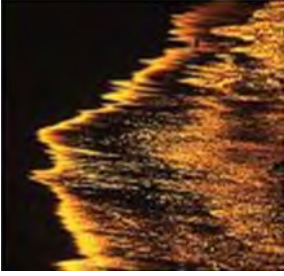




Introduction



Introduction

HRSD is an independent political subdivision of the Commonwealth of Virginia (the Commonwealth) created by referendum on November 5, 1940. HRSD was established to abate water pollution in the Hampton Roads area by providing a system of interceptor mains and wastewater treatment plants.



Approximately 1.9 million people, more than one-fifth of Virginia's population, reside in HRSD's service area, which is located in the southeastern corner of the Commonwealth. HRSD's territory of approximately 4,998 square miles encompasses nine cities, eleven counties and several large military facilities. HRSD is required by its enabling act to meet its obligations by charging user fees for its wastewater treatment services; no taxing authority is authorized by the enabling act. Currently, HRSD provides service and bills to approximately 485,000 service connections.



A board of eight commissioners (the Commission), appointed by the Governor of Virginia, governs HRSD. Commission members, who serve four-year terms, can be reappointed without limitation by the Governor. The Commission appoints a General Manager, who hires the senior staff.



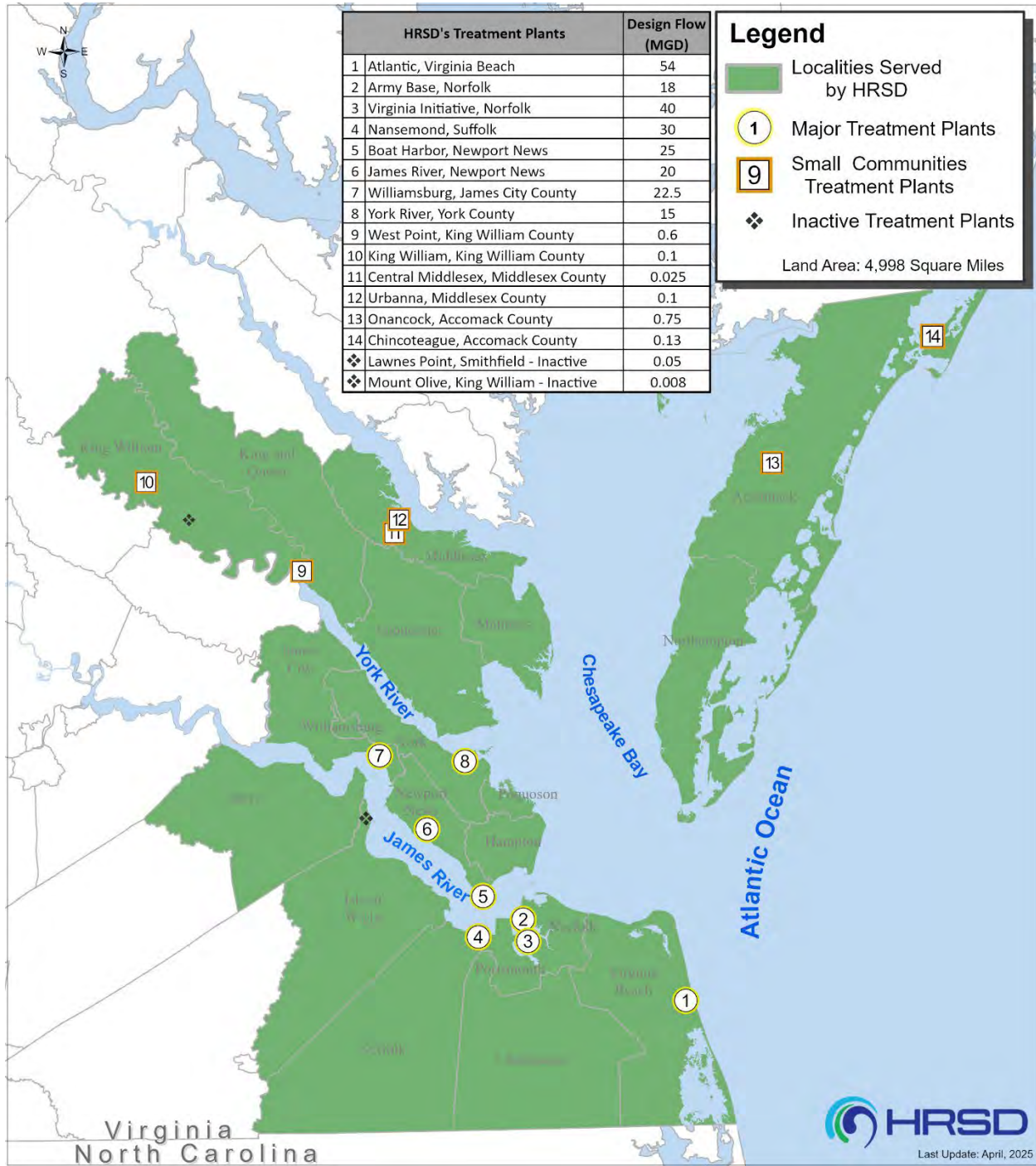
The eight major wastewater treatment plants in Hampton Roads have design capacities ranging in size from 15 to 54 million gallons per day (MGD). Four of the major plants are located south of the James River and four are north of the James River. The combined capacity of these eight plants is approximately 225 MGD. HRSD's six small rural treatment plants, which are located on Virginia's Eastern Shore and Middle Peninsula, have a combined capacity of almost 2 MGD.



