



FINANCE COMMITTEE  
MEETING MINUTES  
October 13, 2021

Committee Chair Rodriguez called the virtual meeting to order and Ms. Cascio read the roll call of HRSD Commissioners.

| Name                   | Title                                     | Present for Item Nos. |
|------------------------|---|-----------------------|
| Rodriguez, Stephen C.  | Commission Vice-Chair and Committee Chair | 1-3                   |
| Lakdawala, Vishnu K.   | Committee Member                          | 1-3                   |
| Elofson, Frederick N.  | Commission Chair                          | 2-3                   |
| Glenn, Michael E.      | Commissioner                              | 1-3                   |
| Levenston, Jr., Willie | Commissioner                              | 1-3                   |
| Taraski, Elizabeth     | Commissioner                              | 1-3                   |
| Stern, Nancy           | Commissioner                              | Absent                |
| Ward, Molly Joseph     | Commissioner                              | Absent                |

1. **Internal Audit Update**

Mr. Matt Simons and Anthony DiGiulian of SC&H Group, presented the [internal audit](#) update including audit impact, audits in progress, audit summaries, remaining FY-2022 audit plan and management action plan progress. management action plan progress, and upcoming audits as listed below.

**Completed Audits:**

- Succession Planning
- Business Continuity/Disaster Recovery
- WIFIA Compliance Program
- Risk Assessment FY-2021

**Audit in progress:**

- Emergency Repairs
- Model 3 Billing
- Unifier/ERP Integration

**Upcoming Audits**

- Grant Management
- Accounts Receivable / Delinquent Accounts
- Remote Access Network Security
- Risk Assessment FY-2022

FINANCE COMMITTEE  
MEETING MINUTES  
October 13, 2021

## 2. Annual Audit Report

The Director of Finance introduced representatives from Cherry Bekaert: Krista N. Edoff, CPA, Partner and Tracy Bedgood, CPA, Senior Manager. Ms. Bedgood presented the preliminary results of the annual audit and the audit process. She said there are no reportable deficiencies and an unqualified (clean) audit opinion is expected. Staff will notify the Commission of changes prior to the final report being published and distributed.

## 3. Comprehensive Annual Financial Report Review

The Director of Finance provided a [comprehensive update](#) of HRSD's finances and an update on COVID-19 customer assistance programs. FY2021 finances were better than expected as water consumption increased, the Commonwealth provided \$8.7 million in Municipal Utility Relief and costs were controlled. The following items were reviewed in-depth:

- BLUF (Bottom-Line Up Front)
- Municipal Utility Relief/Debt Solutions Update
- Financial Statement Overview
- Virginia Retirement System (VRS) Pension
- Retiree Health Plan Trust Other Post-Employment Benefits (OPEB)
- Key Financial Policy Indicators

Mr. Bernas also discussed a proposed supplemental revenue policy which will be presented for Commission approval at a future date.

**Attachments:** [Presentations](#)

**Public Comment:** None

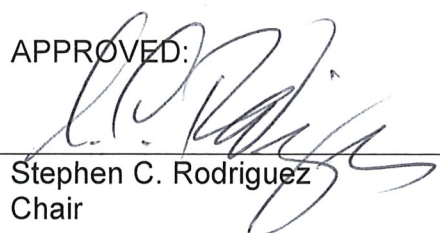
**Next Commission Meeting Date:** October 26, 2021

**Meeting Adjourned:** 10:20 a.m.

SUBMITTED:

  
\_\_\_\_\_  
Jennifer L. Cascio  
Secretary

APPROVED:

  
\_\_\_\_\_  
Stephen C. Rodriguez  
Chair



# Hampton Roads Sanitation District

Internal Audit Update

# Internal Audit Team Present

- **Anthony DiGiulian: CISA, CDPSE**  
Director, IT Audit
- **Matthew Simons: CPA, CIA, CGAP**  
Engagement Principal

# Agenda

## Internal Audit Update

- 01** Internal Audit Impact
- 02** Internal Audit Progress Update
- 03** Internal Audit Summaries
- 04** Remaining FY22 Internal Audit Plan
- 05** Management Action Plan Progress

# Internal Audit Impact

---

## Statistics

- 6 risk assessment exercises through FY22
- 22 of 25 audits completed or in-process through FY22 plan (88%)
- 20 of 28 high risk functions to be assessed (71%)
- 33 of 64 total functions to be assessed (52%)
- 76 closed management action items (60%): 7 audits fully closed

# Internal Audit Progress Update

| Audit/Task                              | Department                          | Status    |
|---|-------------------------------------|-----------|
| Succession Planning                     | Talent Management / Enterprise-Wide | Completed |
| Business Continuity / Disaster Recovery | Information Technology              | Completed |
| WIFIA Compliance Program                | Finance                             | Completed |
| Emergency Repairs                       | Engineering / Operations            | Fieldwork |
| Model 3 Billing                         | Finance                             | Planning  |
| Unifier / ERP Integration               | Finance / Engineering               | Planning  |
| Risk Assessment: FY21                   | Organization-Wide                   | Completed |
| Management Action Plan Evaluation       | Organization-Wide                   | Ongoing   |

# Succession Planning

---

## Objectives

- Evaluate division/department level succession planning policies, procedures, and efforts.
- Research and document succession planning best practice procedures to recommend criteria for an organization-wide program.
- Analyze retirement data to identify trends and evaluate organizational preparedness for management-level turnover.



# Succession Planning

---

## Results

*“HRSD has overall organizational and departmental practices in place that incorporate succession planning elements and encourage employee development. Departmental practices are tailored to each department and they appear to be consistent with HRSD’s succession planning strategy and serve the needs of the organization.”*

*“SC&H has identified opportunities to address risk factors within HRSD’s succession planning practices. These opportunities are presented in the following observation, and focus on providing HRSD with methods to strengthen practices and reduce risk, while not altering its succession planning strategy and approach.”*

# Succession Planning

---

## Results

- Observation: Departments may not have specific guidance available that enables them to successfully implement or leverage helpful succession planning practices.
- Recommendations:
  - Develop, formalize, and communicate guidance as a resource for departmental succession planning functions
  - Connect with departments:
    - Guidance awareness and incorporation confirmation
    - Procedural updates when necessary
    - Departmental practices vs. guidance
  - Share retirement projections to department level leadership
  - Develop and implement a formal mentoring program, administered by departments with oversight from Talent Management

# WIFIA Compliance

---

## Objectives

- Review WIFIA documentation to identify compliance requirements.
- Assess current policies, procedures, and processes in place at HRSD to monitor compliance with WIFIA requirements.
- Provide recommendations to assist HRSD with monitoring compliance with WIFIA requirements.

# WIFIA Compliance

---

## Results

- Deliverables: 7 WIFIA compliance checklists
- Recommendations (*Go forward basis, as processes evolve*):
  - Policy/procedure documents to meet WIFIA compliance requirements, including departmental responsibilities
  - Mock checklist walkthrough/audit
  - WIFIA training to introduce parties to checklists and policies
  - Assignments to monitor/internally report completion of checklists and progress
  - Periodic WIFIA compliance reviews to ensure that the documents reflect updates/changes

# Remaining FY22 Internal Audit Plan

| Audit/Task                                | Department             | Status                                       |
|---|------------------------|--|
| Grant Management                          | Finance                | Planned: November/December Q4 CY21 (Q2 FY22) |
| AR / Delinquent Accounts                  | Finance                | Planned: February/March Q1 CY22 (Q3 FY22)    |
| Remote Access Network Security            | Information Technology | Planned: May/June Q2 CY22 (Q4 FY22)          |
| Risk Assessment: FY22                     | Enterprise-Wide        | Planned: November/December Q4 CY21 (Q2 FY22) |
| Management Action Plan Evaluation & Admin | Enterprise-Wide        | Ongoing                                      |

# Management Action Plan Progress

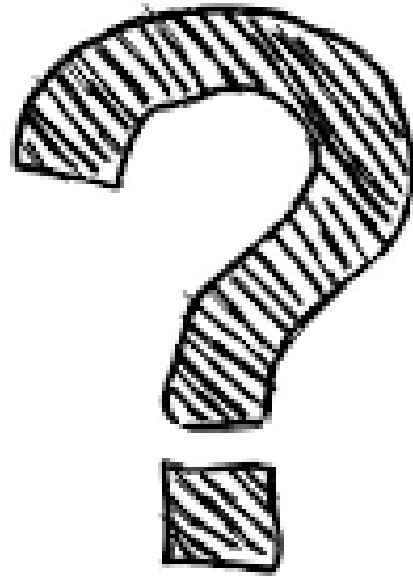
| Audit Subject (Non-confidential) | Report Date   | Recommendations |      |                    |
|----------------------------------|---------------|-----------------|------|--------------------|
|                                  |               | Closed          | Open | Total <sup>1</sup> |
| Biosolids Recycling              | 10/8/2016     | 7               | 1    | 8                  |
| Procurement/ProCard              | 8/23/2017     | 8               | 3    | 11                 |
| Treatment Plant Operations       | 10/15/2018    | 5               | 4    | 9                  |
| Customer Care Division           | 7/26/2019     | 2               | 2    | 4                  |
| Safety Division                  | 9/12/2019     | 0               | 3    | 3                  |
| Pollution Source Control         | 6/2/2020      | 3               | 5    | 8                  |
| SWIFT Program <sup>2</sup>       | 2/24/2021     | 0               | 12   | 12                 |
| Fleet Services <sup>2</sup>      | 2/24/2021     | 0               | 17   | 17                 |
| Succession Planning <sup>2</sup> | 6/4/2021      | 0               | 4    | 4                  |
| Prior Audits: Fully Closed (x7)  | Various       | 51              | 0    | 51                 |
|                                  | <b>Totals</b> | 76              | 51   | 127                |

<sup>1</sup> Action plan counts do not include confidential internal audits.

<sup>2</sup> Action plans are not due until 2022.

