

HRSD COMMISSION – FINANCE COMMITTEE
Meeting Minutes
April 25, 2023

PRESENT: Commissioners Elofson, Glenn, Lakdawala, Levenston, Rodriguez, Stern, Taraski, and Templeman

1. **Proposed Fiscal Year-2024 Annual Budget Review**

Staff [presented](#) details on the FY-2024 budget; FY-2024 to FY-2033 Capital Improvement Program (CIP), and rates. The final budget will be presented to the Commission for approval at the May 23, 2023 meeting.

2. **Revenue Policy**

Staff presented proposed changes to the policy as follows:

- Added new Nutrient Credit Rates to recover the marginal operational cost to treat pollutants and the cost associated with the capacity of assets consumed to treat the pollutants. The rates include an Operational Nutrient Credit Rate designed to recover the marginal operating cost to treat a pound of Total Nitrogen, Total Phosphorus, and/or Total Suspended Solids (collectively Nutrients). The rates also include an Asset Nutrient Credit Rate which is a one-time charged based on the proportional share of capital assets consumed to treat Nutrients. This rate is similar in concept to HRSD's existing Facility Charges.
- Added provisions that clarify that HRSD will pursue collections for delinquent customer accounts in accordance with the Enabling Act or other relevant governing law as appropriate. The policy also delegates the authority to pursue collections for delinquent accounts to the General Manager. A resolution further documenting that authority will be presented to the Commission for consideration at the May 2023 meeting.

The revised policy will be presented to the Commission for review and comment at the April 25, 2023 meeting and for approval at the May 23, 2023 meeting.

3. **Nutrient Credit Management Policy**

Staff presented proposed changes to the policy which aligns Commission review and approval of nutrient credit agreements with Commission Governance Guidelines.

The revised policy will be presented to the Commission for review and comment at the April 25, 2023 meeting and for approval at the May 23, 2023 meeting.

4. **Internal Audit Update**

Mr. Anthony DiGiulian and Mr. Matthew Simons of the SC&H Group, [presented](#) the internal audit update including audit impact, audits in progress, revised FY-2023 and FY-2024 audit plans, management action plan progress, and audits information as listed below.

HRSD COMMISSION – FINANCE COMMITTEE
Meeting Minutes
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Completed Audits:

- Freedom of Information Act
- Family Medical Leave Act
- Risk Assessment Refresh

Audit in Progress:

- Grants Management
- Personally Identifiable Information
- Remote Access/Network Security

Upcoming Audits:

- Accounts Payable and ProCards
- Design and Construction Estimating
- IT Governance, Vendor and Contractor Management, and Operational Technology Security and Resilience
- Billing, Accounts Receivable, and Aging
- Risk Assessment Refresh

The Finance Committee will present its report to the full Commission at the April 25, 2023 meeting. The entire budget package will be presented for Commission approval at the May 23, 2023 meeting.

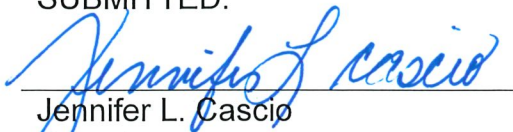
Attachment: [Presentations](#)

Public Comment: None

Next Committee Meeting Date: October 2023


Meeting Adjourned: 9:59 am

SUBMITTED:



Jennifer L. Cascio
Secretary

APPROVED:



Willie Levenston
Committee Chair



HRSD

FY-2024 Budget
Finance Committee

April 25, 2023

- Budget Overview
- Financial Forecast Overview
- Rates Overview
 - Introduction of two new rates
 - Nutrient Credit Asset Charge
 - Nutrient Credit Operational Charge
- Revenue Policy Discussion
- Internal Audit Presentation

What drives rate increases – Capital Improvement Program



Infrastructure Projects,
\$0.52



People, \$0.23



Operational Expenses,
\$0.25

Debt Service +
Cash for CIP

FY24 Budget At-A-Glance

• Revenue	+\$428M	9.0% Rate Increase
• Operating Expenses	- \$207M	
• Debt Service	- \$76M	Increases by \$7.0M
• PAYGO (Cash for CIP)	= \$145M	
• Grants/Reimbursements	+\$155M	Water Quality Imp Fund ARPA (Federal)
• FY24 Capex	-\$580M	
• FY24 Financed Amount	= \$280M	2.8x OpEx WIFIA Clean Water Loans Line of Credit
• 10-year CIP = \$3.7B		
• 20-year CIP = \$6.8B		

Strategic Plan Priority: Innovation

- Proposed new FTE starting Jan 1st
- No change to FY24 budget numbers
- Identify and leverage technologies which optimize operational efficiencies
- Prioritize projects with the highest ROI

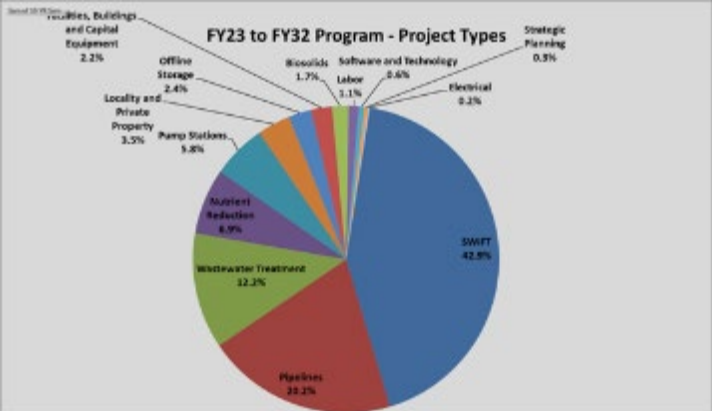
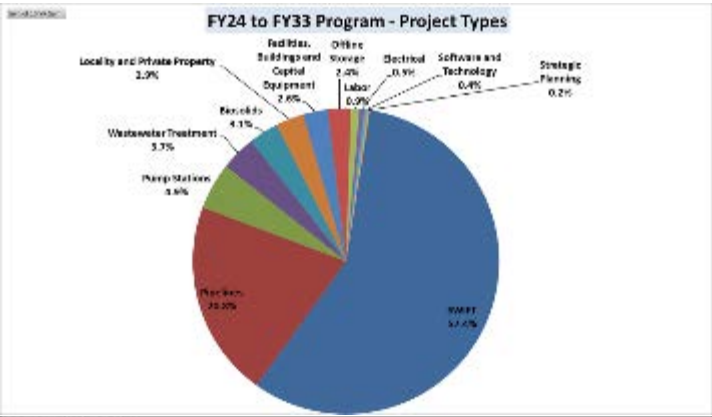


INNOVATION

We lead the industry by boldly innovating in every aspect of our business to enable continuous improvement.