HRSD maintains 662 miles of pipelines ranging from six inches to 72 inches in diameter. Interceptor pipelines, along with 69 pump stations in Hampton Roads, interconnect and form independent systems, one south of the James River and one north of the James River. The system is designed to provide some diversion capability to allow for maintenance or emergency work. HRSD owns and maintains 53 pump stations on the Eastern Shore, Middle Peninsula and Surry in addition to the collection and interceptor sewers.

Promise and Vision

HRSD's Promise is to treat wastewater and recover natural resources to protect public health and the environment. HRSD's Vision is our communities will have clean waterways and reliable water resources for generations to come.



Guiding Principals

HRSD's Capital Improvement Program is the result of significant work by all the departments in evaluating and recommending capital projects that ensure regulatory compliance, provide for adequate infrastructure reinvestment, and meet the future growth needs of Hamptons Roads. The following principals are used in developing the Capital Improvement Program:

- The size and scope of HRSD's Capital Improvement Program are guided in part by federal and state regulatory requirements and by HRSD's [Financial Policy](#) document approved by its Board of Commissioners
- Departments update existing capital projects based on the most recent information.
- Newly identified capital projects are evaluated to ensure the best alternative is selected.
- Each project is reviewed for inclusion in the CIP by HRSD's Commissioners and management.
- Once a project is justified for funding, the project schedule is determined by regulatory deadlines, an internal prioritization score relative to other projects and available capital funds.
- The final CIP must ensure good financial stewardship by balancing available capital funds as defined in the financial plan and ongoing capital infrastructure needs.
- HRSD's CIP is a planning document, not an appropriation of funds. HRSD's Commission must approve and fund Professional Services Agreements, Construction Contracts, or other activities for each project.

Capital Project Prioritization

Given financial constraints, a challenging regulatory environment, and the need to renew and replace aging infrastructure, HRSD created an enhanced framework for prioritizing candidate projects for its Capital Improvement Program (CIP). Since 2007, HRSD has successfully used a comprehensive, systematic method for prioritizing its capital projects. The prioritization process is a risk-based methodology that provides greater precision for weighting organizational risk-based criteria and measuring the contribution of candidate projects to HRSD's goals using risk reduction scores.

The following criteria are used in prioritizing capital projects:

1. Environmental Impact
2. Regulatory Compliance
3. Public Health
4. Reputation, Customer Perception, and Community Impact
5. Safety (Public and Employee)
6. Financial Impact

Although there are several factors in programming projects, the prioritization scoring system provides an objective means to effectively and efficiently develop financially feasible cash flow projections. Other factors which affect project programming include organizational values, coordination with other projects, regulatory deadlines, and the availability of funds within each fiscal year.

Summary of Major Regulatory Programs

Inflow & Infiltration (I&I) Abatement

HRSD is engaged in an ongoing effort to reduce Sanitary Sewer Overflows (SSOs) in the Hampton Roads area. These overflows occur when the system is overloaded with excess storm water or groundwater that enters the system during wet weather events, or when pipes or pumps fail due to unexpected mechanical problems or pipe breaks. HRSD has been working cooperatively with fourteen of the Hampton Roads localities, the EPA and the Department of Environmental Quality (DEQ) to study the regional sewer system and identify improvements that can be made to reduce the frequency and severity of SSOs.