# Discussion and Questions

---



# SC&H Contacts

---

**Anthony DiGiulian, Director**  
(703) 852-5607  
[adigiulian@schgroup.com](mailto:adigiulian@schgroup.com)

**Matthew Simons, Engagement Principal**  
(410) 403-1561  
[msimons@schgroup.com](mailto:msimons@schgroup.com)





Fiscal Year - 2021  
Comprehensive Annual Financial  
Report  
Unaudited

Finance Committee  
October 13, 2021

- SC&H Audit Update
- Cherry Bekaert Audit Report
- Fiscal Year 2021 Financial Report
  - BLUF (Bottom-Line Up Front)
  - Municipal Utility Relief Update
  - Financial Statement Overview
  - Pension
  - Retiree Health Trust (OPEB)
  - Key Financial Policy Indicators
  - Conclusion
- Supplemental Revenue Policy

## FY2021 Financial Report Highlights - Bottom Line Up Front (BLUF)

- **Sept 2020 WIFIA Tranche 1 - \$226M @ 1.42%**
  - *Sept 2021 WIFIA Tranche 2 - \$477M @ 1.95%*
  - *Total = \$700M @ weighted avg = 1.78% for 34 yrs*
  - *Combined with Clean Water revolving loans, ratepayer savings is over \$500M*
- **\$8.7M in Municipal Utility Relief helped over 33k customers**
- **Water consumption increased 3.2% YOY (Year over Year)**
- **Operating Revenues up 2.4% YOY**
  - *No rate increase in FY21 (planned 9.0%)*
- **Operating Expenses up 6.4% YOY**
- **Total Debt Service Coverage = 2.66x**
- **Adjusted Days Cash on Hand = 367 days**
- **VRS Pension Funded Ratio = 85%**
- **OPEB Funded Ratio = 104%**



# Where do we spend our money? 83% Regulatory Driven Infrastructure



**Infrastructure \$0.50**

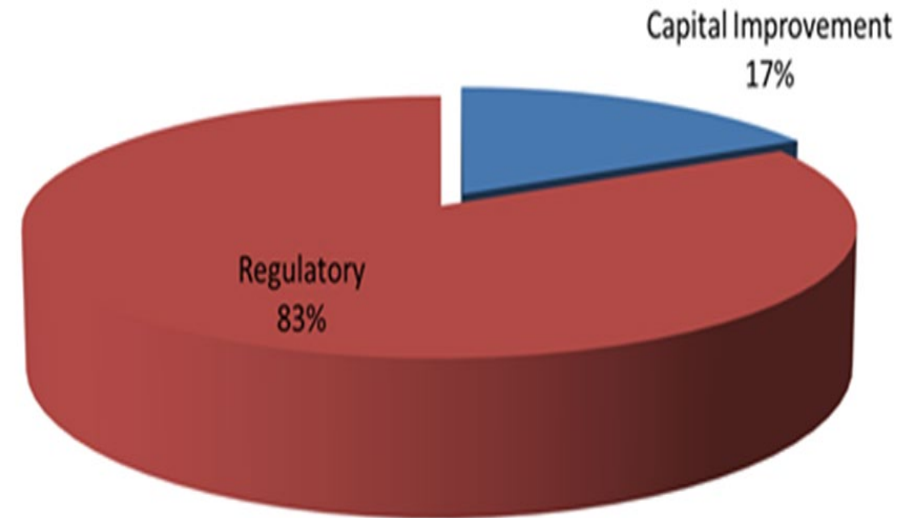


**People \$0.25**



**Opex \$0.25**

FY22 to FY31 Program - Regulatory Driven Projects



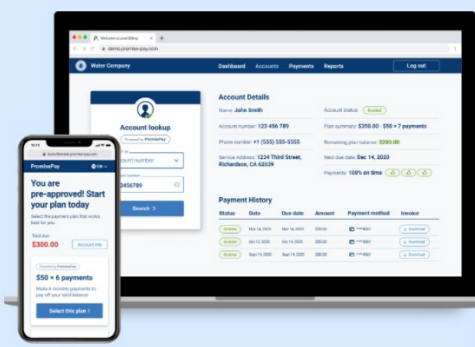
---

## Municipal Utility Relief/Debt Solutions Update

---

# Collections resuming – Water shut-offs are the last resort

Promise Pay

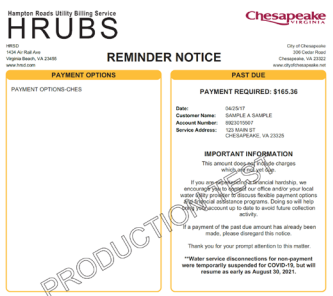


Municipal Utility Relief / PromisePay plans begin

8/9

9/13

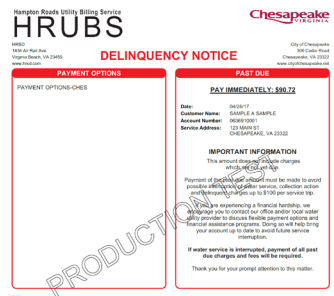
Reminder letters sent



\$8.7M Municipal Utility Relief Expended

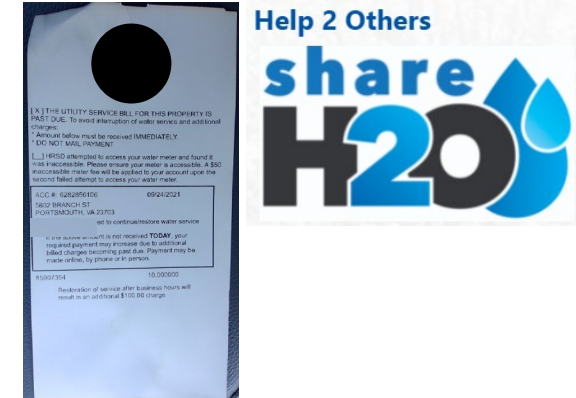
10/1

Delinquency notices sent



10/15

Warning & Help Info door tags placed



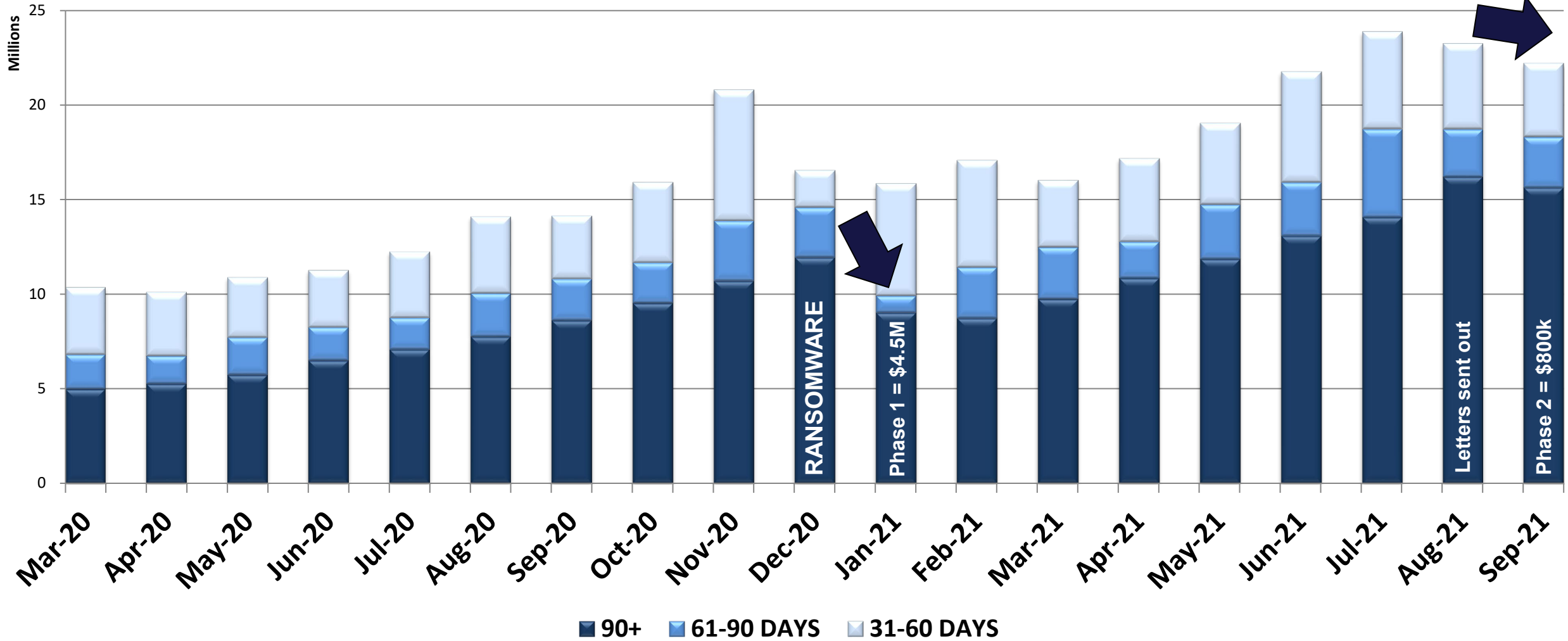
10/25

Water shut-offs begin

11/8



# HRSD Aging trends since the start of the pandemic





All of HRSD's \$8.7M COVID-19 relief was applied – Over 33k customers helped!

- HRSD paid off customers locality bills to maximize assistance
- Total applied to HRSD accounts, **\$5.32M**
- Total applied to HRSD accounts by Localities, **\$1.29M**

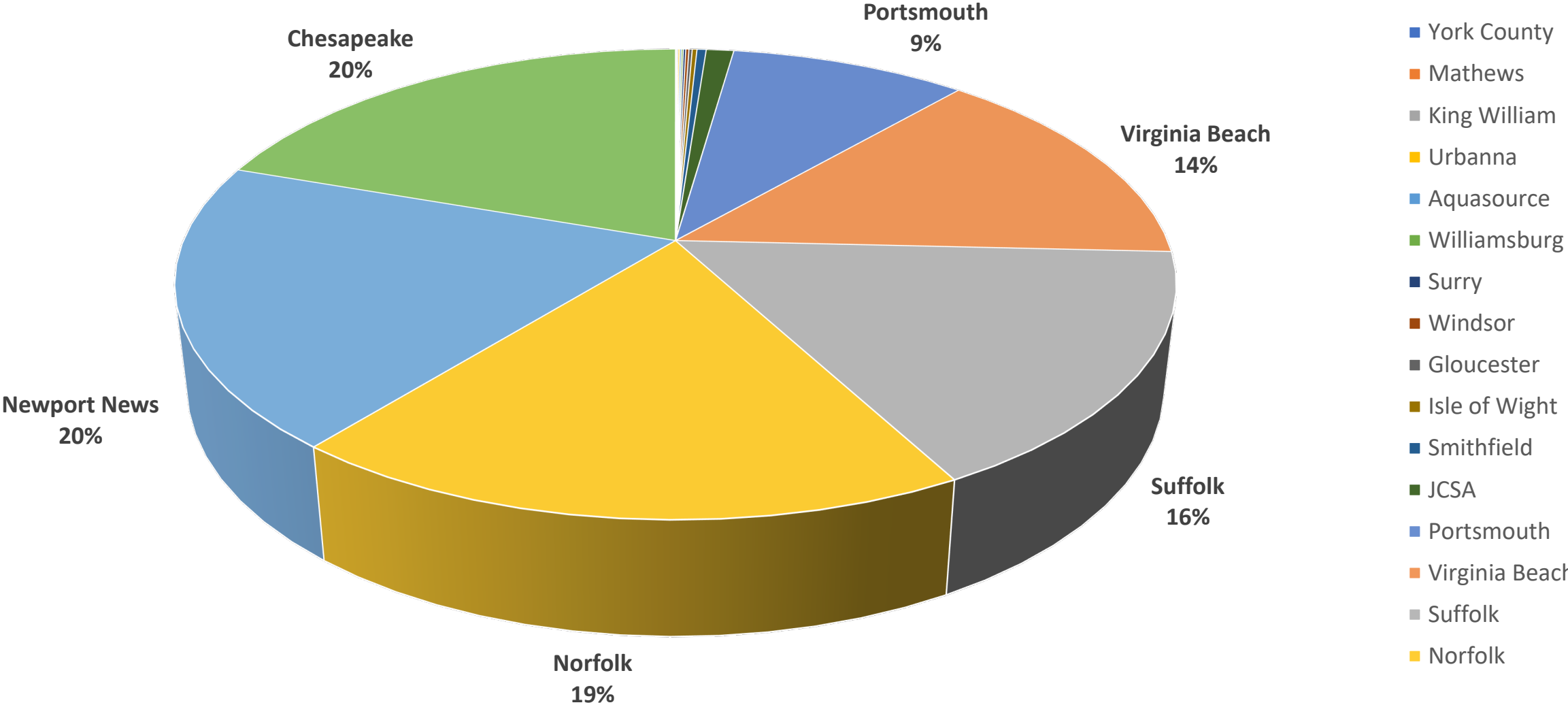
|                                | Amount              | Accounts      | Average      |
|--------------------------------|---------------------|---------------|--------------|
| HRSD                           | \$5,322,003         | 23,924        | \$222        |
| Chesapeake - Water and Sewer   | \$1,143,108         | 2481          | \$461        |
| James City - Water and Sewer   | \$1,529             | 15            | \$102        |
| King William - Water and Sewer | \$1,952             | 16            | \$122        |
| Norfolk - Water and Sewer      | \$1,201,228         | 3,370         | \$356        |
| Smithfield - Water and Sewer   | \$18,503            | 56            | \$330        |
| Suffolk - Water and Sewer      | \$1,104,483         | 3,556         | \$311        |
| Surry - Water and Sewer        | \$2,616             | 20            | \$203        |
| Urbanna - Water and Sewer      | \$2,156             | 10            | \$216        |
| <b>TOTAL</b>                   | <b>\$8,736,944*</b> | <b>33,448</b> | <b>\$263</b> |

