



COMMISSION FINANCE COMMITTEE  
MEETING MINUTES  
March 26, 2024

The Committee Chair called the meeting to order at 10:18 a.m.

Name	Title	Present for Item Nos.
Taraski, Elizabeth	Committee Chair	1-3
Elofson, Frederick N.	Committee Member	1-3
Levenston, Jr., Willie	Committee Member	1-3
Glenn, Michael E.	Commissioner	1-3
Lakdawala, Vishnu K.	Commissioner	1-3
Rodriguez, Stephen	Commission Chair	1-3
Stern, Nancy J.	Commissioner	1-3
Templeman, Ann	Commissioner	1-3

In accordance with Virginia Code § 2.2-3708.3 (B) and the HRSD Remote Participation Commission Adopted Policy Commissioner Elofson requested approval to participate in today’s meeting from Newport News due to medical condition that prevents his physical attendance at the meeting.

<b><u>Moved:</u></b>	Willie Levenston	<b><u>Ayes:</u></b>	2
<b><u>Seconded:</u></b>	Elizabeth Taraski	<b><u>Nays:</u></b>	0
			(Excludes Remote Participants)

1. **Approval of Minutes**

The draft minutes of the February 27 and February 29 Finance Committee meetings were distributed electronically prior to the meeting.

<b><u>Moved:</u></b>	Willie Levenston	<b><u>Ayes:</u></b>	3
<b><u>Seconded:</u></b>	Elizabeth Taraski	<b><u>Nays:</u></b>	0

2. **Proposed Fiscal Year 2025 Annual Budget**

Staff presented key components of the [Proposed Fiscal Year-2025 Operating Budget](#). The following topics were covered:

- Fitch Ratings – US Water and Sewer Outlook 2024
- Operating Budget Overview
- Estimated Revenue Summary
- Billed Consumption and modest growth in Service Connections
- Proposed increases and effects on average monthly bill
- Operating expenses aligned with both the Financial Forecast and Strategic Plan
- Debt Service and CIP
- Results of the Compensation Study were incorporated in the proposed budget



COMMISSION FINANCE COMMITTEE  
MEETING MINUTES  
March 26, 2024

- Recognition that the labor market remains tight both nationally and regionally
- Standardization of titles for some positions and all departments
- Summary of the Compensation Study benefits comparison
- Budgetary effect of changing medical plan administrators and the medical provider disruption analysis
- Projected VRS retirement costs and market returns
- Proposed new positions and selected initiatives
- Next steps

3. **External Auditor Selection Recommendation**

Staff reviewed the recent RFP to provide [audit services](#). Discussion included scope of engagement, audit evaluation team, proposals received, rankings, and recommendation of award.

The Commission and staff discussed continuity of service; pros and cons of changing firms and implementing a limit on the number of consecutive years a firm can perform the audit services.


A contract award to the firm Cherry Bekaert, LLP, will be presented to the Commission for approval at their meeting on April 23, 2024.

**Public Comment:** None

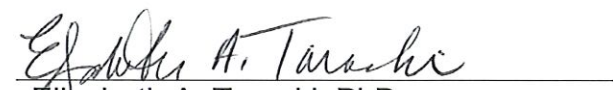
**Next Finance Committee Meeting Date:** April 19, 2024

**Meeting Adjourned:** 11:21 a.m.

SUBMITTED:

  
Jennifer L. Cascio  
Commission Secretary

APPROVED:

