



CITY OF HARRISONBURG CITY MANAGER

409 SOUTH MAIN STREET, HARRISONBURG, VA 22801

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TO: Ande Banks, Interim City Manager
FROM: Mike Collins, Public Utilities
DATE: May 3, 2022
RE: Water and Sewer Long Term Financial Model

Summary: This presentation will cover three focus points taken from the most recent update of the Harrisonburg Public Utilities Long Term Financial Model (LTFM)

- #1 We will benchmark our current combined water and sewer rates against other local and state water and sewer purveyors.
- #2 We will examine our long-term strategy for rates adjustments; particular attention will be given to FY2023 budget and the ten years period beginning with the FY2023 Budget.
- #3 We will examine the status of \$360M in current assets with replacement schedules that set the basis for the long-term rate strategy.

Background HPU has used Water Worth Financial software for five consecutive years to forecast revenue requirements and to establish rates and rate structures. The FY2023 budget was developed to be consistent with the recommendations drawn from the LTFM

Key Issues: . The goals of the LTFM are to balance revenue and expenses with purpose to maintain fund balance at 30% of utility sales revenues and to build capital reserves to approach 1% of Current Asset Replacement Value (CARV). The fund balance threshold has purpose to provide

rate stability and the reserve fund has purpose to mitigate the risk of catastrophic asset failure. Both goals are supported by Fitch Financial for determining utility fiscal strength.



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The model inputs include

- 1) Sales growth at 75,000 gpd annually
- 2) Operating expenses = FY2023 and 3% annual inflation thereafter
- 3) Capital Asset Retirement is per MASL replacement schedule
- 4) Capital Asset Expansion is select projects

Environmental Impact:

Water supply management is emphasized
Water loss management is emphasized
Sewer pipe infiltration & exfiltration is emphasized
Energy Management is emphasized

Fiscal Impact: FY2023

\$0.20 per 1000 gallons water adds \$475,000 revenue
Residential monthly water bill will increase \$1.00 for water

\$0.12 per 1000 gallons sewer adds \$230,000 revenue
Residential monthly sewer bill will increase \$0.60 for water

Total revenue gain is \$705,000
Residential monthly bill will increase \$1.60 for water and sewer

Prior Actions: Rate adjustments have been made annually on the principle of the LTFM; COVID has delayed recommendations from the past two years and has significantly shut down capital funding.

Alternatives: (a) Alter the goals and input assumptions to the model.



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- (b) Output options are numerous; the recommended strategy favors early and continuous incremental rate increases
- (c) Delay action and undertake the future funding by borrowing with significantly steep rate increases in the future

Community Engagement: Open at City Council

Recommendation: Move forward with FY2023 rate adjustments; update for FY2024

Attachments: Power Point

Review:

The initiating Department Director will place in Legistar, in sequence of transmittal, the names of each department that must initial their review in order for this item to be placed on the City Council agenda. The completion of review only addresses the readiness of the issue for Council consideration. This does not address the recommendation for approval or denial of the issue.