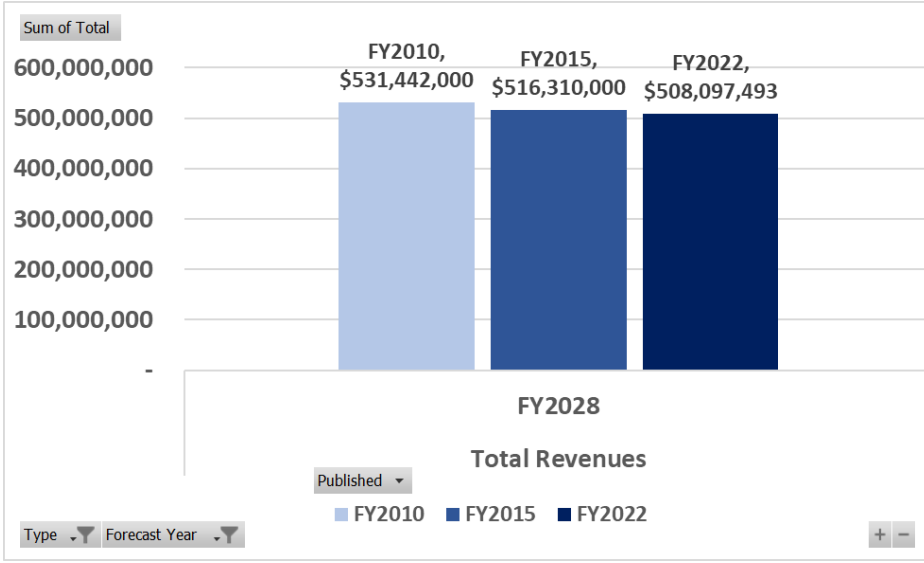
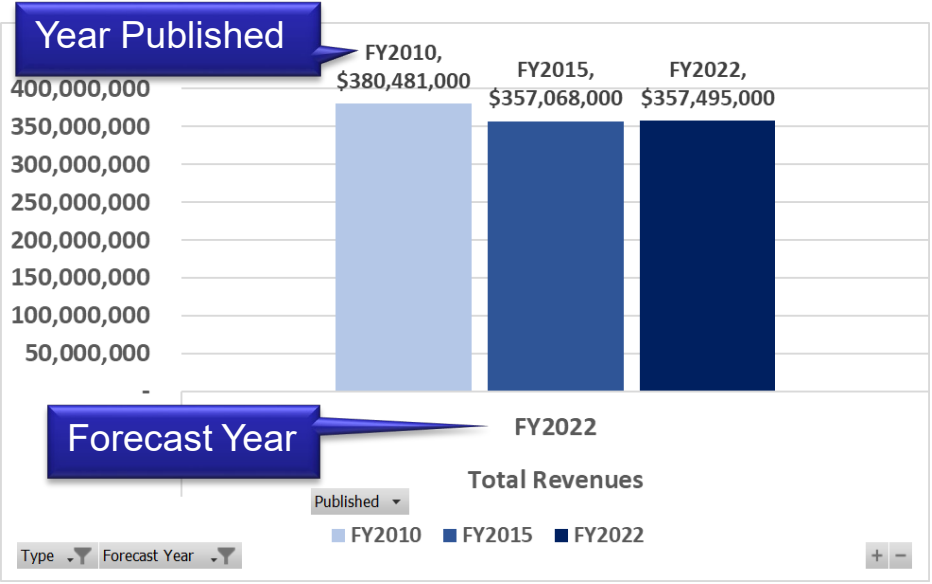
- Compare the published forecasts from FY2010, FY2015 and FY2022
- Forecast years FY2022 and FY2028 (furthest year from FY2010 forecast)
- Compared
 - Wastewater rate
 - Total Revenues
 - Total Expenses
 - Debt Service
 - Debt Service Coverage Ratio