  
Elizabeth A. Taraski, PhD  
Committee Chair



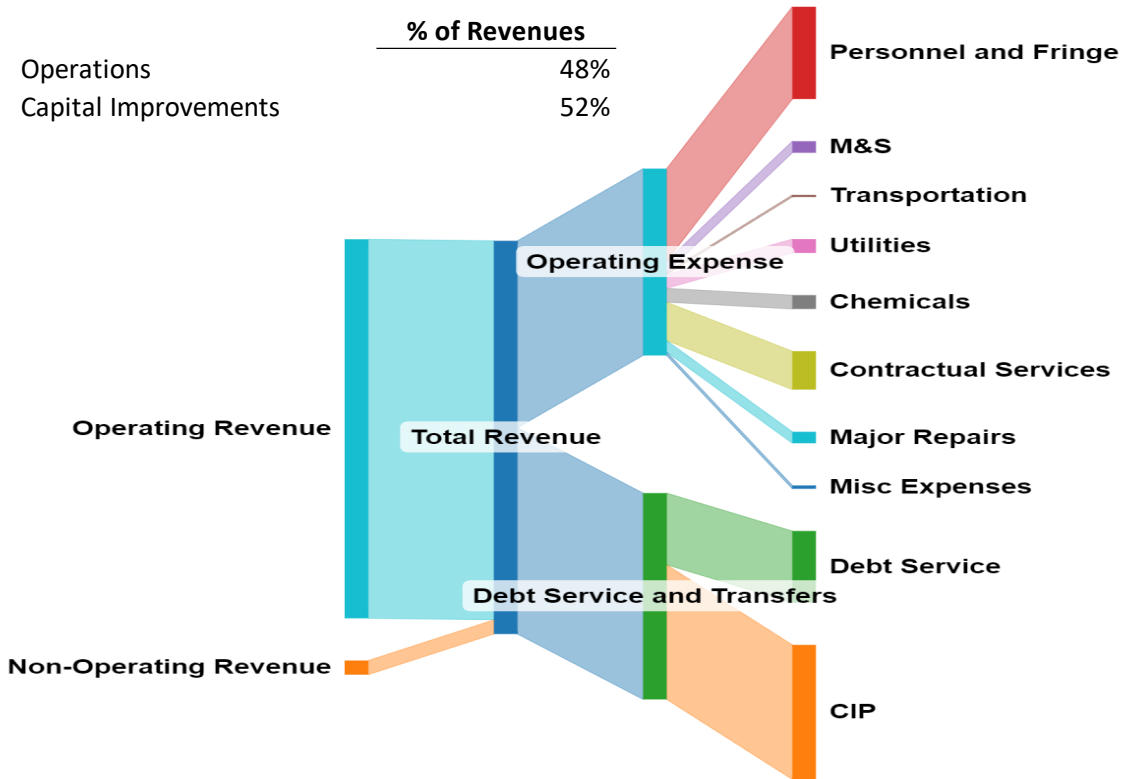
HRSD

FY-2025 Budget  
HRSD Finance Committee Meeting

March 26, 2024

- Sector Outlook – neutral (upgrade from deteriorating)
- Inflationary pressures moderating
  - Higher costs are the “new normal”
- Weakening credit quality
- Ratings outlooks generally stable
- Interest rates expected to remain elevated
  - Borrowing costs face upward pressure
- Capital requirements and sustained higher operating costs exacerbate problem

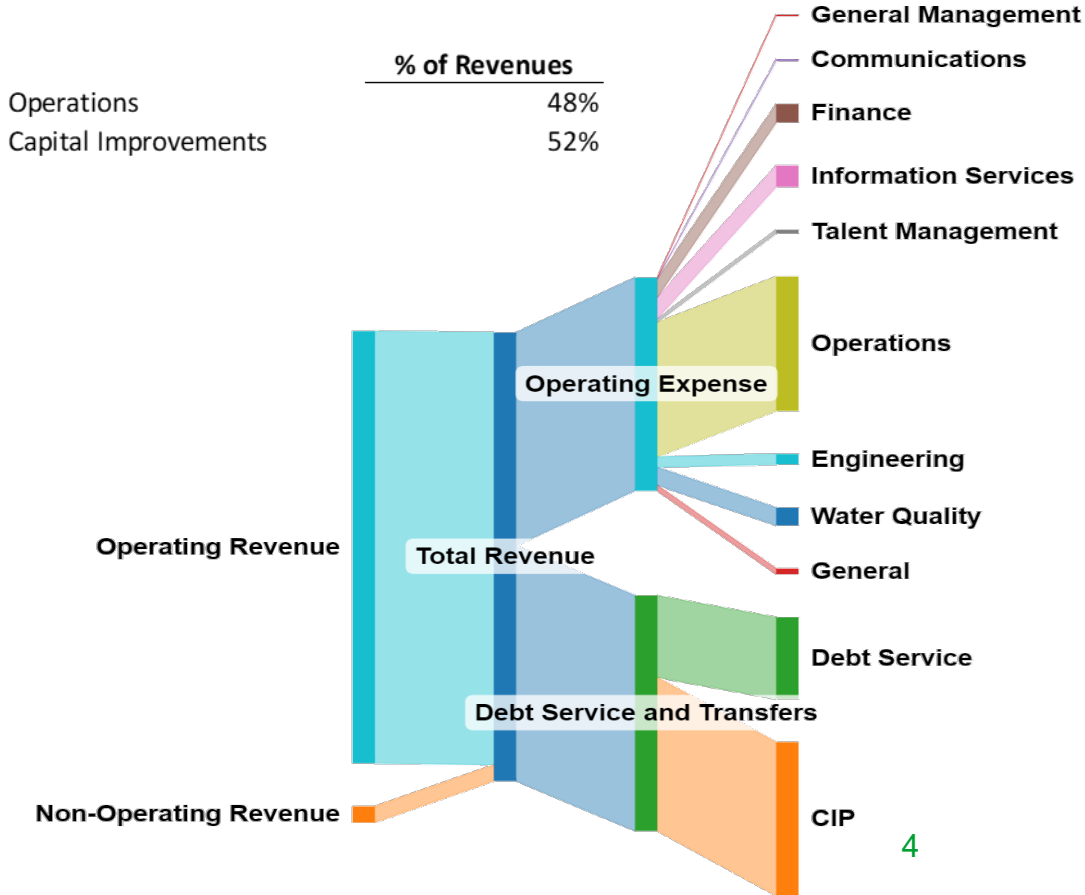
# Budget Overview – by Object Code



## Operating Budget Summary

Operating Revenues	\$ 452,127,000
Non-Operating Revenues	16,935,000
<b>Total Estimated Revenues</b>	<b>\$ 469,062,000</b>
Operations	\$ 222,921,662
Debt Service	95,573,000
Transfers	150,567,338
<b>Total Appropriations</b>	<b>\$ 469,062,000</b>

