

Fund 69000 Sewer Revenue

Focus

All Availability Charges and Sewer Service Charges associated with the Wastewater Management Program are credited to this fund as system revenues. The total receipts from all revenue sources are used to finance the following: Operation and Maintenance (Fund 69010); Construction Improvement Projects (Fund 69300); Debt Service (Fund 69020); Subordinate Debt Service (Fund 69040); and Sewer Bond Construction (Fund 69310). Any remaining balance in Fund 69000, Sewer Revenue, is used for future year requirements and required reserves.



The Program’s Availability Charge and Sewer Service Charge are based on staff analysis and consultant recommendations included in the February 2019 Wastewater Revenue Sufficiency and Rate Analysis.

Availability Charges

The Availability Charge is a one-time charge to new customers for initial connection to the system. The revenue from the Availability Charge is used to offset the costs of expanding conveyance and treatment facilities. In FY 2020, the Availability Charge will increase from \$8,100 to \$8,340 for single-family homes based on current projections of capital requirements. Rates are based on requirements associated with conveyance and treatment plant upgrades and interjurisdictional payments that result from population growth, more stringent treatment requirements and inflation.

The FY 2020 rate is consistent with the recommendations of the Department of Public Works and Environmental Services and the analysis included in the Wastewater Revenue Sufficiency and Rate Study Forecasted Period Fiscal Year 2019 through Fiscal Year 2024. Rates are expected to remain at the FY 2020 level through FY 2024. The following table displays the rates by category:

Category	FY 2019 Availability Charge	FY 2020 Availability Charge
Single Family	\$8,100	\$8,340
Townhouses and Apartments	\$6,480	\$6,672
Hotels/Motels	\$2,025	\$2,085
Nonresidential	\$405/fixture unit	\$417/fixture unit

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Sewer Service and Base Charges

Sewer Service and Base Charges are revenues received from existing customers and are used to fully recover program operation and maintenance costs, debt service payments and capital project requirements attributable to improving wastewater treatment effluent quality as mandated by state and federal agencies. The five-year sewer rate plan approved by the Board of Supervisors as part of the FY 2019 Adopted Budget Plan proposed to increase the sewer charges by 5.9 percent in FY 2020. After a careful review, the Wastewater Management staff recommended to increase the sewer charges by only 4.8 percent in FY 2020, which will result in an annual increase of \$30.28 to the typical household. The Sewer Service Charge will increase from \$7.00 to \$7.28 per 1,000 gallons of water consumed based on Fairfax County’s winter quarter average consumption of 18,000 gallons.

The Base Charge will increase from \$30.38 per quarter to \$32.91 per quarter. The Base Charge provides for a more equitable rate structure by recovering a portion of the program’s fixed costs. The industry practice for a fixed charge revenue rate is 25 percent of operating revenues. The expected fixed charge revenue percentage in FY 2020 is equal to 20.9 percent. The current system, including sewer lines, facilities, purchased capacity and equipment, is valued at approximately \$2.0 billion. Based on the age and required maintenance of the system, reinvestment must continue to be addressed. The implementation of the increases to the Base Charge will help ensure that all users of the system share in the fixed costs associated with reinvestment and operations.

Increases to both the Sewer Service Charge and Base Charge will change the annual average customer bill from \$625.52 in FY 2019 to \$655.80 in FY 2020, a cost increase of \$30.28 or 4.8 percent. The FY 2020 average bill in Fairfax County is one of the lowest compared to the average bill in other regional jurisdictions even with the proposed increases. The increases in the Sewer Service Charge and Base Charge will partially offset the increased costs associated with capital project construction, system operation and maintenance, debt service and upgrades to meet new, more stringent nitrogen discharge limitations from wastewater treatment plants.

Year	Sewer Service Charge Per 1,000 gallons of water	Base Charge Per Quarterly Bill	Sewer Charges Percentage Increase	Base Charge Revenue Percentage
2019	\$7.00	\$30.38	NA	20.1%
2020	\$7.28	\$32.91	4.8%	20.9%
2021	\$7.64	\$36.20	6.0%	21.8%
2022	\$8.02	\$39.82	6.0%	22.7%
2023	\$8.28	\$43.97	4.8%	23.9%
2024	\$8.56	\$48.29	4.8%	25.1%

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Charges for Hauled Wastewater

As part of the FY 2020 Advertised Budget Plan, the Wastewater Management staff recommends to establish charges to recover a portion of the cost of disposal and treatment of hauled wastewater at the County's septage receiving facility (SRF), which is located at the NCPCP.