Wastewater Rate



- FY2015 Forecast relatively close

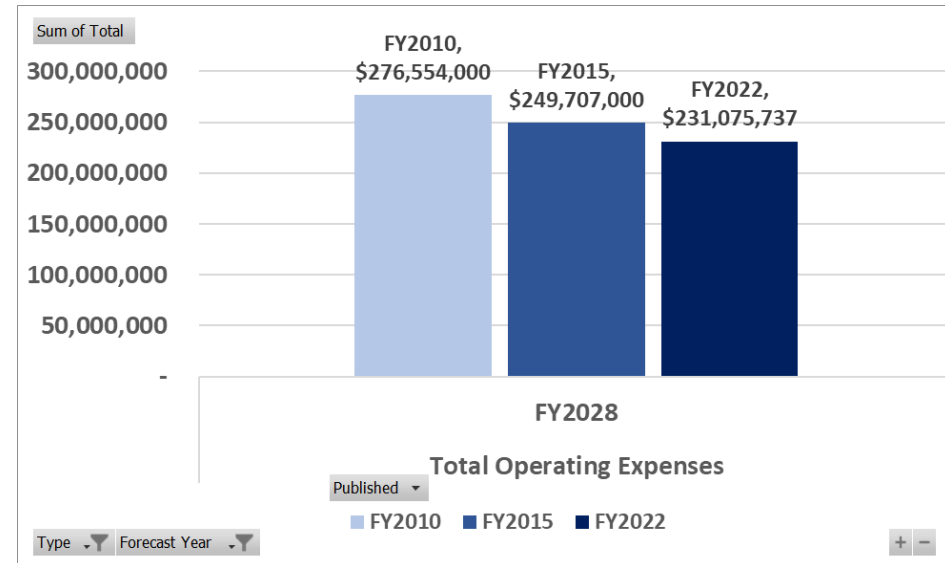
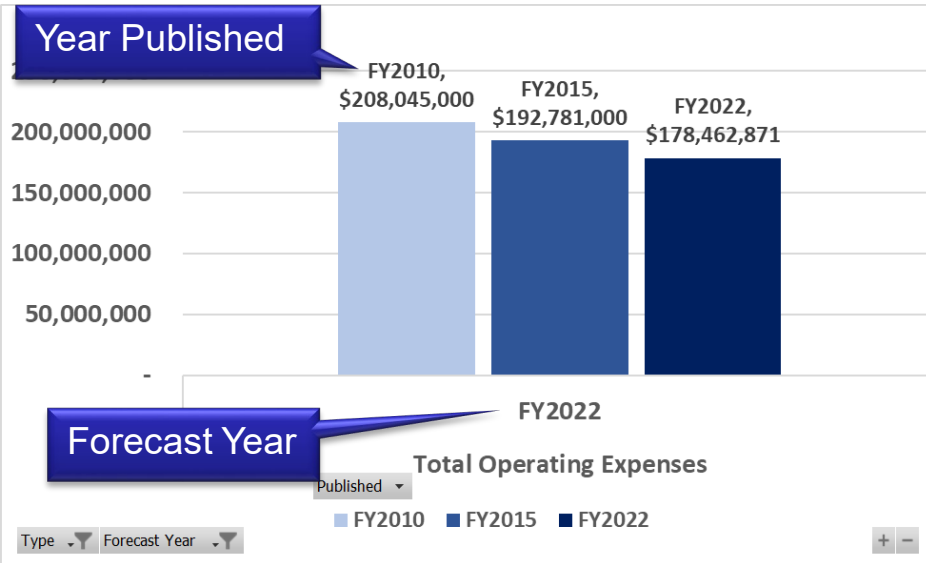
Total Revenues