# Budget Overview – by Department

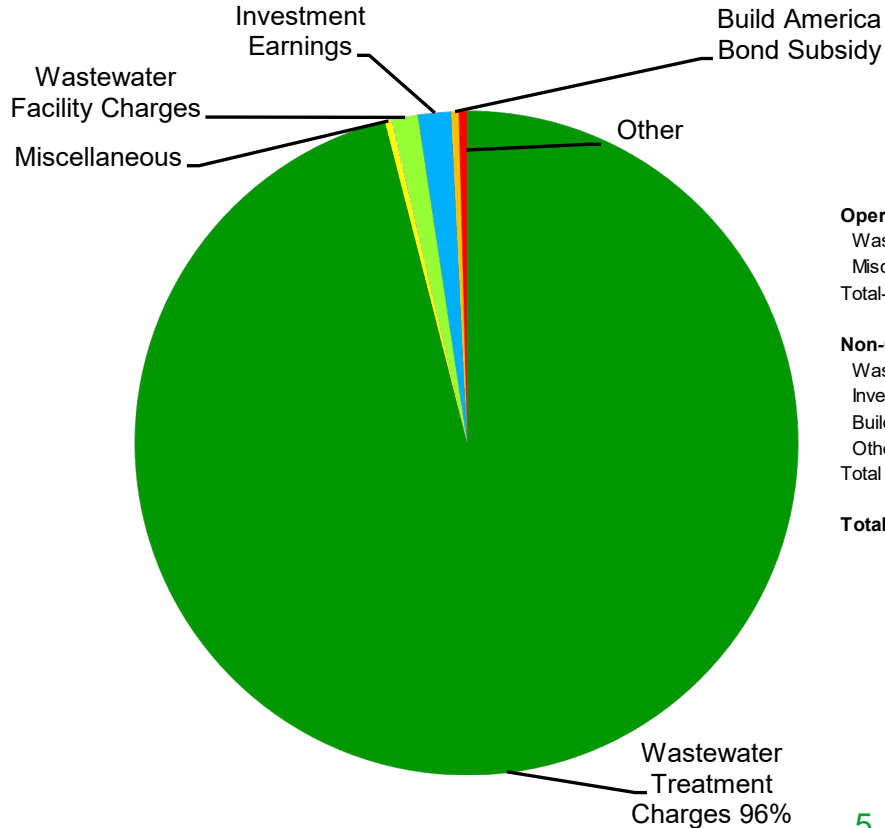


### Operating Budget Summary

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# Estimated Revenue Summary



## Operating Revenues

Wastewater Treatment Charges	
Miscellaneous	
<b>Total-Operating Revenue</b>	

## Non-Operating Revenues

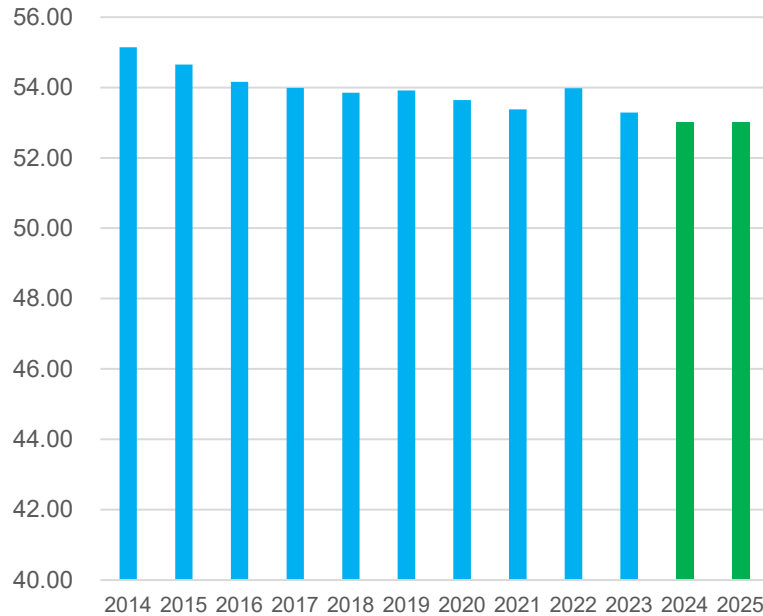
Wastewater Facility Charges	
Investment Earnings	
Build America Bond Subsidy	
Other	
<b>Total Non-Operating Revenues</b>	

## Total Revenues and Transfers

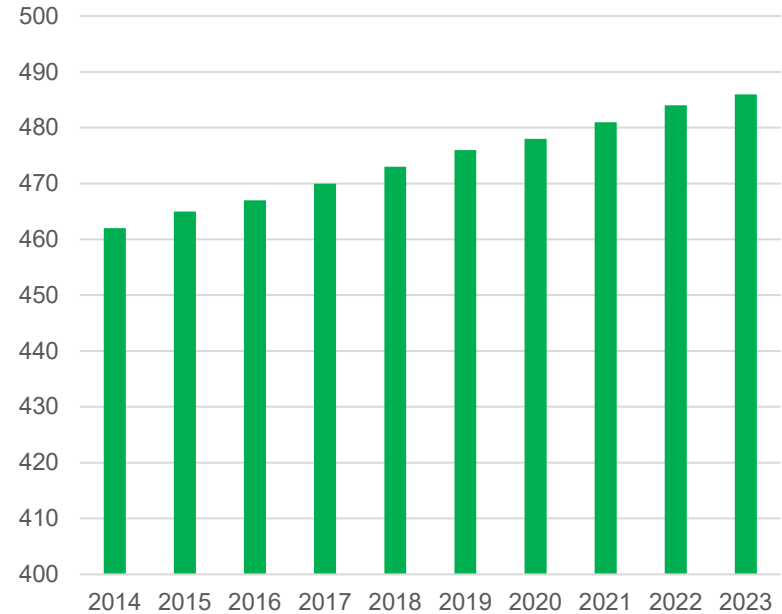
<b>FY-2025</b>	<b>Adopted FY-2024</b>	<b>FY25 vs FY24 Inc/(Dec)</b>	<b>Percent Change</b>
<b>Operating Revenues</b>			
\$ 450,655,000	\$ 414,801,000	\$ 35,854,000	8.6%
1,472,000	1,320,000	152,000	11.5%
<b>452,127,000</b>	<b>416,121,000</b>	<b>36,006,000</b>	<b>8.7%</b>
<b>Non-Operating Revenues</b>			
6,170,000	6,095,000	75,000	1.2%
7,300,000	3,000,000	4,300,000	143.3%
1,870,000	1,954,000	(84,000)	(4.3%)
1,595,000	1,320,000	275,000	20.8%
<b>16,935,000</b>	<b>12,369,000</b>	<b>4,566,000</b>	<b>36.9%</b>
<b>\$ 469,062,000</b>	<b>\$ 428,490,000</b>	<b>\$ 40,572,000</b>	<b>9.5%</b>