“We are always researching ways to lower costs to keep our waterways clean”

FY24 - FY33 CIP Stats



- FY24 – FY33 = \$3.7B
- 210 Projects
- Integrated Plan
 - SWIFT \$2.2B through FY32
 - High Priority Round 1 - \$200M
 - High Priority Round 2 - \$205M to FY40
- 73% regulatory driven

HRSD's Integrated Plan

2021 2022 2023 2024 **2025** 2026 2027 2028 2029 **2030** 2031 **2032** 2033 2034 2035 2036 2037 2038 2039 **2040 - 2043**

\$700M Phase 1,
Rehab Action Plan



Adaptive Mgt

\$200M High Priority 1

**-47%
SSO**

\$205M High Priority 2

**-69%
SSO**



>\$1B

Aquifer Replenishment Program (ARP)

\$20M Microbial Source Tracking

\$2M Post Construction Monitoring



The compliance objective is a 69 percent or greater reduction in baseline modeled SSOs by volume for the 5-year peak flow recurrence event

SWIFT Phase 1 – Complies with Clean Water Act and Chesapeake Bay



James River SWIFT + ANRI

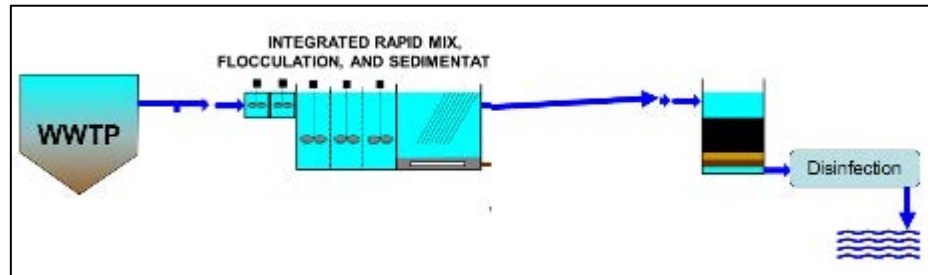


Nansemond SWIFT + ANRI



Boat Harbor PS + FM

- Key Compliance Years = 2026 and 2032
- SWIFT Capacity = 50 MGD
- Aquifer Critical Cells Eliminated = 77%
- James River TN Reduction > 70%*
- James River TP Reduction > 50%*



VIP SWIFT Tertiary

*Compared to 2021

We are always researching ways to lower costs to keep our waterways clean

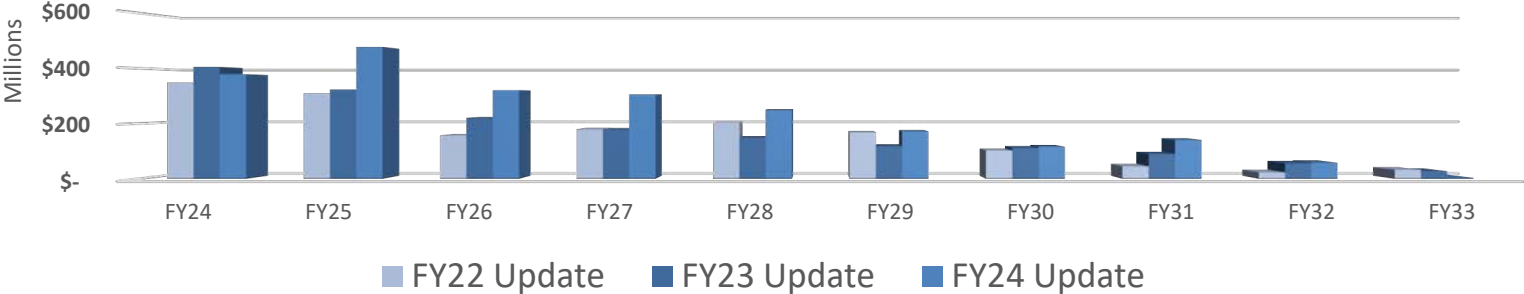
- **HRSD's Integrated Plan = \$2.8B**
- **Without an Integrated Plan = \$7.8B**
- Clean Water Act Compliance - \$4.1B
 - Each Locality builds wet weather capacity = \$2.7B
 - HRSD builds wet weather capacity = \$1.4B
- Chesapeake Bay TMDL (Nutrient Reduction) - \$3.7B
 - HRSD nutrient reduction plants = \$1.5B
 - Locality stormwater retrofits = \$2.2B

HRSD saved the region \$5.0B*

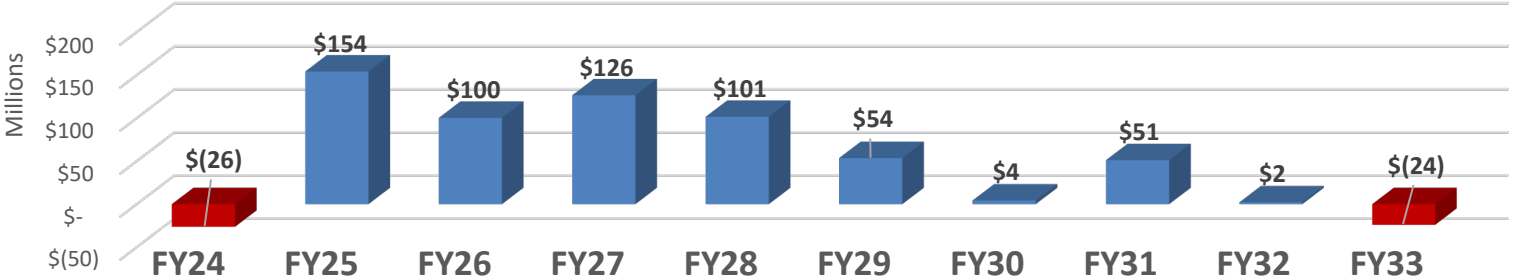
**This does not include the value of sea-level rise mitigation, groundwater replenishment and protection from saltwater intrusion*