- FY2015 Forecast relatively close

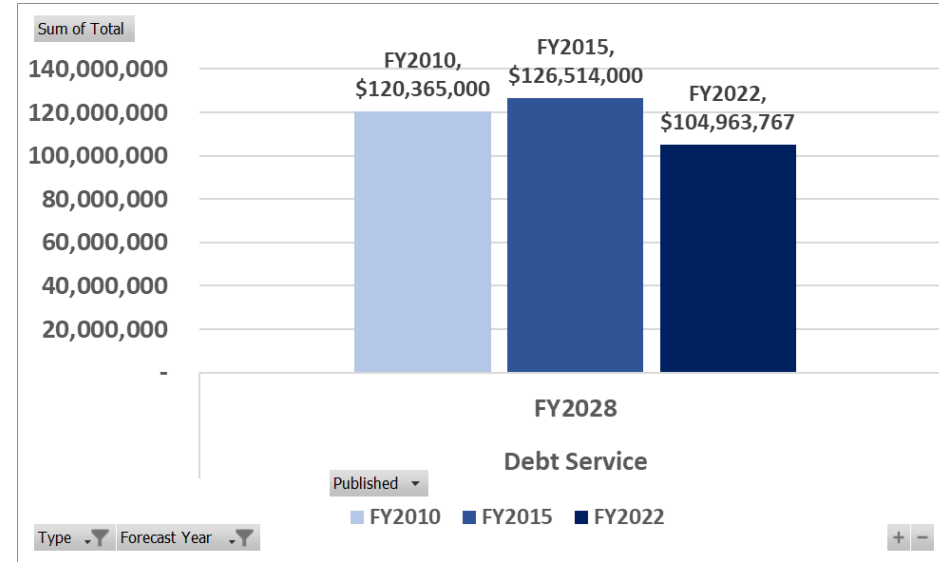
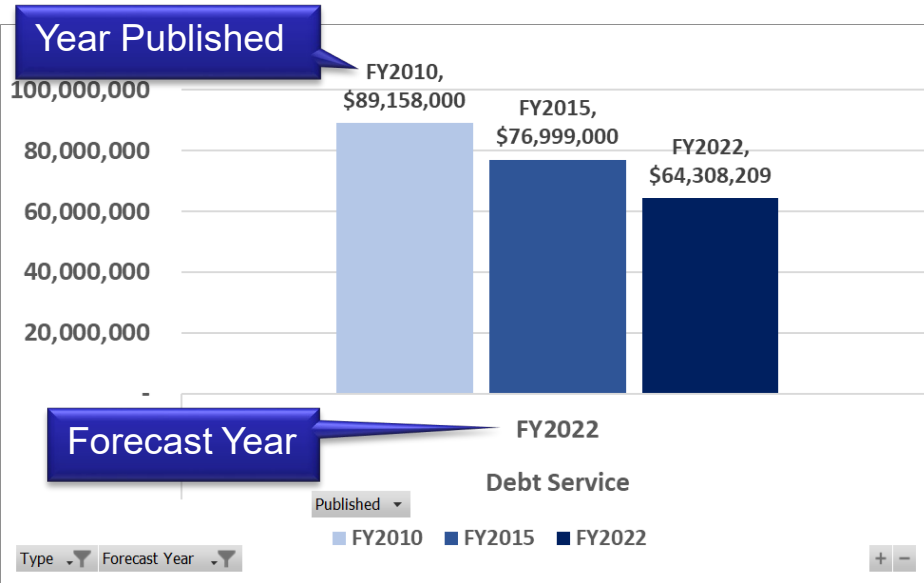