## Billed Consumption & Service Growth

Billed consumption  
Average % Change -0.4%



Service Connections  
Average Growth Rate 0.56%/Year



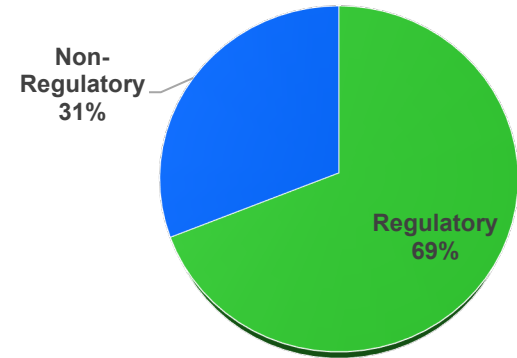


# Proposed Increases – Average Monthly Bill

– Largely driven by CIP

	<b>2025</b>	<b>2024</b>	<b>Increase/ (Decrease)</b>
Average Consumption (ccf)	5.5	5.5	
Average Monthly Bill	\$ 45.56	\$ 41.80	\$ 3.76
Average Cost Per Day	\$ 1.52	\$ 1.39	\$ 0.13
Average Cost Per Gallon	\$ 0.01	\$ 0.01	\$ 0.00

FY 25 to FY 34 Program

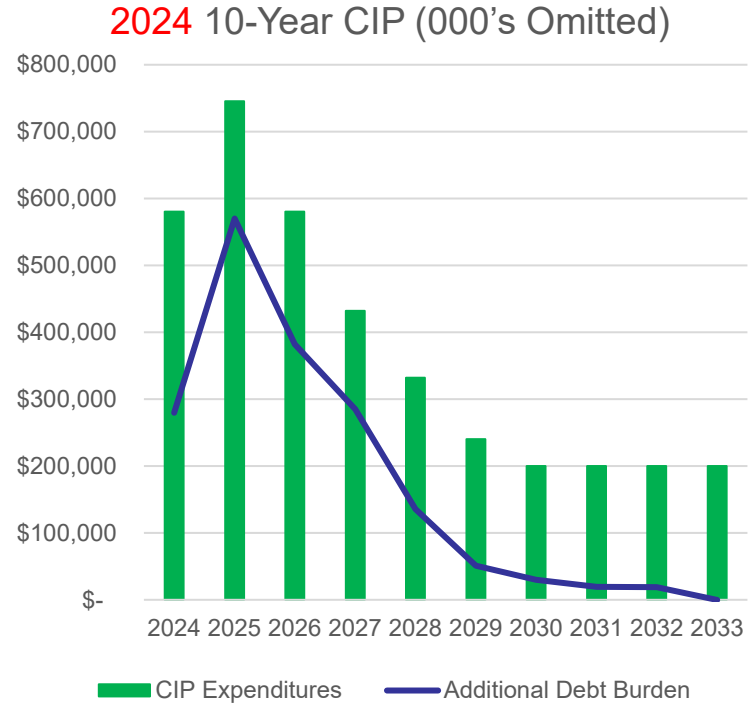


## Expenses – Operating Expenses Align with Financial Plan

	FY-2025	Percent of Budget	FY-2024	FY24 vs FY23 Inc/(Dec)	Percent Change
Personal Services	\$ 80,190,997	17.1%	\$ 70,450,193	\$ 9,740,803	13.8%
Fringe Benefits	29,879,565	6.4%	28,485,720	1,393,845	4.9%
Materials & Supplies	13,842,929	3.0%	14,768,127	(925,198)	(6.3%)
Transportation	2,356,067	0.5%	1,993,014	363,053	18.2%
Utilities	16,512,148	3.5%	16,749,019	(236,871)	(1.4%)
Chemical Purchases	16,539,326	3.5%	17,093,255	(553,929)	(3.2%)
Contractual Services	45,873,922	9.8%	42,019,975	3,853,947	9.2%
Major Repairs	12,668,008	2.7%	10,354,024	2,313,984	22.3%
Capital Assets	1,055,400	0.2%	1,064,500	(9,100)	(0.9%)
Miscellaneous Expense	4,003,301	0.9%	3,821,803	181,498	4.7%
Operating Appropriations	222,921,662	47.5%	206,799,630	16,122,032	7.8%
Debt Service Costs	85,573,000	18.2%	76,150,000	9,423,000	12.4%
Transfer to CIP	160,567,338	34.2%	145,217,370	15,349,968	10.6%
Transfer to Risk Management	-	0.0%	260,000	(260,000)	(100.0%)
Appropriations for Debt Service and Transfers	246,140,338	52.5%	221,627,370	24,512,968	11.1%
<b>Total Appropriations</b>	<b>\$ 469,062,000</b>	<b>100.0%</b>	<b>\$ 428,427,000</b>	<b>\$ 40,635,000</b>	<b>9.5%</b>

## Debt Service and CIP

- Rate pressure is growing
- We are in a “peak spending” period for CIP
- Financial plan includes a significant increase in borrowing before moderating





## TALENT

We attract, develop, and retain an exceptional and diverse workforce that reflects our principles.