SWIFT Phase I Program + Boat Harbor = +\$543M

SWIFT + Boat Harbor YOY Comparison

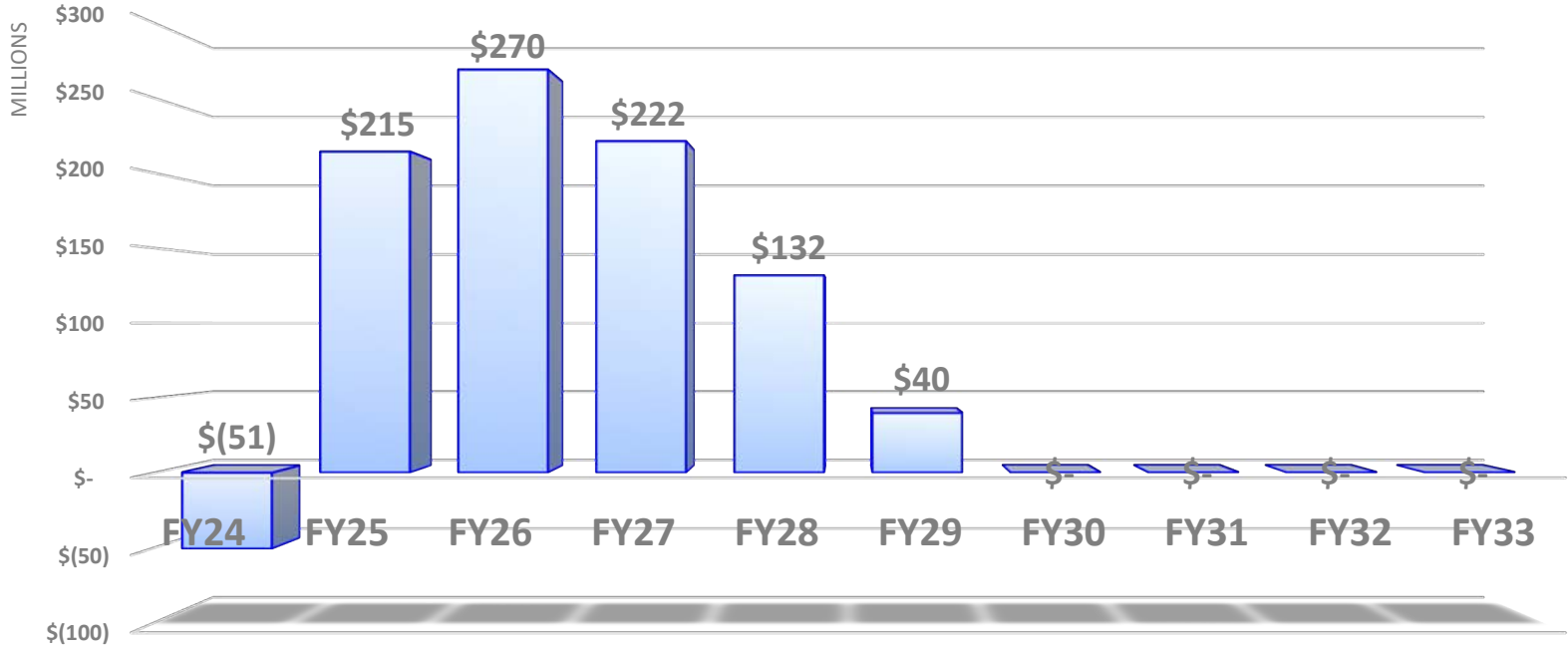


SWIFT + Boat Harbor Differential

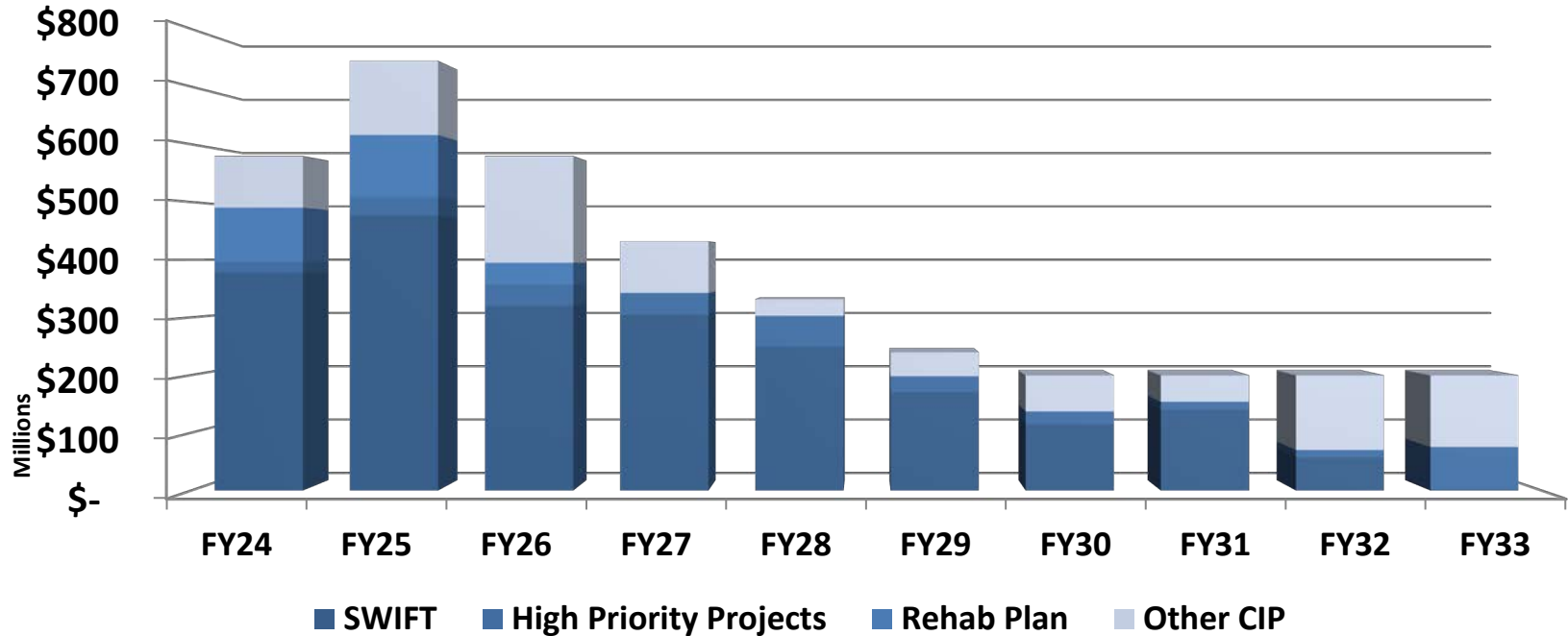


Overall CIP Program Changes in the Next Six Years = +\$828M

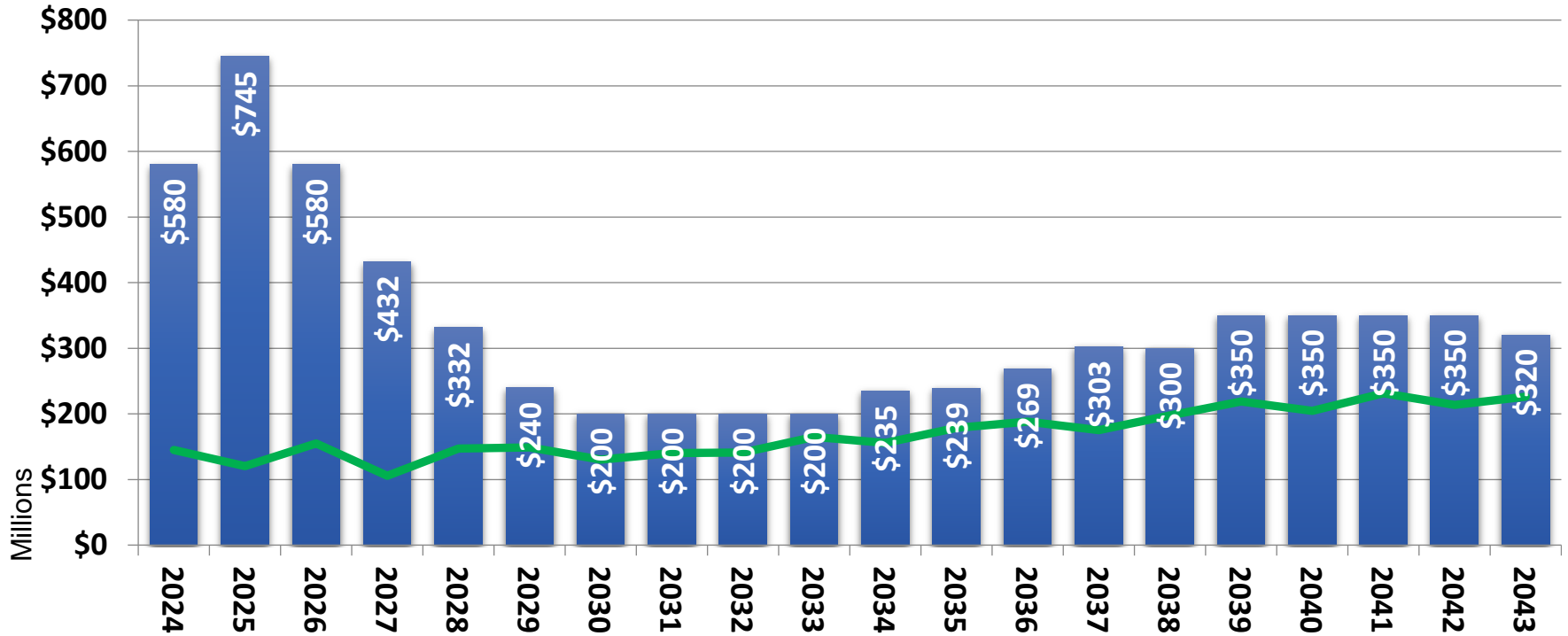
FY24-FY33 Annual CIP Differential



FY24 – FY33 CIP = \$3.71B



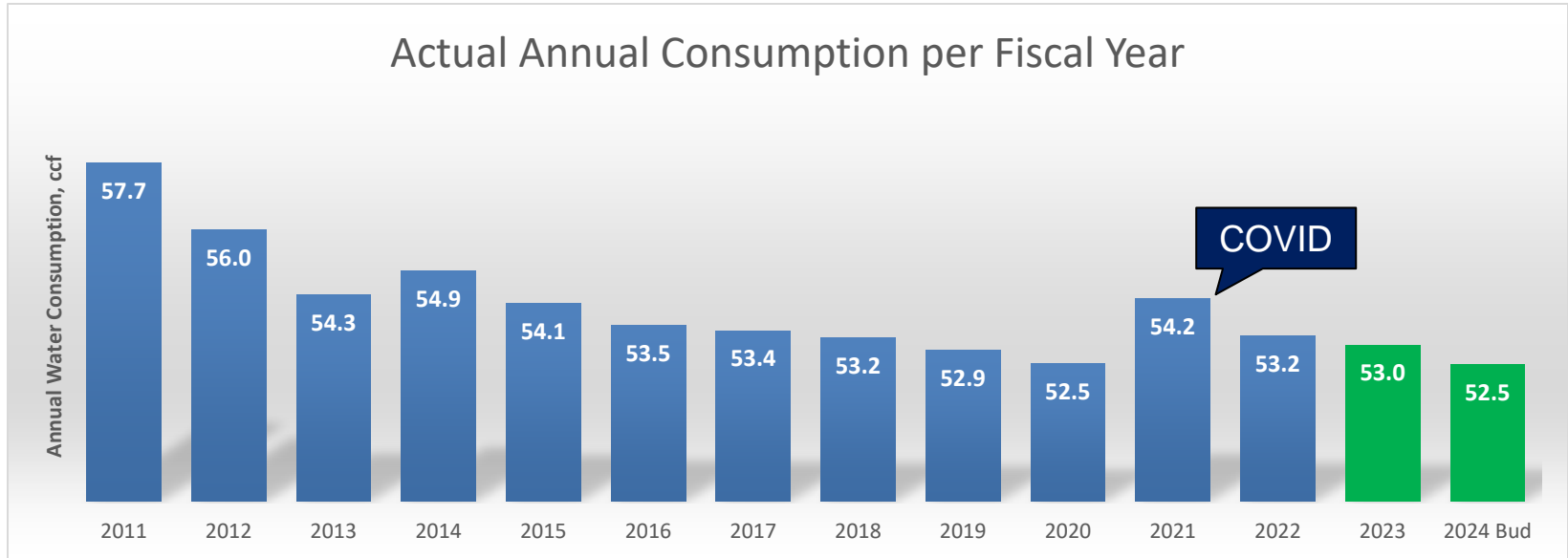