*\*Includes adjustments*

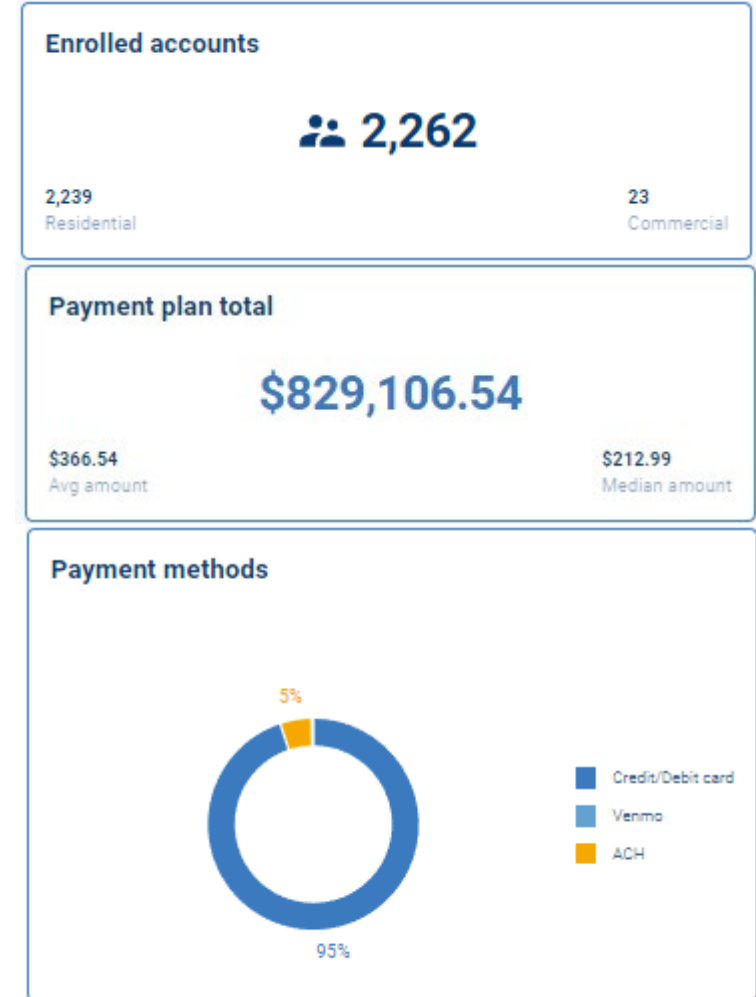
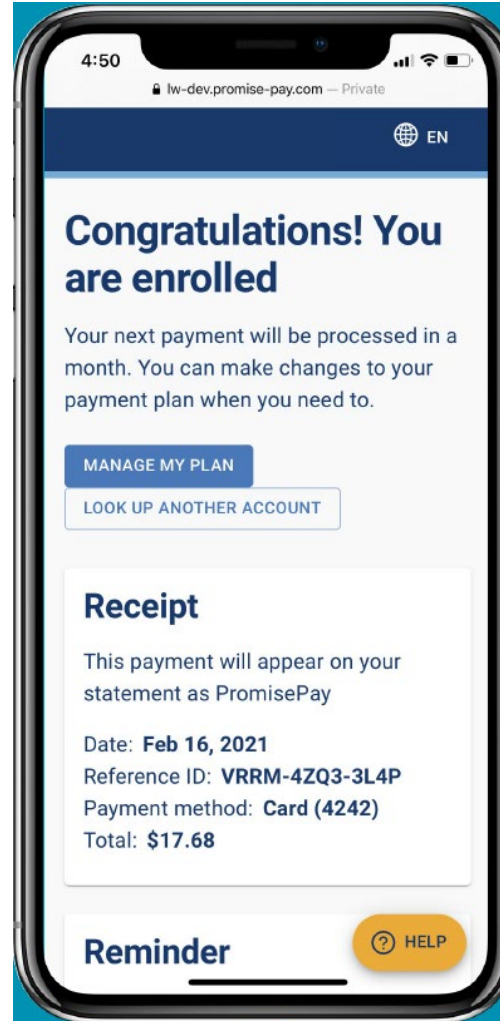
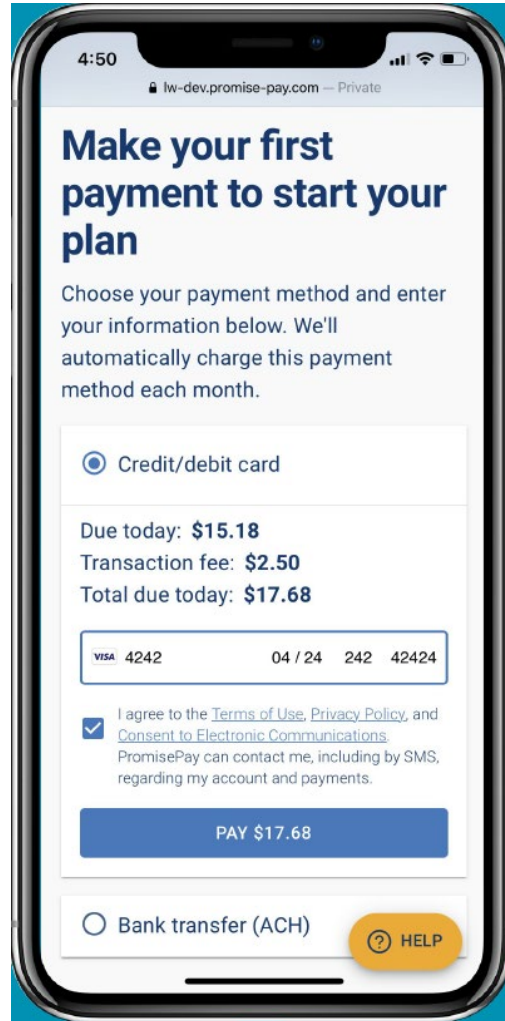
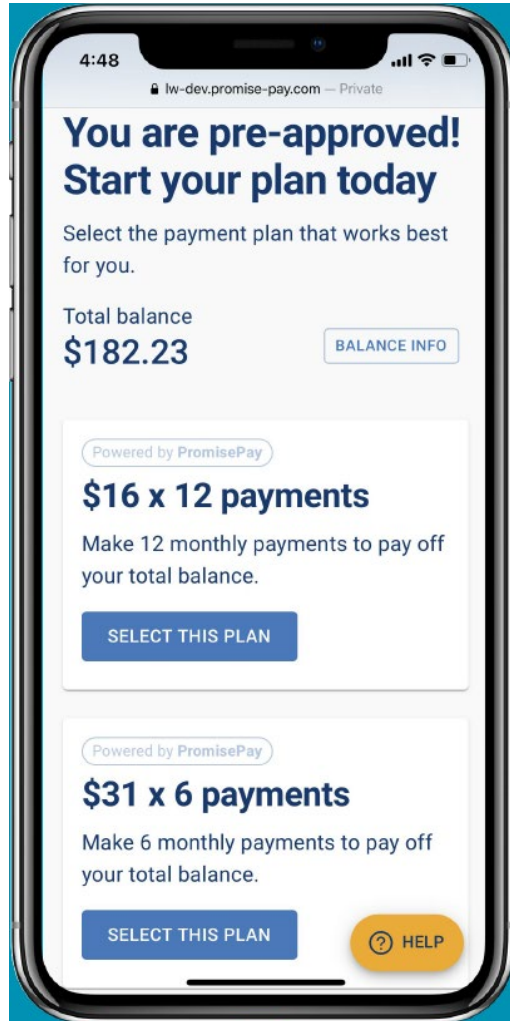




# Where was the \$8.7M applied to 33k customers? (HRSD + Water + Sewer)

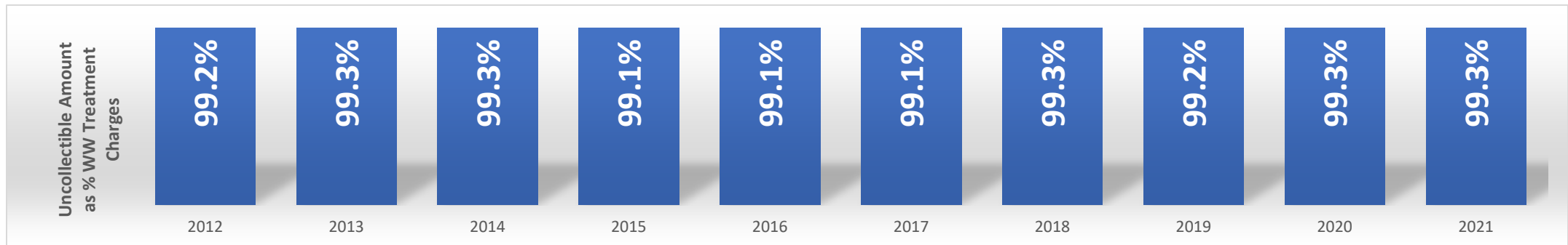


# PromisePay Update (Model 1 Pilot Program) - Microloan



## Financial Statement write-offs are different from aging (arrearage)

- **Uncollectible (\$2.17M)**
  - Inactive accounts (primarily due to moving away) - 12 months after a final bill is generated
  - Bankruptcies
- **Collectible** (*Aging, \$20M >30 days past due as 6/30/21*)
  - Active accounts are considered collectible
  - Ability to shut-off water