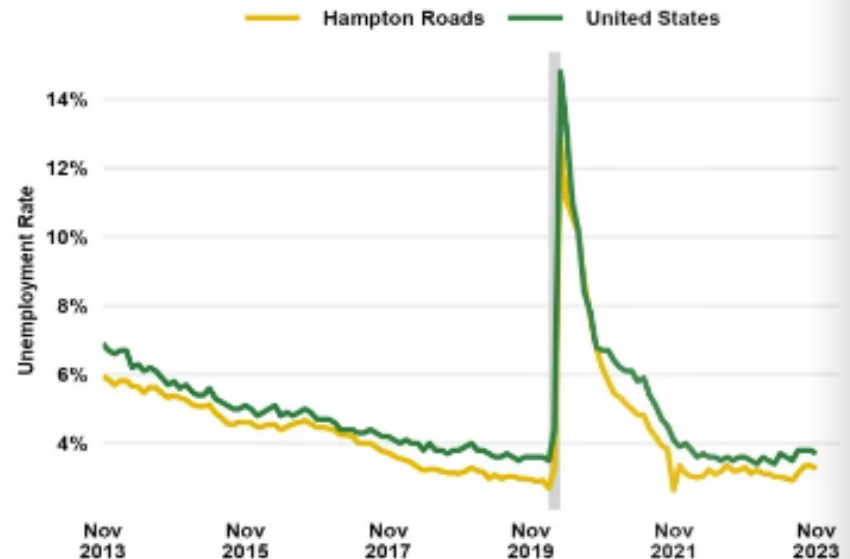
**HRSD Priorities**

## Tight Labor Market – Hampton Roads Unemployment @ 3.3%

### UNEMPLOYMENT RATE, SEASONALLY ADJUSTED (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

	Nov '22	Oct '23	Nov '23	Trend
Hampton Roads	3.3%	3.4%	3.3%	▼
Virginia	3.2%	2.7%	2.9%	▲
United States	3.6%	3.8%	3.7%	▲

**Unemployment Rate:** The unemployment rate reflects the percentage of the labor force actively seeking work but unable to obtain a position. In November 2023, the Hampton Roads unemployment rate fell to 3.3%, a 0.1 percentage point decline from the previous month. The region's unemployment rate remains at historical lows, and only slightly above the 2.9% observed in February 2020.



- Compensation study results incorporated into budget
  - Includes
    - Market adjustments
    - Merit increases
    - Training increase
    - Inflation adjustments for those above new market ranges

## Modernization of Titles and Departments

- Long recognized that titles are not comparable to industry and other organizations
  - Compensation Study creates ideal time to modify
  - Order is reversed from modern organizations
  - Departments/Divisions
  - Directors/Chiefs

## Benefits Comparison Methodology – Mercer Report

- Market Replacement Value of Benefit Plans
- Employee's perspective, i.e., dollar values represent the employer-provided
- Removed other factors such as geographic differentials, claims experience, and
- **Participant Listing**
  - City and County of Denver, CO
  - City of Kansas City, MO
  - City of Tallahassee
  - Central Hudson Gas and Electric Corporation
  - Citizens Energy Group
  - City of Albany, GA
  - City of Virginia Beach, Virginia
  - Denver Water
  - Invenergy, LLC.
  - James City County, VA
  - Orlando Utilities Commission
  - PJM Interconnection, LLC.
  - Port of Houston Authority










# Executive Summary

## Executive Summary

**Your benefits are:**

-  Above market
-  Aligned with market
-  Below market

Benefit	Market Position	Commentary
Retirement	Rank = 6 <sup>th</sup> Index = 100 	<ul style="list-style-type: none"> <li>HRSD's overall Retirement/Savings value derived from a hybrid plan is aligned with the peer group median value.</li> <li>Offering a hybrid plan is consistent with the peer group in that 69% of peers offer both a Defined Benefit plan and a Defined Contribution plan.</li> </ul>
Medical	Rank = 1 <sup>st</sup> Index = 114 	<ul style="list-style-type: none"> <li>HRSD's medical plan cost is 100% employer-paid, which is the primary driving factor for the above-median comparison.</li> <li>All plans offered by the peer group require employees to share the cost of medical plan benefit.</li> <li>HRSD's medical plan provisions are competitive with the HDHP plans offered among the peers, with the exception of the lack of employer contributions toward the Health Savings Account.</li> </ul>
Dental	Rank = 1 <sup>st</sup> Index = 145 	<ul style="list-style-type: none"> <li>HRSD's Dental plan cost is 100% employer-paid, which is the primary driving factor for the above-median comparison.</li> <li>The plan provisions reflect lower deductibles and higher plan maximums than the peer group median.</li> </ul>
Paid Leave	Rank = 2 <sup>nd</sup> Index = 117 	<ul style="list-style-type: none"> <li>The total number of Paid Leave days provided is greater than the peer group median at most service levels.</li> <li>The number of Holidays provided by HRSD is also above median, further driving the favorable comparison for overall Paid Leave.</li> </ul>
Life Insurance	Rank = 1 <sup>st</sup> Index = 129 	<ul style="list-style-type: none"> <li>HRSD's position is the result of offering 2 times base pay compared to the median of 1.5 times base pay.</li> <li>There is no maximum coverage limit for HRSD's Basic Life Insurance benefit.</li> </ul>
Short-Term Disability	Rank = 8 <sup>th</sup> Index = 87 	<ul style="list-style-type: none"> <li>The peer group median value is derived from the organization's Sick Leave benefit.</li> <li>Five peers provide some or all weeks at 100% pay replacement, which contributes to HRSD's below median position.</li> </ul>
Long-Term Disability	Rank = 3 <sup>rd</sup> Index = 101 	<ul style="list-style-type: none"> <li>HRSD provides 60% pay replacement which is aligned with the median plan.</li> </ul>