Projected Annual Capital Spend vs Available PAYGO



Financial Plan Risks/Unknowns – Some within our control, some not

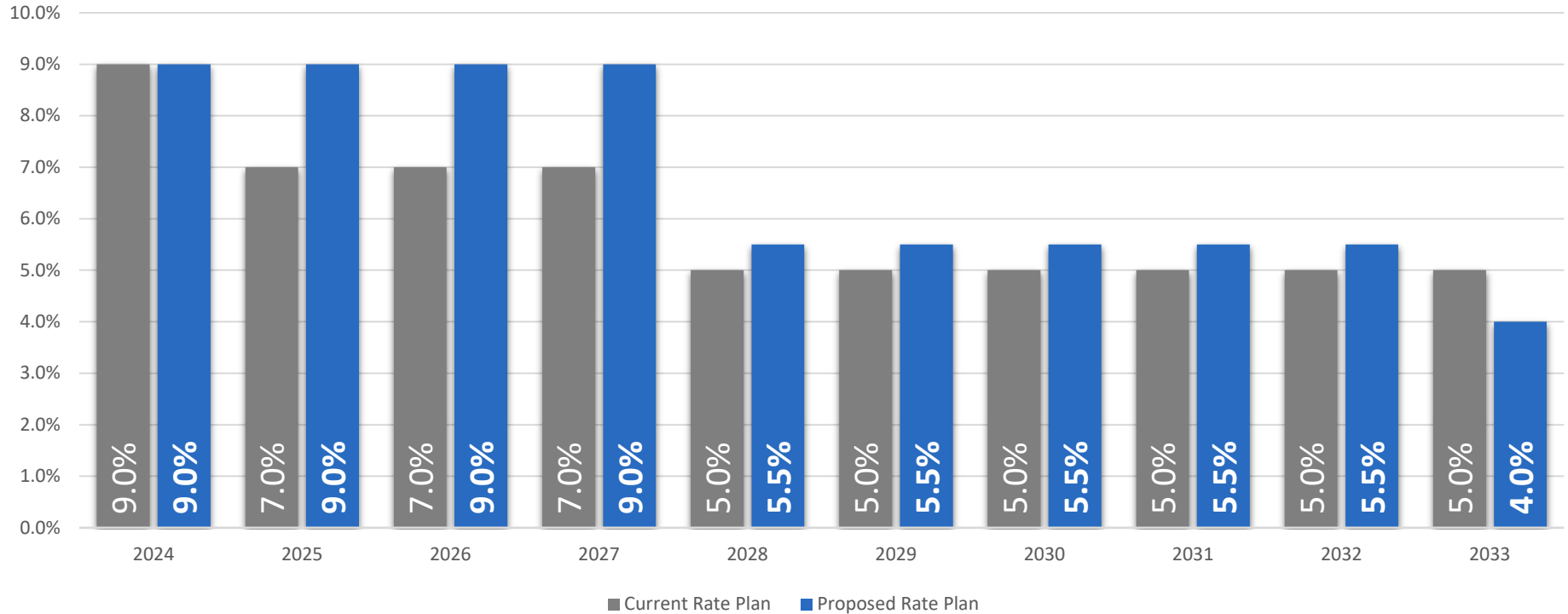
- Water consumption – declining or flat?
- CIP and SWIFT spend rates
 - Regulatory Deadlines
- Construction costs
 - Bid environment challenging
- WQIF availability – qualified for over \$900M
- Inflation
 - Declining increases but costs still rising

