



Alexandria Renew Enterprises Rate Adjustment Development Review

Public Hearing

May 11, 2019



Presentation Outcomes

- Review AlexRenew strategy alignment with financial policy and position
- Understand financial obligations for combined sewer system ownership
- Review rate setting process





AlexRenew Operational, Capital Improvement and Financial Profile



Who Is AlexRenew?



Who we are:

- Political subdivision of the Commonwealth created in 1952 under the Virginia Water and Wastes Authorities Act
- AlexRenew was the first independent authority created in Virginia. Our charge is to intercept and treat wastewater
- Fairfax County is a wholesale customer
- AlexRenew pays for Alexandria customer wastewater share in Arlington County's wastewater treatment plant
- Smallest plant footprint in U.S. for capacity and quality of cleaned water produced
- Meets some of the strictest nutrient removal requirements in US



AlexRenew Strategy – Managing Water Infrastructure for Added Community Benefit



Achieving Water Stewardship Through Personal and Organizational Commitment

- Stream Clean Ups
- Exceptional Regulatory Compliance
- Water Discovery Day
- Earth Day Pickering Award

Provide Stable Rates to Support Healthy and Resilient Community

- Fair Rates for Full Cost Recovery
- Improve Operating Efficiencies
- Compliant with Master Trust and Financial Policies
- WATER Fund

Establish Connections with our Waterways

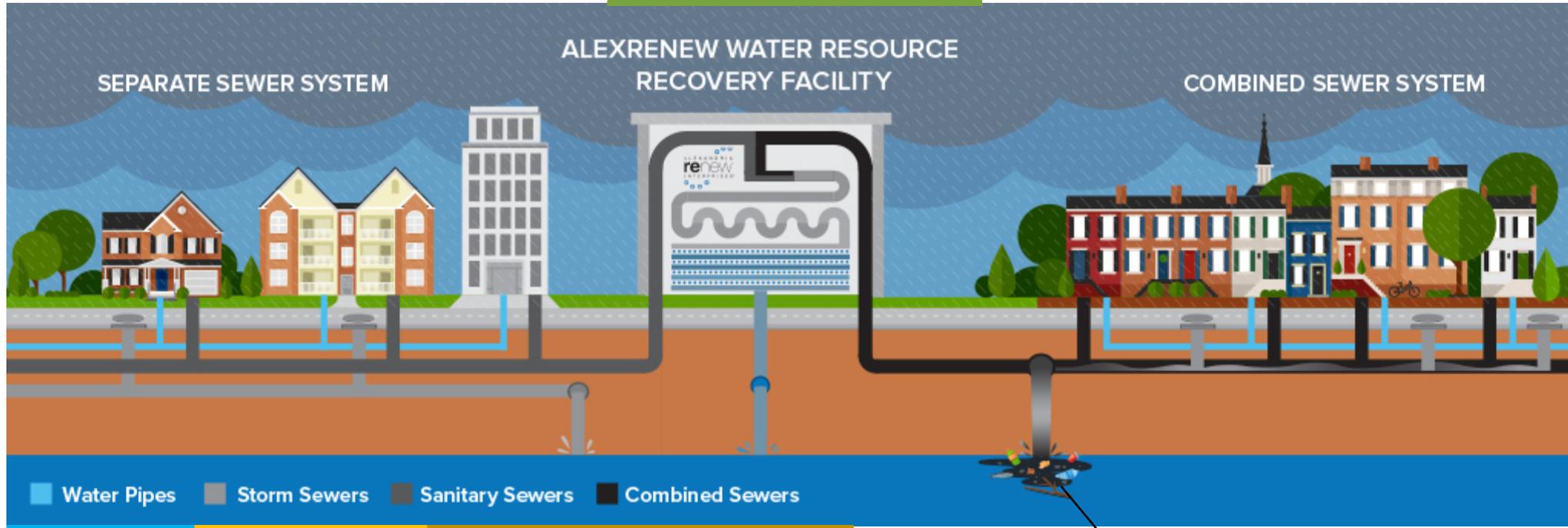
- VAW and City Partners
- Creating Dual Use Facilities
- GMU Watershed Monitoring



Alexandria's One Water System



AlexRenew
(Wastewater Treatment)



Virginia American Water
(Drinking Water)

City of Alexandria
(Stormwater System)

City of Alexandria
(Wastewater Collection System)

AlexRenew
(Outfalls Only)



Who Does AlexRenew Serve?