Total Operating Expenses



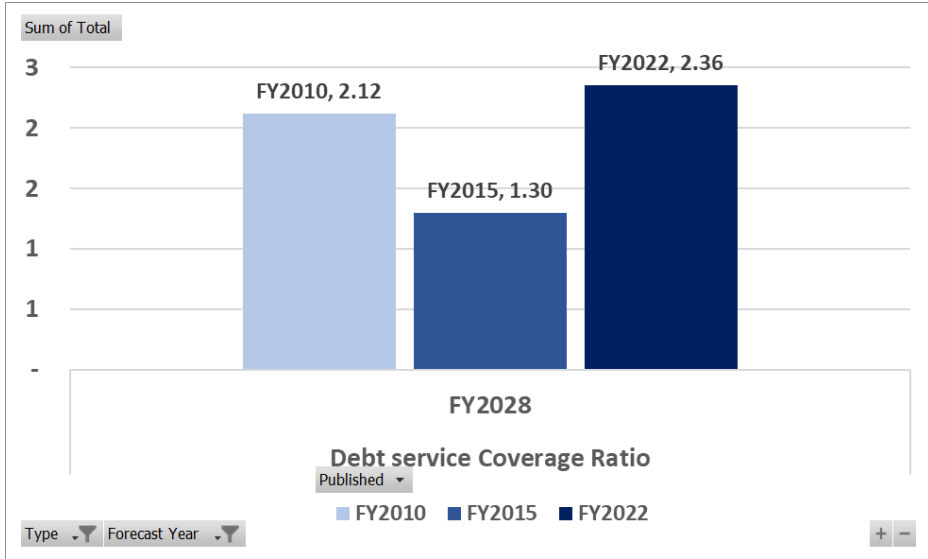
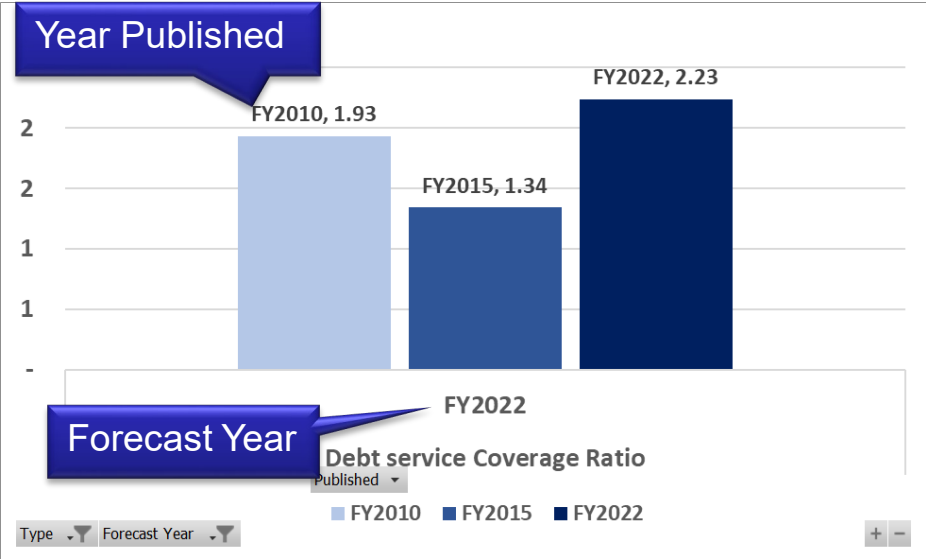
- Expenses lower than assumed inflation rates
- Leadership controlling costs