Water Consumption – COVID modified the decline

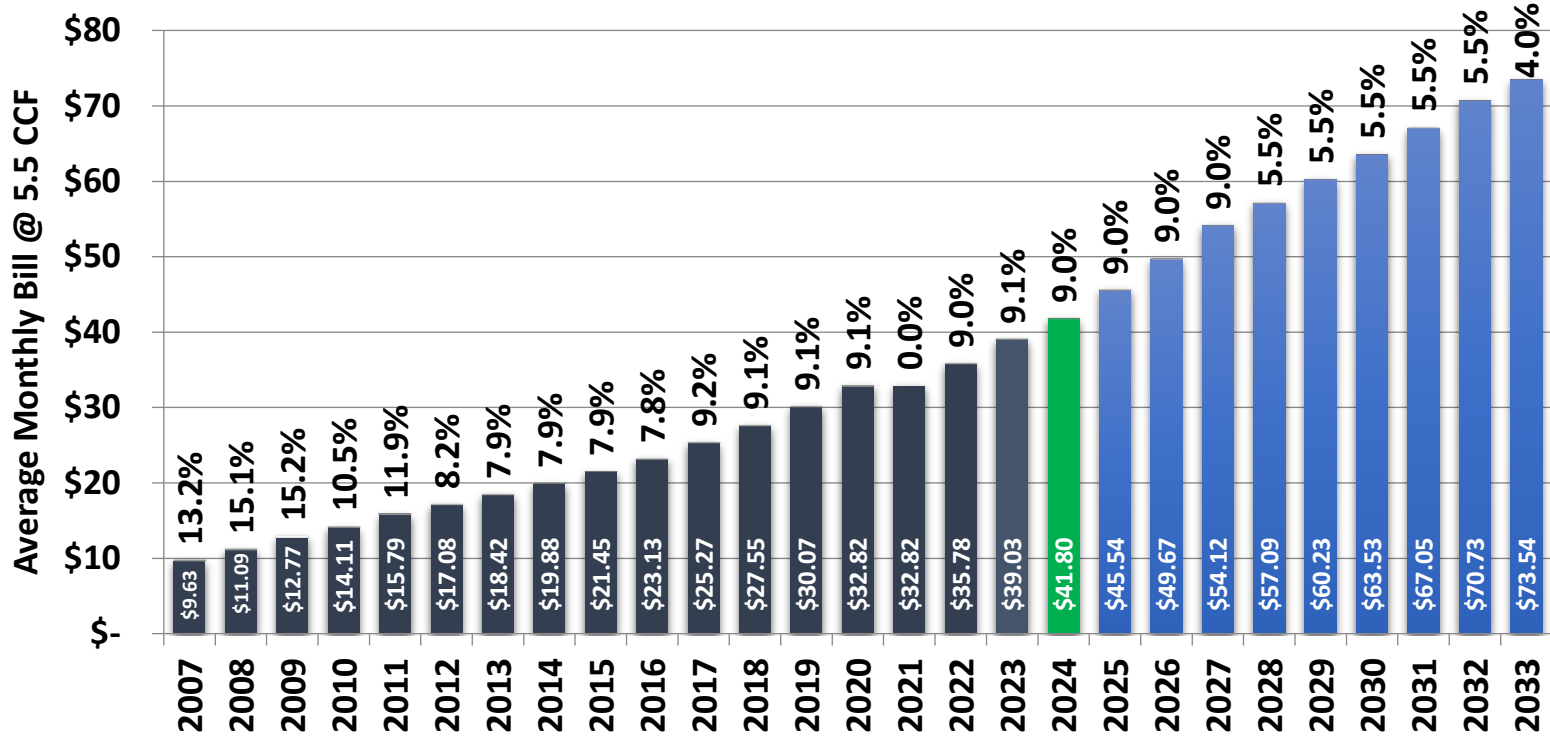


- FY24 Budgeted Decline: 0%
- FY25- FY43 Budgeted Year-Over-Year Decline: -0.6%

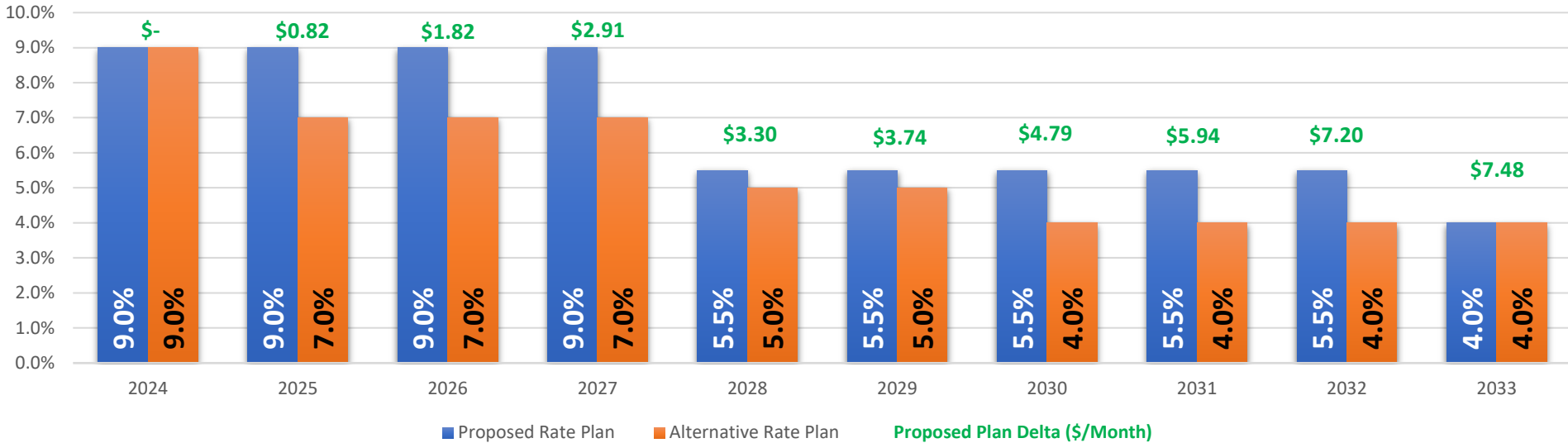
FY23 vs FY24 - Rate Plan Comparison



Historical and Projected Monthly Wastewater Treatment Bill @ 5.5 ccf



Current Plan vs Mitigated Risks/Effects on Average Ratepayer



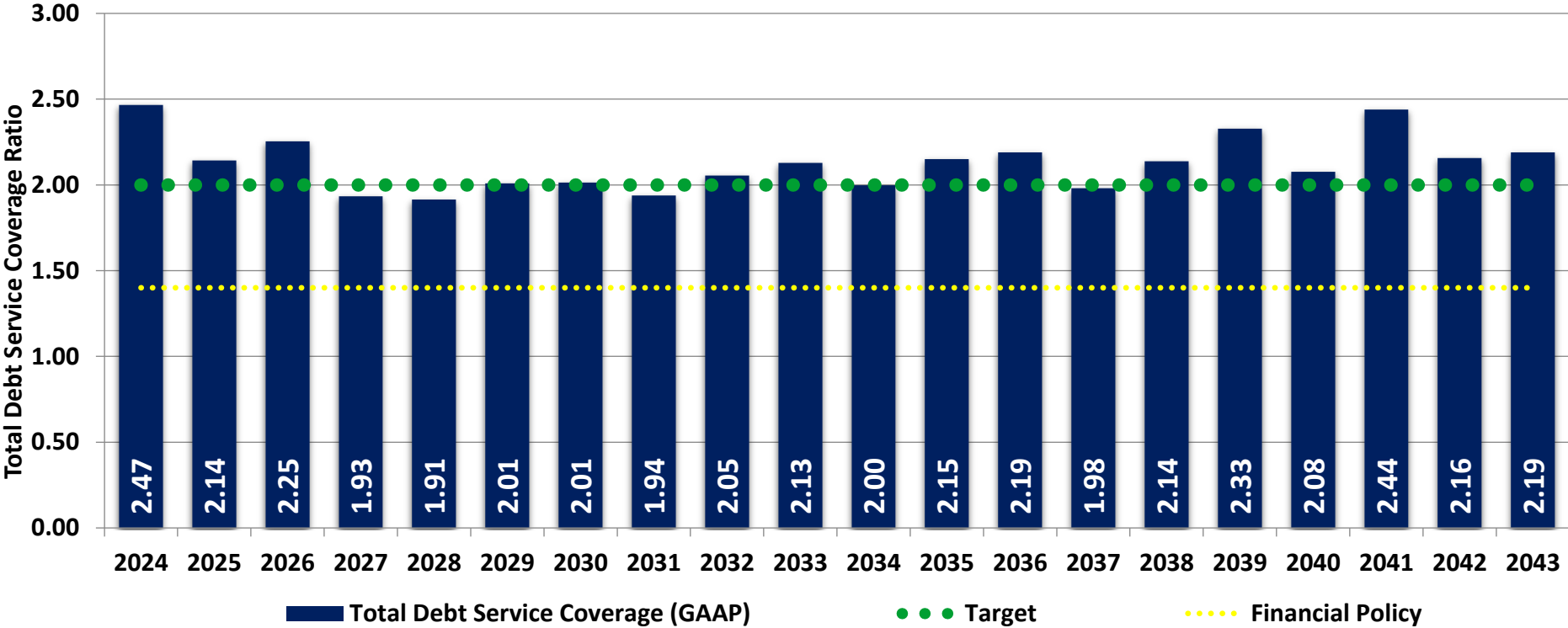
Debt Service Coverage Ratio (DSCR)