AlexRenew Serves Ratepayers in the City of Alexandria

- Provides wastewater services to residents and commercial/industrial businesses
- Contractual arrangement to provide retail service through service agreement with City
- AlexRenew bills retail customers directly for both wastewater treatment and for the city's sanitary sewer fee, based on water meter data received from Virginia American Water through a separate contractual arrangement

AlexRenew Serves the County of Fairfax

- Provides wholesale wastewater services
- Contractual arrangement through service agreement with County
- AlexRenew collects monthly revenue for O&M and Capital share from Fairfax based on agreement

County of Arlington Provides Service to Ratepayers through AlexRenew

- County provides wholesale wastewater service to Northwest quadrant of City
- Contractual arrangement for wastewater services through service agreement with City and AlexRenew
- AlexRenew bills retail city customers for Arlington O&M and Capital costs
- These ratepayers benefit from integrated services provided by County of Arlington and AlexRenew

All ratepayers in Alexandria will benefit from cleaner streams and rivers provided by AlexRenew



AlexRenew Contractual Overview with City of Alexandria



City of Alexandria Snapshot

- Capacity allocation of 21.6 MGD
 - 40% of plant average daily flow
- Approximately 26,700 wastewater accounts
 - Approximately 23,200 residential
 - Approximately 3,500 commercial and industrial
- Volumetric rate based on monthly water use to cover operations, maintenance and planning
- Base rate based on renewal and replacement of fixed assets and debt
- Average monthly AlexRenew sewer bill = \$36.69
 - Based on AlexRenew average of 4,000 gallons of use
 - Does not include current City fee of \$2.28/thousand gallons



AlexRenew Contractual Overview with Fairfax County



County of Fairfax Snapshot

- Capacity Allocation of 32.4 MGD (60% of plant)
- O&M Charges
 - Charged for actual flow into the AlexRenew System
 - Billed at a rate of 1/12 of approved annual budget
 - Reconciled at the end of AlexRenew's fiscal year
- Capital Charges
 - Billed 60% of all joint capital programs, unless otherwise negotiated
 - Billed upon receipt of contractor's/consultant's bills
- Joint Renewal and Replacement Fund Requirements
 - Billed monthly based on calculation in service agreement
- Wet Weather Cost Share
 - Agreement under review
 - Allocates costs based on share of excess sanitary sewer flows



AlexRenew Contractual Overview with Arlington County



County of Arlington Snapshot

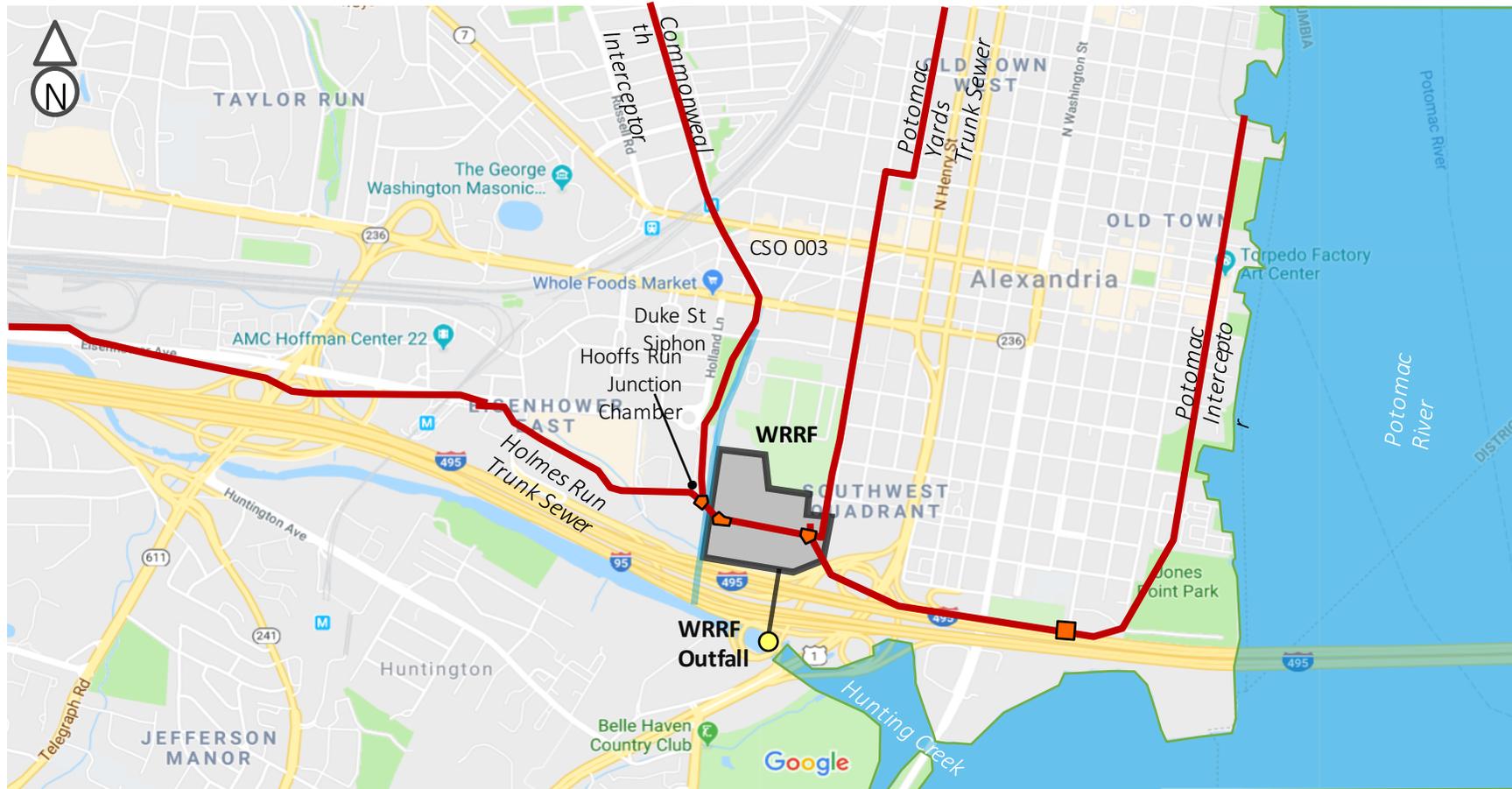
- Arlington provides 3.0 MGD of wholesale wastewater services to City residents
- AlexRenew bills residents and remits payments to Arlington
- O&M Charges
 - Charged for actual flow into the Arlington System
 - Billed at a rate of 1/12 of the Arlington wastewater approved annual budget
 - Reconciled at the end of Arlington's fiscal year
- Capital Charges
 - Billed 8.3% of all joint capital programs
 - Billed upon receipt of contractor's/consultant's bill