---

## Financial Statement Overview

---

## Acknowledgements

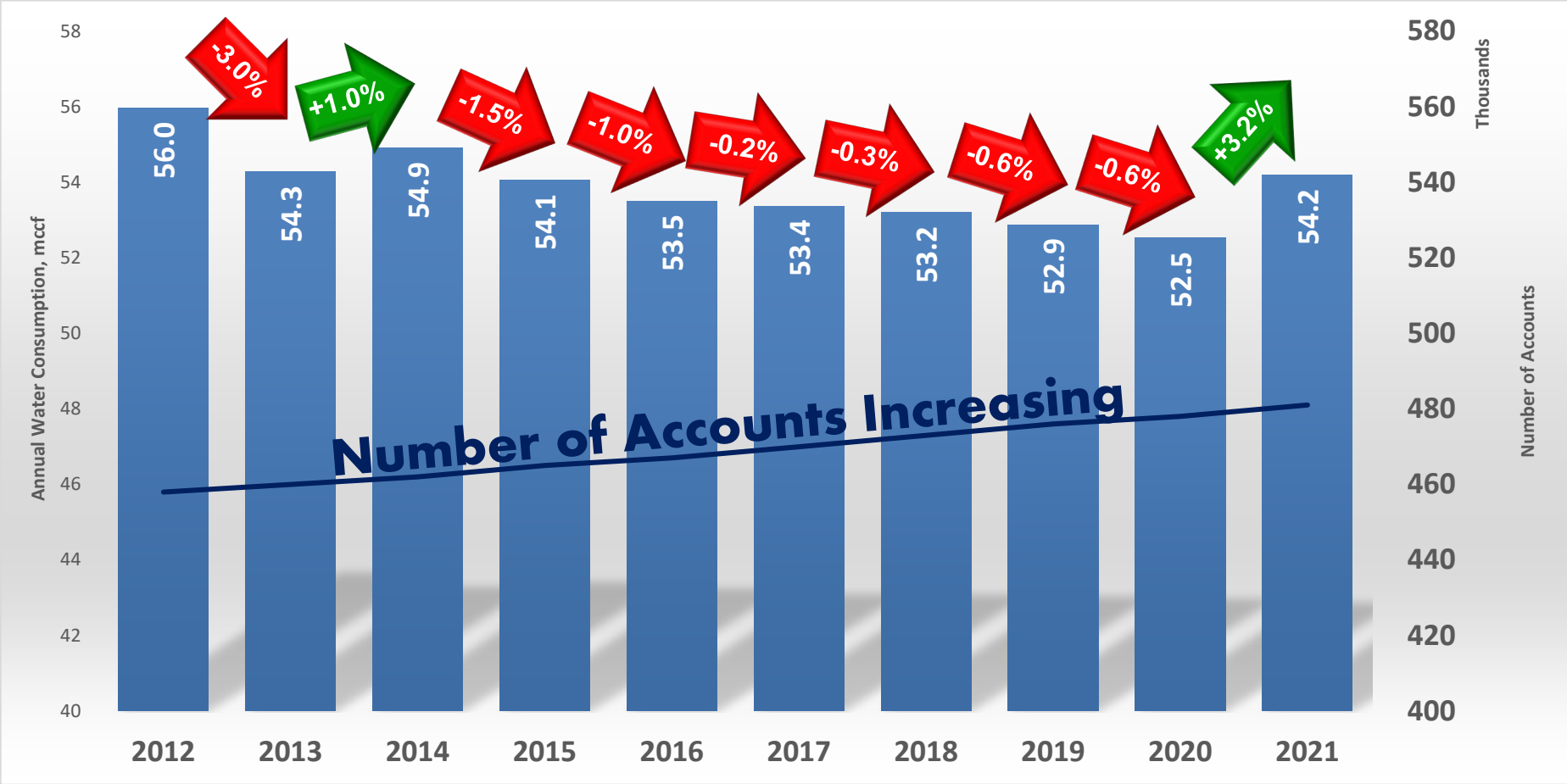
- Lee Acors - Chief of Accounting
- Kassandra Pagan – Accounting Manager
- Kathy Stephanitsis - Accounting Manager
- Ramona Bradshaw - Accounting Manager
- Helen Mayhue - Financial Analyst
- Andrew Drumheller - Financial Analyst
- Donna Stinson - Business Analyst
- Anisea Burl - Accounts Payable Supervisor
- Irene Cartagena – Payroll Specialist
- Milorad Radovic – Accounts Receivable Specialist
- Dawn Holmes-Schalow – Accounts Receivable Specialist
- Cay Warren, Accounts Receivable Technician
- Charmaine Simmons - Accounts Payable Coordinator
- Ingrid Conde - Accounts Payable Coordinator
- Theresa Black - Accounts Payable Coordinator
- Danielle Raleigh - Accounting Coordinator
- Cherry Bekaert



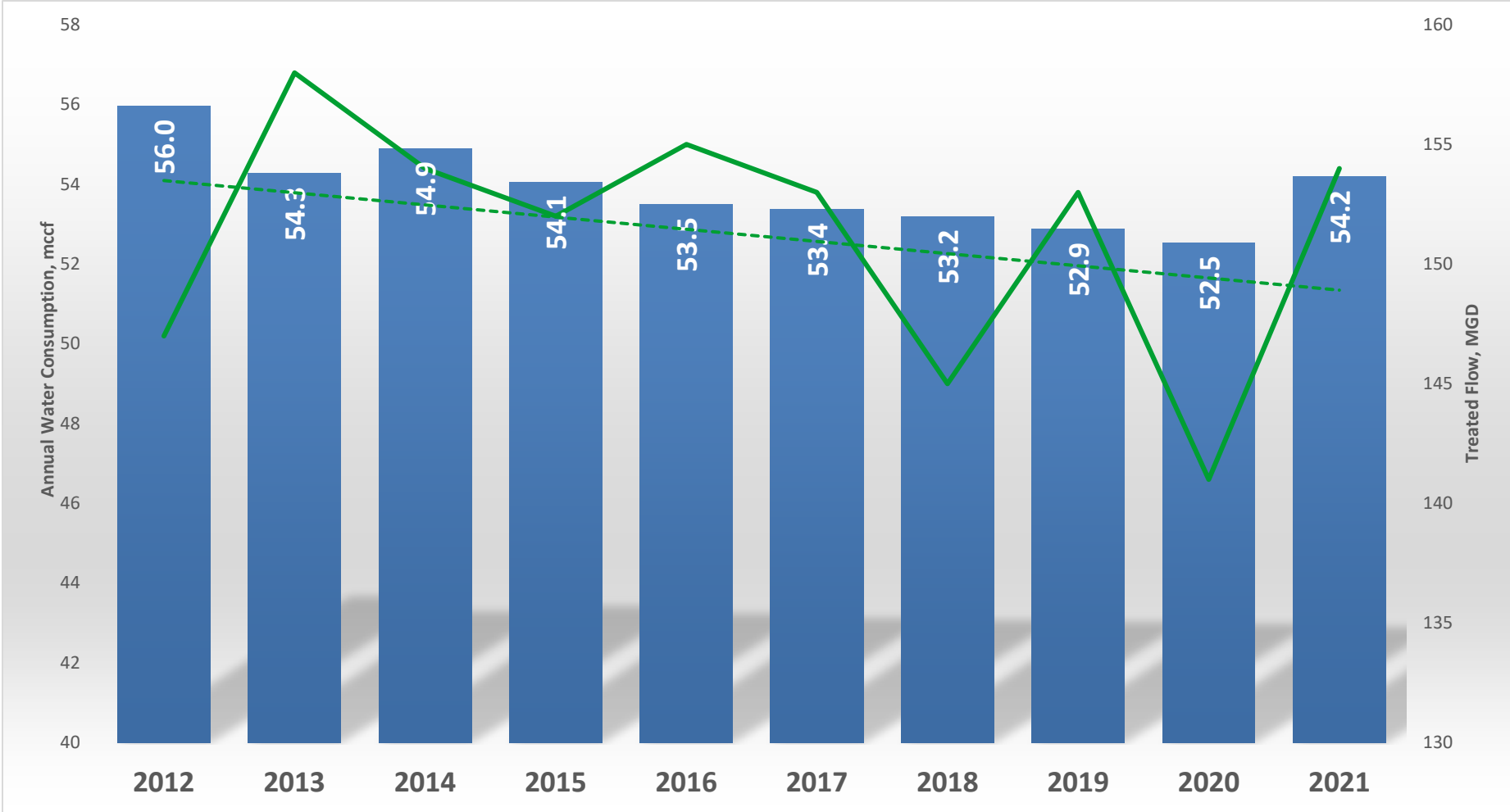
**38** *Consecutive Years*

# Water consumption declining as the number of accounts are increasing

HRSD assumes a 1% annual water consumption decline for financial planning – 94% of revenue



# Water consumption vs Treated flow, declining trend but an increase in FY21



## Summary Statements of Revenues (,000s)

| (in thousands)           | 2021           | 2020           | 2021 vs. 2020 |             |  |
|--------------------------|----------------|----------------|---------------|-------------|--|
|                          |                |                | Dollars       | Percent     |  |
| Operating revenues       | \$329,769      | \$322,032      | \$7,737       | 2.4%        | Higher water consumption                             |
| Facility charge revenues | 7,379          | 6,444          | 935           | 14.5%       |  |
| Investment income, net   | 471            | 5,876          | -5,405        | -92.0%      | Partially offset by lower variable rate debt service |
| Bond interest subsidy    | 2,167          | 2,205          | -38           | -1.7%       |  |
| <b>Total revenues</b>    | <b>339,786</b> | <b>336,557</b> | <b>3,229</b>  | <b>1.0%</b> |  |



