



March 25, 2025, City Council Meeting

Title

Water & Sewer Rate Planning; Harrisonburg Department of Public Utilities

Summary

HPU Director Mike Collins will make a presentation reminding City Council of the methodology that is used to plan water and sewer rates, presenting outcome of the most recent analysis, and elaborating upon the inclusion of the recommendations into the Fiscal Year 2026 Budget.

Recommendation

The recommendation is to move forward with the outputs from the Long-Term-Financial-Models that are summarized as follows:

Water Enterprise Fund

- 1) The model proposes increases of rates by 5.0% in FY2026 and 2027; then 3.5% through FY2032. *The 3.5% is a 1.5% reduction from the previous strategy, at 5.0%.*
- 2) The cost of operations remains an advantageous component of total cost.
- 3) Adding debt is necessary for capital expansion.
- 4) Deferring \$14.5M of needed \$75M.0 cash funding for infrastructure replacement during 2026-2035 is a proposed risk that will be recovered by 2046.

Sewer Enterprise Fund

- 1) The model proposes increases of rates by 2.25% in FY2026; then 2.00% through FY2032. *The 2.00% is a 2.00% reduction from the previous strategy, at 4.0%.*
- 2) The cost of operations remains an advantageous component of total cost.

Fiscal Impact

1) Budget impact Fy2026

- The water rate increase will add \$700,000 in revenue thus reducing deferred capital.
- The sewer rate increase will add \$338,000 in revenue

2) Customer Benchmark Bill

- Monthly 5,000 gallons residential bill will increase from \$52.90 to \$54.72 (\$1.82 per month or 3.4%)

Context & Analysis

The LTFM incorporates the recommendations of the department's Strategic Asset Management Plan (SAMP). The SAMP is available on-line and is the strategy by which HPU will protect the City's water and sewer infrastructure from falling into despair. HPU has determined that the current inventory of assets would require \$877 million dollars to replace. The earliest assets entered inventory in the late 1800's and the additions have continued until today. All assets, once installed, begin the natural physical depreciation cycle. In the operations budget, HPU emphasizes preventive maintenance and repair response, but ultimately these assets must be retired and replaced. The next 21 years require \$7.5M per year (\$157.5M) to retire assets based on industry remaining useful life (RUL); our rates do not support this level of funding. However, LTFM and SAMP provide an affordable strategy with the following outlook for our customers.

Customer monthly bills at less than 60% of the state average.

Customer work requires 5 hours at minimum wage to pay the monthly bill.

Customer annual income stress threshold (2.0%) = \$38,000 / yr gross income to address \$657 annual water and sewer utility bill.

Options

1. There are no options to forgo the expenses to replace depreciating assets. There are options to deferring capital funding, but this compounds future rate increases for recovery.

Attachments

1. Power Point Presentation