The County's SRF was constructed to receive and treat septage from local onsite sewage disposal systems in accordance with Code of Virginia Ann. Section 15.2-2123. In addition, the SRF receives landfill leachate, portable toilet waste, restaurant grease, and recycled carwash water. Hauled septage and wastewater have been received and treated at no cost to pump and haul contractors to encourage proper disposal. This cost has been covered by the sewer charges paid by the customers of the County's public sewer system. The proposed charges will improve equity among customers served by the sewer system and those served by the pump and haul contractors. Also, the charges will recover a portion of the costs of operation, maintenance, and upcoming necessary improvements to the SRF.

DPWES proposes to initially set the charges at a level comparable to the fees charged by the Upper Occoquan Service Authority (UOSA), the only other facility in the County that receives hauled wastewater. Since septic tank and restaurant grease waste has higher strength than portable toilet and landfill leachate waste, the proposed charge for high strength waste is \$27 per 1,000 gallons of the hauler's truck capacity. The proposed fee for low strength waste is \$7 per 1,000 gallons of hauler truck capacity, which is based on the prevailing sewer service charge and will be modified as the sewer service charge is adjusted in the future. The projected FY 2020 revenue from charges for hauled wastewater is equal to \$250,000.

Health Departments in neighboring jurisdictions charge hauling contractors a separate registration fee. Currently, the Fairfax County Health Department charges pump and haul contractors a fee of \$710 per year for the first truck and \$360 per year for each additional truck for inspection and registration. In collaboration with DPWES and in consideration of the proposed hauled wastewater charges, the Fairfax County Health Department is proposing the following amendments to be comparable to other jurisdictions:

- Charge \$150.00 for each vehicle,
- Charge \$200.00 for late renewals (after January 31 of each year), and
- Eliminate the current process of prorating fees during the year.

This level of revenue in FY 2020 will allow the system to meet permit conditions, meet and maintain all of the required financial targets through FY 2024, maintain competitive rates with neighboring utilities, continue to preserve its AAA bond rating, and require less debt to support capital projects.

The table on the next page reflects the Wastewater Management Program's projected fiscal health in FY 2020 and FY 2021. The financial planning process incorporates the following indicators that are interrelated and structured to identify the adequacy of rates from a cash flow, business, and compliance standpoint. These indicators are used by the rating agencies to determine the Program's credit rating.

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Calculated Financial Indicators

Financial Indicator	Target	Achieved	FY 2020	FY 2021
Net Revenue Margin	45.0% to 55.0%	Yes	50.2%	51.8%
Days Working Capital ¹	150 to 200 days	Yes	152	152
Debt Coverage Senior	Min. 3.00x	Yes	3.29x	3.59x
Debt Coverage All-in	2.00x to 2.50x	Yes	2.07x	2.29x
Affordability (% of median income spent on sewer bill)	Less than 2.0%	Yes	0.6%	0.6%
Debt to Net Plant in Service	Below 35.0% Never above 45.0%	Yes	34.3%	35.6%
Outstanding Debt per Connection	Max \$3,000	Yes	\$1,668	\$1,756
Anticipated Sewer Bond Sales Through FY 2020				\$130 million

(1) The Days Working Capital financial indicator is exclusive of Availability Charges in Fund 69000, Sewer Revenue, and Fund 69300, Sewer Construction Improvement. It is calculated based on Operating Expenses and 360 days.

It is anticipated that the rates in FY 2020 will support the County's ability to maintain high bond ratings (AAA by Fitch Investor Service and Standard and Poor's Corporation and Aaa by Moody's Investors Service, Inc.) from the rating agencies. These high credit ratings have enabled the County to sell bonds on behalf of the Program at interest rates lower than those obtained by most sewer authorities, thereby achieving savings throughout the life of the bonds.