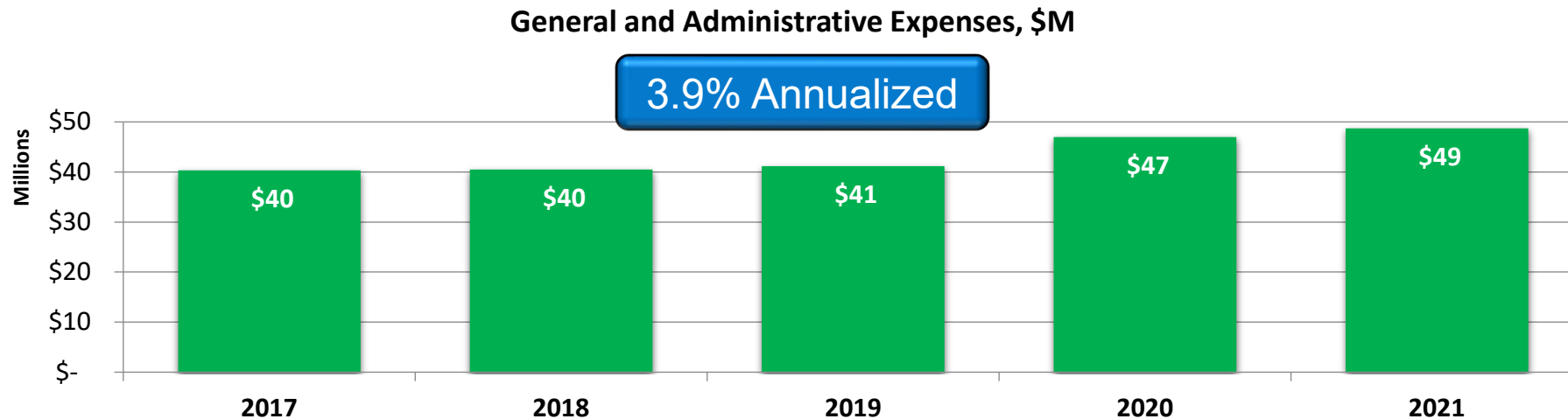
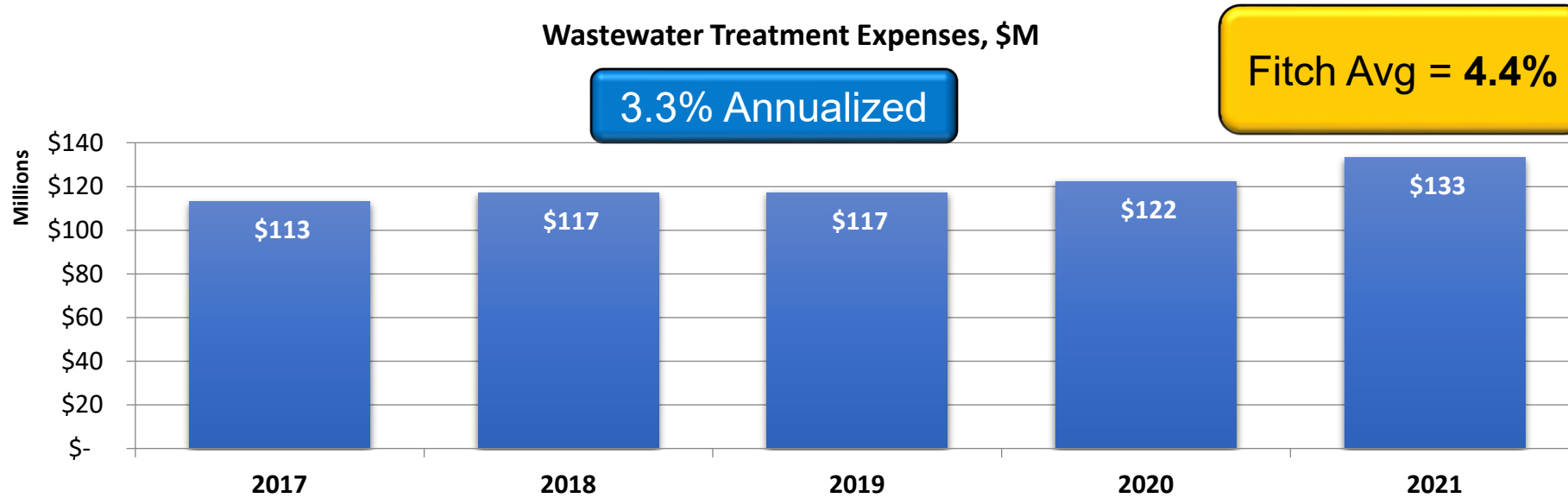
## Summary Statements of Expenses (,000s)

| (in thousands)                      | 2021           | 2020           | 2021 vs. 2020 |             |
|-------------------------------------|----------------|----------------|---------------|-------------|
|                                     |                |                | Dollars       | Percent     |
| Operating expenses:                 |                |                |               |             |
| Wastewater treatment                | 132,820        | 122,393        | 10,427        | 8.5%        |
| General and administrative          | 48,691         | 46,949         | 1,742         | 3.7%        |
| Depreciation and amortization       | 53,278         | 51,383         | 1,895         | 3.7%        |
| Total operating expenses            | <b>234,789</b> | <b>220,725</b> | <b>14,064</b> | <b>6.4%</b> |
| Non-operating expenses:             |                |                |               |             |
| Bond issuance costs                 | 682            | 1290           | -608          | -47.1%      |
| Capital distributions to localities | 376            | -              |               |             |
| Disposal of capital assets          | -              | 739            |               | 0.0%        |
| Interest expense                    | 25,339         | 26,179         | -840          | -3.2%       |
| Total non-operating expenses        | 26,397         | 28,208         | -1811         | -6.4%       |
| <b>Total expenses</b>               | <b>261,186</b> | <b>248,933</b> | <b>12,253</b> | <b>4.9%</b> |

WIFIA T1

Taxable  
Refunding  
saved \$30M

# Operating Expenses – 5-Year Trend



# Cost Increases by Category

| Operating Expenses   | FY21 Actual  | FY20 Actual  | Variance    | % Diff |
|----------------------|--------------|--------------|-------------|--------|
| Personal Services    | \$60,250,177 | \$59,665,722 | \$584,456   | 1.0%   |
| Fringe Benefits      | \$23,878,295 | \$21,416,337 | \$2,461,958 | 10.3%  |
| Materials & Supplies | \$11,413,917 | \$9,365,181  | \$2,048,736 | 17.9%  |
| Transportation       | \$1,100,718  | \$1,194,984  | \$(94,266)  | -8.6%  |
| Utilities            | \$12,946,881 | \$12,583,437 | \$363,444   | 2.8%   |
| Chemical Purchases   | \$8,719,185  | \$8,759,888  | \$(40,703)  | -0.5%  |
| Contractual Services | \$37,276,557 | \$33,747,587 | \$3,528,970 | 9.5%   |
| Major Repairs        | \$6,757,600  | \$7,542,919  | \$(785,320) | -11.6% |

Avg 3.4% increase in the last ten years – benefit of hiring delay?

Pension +\$2.6M  
 Medical +\$1.8M  
 Post-Retirement Health -\$2.4M

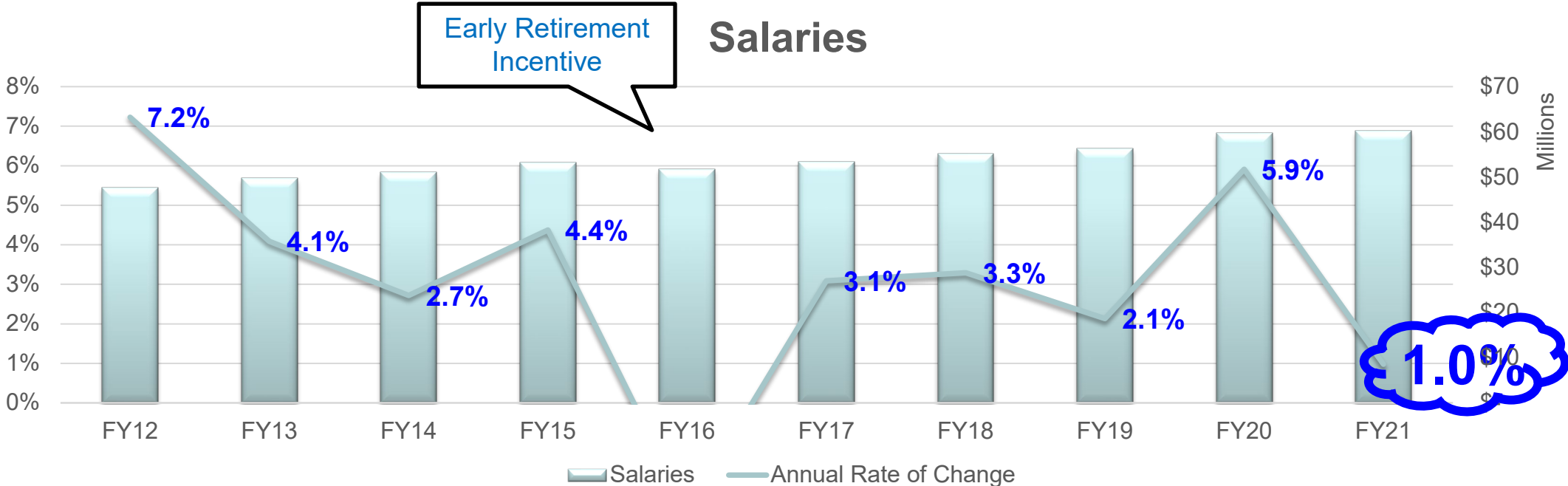
Inventory Adjustment +\$1.8M

Pipeline Inspection +\$1.0M  
 Condition Assessment +\$900k  
 Sewer repairs +\$500k  
 Coatings +\$500k  
 Land Application -\$250k  
 IT related +\$700k

- Capital projects expensed = +\$5.0M (not capitalizable)
  - Studies
  - Climate Change Study
  - Asset Management Implementation

# Personal Services (Salaries) – up only 1.0%, historically low

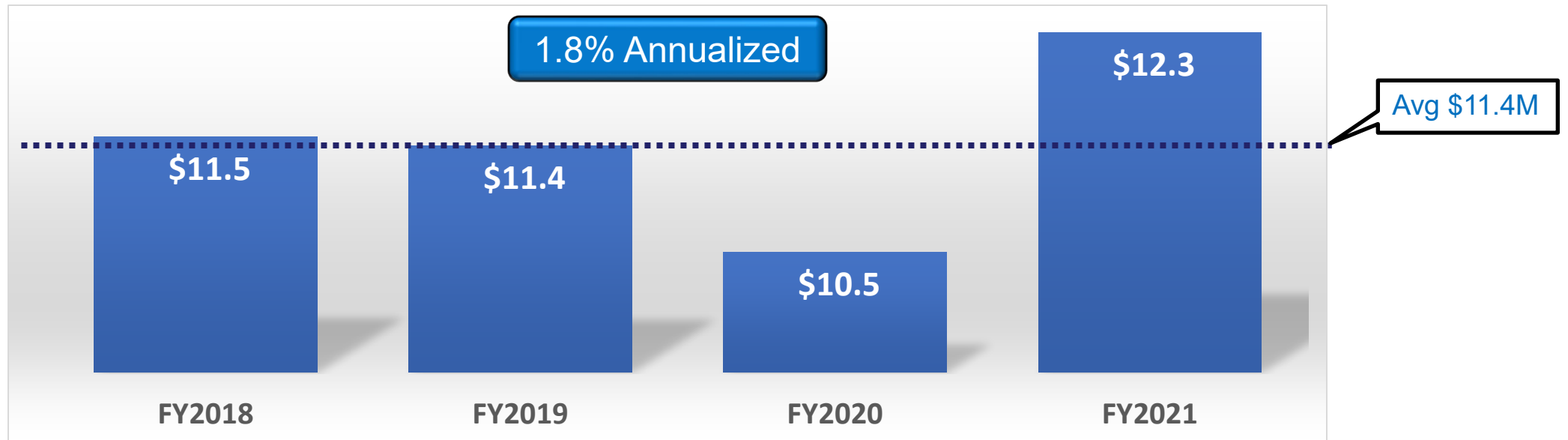
- Implemented a 30-day hiring delay due to potential COVID impacts
- FY21 – 15 new employees (10-yr avg = 9.3)
- Some positions have been hard to fill
- Estimated savings \$1.5M (assumes 3.44% 10-yr avg increase)



## Hospitalization (Fringe Benefits) – up 15% YOY, but 1.8% annualized

- Hospitalization

- Higher utilization due to pent up demand
- FY20 was lower due to COVID-19 (no one went to the doctor)



## Materials and Supplies YOY Increases – \$1.82M Inventory Adjustment (Expensed)

- Primarily on the North Shore Interceptors – pipe yard reduction
  - Scrapped valves (40 to 50 years old)
  - Old and poor condition pipe
- Better coordination with South Shore Interceptors inventory
  - Scrapped items not repurchased
- Inventory Assets Accounting
  - Purchased = +\$992k
  - Write-off = **-\$1.05M**
  - Used = **-\$1.76M**
  - **Net Decrease = \$1.82M (Expensed)**