Rehabilitation Plan Improvements

As part of the Consent Decree, HRSD performed a condition assessment of its conveyance system. Using the results of the condition assessment, a Rehabilitation Plan was developed to address assets within the HRSD system that present a material risk of failure. Rehabilitation is the repair or replacement of existing sanitary sewer assets to restore or improve the performance of the HRSD sanitary sewer system. The final Rehabilitation Plan was approved by the EPA in May 2015 and three phases with corresponding deadlines were established to complete the plan within ten years. HRSD has been granted extensions for projects that have not yet achieved substantial completion.

Integrated Plan including Sustainable Water Initiative for Tomorrow (SWIFT)

HRSD utilized the EPA's Integrated Planning approach while developing the Regional Wet Weather Management Plan (RWWMP). In the RWWMP, HRSD outlined an "integrated approach" to realize the significant environmental benefits provided by an Aquifer Replenishment Program and complying with the requirements of the Consent Decree. The integrated approach proposes constructing full-scale Aquifer Replenishment Program facilities and implementing the highest priority SSO reduction work through 2040. The Aquifer Replenishment Program is referred to as the Sustainable Water Initiative for Tomorrow (SWIFT). SWIFT is an innovative initiative in eastern Virginia designed to ensure a sustainable source of groundwater while addressing environmental challenges such as Chesapeake Bay restoration, regulatory uncertainty, sea level rise and saltwater intrusion. The multi-year initiative will take already highly treated wastewater that would otherwise be discharged into the James River and purify it through additional advanced water treatment to produce SWIFT Water® that meets drinking quality standards. The SWIFT Water will then be treated to match the existing groundwater chemistry and added to the Potomac Aquifer.

Funding the Capital Improvement Program

HRSD's CIP is primarily funded by revenue bonds, Virginia Clean Water Revolving Loan funds, Water Infrastructure Finance and Innovation Act funds, Water Quality Improvement Fund grants, a Line of Credit, and cash. The debt/cash capital funding ratio is based on HRSD's [Financial Policy](#) and financial planning model.

What is a CIP?

HRSD prepares a Capital Improvement Program (CIP) each year for the capital projects currently underway or proposed to be undertaken in the future. The CIP is a project and financial planning tool; it identifies individual projects currently underway or proposed to be undertaken over the next ten (10) years. The CIP also summarizes individual projects providing the name, description, justification, cost estimate, funding, and schedule.

A draft CIP is submitted to the Commission for review and the final CIP is submitted to the Commission for approval. The CIP document is not a commitment by HRSD to undertake or provide specific improvements by specific dates. Projects may be deleted, delayed, or otherwise modified significantly from that indicated in the CIP document. New projects not included in the CIP document may be proposed and authorized at any time.

The CIP is not an approval or appropriation of funds for individual projects. The Commission must appropriate some or all of the estimated total project cost before a capital project can begin.

A capital project involves expenditures to acquire or add assets of a relatively permanent nature such as property, plant, and equipment. The CIP is typically for capital projects, new facilities, expansions, and improvements requiring engineering and/or construction services such as:

- Studies preceding or likely to result in new facilities
- New administrative facilities, expansions, major improvements, and major renovations
- New pump stations and major improvements
- New pipelines, replacements, and major rehabilitations
- New treatment plants, expansions, and major improvements
- Capital projects, infrastructure, or other large purchases with a value greater than \$100,000
- Studies or projects which will take multiple years to complete

The CIP document is submitted as part of the overall budget package to the Commission each year for review at the end of March or early April, preliminary action in April, and final action in May. Departments may propose new projects at any time throughout the year by submitting a Project Request to the HRSD management team. New projects are usually evaluated for their need and priority only when preparing the CIP. However, the General Manager may decide at any time to initiate an existing, not-yet-started project or a new project due to an emergency or other condition justifying immediate action.

How is the CIP Organized?

The CIP is primarily organized by the treatment plant service area, with separate sections for Administrative, General and Future Improvement Projects.

Each project included in the CIP is assigned a CIP number to provide a simplified way to reference projects. The first two letters represent the treatment plant system where the project is assigned, and the number is assigned starting with 0100. If a project has distinct scopes of work that are undertaken at different times; the project may be split, in which case there will be another alphanumeric character that follows the standard CIP number. The following table provides a description of the treatment plant service areas used to assign CIP projects.

