



Response to Questions on the 2016 LOBs

Request By: Supervisor Foust

Relevant LOB(s): N/A

Question: What are the wastewater reserves and how do they compare to industry standards? What are the plans for the reserves?

Response:

The Wastewater Management Program has four major reserves in Fund 69000, Sewer Revenue. All of the reserves are funded by sewer system revenues.

1. **Operation and Maintenance Reserve** – This reserve provides for unforeseen expenses associated with sewer system emergencies. The Operation and Maintenance Reserve is targeted to be maintained at a level between \$25 million and \$45 million. This level of reserve is based on industry practice to maintain existing customer reserves at a level, which can support between 30 and 180 days of working capital and approximately 50 percent of one year's requirements for rehabilitation and replacement of the current system's assets. The plan for this reserve is to maintain at least 150 days of Operation and Maintenance expenses in this reserve. At the end of FY 2015, this reserve totaled \$45 million, which corresponds to almost 180 days of Operation and Maintenance expenses.
2. **New Customer Reserve** – This reserve provides for debt service and administrative expenses associated with new customer debt, until such time as adjustments to availability charges can be accommodated. It is based on payment expenses associated with one year of debt service and administrative expenses associated with new customer debt. This reserve ensures the Board of Supervisors' "Growth pays for Growth" policy. There are no established industry standards for New Customer Reserves. At the end of FY 2015, this reserve totaled \$33.1 million, which is sufficient to provide for one year of debt service and administrative expenses.
3. **Virginia Resource Authority Reserve** – This reserve is required by the loan agreement with the Virginia Resource Authority (VRA) and represents one year of debt service for the two VRA loans. The two low-interest VRA loans from the State Revolving Fund Program were used to fund the County's share of construction costs for the Alexandria Renew Enterprises Treatment Plant upgrade for ammonia removal as required by the State Water Control Board in 2000 and 2001. At the end of FY 2015, this reserve totaled \$6.6 million. It is anticipated that at the final loan payments in 2020 and 2021 will be supported by this reserve and the reserve will be eliminated.



4. Capital Reinvestment Reserve – This reserve is intended to address both anticipated and unanticipated increases within the Capital Improvement Program without having a major impact on rate adjustments. It will provide for significant rehabilitation and replacement of emergency infrastructure repairs. A reserve goal of 3.0 percent of the five year capital plan is consistent with other utilities and is recommended by the rating agencies. Based on the total five year capital plan, an amount of \$30 million would be required to reach 3.0 percent. At the end of FY 2015, this reserve totaled \$28.4 million.

In addition, the Wastewater Management Program has established Fund 69030, Sewer Bond Debt Reserve, which fulfills the County's requirement to maintain a Reserve Fund for existing and planned sewer bonds. As outlined in the 1986 Bond Resolution, this reserve is required to be the lesser of the maximum principal and interest requirements for any bond year or 125 percent of the average annual principal and interest requirements for the bonds. At the end of FY 2015, this reserve totaled \$21.7 million. This reserve provides a sufficient level to satisfy the legal reserve requirements associated with the 2009, 2012 and 2014 Sewer Revenue Bonds.

The rating agencies have noted that the cash funded debt service reserve is a strength for the Wastewater Management Program. Also, the Program was rated as Aa1 (Positive Outlook) by Moody's, AAA (Stable Outlook) by Standard & Poor, and AAA (Stable Outlook) by Fitch during the last bond sale in March 2014. These extremely strong ratings were based on a number of financial indicators including days cash on hand, free cash as a percentage of depreciation, debt to plant percentage, senior lien debt service coverage, total debt service coverage, debt per customer, etc.