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

- *How much income will you have to pay Debt Service (principal + interest)?*
- *Measure of sufficiency of revenues and rates to meet obligations*
- *Quantifies **RISK** - Likelihood bond investors get paid back?*

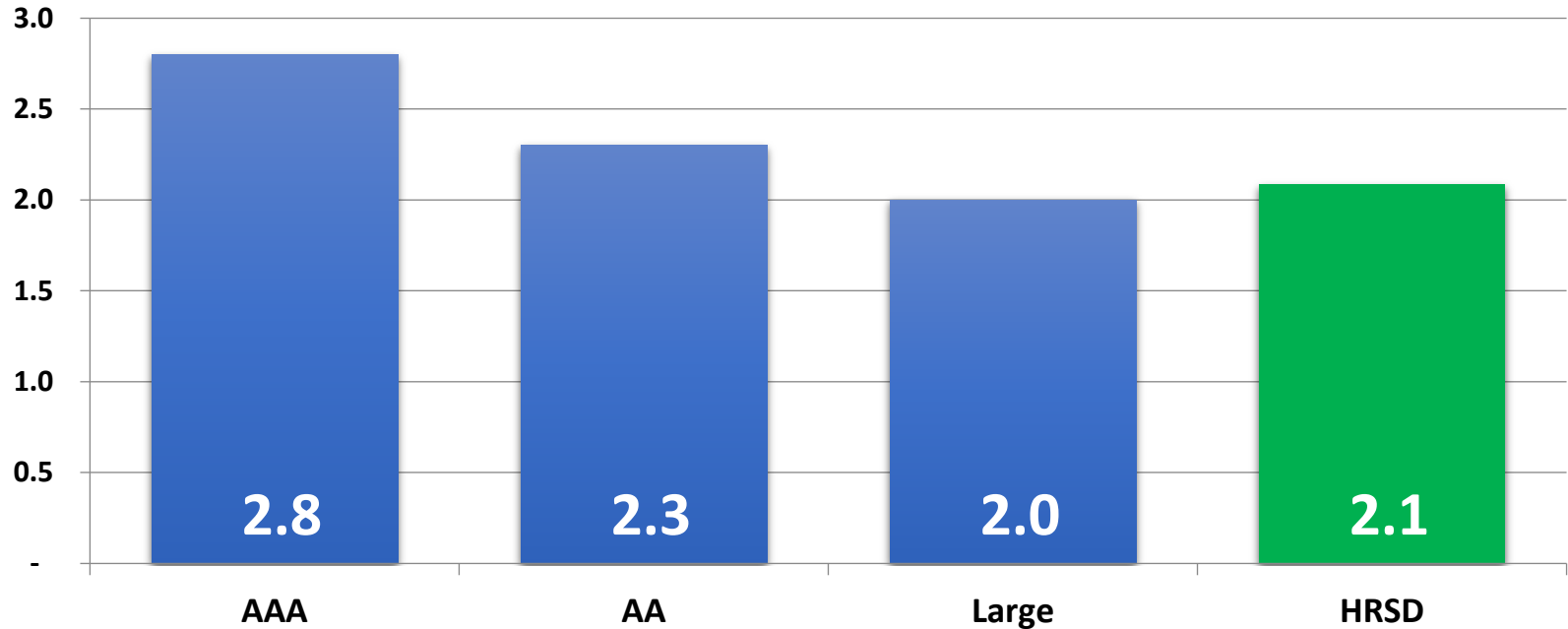
*The forecast should target financial metrics, across the twenty-year period, that are consistent with rating agency metrics for a **strong, double-A rated credit**.*

Debt Service Coverage Ratio Projection (GAAP)