Symbol	System Descriptions
AD	Administration
AB	Army Base Wastewater Treatment Plant
AT	Atlantic Wastewater Treatment Plant
BH	Boat Harbor Wastewater Treatment Plant
CE	Chesapeake-Elizabeth Wastewater Treatment Plant
ES	Eastern Shore (multiple smaller plants)
JR	James River Wastewater Treatment Plant
MP	Middle Peninsula (multiple smaller plants)
NP	Nansemond Wastewater Treatment Plant
SU	Surry Town and County System
VP	Virginia Initiative Plant Wastewater Treatment Plant
WB	Williamsburg Wastewater Treatment Plant
YR	York River Wastewater Treatment Plant
GN	General Infrastructure (spans multiple systems)
IP	Future Infrastructure Improvements

Project Type Descriptions

Biosolids – Related to biosolids handling and disposal infrastructure

Electrical – Involves generators, switchgear and other electrical components

Facilities and Buildings – Includes administrative office buildings at the main offices and treatment plants

Labor – Internal staff labor required to manage capital projects

Locality – Projects to be constructed within the Locality system

Nutrient Reduction – Wastewater treatment enhancements specifically to remove nutrients

Pipelines – Includes pressurized and gravity interceptor pipelines

Pump Stations – Includes wet well pump stations and pressure reducing stations

- Offline Storage** – Related to peak wet weather storage facilities and may include a pump station
- Software & Technology** – Any new software and/or hardware that meets the criteria for inclusion in the CIP
- Strategic Planning** – Involves a study or evaluation that may lead to multiple capital projects
- SWIFT** – A component of the SWIFT Full Scale Implementation Plan
- Wastewater Treatment** – Includes any treatment plant infrastructure project needed to process wastewater
- Water Reuse** – related to projects that beneficially reuse wastewater effluent

Project Driver Descriptions

The Project Drivers categorize projects based on their primary purpose. The two primary drivers are Regulatory and Non-Regulatory Capital Improvement. Regulatory projects are required by an existing federal, state or local mandate. Non-Regulatory Capital Improvement projects are required to maintain HRSD's existing infrastructure and improve operational performance.

Regulatory

- **I&I Abatement** – Required to comply with the EPA Consent Decree regarding Sanitary Sewer Overflows.
 - **Rehabilitation Plan Phase Two** – These projects are the result of condition assessment activities and are listed in the 2014 Rehabilitation Plan.
 - **Integrated Plan/Regional Wet Weather Management Plan (IP/RWWMP)** – SWIFT and the upgrades identified to meet wet weather capacity at a specified level of service.
 - **Integrated Plan High Priority Projects Round 1** – These projects achieve a significant reduction in modeled overflow volume by 2030.
 - **Integrated Plan High Priority Projects Round 2** – These projects achieve a significant reduction in modeled overflow volume by 2040.
 - **Integrated Plan Microbial Source Tracking** – These projects will invest in tracking and remediation of systems contributing human fecal contamination to local waterways.
- **NPDES Compliance** – Required to comply with wastewater effluent discharge permit requirements.
- **Nutrient Reduction** – Required to comply with the Chesapeake Bay Total Maximum Daily Load (TMDL).
- **Clean Air Act** – Required to comply with the Clean Air Act.
- **Safety Compliance** – Required to ensure employee safety.
- **West Point Consent Order** – These projects are required for compliance with the West Point DEQ Consent Order.

Non-Regulatory Capital Improvement

- Aging Infrastructure – needed to rehabilitate or replace aging infrastructure.
- Relocation – needed to move existing infrastructure to avoid a conflict with another project.
- Capacity Improvements – new or larger infrastructure needed to increase the wet weather or growth-related system capacity, not specifically identified in the EPA Consent Decree or the IP/RWWMP.
- Performance Upgrades – needed to improve the operational performance of the existing system beyond the status quo.
- Labor – Internal staff labor required to manage capital projects.

Individual Project Summary Definitions

Contingency - Each project is assigned an individual project contingency based on project complexity and/or project status.

Cost Estimate - The cost estimate details estimated costs for each phase in the project.

Funding Type - Each project may be funded by different sources such as revenue bonds, cash, federal or state grants or other reimbursements.

Program Cash Flow Projection - This is the planned cash expenditure for each fiscal year based on the project schedule. This cash flow projection does not include individual project contingencies.