Debt Service



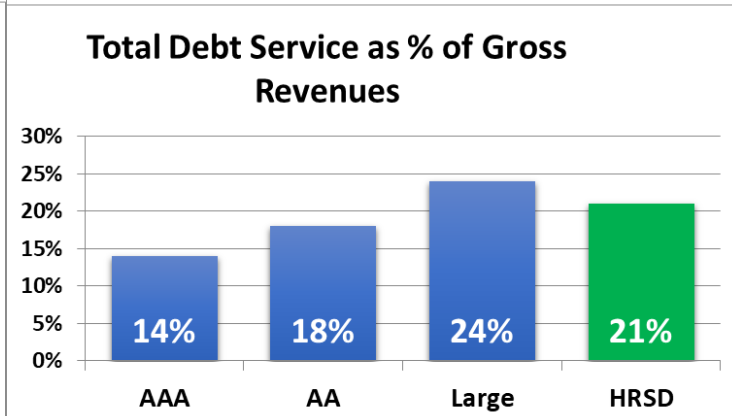
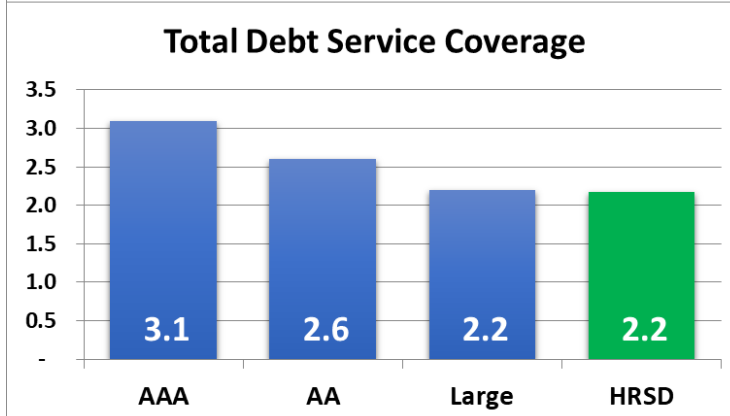
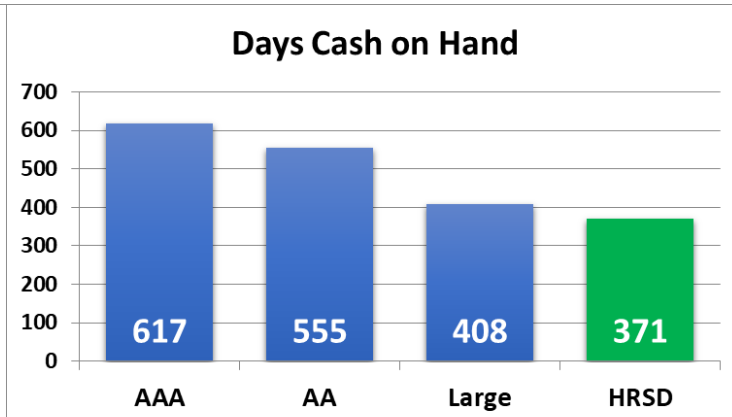
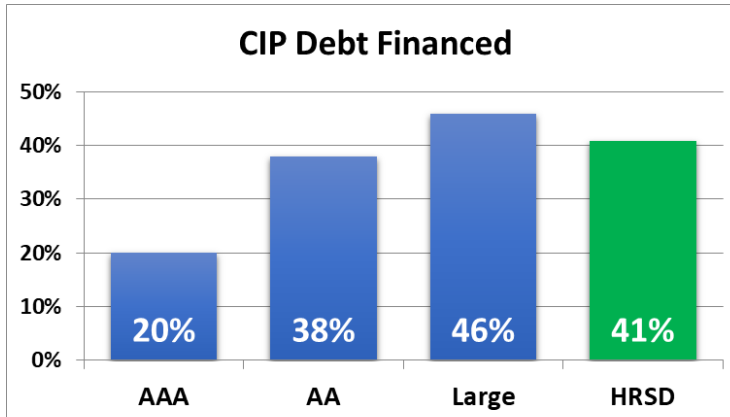
- Function of debt outstanding
- Take advantage of low rates – lowest cost of capital

Debt Service Coverage Ratio



- FY2016 rebuilt Financial Forecast to target 2.0x
- Note, the higher coverage from the FY22 Published, due to lower debt service