Total Debt Service Coverage Median Comparison

Total Debt Service Coverage Median Comparison

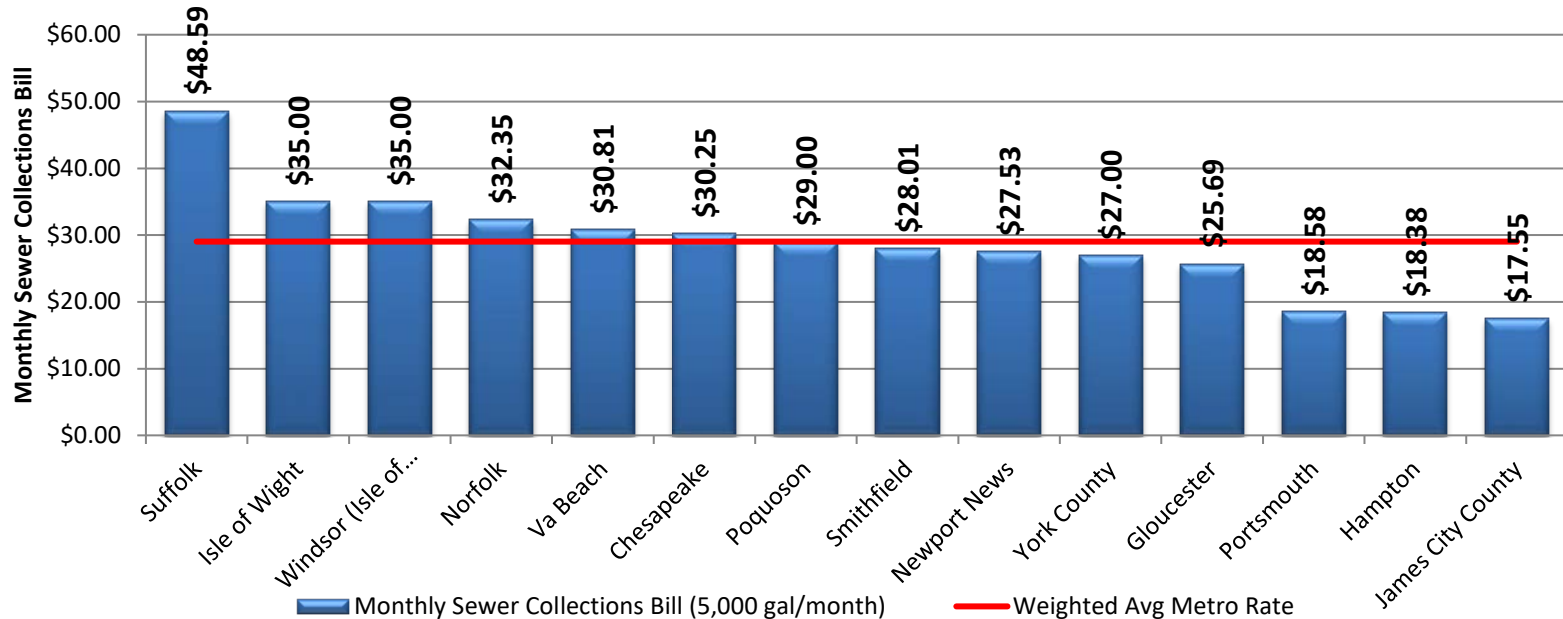


Rate/Revenue Discussion

- FY24 – 9% rate increase
 - \$7.60 per ccf (up from \$6.97 per ccf)
 - Avg monthly bill
 - \$41.80 (5.5 ccf)
 - +\$0.11/day
 - \$0.01/gallon
- Flat Rate \$2.00/day
 - 12-month minimum requirement
- Wholesale Rate
 - \$3.55/1,000 gals
 - Towns with a population less than 2,000

Small Communities Collections Based on FY23 Weighted Avg Metro Rate

FY 24 Collections Rate - \$5.92/k-gals, up 1.9%



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

	HRSD Rate (\$/k- gals)	Collections Rate (\$/k-gals)	Capital Recovery Rate (\$/k-gals)	FY24	Min Daily Charge for metered	Min 30- day Charge for metered	Flat Monthly Bill ¹	Flat Daily Charge
Eastern Shore	\$10.16	\$5.92	N/A	\$16.08	\$0.30	\$9.00	\$66.16	\$2.21
King William	\$10.16	\$5.92	\$0.23	\$16.31	\$0.30	\$9.00	\$67.10	\$2.24
Mathews	\$10.16	\$5.92	N/A	\$16.08	\$0.30	\$9.00	\$66.16	\$2.21
Surry	\$10.16	\$5.92	N/A	\$16.08	\$0.30	\$9.00	\$66.16	\$2.21
Middlesex/Urbanna	\$10.16	\$5.92	N/A	\$16.08	\$0.30	\$9.00	\$66.16	\$2.21
West Point	\$10.16	\$5.92	N/A	\$16.08	\$0.30	\$9.00	\$66.16	\$2.21

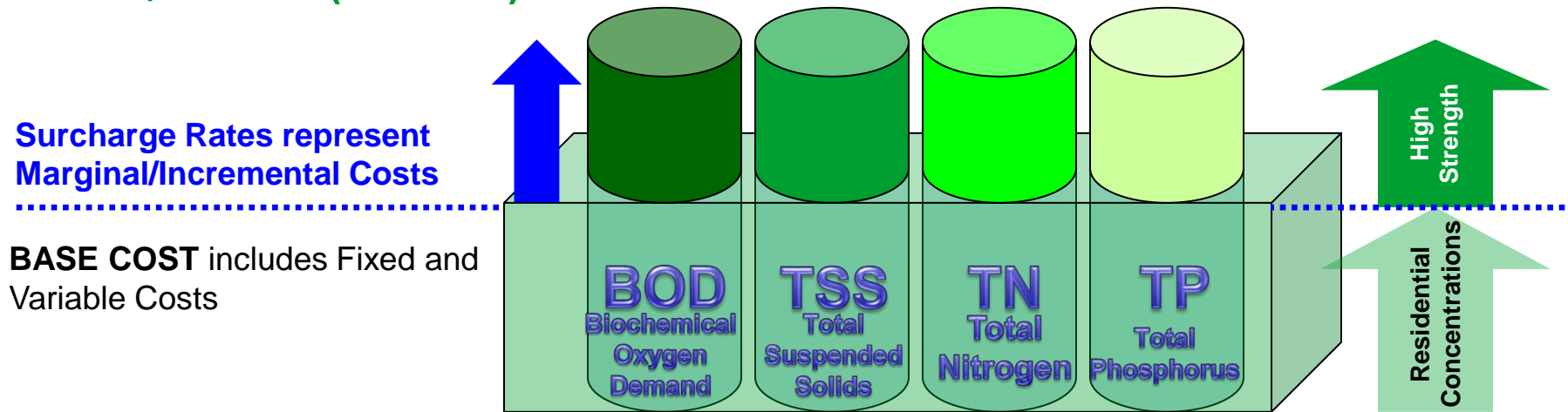
¹ Assumes 4,114 gals per month

6.3% Increase

FY24 Treatment Rate - \$7.60/ccf = \$10.16/k-gals)

Surcharges for High Strength or Unusual Wastes

- Domestic Quality Wastewater
- High Strength or Unusual Wastes
- \$1.6M (0.37%)



FY24 Proposed Surcharge Rates – Incorporates Moving Averages

FY24 Surcharge Rate per 100 lbs		FY24 vs FY23		
Pollutant	FY23	FY24	<i>\$ Differential</i>	<i>% Difference</i>
Biochemical Oxygen Demand (BOD)	\$ 2.97	\$ 2.96	<i>(\$0.01)</i>	<i>-0.34%</i>
Total Suspended Solids (TSS)	\$ 9.79	\$ 9.80	<i>\$0.01</i>	<i>0.10%</i>
Total Phosphorus (TP)	\$152.67	\$148.30	<i>(\$4.37)</i>	<i>-2.86%</i>
Total Kjeldahl Nitrogen (TKN)	\$ 43.33	\$ 44.59	<i>\$1.26</i>	<i>2.91%</i>

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

- Cost to treat excluding conveyance – Volume, BOD, TSS, TKN, TP
- FOG costs significantly more to treat
- Chemicals/Polymers driving increases
- Proposed Rates



Hauled Waste Type	FY24		FY24 vs FY23	
	FY23	FY24	\$ Differential	% Difference
Mixed, Portable Toilet, Residential Septage	\$0.1812	\$0.1812	\$0.0000	0%
Fats, Oils, Grease (FOG)	\$0.3339	\$0.3517	\$0.0178	5%

Wastewater Facility Charges

- Covers the cost of the new development's share of the wastewater system's capacity
- Meters larger than 3 inches are rare (not including fire flow meters)

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

Meter (inches)	FY 23	FY 24	% Change
5/8	\$ 2,285	\$ 2,420	5.91%
3/4	4,210	4,210	0.00%
1	7,410	7,410	0.00%
1.5	17,590	18,395	4.58%
2	34,415	35,825	4.10%
3	88,570	91,665	3.49%
4	173,245	178,485	3.02%
6	445,910	456,620	2.40%
8	872,130	889,185	1.96%
10	1,467,435	1,491,070	1.61%
12	2,244,900	2,274,730	1.33%
14	3,215,910	3,251,050	1.09%
16	4,390,660	4,429,645	0.89%

Delinquent Service Fees & Pass Through Charges

- NN pass through charges \$50 shut off fee
- Rate book amended to clarify pass through charges passed on to customer

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HRSD
1434 Air Rail Ave
Virginia Beach, VA 23455
www.hrsd.com

ACCOUNT SUMMARY			
Account	0123456789	Total Amount Due	\$76.39
		Current Charges Due	04/23/19
Bill Date	04/02/23	Current Charges	\$56.39
Previous Balance	\$166.68		
Payment Received	-\$214.18	Fees/Adjustments	\$67.50
Balance Forward	-\$47.50	Total Amount Due	\$76.39