## Bundled Comprehensive RFP

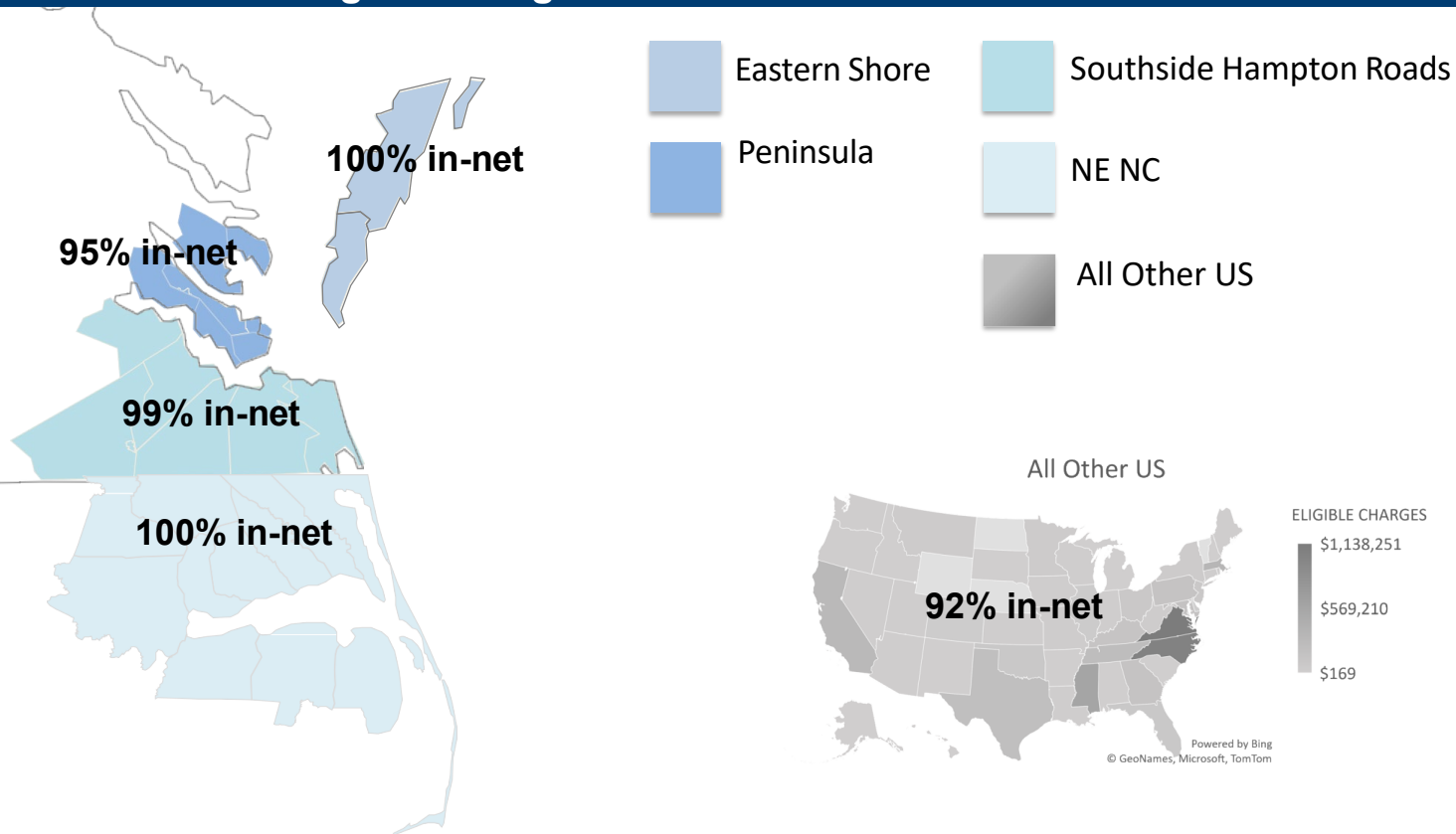
Service Area	Current Provider	New Provider
Employee Medical	Cigna	Sentara Health Plan
Health Savings Account Banking	HSA Bank	Sentara Health Plan
Basic Vision	Cigna	Sentara Health Plan
Dental	Delta Dental	Metlife
Premium Vision	Cigna	MetLife
Voluntary Accident, Critical Illness and Hospitalization	Cigna	MetLife
Flexible Spending Accounts and COBRA	P&A Administrators	MetLife

- **Medical**
  - Discounts result in projected savings of ~\$1M
  - Deductible changes

	In-network Deductible/Out of Pocket Maximum for the Wellness Plan	In-network Deductible/Out of Pocket Maximum for the Non-Wellness Plan
Individual Plan	\$1,600/\$5,000	\$2,600/\$5,200
Family Plan	\$3,200/\$10,000	\$5,200/\$10,400