Financial Forecast Metrics compared to 2020 Fitch Medians



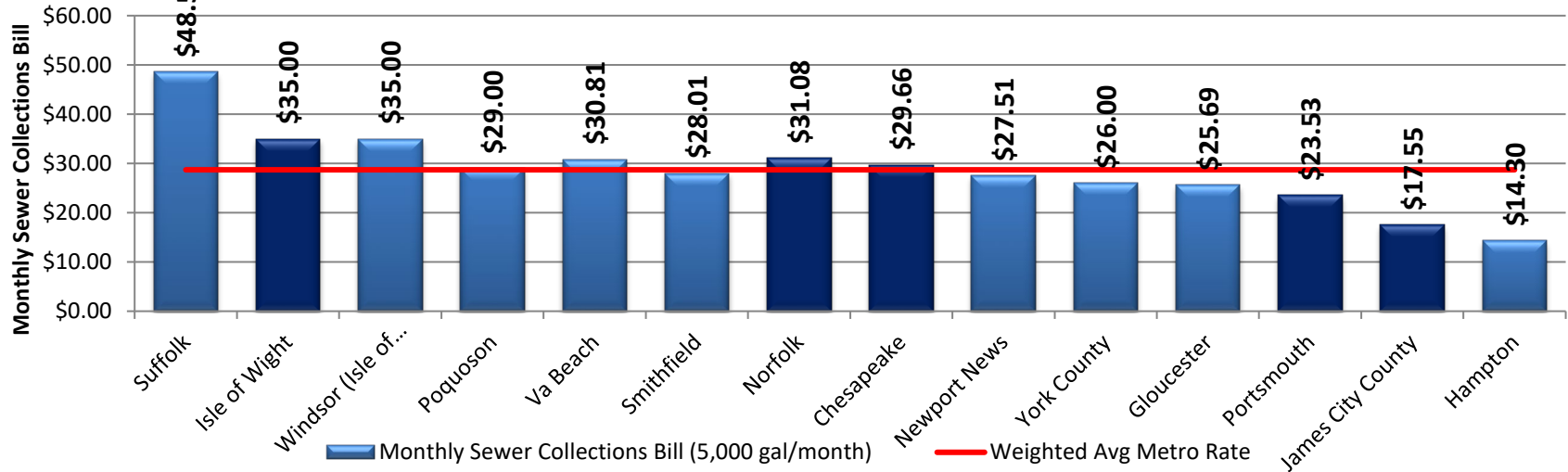
*HRSD = 10-year forecast average



Small Communities Rate Based on Weighted Avg Metro Rate

FY22 Collections Rate - \$5.74/k-gals, up 2.5%*
**No increase in FY21*

FY2022 Monthly Collection Charges by Locality (HRPDC)



■ Localities with rate increases



Proposed Small Communities Rate (per k-gals), 6% monthly bill increase

FY22 Small Communities Treatment and Collections Residential Bill

Updated

	HRSD Rate (\$/k-gals)	Collections Rate (\$/k-gals)	Capital Recovery Rate (\$/k-gals)	FY22	Min Daily Charge for metered	Min 30-day Charge for metered	Flat Monthly Bill ¹	Flat Daily Charge
King William	\$8.54	\$5.74	\$0.26	\$14.54	\$0.30	\$9.00	\$58.16	\$1.94
Surry	\$8.54	\$5.74	N/A	\$14.28	\$0.30	\$9.00	\$57.12	\$1.90
Urbanna	\$8.54	\$5.74	N/A	\$14.28	\$0.30	\$9.00	\$57.12	\$1.90
West Point	\$8.54	\$5.74	N/A	\$14.28	\$0.30	\$9.00	\$57.12	\$1.90