Changes to FY 2019 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2019 Revised Budget Plan since passage of the FY 2019 Adopted Budget Plan. Included are all adjustments made as part of the FY 2018 Carryover Review, and all other approved changes through December 31, 2018.

- ◆ There have been no adjustments to this fund since approval of the FY 2019 Adopted Budget Plan.

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FUND STATEMENT

Fund 69000, Sewer Revenue

	FY 2018 Actual	FY 2019 Adopted Budget Plan	FY 2019 Revised Budget Plan	FY 2020 Advertised Budget Plan
Beginning Balance	\$82,540,638	\$76,498,733	\$90,507,789	\$95,645,692
Revenue:				
Lateral Spur Fees	\$4,200	\$16,800	\$16,800	\$16,911
Water Reuse Charges	48,907	164,606	164,606	164,606
Sales of Service	8,507,247	8,153,318	8,153,318	9,042,552
Availability Charges	25,974,491	12,595,035	12,595,035	15,887,138
Connection Charges	404,755	34,200	34,200	34,425
Sewer Service Charges	190,500,757	200,014,944	200,014,944	209,182,463
Miscellaneous Revenue	292,990	250,000	250,000	664,606
Sale Surplus Property	54,378	100,000	100,000	100,000
Interest on Investments	1,619,645	779,000	779,000	650,000
Total Revenue	\$227,407,370	\$222,107,903	\$222,107,903	\$235,742,701
Total Available	\$309,948,008	\$298,606,636	\$312,615,692	\$331,388,393
Transfers Out:				
Sewer Operation and Maintenance (69010)	\$101,440,000	\$100,470,000	\$100,470,000	\$108,900,000
Sewer Bond Parity Debt Service (69020)	22,930,000	21,250,000	21,250,000	23,100,000
Sewer Bond Debt Reserve (69030)	5,556	0	0	0
Sewer Bond Subordinate Debt Service (69040)	25,725,000	25,250,000	25,250,000	22,000,000
Sewer Construction Improvements (69300)	69,339,663	70,000,000	70,000,000	75,000,000
Total Transfers Out	\$219,440,219	\$216,970,000	\$216,970,000	\$229,000,000
Total Disbursements	\$219,440,219	\$216,970,000	\$216,970,000	\$229,000,000
Ending Balance¹	\$90,507,789	\$81,636,636	\$95,645,692	\$102,388,393
Management Reserves:				
Operating and Maintenance Reserve ²	\$41,664,311	\$32,661,744	\$46,670,800	\$45,000,000
New Customer Reserve ³	30,000,000	30,000,000	30,000,000	30,000,000
Virginia Resource Authority Reserve ⁴	5,974,892	5,974,892	5,974,892	5,974,892
Capital Reinvestment Reserve ⁵	12,868,586	13,000,000	13,000,000	21,413,501
Total Reserves	\$90,507,789	\$81,636,636	\$95,645,692	\$102,388,393
Unreserved Balance	\$0	\$0	\$0	\$0

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¹ The Wastewater Management Program maintains fund balances at adequate levels relative to projected debt service requirements, operation and maintenance expenses and capital improvements.

² The Operating and Maintenance Reserve provides for unforeseen expenses associated with sewer system emergencies. This reserve is targeted to be maintained at a level between \$25 and \$45 million. This level of reserve is based on an industry practice to maintain existing customer reserves at a level that can support 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.

³ The New Customer Reserve provides for debt service and administrative expenses associated with new customer debt, until such time as adjustments to availability charges can be accommodated. This reserve is based on payment expenses associated with one year of debt service and administrative expenses associated with new customer debt.

⁴ The Virginia Resource Authority Reserve was established in anticipation of debt service reserve requirements for Virginia Resource Authority loans related to future treatment plant issues.

⁵ The Capital Reinvestment Reserve is intended to address both anticipated and unanticipated increases within the Capital Improvement Program. This reserve will provide for significant rehabilitation and replacement of emergency infrastructure repairs. A reserve of 3.0 percent of the five-year capital plan is consistent with other utilities and is recommended by rating agencies. Based on the total five-year capital plan, an amount of \$30 million would be required to reach 3.0 percent.