# Provider Match Results

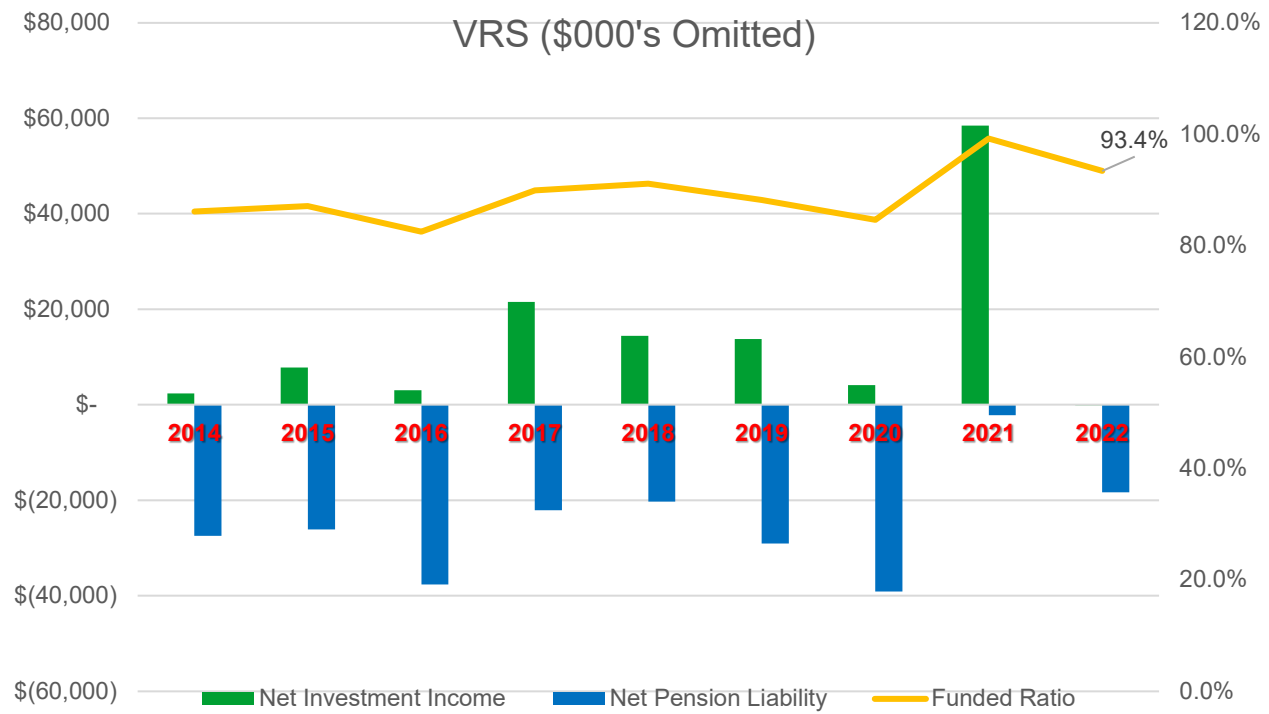
## Eligible Charges\*



\* Includes Facility IP, Facility OP, Professional. Excludes "Other Medical Services" 17

# Virginia Retirement System

- Retirement Costs +~\$1.34M (27%)
  - +15% payroll cost
  - +~10% contribution rate
  
- Market Returns
  - 2021 – 27.5%
  - 2022 – 0.6%
  - 2023 – 6.1%
  - Expected Return – 6.75%



# New Positions

Work Center	Position	#	Description
TM	Human Resources Employee Relations Business Partner	1	Increased # of EE's
TM	Human Resources Generalist	1	Increased # of EE's
TM	Benefits Specialist	1	Increased # of EE's and Complexity of benefit program
TM	Emergency Operations/Security Manager	1	Increased security and emergency operations emphasis in organization
TM	Learning & Development Coordinator (part-time to full-time)	1	Expanding learning program for all employees
IT	Systems Analyst	1	Expanding operations and technical requirements
IT	Sr. Systems Engineer	1	Expanding operations and technical requirements
IT	Overhires	5	Anticipation of retirement of several key individuals with very long training requirements
Engineering	PM - Special Projects	1	Growing number of unique special projects
		<b>13</b>	

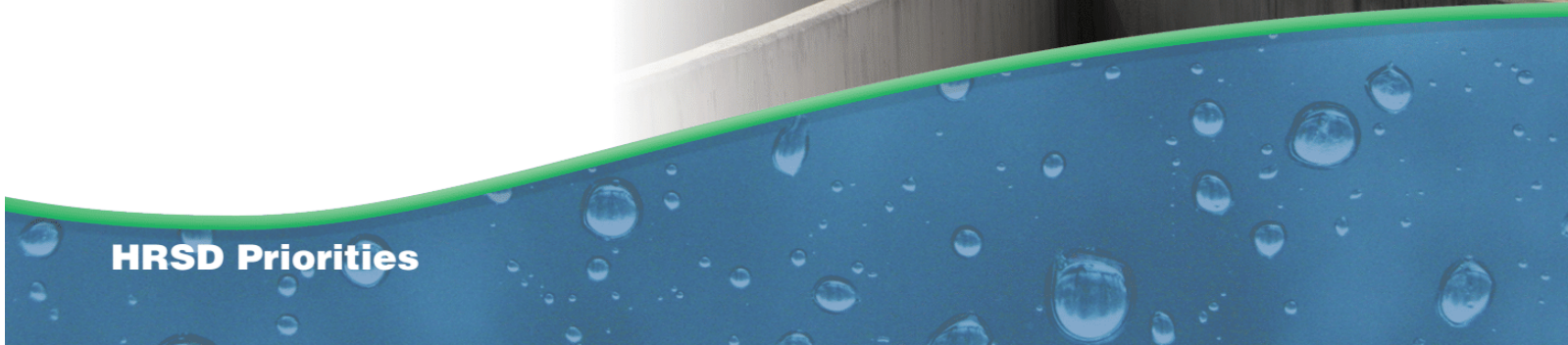
- **Operations:** Conduct a Skills Gap Analysis
  - Evaluate missing essential skills and what additional talent is required to meet new operational demands
- **Talent Management:**
  - Applicant Tracking System(ATS) - provides enhanced applicant experience
  - Revised work center planning days
  - Division roadmaps
  - Enhanced supervisor training, and new emerging leader training,



# ENVIRONMENTAL RESPONSIBILITY

We protect public health and preserve natural resources to ensure a sustainable future.