## Contractual Services YOY Increases

- Outsourced pipeline inspection **+\$1.0M**
- Condition Assessment moved from CIP to Operations **+\$900k**
- Planned sewer repairs from FY20 carried over in FY21 **+\$500k**
- VIP Secondary clarifier coatings **+\$500k**
- Atlantic land application, lower solids volume due to CAMBI **-\$250k**
- IT related **+\$700k**
  - Ransomware recovery
  - Interface design (CMMS, ERP, CC&B, EDS, Sharepoint and Microsoft Power BI)
- *Ransomware insurance payments = \$400k, \$25k deductible*

## Summary Statements of Net Position, (,000s)

| (in thousands)                          | 2021               | 2020               | 2021 vs. 2020    |              |
|---|--------------------|--------------------|------------------|--------------|
|   |                    |                    | Dollars          | Percent      |
| Capital assets                          | \$1,604,840        | \$1,457,955        | \$146,885        | 10.1%        |
| Current assets and noncurrent assets    | 309,670            | 337,233            | (\$27,563)       | -8.2%        |
| <b>Total assets</b>                     | <b>\$1,914,510</b> | <b>\$1,795,188</b> | <b>\$119,322</b> | <b>6.6%</b>  |
| <b>Deferred Outflows</b> (Pension/OPEB) | <b>42,277</b>      | <b>37,592</b>      | <b>\$4,685</b>   | <b>12.5%</b> |
| Long-term liabilities                   | \$791,357          | \$791,705          | (\$348)          | 0.0%         |
| Current liabilities                     | 196,704            | 157,752            | \$38,952         | 24.7%        |
| <b>Total liabilities</b>                | <b>\$988,061</b>   | <b>\$949,457</b>   | <b>\$38,604</b>  | <b>4.1%</b>  |
| <b>Deferred Inflows</b> (Pension/OPEB)  | <b>17,902</b>      | <b>13,416</b>      | <b>\$4,486</b>   | <b>33.4%</b> |
| <b>Total net position</b>               | <b>\$950,824</b>   | <b>\$869,907</b>   | <b>\$80,917</b>  | <b>9.3%</b>  |

PAYGO for Capex  
(Cash)

Bonds, Pension and  
OPEB Liability

Line of Credit and  
existing contracts





---

# Virginia Retirement System (VRS)

## GASB 68 - Net Pension Liability

GASB – Government Accounting Standards Board

---

- Purpose
  - Assess pension promise made to employees
  - Ensure future financial viability
- Shows as long-term liability
- Virginia Retirement System (VRS) performs the calculations
- VRS Fast Facts *Fiscal Year 2021*
  - \$101.8 billion in assets serving 742,000 members
  - 18<sup>th</sup> largest public or private pension fund in the US
  - 41<sup>st</sup> largest in the world

**Membership** *as of June 30, 2019 (valuation date)*



**809**<sup>(+19)</sup> Actively Employed

**398**<sup>(+13)</sup> Retired Members and Beneficiaries

**334**<sup>(+9)</sup> Inactive Members

---

**1,541** Total (+41)

**Assets (Fiduciary Net Position - FNP)** *as of June 30, 2020 (measurement date)*

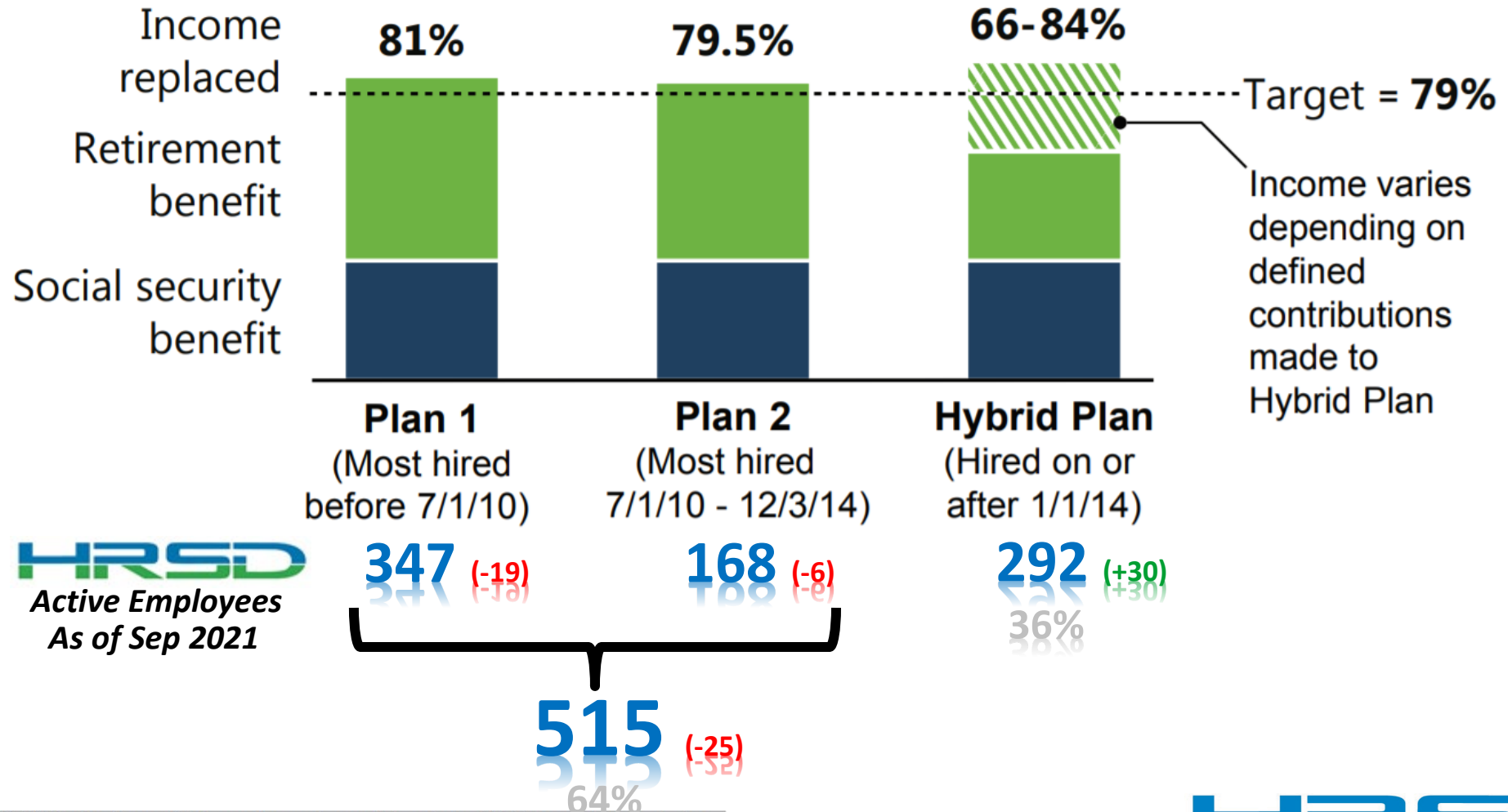


**\$215.3 million**

(**down \$1.3 million** from previous year)

Total HRSD VRS trust fund assets

# Retirement Income Replacement by Benefit Group




SOURCE: VRS plan financial information and actuarial analysis. NOTE: Local plan size is the aggregate liability of all 585 plans for political subdivisions. Income replacement for State Employees Plan member retiring at age 65 with \$55,000 salary and 30 years of service.

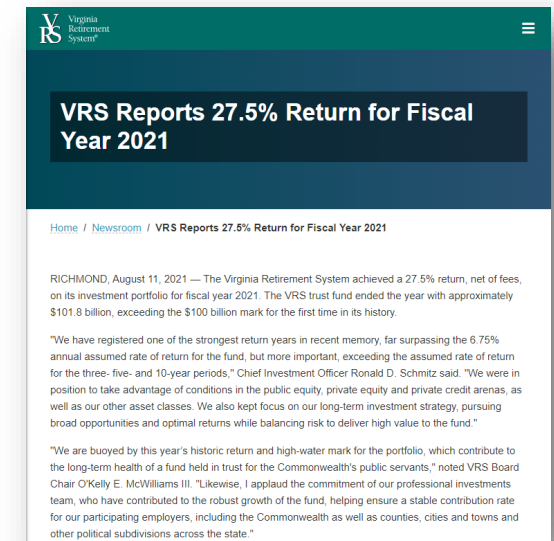
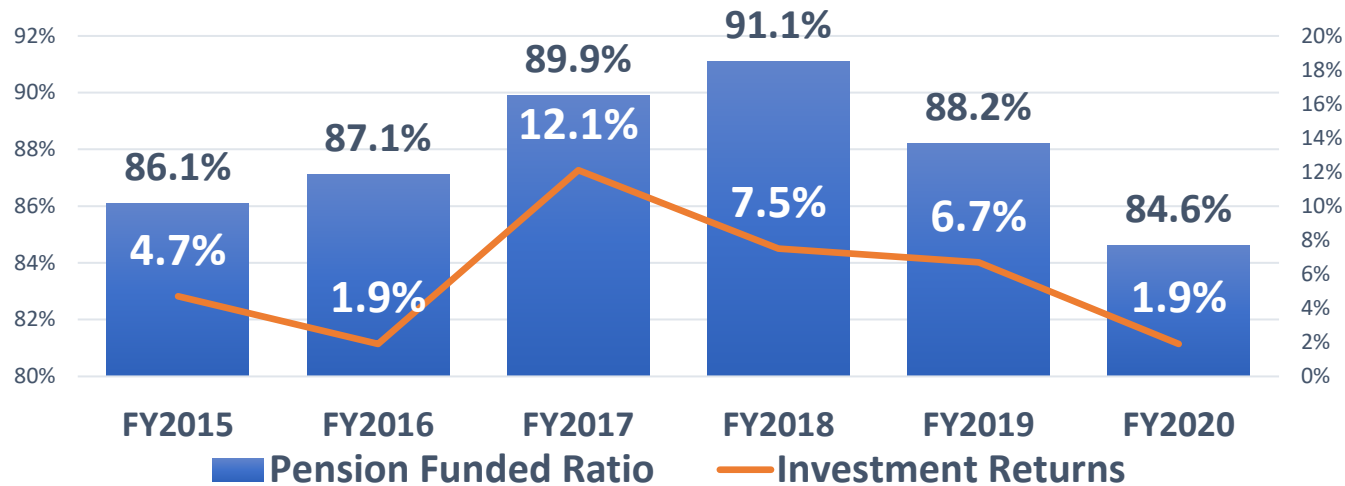
# Net Pension Liability and Funded Ratio as June 30, 2020\*

\*Measurement Date, Reporting Date = 6/30/21

**Total Pension Liability** = \$254.5 million  
**– Investment Value (Assets)** = \$215.3 million  


---

**Net Pension Liability (NPL)** = **\$39.1 million** (up \$10.0M)  
**Funded Ratio** = **84.6%**  (down 3.6%)  
**VRS assumed rate of return** = 6.75%