Program Cost - This is the sum of the estimated costs for each project phase and does not include an individual project contingency.

Project Status - This is the project status as imported from the enterprise project management system.

Project Cost – This is the sum of the estimated costs for each project phase plus an individual project contingency.

Proposed Schedule - The schedule in the CIP book is updated annually in the spring of each year.

Estimate Class – This communicates the level of Cost Estimate and Schedule Estimate maturity.

<i>Estimate Class</i>	<i>Maturity Level of Project Definition</i>	<i>Project Stage</i>	<i>Expected Accuracy Range</i>
Class 10	None	Future Need	Order of Magnitude Risk
Class 5	0% - 5%	Concept	-20% to +100%
Class 4	5% - 15%	Preliminary Engineering	-15% to +50%
Class 3	15% - 60%	60% Design	-10% to +30%
Class 2	60% - 95%	100% Design	-5% to +20%
Class 1	95% - 100%	Awarded	-3% to +15%

Program Spend Rate

In the FY2027 to FY2036 CIP, HRSD uses an overall program spend rate for each fiscal year. Project contingencies are shown on the Individual Project Sheets, but they are not aggregated as part of the program funding for each fiscal year. The purpose for this methodology is to estimate future CIP spending projections more accurately. The program spend rate can globally account for supply chain issues, variations in the bidding environment, staffing workloads, unplanned relocations, and other unforeseen factors/delays.

As a guideline, individual project contingencies vary depending on the project status:

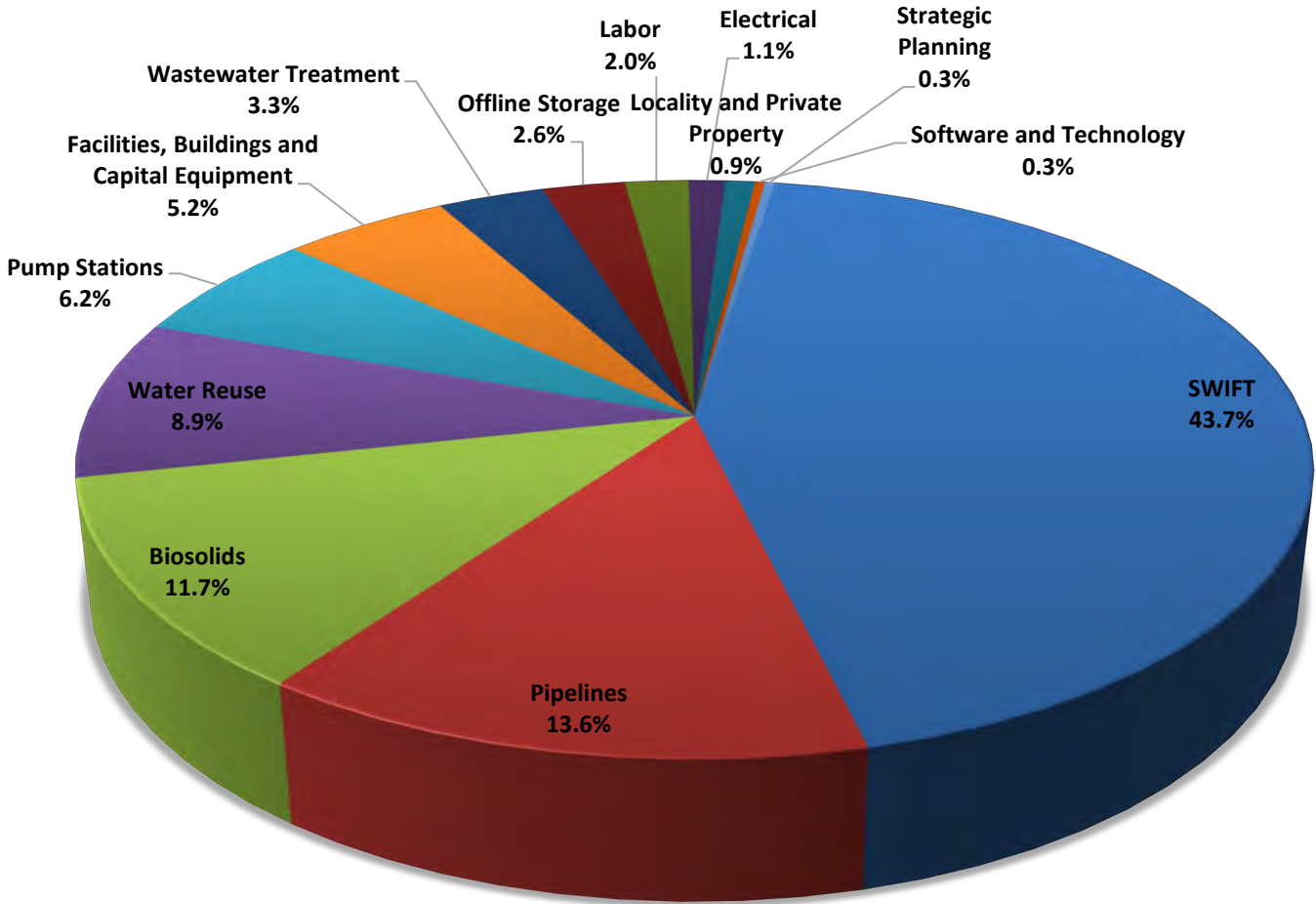
- Proposed or Pre-Planning 25%
- Design 10%
- Bid Stage 5%
- Construction 3%