**HRSD Priorities**



## New Positions

Work Center	Position	#	Description
AB	PO/MO/MOA	(5)	Closure of AB incinerator
AT	MO	2	Full scale solids curing expansion and odor control management
E&I	Chief/Superintendent	2	Added for expanding role on the NS
E&I	Specialist	3	Expansion for SWIFT at James River
JR	PO/MO	4	Expansion for SWIFT at James River
NP	PO/MO	7	Expansion for SWIFT, ANRI and WASSTRIP expansions
SS Int	Utility Locator	4	Internalizing utility locating services
SWIFT	Treatment Process Engineer	1	Expanding SWIFT operations
		18	

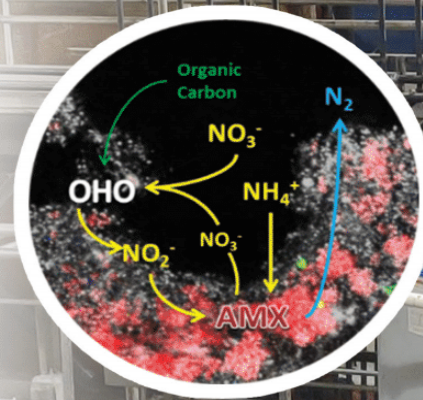


- \$104k contractual services for Per- and Polyfluoroalkyl substances to meet required industry and wastewater facility monitoring as part of an EPA request and to support continued investigations into sources of PFAS in the SWIFT facility service areas
- Investigations are also ongoing in the Atlantic service area to identify and mitigate sources of PFAS for the Atlantic biosolids product



# INNOVATION

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



**HRSD Priorities**

- The odor control program has innovative research efforts
- Piloting of a mobile flare unit designed to flare methane as an alternative to atmospheric venting, a greenhouse gas reduction project.
- Standing up the Department of Digital Water
- Starting up a new process (Greasezilla) at NP to recover brown grease in the form of ship bunker fuel
- Currently evaluating proposals to produce renewable natural gas at ATP from digesters



## **FINANCIAL STEWARDSHIP**

We preserve financial integrity and sustainability through sound planning to help ensure long-term affordability.

**HRSD Priorities**

# New Positions

Work Center	Position	#	Description
FIN	Accounting Manager	1	Replacement position
FIN	Enterprise Systems Manager	1	Added for ERP progression and improvements
FIN	Billing Coordinator - Small Communities	1	Address billing challenges with small communities - holistic approach
FIN	Customer Service Rep	1	Additional staffing for billing challenges and expanding scope
		4	

- New Department – Digital Water
  - Save on chemical and energy costs;
  - Minimize the potential for environmental harm;
  - Make smart financial decisions regarding capital improvement and asset management;
  - Streamline and facilitate frontline operations and automate what can be automated; and
  - Build organizational trust in technology, sensors, controllers, artificial intelligence, machine learning, and Digital Twins
- ERP Optimization Study
- \$5.0M - A multitude of process optimization efforts/projects and upgrades to reduce overall operational costs



# COMMUNITY ENGAGEMENT

We engage and partner with the communities we serve to enhance relationships, provide value, and foster trust.

**HRSD Priorities**

## New Positions

Work Center	Position	#	Description
Engineering	Development Services - Planning and Analysis	2	Adds ability to coordinate and respond to development occurring in service area



- \$350K – HRSD Brand Refresh
  - HRSD, SWIFT, NutriGreen
  - Marketing of new brand, Exterior signage, design, rollout, brand guidelines
- \$10K – Exhibit for educational partnership

- Operating Budget \$469,062,000<sup>1</sup>
  - Operating Expenses +7.8%
  - Total Operating Budget + 9.5%
  - Compensation study incorporated
  - Addition of 32 new positions plus 5 “over hires” in the IT Division to meet growing operations and demands at a cost of \$2.53M
  - Average monthly residential bill to increase by \$3.45/month or \$0.13/day
- Next steps
  - April 19, Finance Committee, focus on rates and financial projections
  - April 23, Commission Meeting, budget presented to Commission
  - May 28, Commission Meeting, vote on GM proposed budget

<sup>1</sup>Revenues, transfers and debt service still under evaluation

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Questions?

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**HRSO**

Professional External Audit Services  
Recommendation

Finance Committee Meeting

March 26, 2024

- Request For Proposal
  - To provide audit services
- Scope of Engagement
  - Perform audits to provide opinions on financial statements prepared in accordance with accounting principles generally accepted in the United States of America
  - May be required to perform: Single Audits, Virginia Department of Environmental Quality reviews, and provide advice on implementing Governmental Accounting Standards Board (GASB) pronouncements

- Evaluation Team

- Steve de Mik, Deputy General Manager
- Kassandra Pagan, Chief of Accounting
- Andrew Drumheller, Accounting Manager
- Terrel Austin, Procurement Specialist

- Five Firms Responded – 2 short listed

Short Listed Firm	Final Evaluation Score	Non-Binding Cost Proposal
Cherry Bekaert, LLP	99	\$80,000
Clifton Larson Allen, LLP	93	\$73,500

The team recommends Cherry Bekaert LLP to be awarded the contract based on:

- Continuity, 5 years with HRSD
- Excellent Service
  - Efficient, Business-Practical Guidance
  - Value-Driven Relationships
- Public Sector Audit Experience
- Continuing Professional Education

- Current Financial Policy
  - “Over a period of not more than every five years, HRSD under the direction of the Finance Committee of the Commission will seek proposals from qualified firms of certified public accountants, including its current auditors if their performance has been satisfactory, to perform an annual audit of HRSD’s financial statements.”
- Currently there is no limit on the number of consecutive years we will allow a firm to audit HRSD
  - Pros and Cons to implementing a limit