Ended FY21

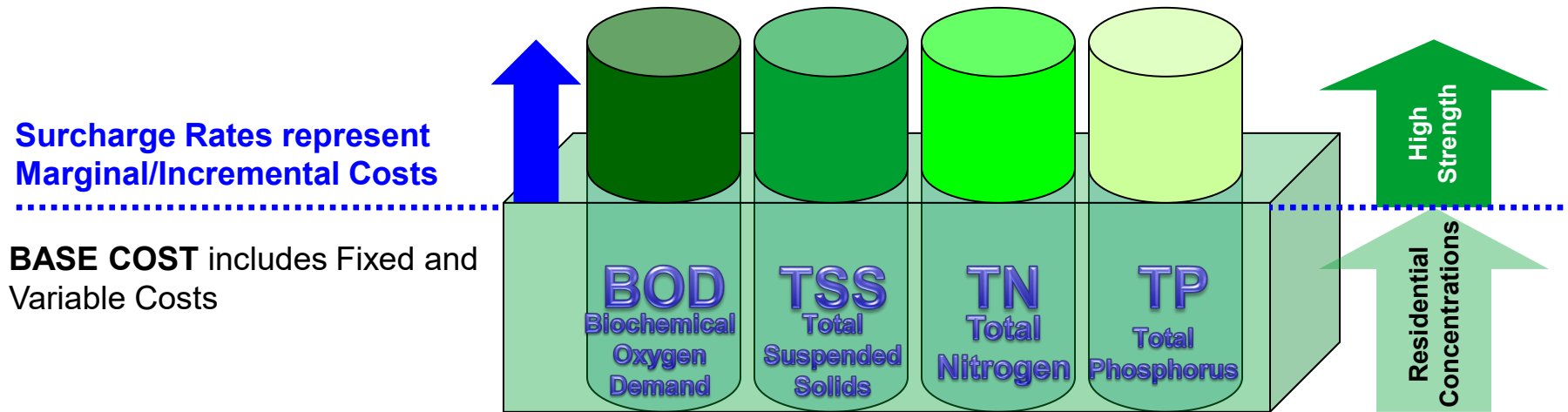
¹ Assumes 4,000 gals per month

	HRSD Rate (\$/k-gals)	Collections Rate (\$/k-gals)	Capital Recovery Rate (\$/k-gals)	FY22	Min Daily Charge for metered	Min 30-day Charge for metered	Flat Monthly Bill ¹	Flat Daily Charge
Mathews	\$8.54	\$5.74	N/A	\$14.28	\$0.30	\$9.00	\$57.12	\$1.90

FY22 Treatment Rate - \$6.39/ccf = \$8.54/k-gals)

Surcharges for High Strength or Unusual Wastes

- Domestic Quality Wastewater
- High Strength or Unusual Wastes



New Surcharge Thresholds Increased = Lower bill

Surcharge Thresholds	Previous	FY22	
Pollutant	In Excess of	In Excess of	<i>% Difference</i>
Biochemical Oxygen Demand (BOD)	282 mg/L	297 mg/L	5.3%
Total Suspended Solids (TSS)	261 mg/L	282 mg/L	8.0%
Total Phosphorus (TP)	6 mg/L	7 mg/L	16.7%
Total Kjeldahl Nitrogen (TKN)	47 mg/L	57 mg/L	21.3%

- As required in the Revenue Policy – Domestic Wastewater Survey shall be updated every five years

FY22 Proposed Surcharge Rates – Incorporates Moving Averages

FY22 Surcharge Rate per 100 lbs			FY22 vs FY21	
Pollutant	FY21	FY22	\$ Differential	% Difference
Biochemical Oxygen Demand (BOD)	\$ 2.07	\$ 2.83	\$ 0.76	36.7%
Total Suspended Solids (TSS)	\$ 10.08	\$ 9.34	\$ (0.74)	-7.3%
Total Phosphorus (TP)	\$ 158.12	\$ 160.99	\$ 2.87	1.8%
Total Kjeldahl Nitrogen (TKN)	\$ 54.11	\$ 42.61	\$ (11.50)	-21.3%

Estimated Surcharge Bills (Does not include the Wastewater Rate)

