

PUBLIC UTILITIES – WATER & SEWER

DESCRIPTION

The Water and Sewer Enterprise Fund accounts for the provision of water and sewer services to residents and businesses of Henrico County. All activities necessary to provide such services are accounted for in this fund, including construction, financing, and related debt service. The total cost of water and sewer services is funded by user charges and fees.

Henrico purchased all its water requirements from the City of Richmond prior to April 2004. At that time, the Water Treatment Facility (WTF) opened and began providing water to customers, thereby, reducing the quantity of water the County purchases from the City. In addition to water services, the Department is responsible for the installation and maintenance of fire hydrants throughout the County.

Sanitary sewers are separate from storm water collection facilities in the County, and the Department of Public Utilities is responsible for all sanitary sewer services. The Henrico County Water Reclamation Facility (WRF) treats most of the County's wastewater, with a small amount treated by the City of Richmond. Parts of Goochland County, Hanover County and the City of Richmond are served by the WRF.

OBJECTIVES

- To provide adequate quantities of safe drinking water in compliance with state and federal regulations, and county standards at equitable rates, and to others with whom the County has contracted to provide service.

ANNUAL FISCAL PLAN SUMMARY

Description	FY25 Actual	FY26 Original	FY27 Approved	% Change
Personnel	\$30,640,542	\$34,399,773	\$35,776,136	4.0%
Operation	63,101,915	69,384,830	73,125,598	5.4%
Capital	2,467,694	2,138,300	2,267,800	6.1%
Subtotal	<u>\$96,210,151</u>	<u>\$105,922,903</u>	<u>\$111,169,534</u>	<u>5.0%</u>
Interdepartmental Billings	-\$5,141,938	-\$5,214,000	-\$5,214,000	0.0%
Debt Services	32,565,146	36,149,168	35,153,897	-2.8%
Recommended Adjustment	0	0	-3,021,267	100.0%
Total	<u>\$123,633,359</u>	<u>\$136,858,071</u>	<u>\$138,088,164</u>	<u>0.9%</u>

Personnel Complement	322	322	323 *	1
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* One position transferred from Solid Waste during FY26.

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PERFORMANCE MEASURES

	FY25	FY26	FY27	26-27 Change
Workload Measures				
Average Number of Fire Hydrants	14,479	14,650	14,800	150
Miles of Water Mains	1,709	1,720	1,732	12
Miles of Sewer Mains	1,565	1,575	1,585	10
Number of Water Customers	103,883	104,620	105,340	720
Number of Sewer Customers	100,698	101,400	102,100	700

OBJECTIVES (CONTINUED)

- To provide wastewater disposal in a manner consistent with state and federal laws and regulations, V.P.D.E.S. permits and County standards, at equitable rates, and to others with whom the County has contracted to provide service.

BUDGET HIGHLIGHTS

The Public Utilities' Water and Sewer Fund is an enterprise fund, supporting its operating and capital infrastructure expenditures with revenues derived from customer charges and water and sewer revenue bonds. Additionally, funding has been provided by the American Rescue Plan to assist new customers with connecting to the system. This effort is being supported with \$1,000,000 from the General Fund to assist new customers with the cost to connect to the water and sewer system.

The Department provides services to approximately 94% of the County's residents, including the delivery of clean drinking water, sewer disposal, street lighting, refuse management, and recycling services. The Solid Waste and Street Lighting functions are discussed in greater detail in a separate narrative within this document.

Ensuring the efficient delivery of services to citizens has required a commitment to making necessary investments in the System's operations and critical water and sewer infrastructure. To address system demands resulting from consumer growth, Public Utilities performs capacity improvements that are consistent with the County's broader development objectives. The Department also engages in strategic, long-term infrastructure planning to ensure that residents' and businesses' water and sewer capacity requirements are sufficiently met well into the future.

RESOURCES

In FY27, projected operating resources of \$186,084,500 will support water and wastewater operations, reflecting an increase of 6.2% from the FY26 approved budget.

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In addition to supporting operating requirements, resources must be sufficient to service debt, bond coverage requirements, and future capital requirements within the five-year Capital Improvement Program. Due to the nature of the infrastructure maintained by the Water and Sewer Fund, consistent infrastructure maintenance and replacement must be planned on a multi-year basis, as opposed to the year-to-year analysis included in each budget cycle.

The total resources for FY27 includes a total of \$5,152,500 of General Fund resources. There are three areas supported by the General Fund. First is \$2,152,500 for debt service to support Elko Tract infrastructure improvements, of which the final payment will be made in 2028. Second is \$1,000,000 to assist new customers with the cost to connect to the Water and Sewer system. Finally, \$2,000,000 from the General Fund is to support water and sewer improvements related to economic development projects. On an annual basis, Public Utilities performs cash flow projections verifying cash flows are sufficient to cover current and future operating costs, capital infrastructure improvements, debt service, and bond coverage requirements over a multi-year period. These projections are critical in ensuring that rate changes are sufficient for meeting all the obligations of the fund. The FY27 budget adheres to that premise.

EXPENDITURES

The approved FY27 budget of \$138,088,164 includes expenditures for personnel, operating, capital outlay, and debt service. Overall, the Water and Sewer operating budget is increasing by 0.9% or \$1,230,093. The increase reflects salaries and benefits costs as well as increases in funding for chemicals, maintenance and repairs, contractual services, and engineering. As part of an exercise in fiscal prudence, this budget includes an operating decrease equivalent to 3% of the department's FY26 approved budget, excluding debt service.

DEBT SERVICE REQUIREMENTS

Projected debt service expenditures of \$35,153,897, a decrease of \$995,271 or 2.8% compared to the approved FY26 budget. The debt service in the FY27 budget is based on existing debt service, no new debt issues are proposed in FY27.

The debt service budget will fully fund requirements arising from the Water and Sewer Fund's outstanding debt, which on June 30, 2025, was \$378,150,000. According to bond covenants for outstanding debt, the Water and Sewer Fund must ensure that net operating revenues are at least 1.25 times the Fund's debt service requirements. In the year that ended June 30, 2025, this coverage equaled 2.47 times the debt service requirement. (Source: Annual Comprehensive Financial Report June 30, 2025: Pledged Revenue Coverage Table X.)

Debt service expenditures, in total, represent 25.5% of the FY27 Water and Sewer budget. As a note, this is a much higher percentage than is seen in the General Fund (target of 7.75% of General Fund

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expenditures) and is representative of another difference between the County's General Fund and the Water and Sewer Enterprise Fund.

The proposed FY27 budget for the Department of Public Utilities continues to plan for infrastructure improvement and replacement, meet all debt service coverage requirements, and cover all known fixed operational cost increases. Because of the continued emphasis on multi-year planning and strong financial policies, the County of Henrico Department of Public Utilities possesses AAA bond ratings from the following four bond rating agencies: Moody's Investors Service, S&P Global Ratings, Fitch Ratings, and Kroll Bond Rating Agency. Henrico is the first public utility in the nation to hold "quadruple AAA" status for water and sewer revenue bonds.

At the end of each year, the annual audit offers a depiction of fund equity that is available largely for future-year infrastructure improvements in the Capital Improvement Program. For the past five years, this unrestricted fund equity has been noted as follows:

FY21: \$ 196,635,341

FY22: \$ 194,438,660

FY23: \$ 189,247,276

FY24: \$ 200,234,644

FY25: \$ 178,127,546