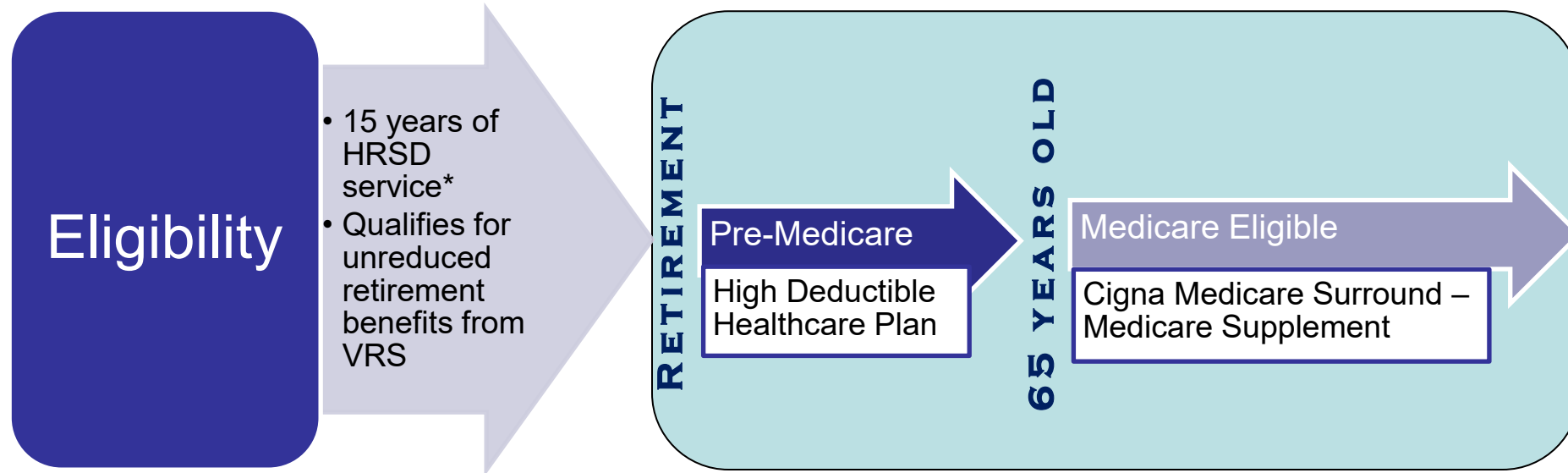


---

Retiree Health Plan Trust  
Other Post-Employment Benefits (OPEB)

---

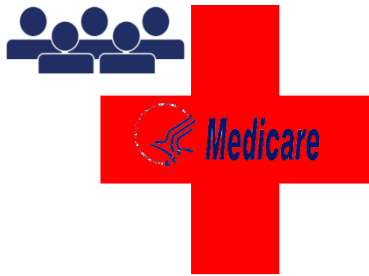
## Retiree Health Plan (RHP)



- Retiree responsible for:
  - Deductibles
  - Co-payments
  - Retiree Premiums
    - Less than 65 = \$120/month (High Deductible Plan), Spouse \$415
    - Greater than 65 = \$45/month (Medicare Supplement), Spouse \$397

## Retiree Health Plan (Other Post-Employment Benefits - OPEB)

### Membership *as of June 30, 2021 (valuation date)*



**732** <sup>(-2)</sup> Actively Employed with Medical Coverage

**86** <sup>(+8)</sup> Retirees Less Than Age 65

**101** <sup>(+9)</sup> Retirees Age 65 or Greater

---

**919** <sup>(+15)</sup> Total

### Assets (Fiduciary Net Position - FNP) *as of June 30, 2021*



**\$71.7 million**

(up \$14.8 million from previous year)

Total OPEB Retiree Health Trust fund assets

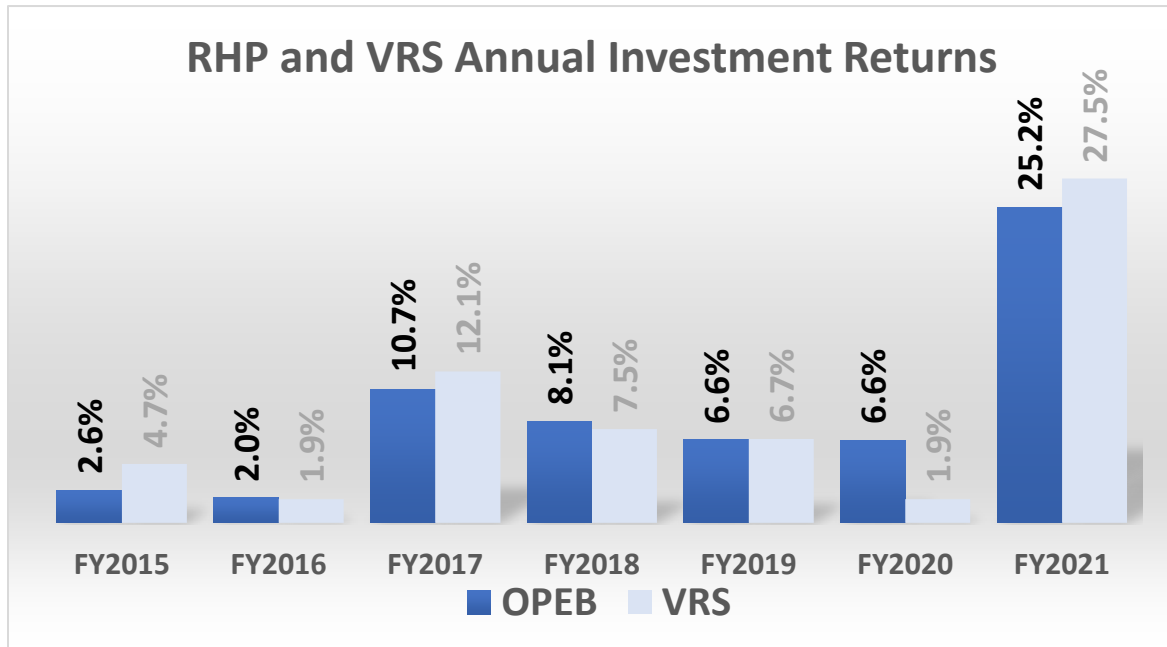
*Actuarial Valuation = \$62.7 million (five-year smoothing)*



## Retiree Health Plan (RHP) Funded Ratio as of June 30, 2021

|                                |                                   |
|--------------------------------|-----------------------------------|
| RHP OPEB Liability             | = \$68.6 million (+\$6.5)         |
| - Investment Value (Assets)    | = \$71.7 million (+\$14.8)        |
| <b>Net RHP OPEB Liability</b>  | <b>= (\$3.1 million) (-\$8.3)</b> |
| <b>FY2021 RHP Funded Ratio</b> | <b>= 104.4% ↑ (+12.8%)</b>        |

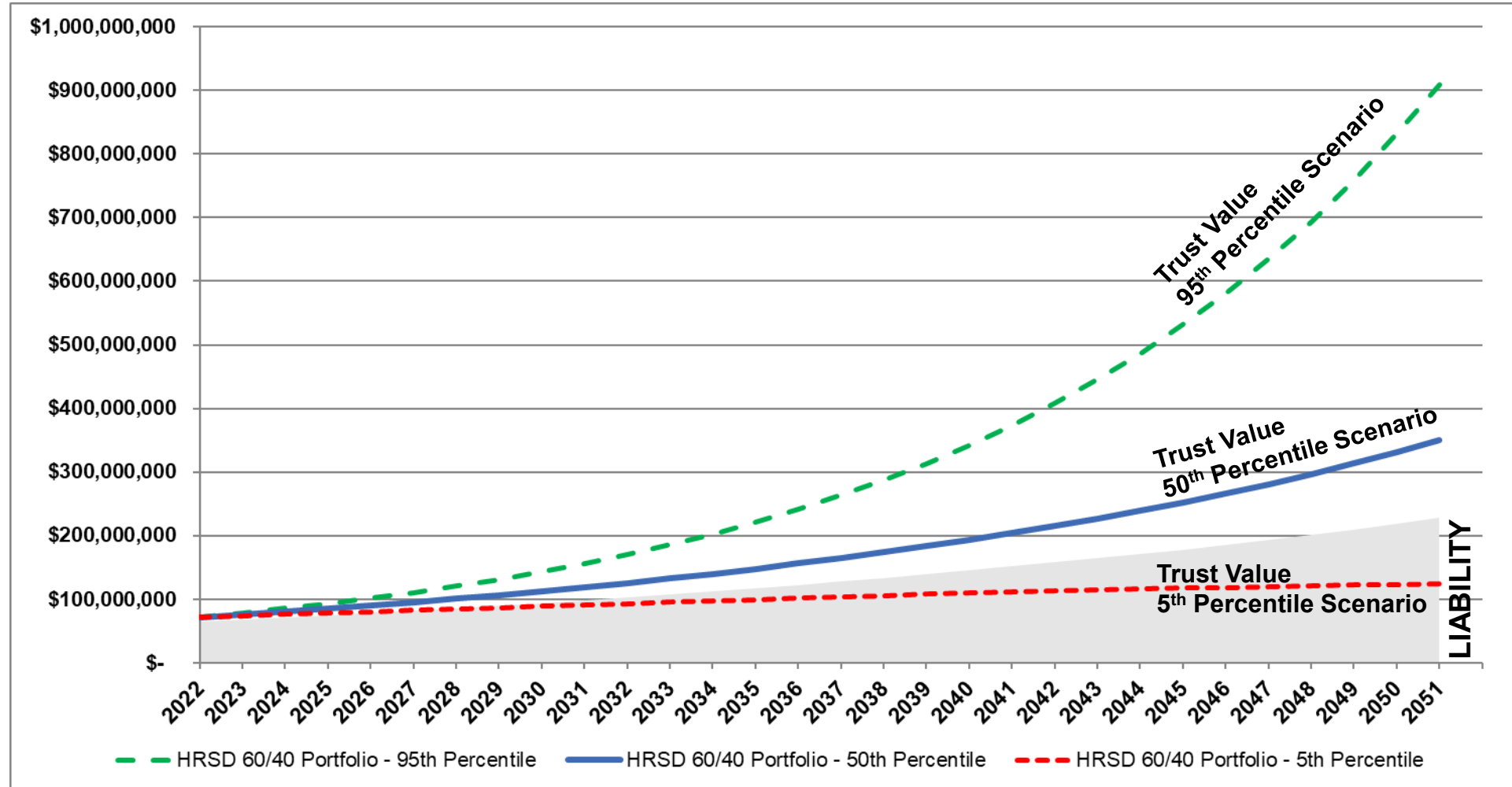
91.4% Using Actuarial Valuation



**Median Funded Ratio = 47%**  
**Range = 1% to 80%**

\* HRSD's assumed rate of return = 6.0%, 9.27% since inception

# Projection – RHP Trust Value vs Liability (Risk Analysis)



---

## Key Financial Policy Indicators

---

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

- *How much income will you have to pay Debt Service (principal + interest)?*
- *Quantifies **RISK** - Likelihood bond investors get paid back?*
- *Higher ratio is better*