When aggregating the individual projects' cash flow projections into fiscal years, the near-term fiscal years typically have a lower program spend rate to reflect current realities of CIP implementation. However, due to the substantial value of projects currently under construction, a higher spend rate was developed for FY27. In future years, the program spend rate increases to reflect completion of CIP projects to comply with regulatory requirements.

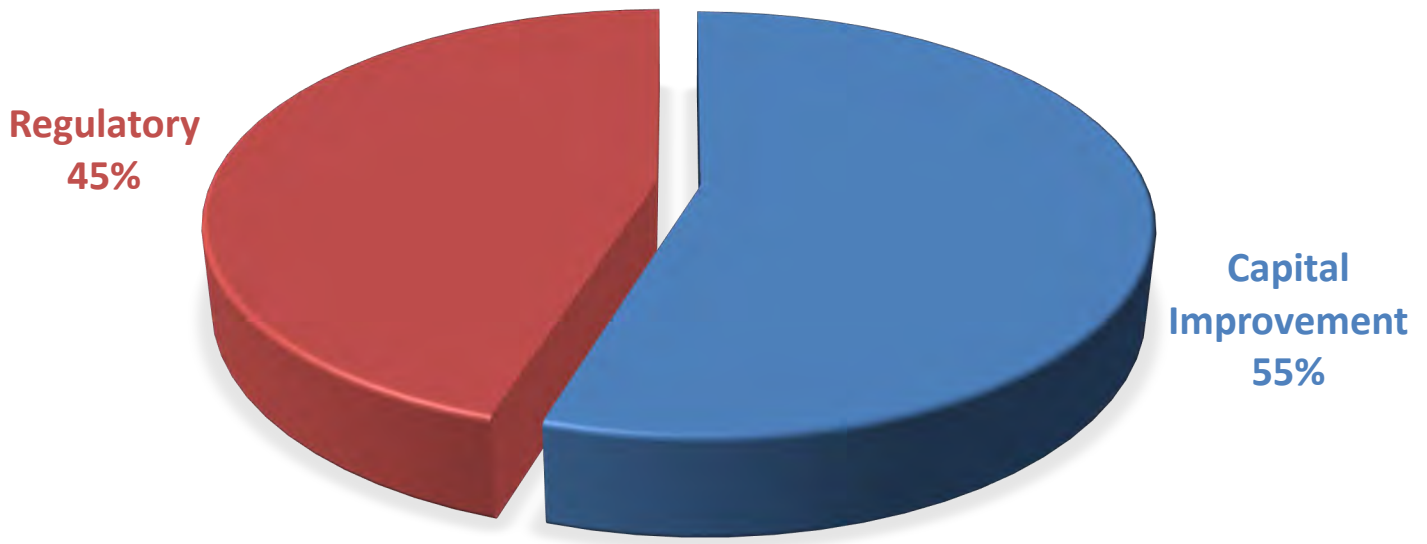
Program Summary

The following charts provide a breakdown of the projects by type and driver.

FY27 to FY36 Program - Project Types



FY27 TO FY36 PROGRAM - REGULATORY DRIVEN PROJECTS



FY27 TO FY36 PROGRAM - REGULATORY DRIVEN PROJECTS

