



CITY OF HARRISONBURG PUBLIC UTILITIES

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TO: Eric Campbell, City Manager
FROM: Mike Collins, Director of Public Utilities
DATE: March 10, 2020 City Council Meeting Date
RE: Water and Sewer Sustainability

Summary: The fiscal year 2021 budget for the Water Enterprise Fund and the Sewer Enterprise Fund each follow their respective Long-Term Financial Models (LTFMs). The LTFM is one goal in the City Council Vision Agenda. I will present a brief overview of the model, provide overview of the current model's recommendations, establish the current level of credibility and then outline a business strategy to deliver process improvements for the future.

Background: HPU has worked with Econics Corporation over the past four years to establish an acceptable level of compatibility with a software model that forecasts future financial needs. The model is based on meeting selected benchmarks for cash position that includes both unrestricted cash reserves and cash reserves for unexpected capital improvements.

Current revenues are input, the model adjusts for growth as selected.

Current expenses are input, the model adjusts for inflation as selected.
The model has inherent features to assist with determining Annual Cost of Sustainable Operations (ACSO); these are expenses needed to fund replacement of assets as they retire.

The model has additional features to assist with developing rate structures; this will not be an in-depth topic of discussion at this time.

Key Issues:

The model recommends a 4.0% water rate increase from FY2021 through FY2031
and
a 2.5% increase in sewer rates FY2022 through FY2029

Capital for rehab and retirement of existing assets is the key issue in the model.

Environmental Impact:

Environmental stewardship is one key element of R&R as we move to Asset Management by RISK

Fiscal Impact:

Water and Sewer Rates will trend higher by 4.0% and 2.5% annually over the next ten years; a sensitivity analysis for 1) comparative rates in Virginia and for 2) affordability vs Household Median Income suggests that Harrisonburg could readily afford the proposed rate adjustments.

Expenses for Capital R&R for water and sewer will increase to meet ACSO at \$2.58M and \$1.9M annually, respectively.

Prior Actions:

Rate analysis are performed annually with each budget

- Alternatives:**
- (a) more aggressive approach to funding Capital R&R
 - (b) less aggressive approach to funding R&R

Community Engagement:

Presentation will be at open forum in City Council

Recommendation:

City Council to develop an understanding of future needs, to participate in developing a proactive strategy and to be welcomed to any in-depth reviews if needed

Attachments:

RE: Power Point: Water and Sewer Sustainability

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.

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