

Wastewater Management Program

LOB #388:

DEBT MANAGEMENT

Purpose

The Wastewater Management Program is an enterprise fund and therefore can and does sell Sewer Revenue Bonds to pay for a portion of the Capital Improvement Program. The FY 2016-FY 2020 Adopted Capital Improvement Program totaled \$616.5 million with an additional \$494.2 million for FY 2021-FY 2025 for a total of \$1.1 billion. This program is funded solely by Wastewater Management Program revenues and the sale of Sewer Revenue Bonds. The Wastewater Debt Management assesses and monitors long-term financial needs for the Wastewater Management Program and conducts financial reviews to maintain a balanced Capital Improvement Program between debt-funded capital projects and cash-funded capital projects.

Description

The Wastewater Debt Management LOB is critical in the management of the financial health of the Wastewater Management Program. Several financial measures are used to determine the size of the Wastewater Management debt portfolio. These measures include:

- Debt Service Coverage as set by the County's General Bond Resolution.
- Net Revenue Ratio is a measure of the program's ability to meet its other financial obligations after all of the program's operating expenses have been met, i.e. funds available to reinvest into the infrastructure of the program.
- Available Working Capital and Cash Balances is a measure of the program's ability to withstand an unforeseen market change or to recover from a natural disaster.
- Available Cash to Depreciation ratio is a measure of funds available for capital funding or for other program purposes after paying operating expenses, annual debt service and other required deposits or funding needs.
- Net Outstanding Debt per Customer is a measure of the net principal amount of outstanding debt per customer (the higher the net customer debt burden the greater the financial risk to the program).
- Debt to Net Plant (Equity) ratio is a measure of net equity of the program's investment and provides an indication of the reliance on debt to fund existing assets as well as funding future capital assets and overall rate stability (the smaller the Debt to Net Plant ratio, the higher the flexibility for funding existing and future needs of the program).

There are several other financial measures available to measure the financial health of the Program. The Wastewater Management Program based on the use of these measures by the rating agencies (S&P, Moody's and Fitch) when reviewing the bond rating of the Wastewater Management Program. Currently, the Bond Rating is AAA from S&P and Fitch and AA1 with a positive outlook from Moody's.

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The total outstanding debt as of June 30, 2015 for the Wastewater Management Program is shown in the table below.

OUTSTANDING DEBT SERVICE			
Bond Series	Principal	Interest	Total
2009	\$139,415,000	\$101,896,200	\$241,311,200
2012	87,795,000	67,786,250	155,581,250
2014	61,755,000	19,322,450	81,077,450
VRA*	37,440,694	3,191,170	40,631,864
UOSA**	265,680,629	124,352,552	390,033,181
Total	\$592,086,323	\$316,548,622	\$908,634,945

*Virginia Resource Authority – This debt is considered subordinate to the County Debt

** Upper Occoquan Service Authority – This debt is considered subordinate to the County Debt

Benefits

The Wastewater Debt Management line of business protects public health, aquatic life and the environment within Fairfax County. The Wastewater Debt Management LOB implements several vision elements in the 2015 Strategic Plan to Facilitate the Economic Success of Fairfax County, as noted below. The primary correlation to County Vision Elements to include:

- **Building Livable Spaces** - Wastewater Debt Management allows for building livable spaces by ensuring sufficient capacity in the wastewater conveyance system and treatment facilities in order to allow for economic development and redevelopment.
- **Maintaining Healthy Economies** - Wastewater Debt Management is a key element in providing economically priced wastewater services.
- **Exercising Corporate Stewardship** - Wastewater Debt Management provides corporate stewardship by maintaining the highest level of accountability in quality wastewater services at one of the lowest costs in the region.

Mandates

This LOB complies with the following laws and mandates:

- Clean Water Act PL 92-500
- Clean Air Act
- 33USC 1251
- Code of Virginia §15.1-160, 15.1-166, and 15.1-167
- Code of Virginia §32.1-164
- Code of Virginia §62.1-44.19.32.1
- State Water Control Board VR355-17-02
- State Water Control Board VR680-14-01
- State Water Control Board VR680-14-02
- State Water Control Board VR680-14-03

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Trends and Challenges

The Wastewater Debt Management LOB trends and challenges are similar to the trends and challenges of the Wastewater Capital Project LOB. The aging infrastructure is projected to place a financial burden on the Wastewater Management Program. Funding a \$1.1 billion CIP while maintaining competitive rates will be a difficult task. The trends include the program's Triple A and Double bond A rating; good responses to bond sales; very competitive interest rates; and maintaining sound financial planning. The challenges include maintaining Triple A and Double A bond ratings; following changes in tax laws, eliminating tax exempt municipal bonds; and rising interest rates.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
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FUNDING			
<u>Expenditures:</u>			
Bond Expenses	\$47,169,669	\$45,820,906	\$47,225,170
Total Expenditures	\$47,169,669	\$45,820,906	\$47,225,170
Total Revenue	\$47,169,669	\$45,820,906	\$47,225,170
POSITIONS			
Authorized Positions/Full-Time Equivalents (FTEs)			
<u>Positions:</u>			
Regular	0 / 0	0 / 0	0 / 0
Total Positions	0 / 0	0 / 0	0 / 0

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Outstanding Debt per Connection	1,827	1,685	1,554	1,422	1,837
Debt Coverage Ratio including Availability Fees	2.46	2.53	2.47	2.27	2.34

The Wastewater Debt Management uses metrics to improve performance and ensure regulatory compliance. The two metrics used for this LOB demonstrate the commitment to maintaining the highest quality of work and regulatory compliance.