Surcharge Bills: FY 20 Compared to FY 22 BOD, TSS, TP, TKN Top 10 Surcharge Customers		FY 20 (\$)	FY 22 (\$)	\$ Change	% Change
Anheuser-Busch Inc.	370,200	385,900	15,700	4.2%	
U.S. Navy (Total for 9 Accounts)	185,200	132,200	(53,000)	(28.6%)	
Norfolk's 37 th St. Water Treatment Plant	177,400	186,800	9,400	5.3%	
MD & VA Milk Producers Assoc.	68,700	69,700	1,000	1.5%	
Southeastern Public Service Authority	52,600	40,900	(11,700)	(22.2%)	
Bethel Landfill	32,300	24,600	(7,700)	(23.8%)	
Smithfield Foods Inc.	20,900	14,700	(6,200)	(29.7%)	
Pepsi Cola Company	13,500	17,800	4,300	31.9%	
Sentara Norfolk General	13,300	11,600	(1,700)	(12.8%)	
J. M. Smucker Company	12,600	12,800	200	1.6%	

Hauled Waste and New Fats, Oils, and Grease (FOG) Rates

- Cost to treat excluding conveyance – Volume, BOD, TSS, TKN, TP
- FOG costs significantly more to treat
- Proposed Rates
 - Hauled Waste = \$0.1717/gallon
 - FOG = \$0.2737/gallon
- Approve July 1st, implement January 1, 2022



Surcharge Category	Mixed	Portable Toilet	Residential Septage	FOG
BOD	12,762	6,973	3,431	32,340
TSS	12,032	6,241	12,320	29,880
TP	51	220	87	46
TKN	391	2,753	350	418

Facility Charge Rates

- Covers the cost of the new development's share of the wastewater system's capacity
- Based on average water meter size
 - Average flow assigned to each meter

$$\frac{\text{Net Replacement Value}}{\text{HRSD's Plant Capacity}} \times \frac{\text{Meter Size}}{\text{Average Flow}}$$

Proposed FY22 Facility Charges

- Covers the cost of the new development's share of the wastewater system's capacity
- FY21 – no change
- Year 3 of 3-Year Phase-In
- Chesapeake-Elizabeth will reduce both Net Replacement Value and HRSD's Plant Capacity by 24 MGD
- Meters larger than 3 inches are rare (not including fire flow meters)

Meter	FY20 & FY21	FY22	% Diff
5/8 in	\$ 1,905	\$ 2,055	7.9%
3/4 in	\$ 4,210	\$ 4,210	0.0%
1 in	\$ 7,410	\$ 7,410	0.0%
1.5 in	\$ 16,645	\$ 16,645	0.0%
2 in	\$ 30,505	\$ 31,465	3.1%
3 in	\$ 73,810	\$ 80,405	8.9%
4 in	\$ 138,445	\$ 156,530	13.1%
6 in	\$ 336,960	\$ 400,625	18.9%
8 in	\$ 634,710	\$ 780,840	23.0%
10 in	\$ 1,038,525	\$ 1,310,665	26.2%
12 in	\$ 1,554,120	\$ 2,001,460	28.8%
14 in	\$ 2,186,505	\$ 2,863,155	30.9%
16 in	\$ 2,940,135	\$ 3,904,635	32.8%

$$\frac{\text{Net Replacement Value}}{\text{HRSD's Plant Capacity}} \times \frac{\text{Meter Size}}{\text{Average Flow}}$$

- HRSD owns the meters in Surry County
- Customers may damage meters/antennas if their water is shut-off
- Propose to add a fee schedule

Proposed Revenue Policy Changes

- Last updated July 2019
- New Fats, Oils, and Grease (FOG) Rate defined
- Town Wholesale Rate – limited to towns with a population less than 2,000 and where the town is billed based on effluent meter data
- Using moving averages for Surcharge Rates

- *March 23 – Budget Work Session*
- April 15 – Finance Committee meeting
- April 27 – Draft Budget
- May 25 – Formal Budget Adoption
- Newspaper advertisement - 4 consecutive weeks
- July 1 – Budget Effective

Questions?