# Debt Service Coverage Ratio (DSCR) by Trust Agreement

## SENIOR TRUST AGREEMENT

### Total Debt Service Coverage Requirement FY 2021

Total Debt Service Coverage Ratio – Max Annual DS (Year 2025)\* **2.26x**

Legal Coverage Requirement 1.00x  
 Debt Service Reserve Fund Test 1.35x



**FY21 Forecast = 2.17x**

## SUBORDINATE TRUST AGREEMENT/FINANCIAL POLICY

### Total Debt Service Coverage Requirement FY 2021

Total Debt Service Coverage Ratio – GAAP **2.66x**

Total Debt Service Coverage Ratio – Adjusted Cash Basis **2.66x**

Financial Policy Requirement 1.40x  
 Legal Coverage Requirement 1.20x



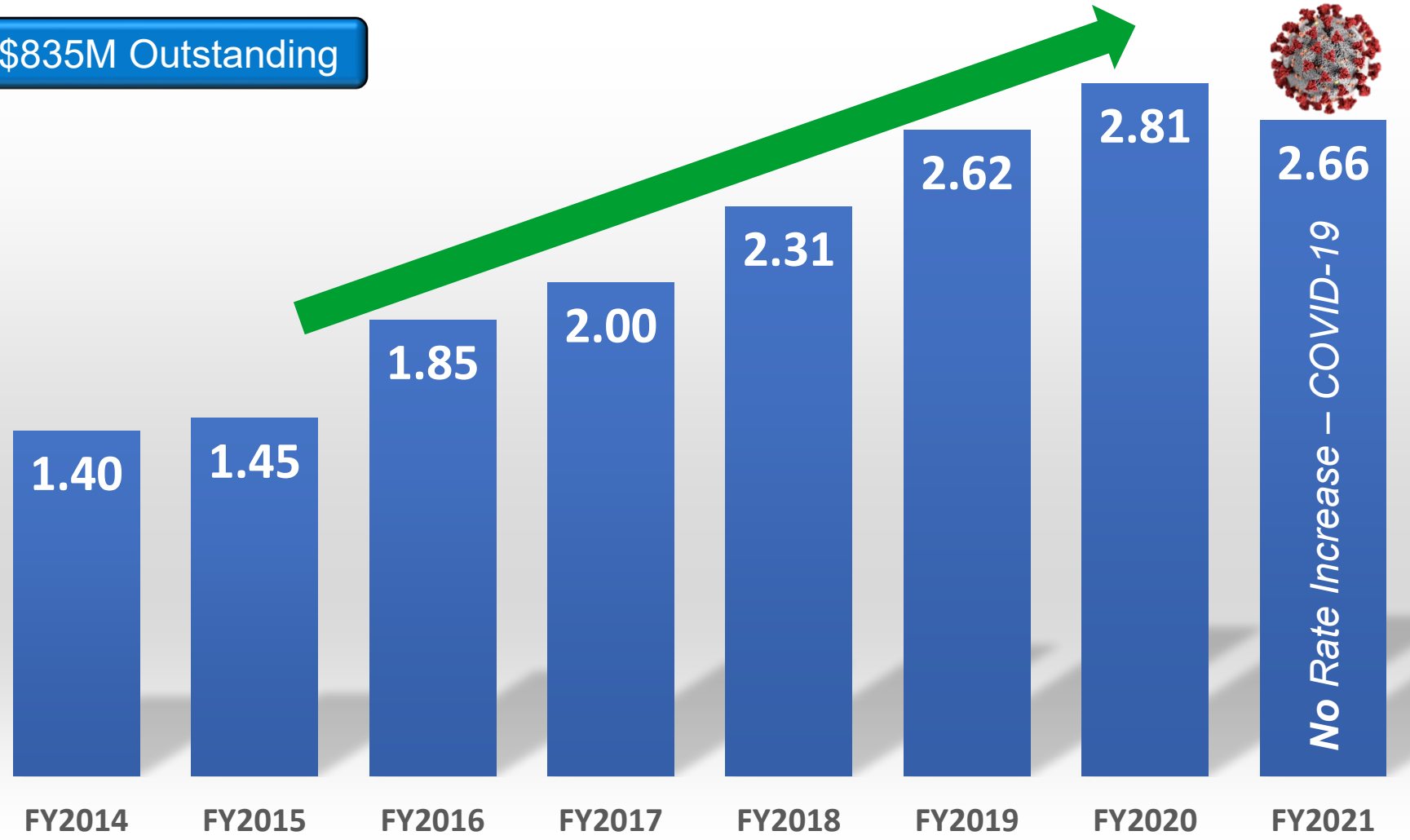
| Fitch 2020 Medians | DSCR |
|--------------------|------|
| AAA                | 2.8  |
| AA                 | 2.5  |
| A                  | 1.4  |
| All                | 2.4  |
| Large              | 2.4  |

*\*Max Annual Debt Service occurs in Year 2025 due to VRA loans*



# Total Debt Service Coverage Trend

Debt = \$835M Outstanding



## Liquidity (HRSD's Unrestricted Savings Account) – Adjusted Days Cash on Hand (ADCOH)

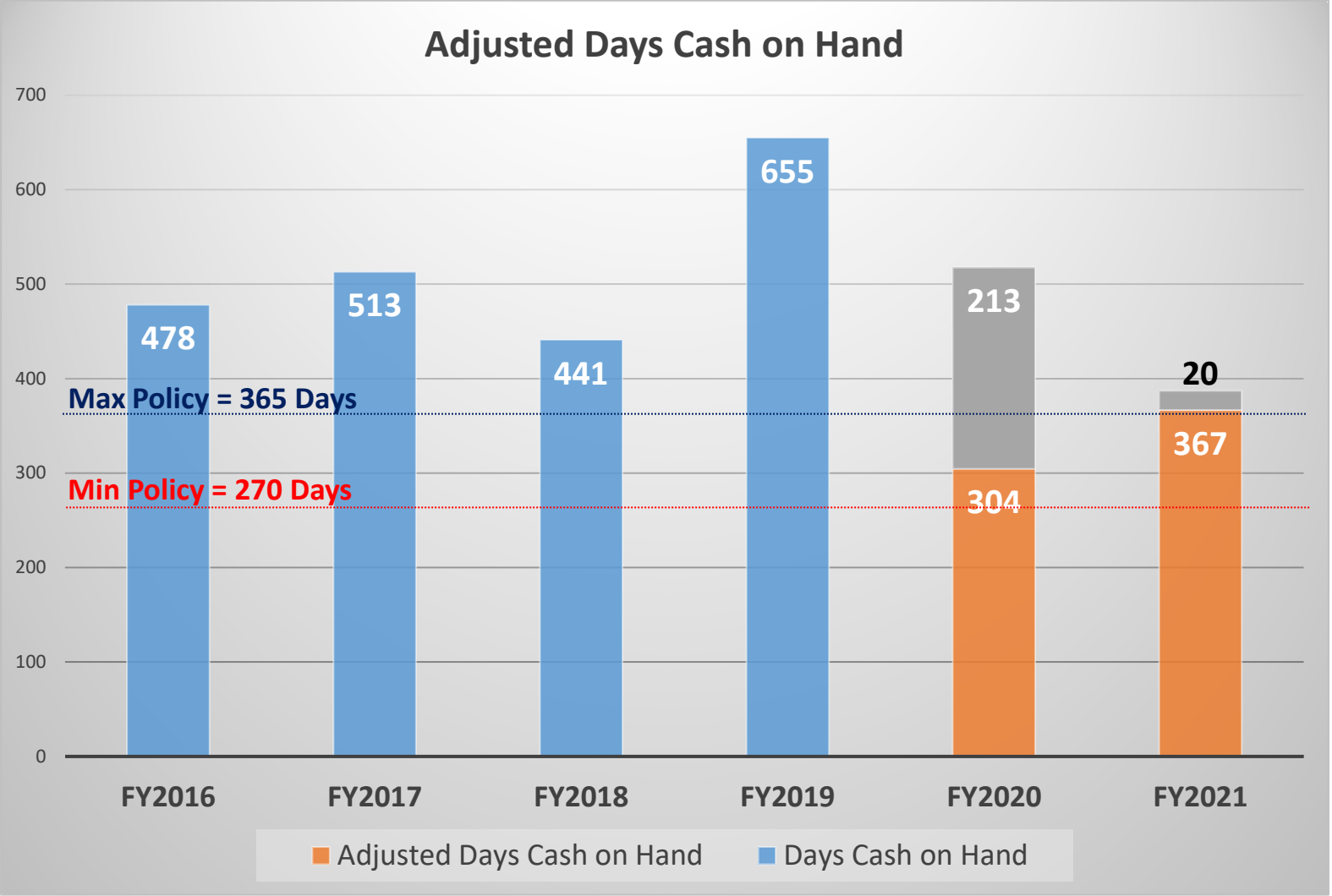
- Liquidity indicates financial flexibility to pay near-term obligations and margin of safety
- Adjusted Days Cash on Hand (ADCOH)
  - Excludes reserves and PAYGO for CIP
- How many days can you operate with available cash if no revenue is coming in?
- Includes Capital Reserve funds

$$\text{ADCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

(EXCLUDES RESERVES AND PAYGO FOR CIP)

*HRSD POLICY - Min = 270 ADCOH, Max = 365 ADCOH*

# Adjusted Days Cash on Hand (DCOH)



| Fitch 2020 Medians | Total      |
|--------------------|------------|
| AAA                | 677        |
| <b>AA</b>          | <b>565</b> |
| A                  | 298        |
| All                | 565        |
| <b>Large</b>       | <b>408</b> |

Reserves and PAYGO for CIP

Adjusted Days Cash on Hand





- Financial health is sound, but headwinds exist
  - Future water consumption trends??
  - COVID-19 related impacts still unknown
  - Expenses will be impacted by rising inflation, supply chain issues
  - Pension and Retiree Health plans have high funded ratios
- On the Horizon
  - Finalizing Consent Decree negotiations
  - New Debt Solutions Section with Customer Care
    - Second round of Municipal Utility Relief (\$120M)
    - Low Income Household Water Assistance Program (LIHWAP) - 2023
    - PromisePay roll-out to all Localities
  - \$100M of Clean Water revolving loans approved, expect closing in early 2022
  - WQIF Grants (Water Quality Improvement Funds)

- October 13, 2021 – Finance Committee Detailed Briefing
- October 26, 2021 – Commission Accepts the Finance Committee's Report regarding the Financial Report
- Prior to November 27, 2021 - Final Financial Report sent to the Commission and posted on EMMA (150 days after Fiscal Year End)

---

Questions?

---

---

## Proposed Supplemental Revenue Policy

---

- Define supplemental revenues received
- Establish a policy to move supplemental revenues to an unrestricted Reserve account
- Potential Uses:
  - Proffered settlement agreements
  - Memberships (NGOs)
  - Customer assistance programs

## Spectrum of Revenue Sources – Examples

### Ratepayer Revenue

- Wastewater Treatment Charges
- Facility Charges
- Surcharges

### GRAY

- Patent Royalties - \$10k
- Sale of Scrap - \$10k

### Supplemental Revenue

- Credit Card Rebate - \$350k
- Pharmacy Rebate - \$700k
- Industrial Waste Fines - \$20k

- Budgeted revenues goes towards operations and capital improvement
- Preference towards unbudgeted revenues
  - Industrial Waste fines
  - Sale of scrap

Supplemental revenue shall be any unbudgeted funds received limited to: credit card rebates, pharmacy rebates, XXXX.

Reserve Fund – this fund shall consist of supplemental revenue and requires Commission authorization for appropriation.



---

Questions?

---