ACCOUNT DETAIL			
Customer Name:	DOE, JOI IN		
Service Address:	123 BANK ST NEWPORT NEWS, VA 23807		
Balance Forward			-\$47.50
	HRSD Charges		
	Service from 12/29/22 - 02/26/23		
	Wastewater Treatment Charge 10.5 CCF x \$5.37		\$56.39
		HRSD Subtotal	\$56.39
		Total Current Charges	\$56.39
	Fees/Adjustments		
	HRSD Late Payment Charge		\$2.50
	Newport News Waterworks Cutoff Fee		\$50.00
	HRSD Delinquent Tag Fee		\$15.00
		Total Fees/Adjustments	\$67.50
		Total Amount Due	\$76.39

1 CCF = 748 Gallons

Meter Number	Previous Read 12/28/22	Current Read 02/26/23	Usage	Usage
1234567	343,410	351,280	7,870 GAL	10.5 CCF

MESSAGES	
HRSD/HRUBS offers a convenient way to view and pay bills online or even by text! Visit HRSD.com and click on "Pay Bill Now" to learn more.	

- Where do they come from?
 - Nutrient (TN, TP, TSS) credits are created when HRSD treats wastewater at levels below the permitted allocation
- How are they used?
 - Point to point dischargers exchange via the VA Credit Exchange (i.e., UBTP, cost to comply is impractical)
 - Non-point to point dischargers exchange via private agreements

- Rate structure
 - Asset Charge – similar to facility charges (1x hydraulic capacity charge)
 - 1x nutrient capacity charge – charge for the depletion of capacity needed to offset credit
 - Operational Charge – marginal cost to treat each pound of pollutant
- Procedures
 - Rates published annually and averaged over time to dampen volatility
 - Asset charge 1x charge upfront
 - Operational Charge – paid in advance every 5 years based on the then current rate or, for compliance credits, paid annually

Nutrient Credits – New Rates (continued)

Recommended Rates: Pollutant	Asset Charge (\$/pound/1x)	Operational Charge (\$/pound/year)
Total Nitrogen (TN)	\$13.49	\$0.2897
Total Phosphorus (TP)	\$58.55	\$1.0226
Total Suspended Solids (TSS)	\$8.39	\$0.1274

Nutrient Credits – New Rates (continued)

Typical Example Pollutant	Credit Needed (lbs/year)	~ Asset Charge (\$)	~ 5-year Operational Charge (\$)	~ Total Charge Applicable to the First 5 Years
Total Nitrogen (TN)	30	405	43	448
Total Phosphorus (TP)	30	1,757	153	1,910
Totals		2,162	196	2,358

Revenue Policy

- Added language for Nutrient Credit Charges
- Added language to clarify collections efforts
 - Most significantly, necessary legal actions to pursue delinquent accounts as provided by Enabling Act or other relevant laws
 - Delegates authority to pursue legal remedies to GM
 - Will also have a resolution in May to specifically authorize the delegation

- *January 24 – Budget Preview*
- *March 2 – Annual CIP review meeting*
- *March 28 – Budget Work Session*
- *April 25 – Finance Committee meeting*
- **April 25 – Draft Budget**
- **May 23 – Formal Budget Adoption**
- **Newspaper advertisement - 4 consecutive weeks**
- **July 1 – Budget Effective**

Questions?



Hampton Roads Sanitation District

Internal Audit Update



April 25, 2023

Internal Audit Team Present

Anthony DiGiulian: CISA, CDPSE

Director

Matthew Simons: CPA, CIA, CGAP

Engagement Principal

Agenda

Internal Audit Update

- 01** Internal Audit Impact
- 02** Internal Audit Progress Update
- 03** Revised FY23, FY24 Internal Audit Plan
- 04** Management Action Plan Progress
- 05** Supplemental Information

Internal Audit Impact

Statistics

- § 8 risk assessment exercises
- § 27 of 31 internal audits/projects completed or in-process (87%)
- § 17 of 25 high risk functions addressed (68%)
- § 38 of 69 total functions addressed (55%)
- § 9 functions addressed 1+ times (13%); 5 high risk
- § 129 closed management action items (96%)¹
 - § Increase of 31 since last status
 - § 17 internal audits/projects fully closed

¹ Counts do not include confidential internal audits.

Internal Audit Progress Update

Audit/Task	Department	Status
Freedom of Information Act	Enterprise-Wide	Complete
Family Medical Leave Act	Talent Management / Enterprise-Wide	Reporting
Grants Management	Finance / Enterprise-Wide	Reporting
Personally Identifiable Information	Enterprise-Wide	Fieldwork
Remote Access Network Security	Information Technology	Planning
Risk Assessment: FY23	Enterprise-Wide	Completed
Management Action Plan Evaluation & Admin	Enterprise-Wide	Ongoing

Revised FY23, FY24 Internal Audit Plan

Audit/Task	Department	Period
Accounts Payable and ProCards (revised) ¹	Finance	FY23, Q4: June
Design and Construction Estimating ¹	Engineering	FY24, Q1: September
IT Audit Considerations ² 1. IT Governance 2. IT Vendor and Contractor Management 3. Operational Technology Security and Resilience	Information Technology	FY24, Q2: November
Billing, Accounts Receivable, and Aging	Finance	FY24, Q3: March
Risk Assessment Refresh	Enterprise-Wide	FY24, Q2: December
Management Action Plan Evaluation & Admin	Enterprise-Wide	Ongoing
¹ Audit included in current contract year purchase order. ² SC&H to discuss suggested areas in detail during Finance Committee meeting.	Fiscal Year 2024 Budget	\$135,000

FY24 Internal Audit Plan: IT Audit Suggestions

IT Governance	IT Vendor and Contractor Management	Operational Technology Security and Resilience
<ul style="list-style-type: none"> § Determine whether processes and practices followed to set IT strategy, and provide appropriate governance and oversight, continue to be aligned to the needs of the business. § Understand if IT foundations are designed in a way to support the business needs and the pace for change. § Determine if IT has solid foundations in place that support effective IT and wider business demands and execution. 	<ul style="list-style-type: none"> § Determine if there is an adequate IT Outsourcing and Third-Party Risk Management (TPRM) framework designed and implemented. § Assess due diligence activities and robustness of ongoing monitoring procedures. § Assess the allocation of roles and responsibilities to manage third-party risks throughout their lifecycle. § Understand if the current TPRM framework is designed to address resiliency requirements, including subcontracting risk and digital risk. 	<ul style="list-style-type: none"> § Determine if the organization is able to effectively manage disruption and challenging circumstances and events, focusing on timely prevention, response, and recovery. § Identify potential physical and logical security vulnerabilities at satellite locations to reduce the risk of physical attacks at critical processing facilities. § Assess management’s ability to monitor and report on the performance of Important Business Services.

Management Action Plan Progress

Subject (Non- confidential)	Report Date	Recommendations		
		Closed	Open	Total ¹
Safety Division	9/12/2019	2	1	3
SWIFT Program	2/24/2021	11	1	12
Succession Planning	6/4/2021	1	3	4
Freedom of Information Act (FOIA) ²	12/21/2022	0	1	1
Prior Audits: Fully Closed (x17)	Various	115	0	115
	Totals	129	6	135

¹ Action plan counts do not include confidential internal audits.

² Action plan is not due until late 2023.

Discussion and Questions