AlexRenew System Ownership Overview as of June 2018



- LEGEND
- Existing
 - - - Interceptor
 - Existing Outfall Pipe



System Assets Currently Valued at \$971.6 Million



2018 City – AlexRenew Combined Sewer Outfall Transfer Initiative



Partnering means leveraging our mutual experience and abilities

Implementation Advantages

- Efficiencies of single entity owning the Program
- AlexRenew has significant experience in implementing large-scale Capital Programs
- Can leverage planned WRRF projects to assist in meeting deadline
- Tunnels connect to WRRF
- AlexRenew has more flexibility in financial policies and planning



Operational Advantages

- Integration of operations and maintenance under single entity
- AlexRenew has expertise in treatment technology and innovation



AlexRenew System Ownership Overview Post June 2018

**Over \$971.6M invested
currently in wastewater
treatment infrastructure
RiverRenew investment
currently estimated at
\$370M to \$555M**



Why does Cost of Providing Service Increase?



- Regulatory Requirements – New requirements added
- Power – Escalating rates with limited controls
- Equipment Renewals and Upgrades – Rapid technology changes
- Chemicals – Volatile cost basis
- Personnel – Expectation to increase # of employees for succession and increased technical and added asset needs; compensation and training costs increase accordingly
- Debt Service Expenditures – Fees from rate payers used to repay bondholders for amounts borrowed to fund CIP projects
- Financial Policy Requirements – Maintain strong fiscal position which promotes rate sustainability



AlexRenew System Needs – Operations and Maintenance Planning



10 Year O&M projections include:

- Personnel and safety
- Annual maintenance and repairs costs
- Utilities & chemicals
- Customer billing and service
- Contracted services
- Changes in annual flows from Fairfax
- Contract payments to Arlington on behalf of the City

Annual Projected Operating Expense Increase = 3.2%*

Comparable with other U.S. utilities operating cost increases

** Excludes incremental cost increases associated with RiverRenew*



AlexRenew Capital Planning - System Renewal and Replacement Needs



10 Year Capital Program include:

- RiverRenew Program
- Continued nutrient management to meet local and bay changing needs
- Process air blower replacement
- Solids handling system upgrades and expansions to meet loads from newly installed nutrient removal systems
- Preliminary and primary treatment process improvements
- Equipment and structural renewals, replacements, upgrades
- Service chamber and pump station upgrades
- Technology upgrades and enhancements

Capital program continues to be major driver for rates





Rate Adjustment Development



Considerations During Rate Analysis

Sustainability of Operations

Cost of Service
Recovery

Revenue Stability and
Predictability

Fair and
Equitable Rates
Among Users

Payment
Flexibility

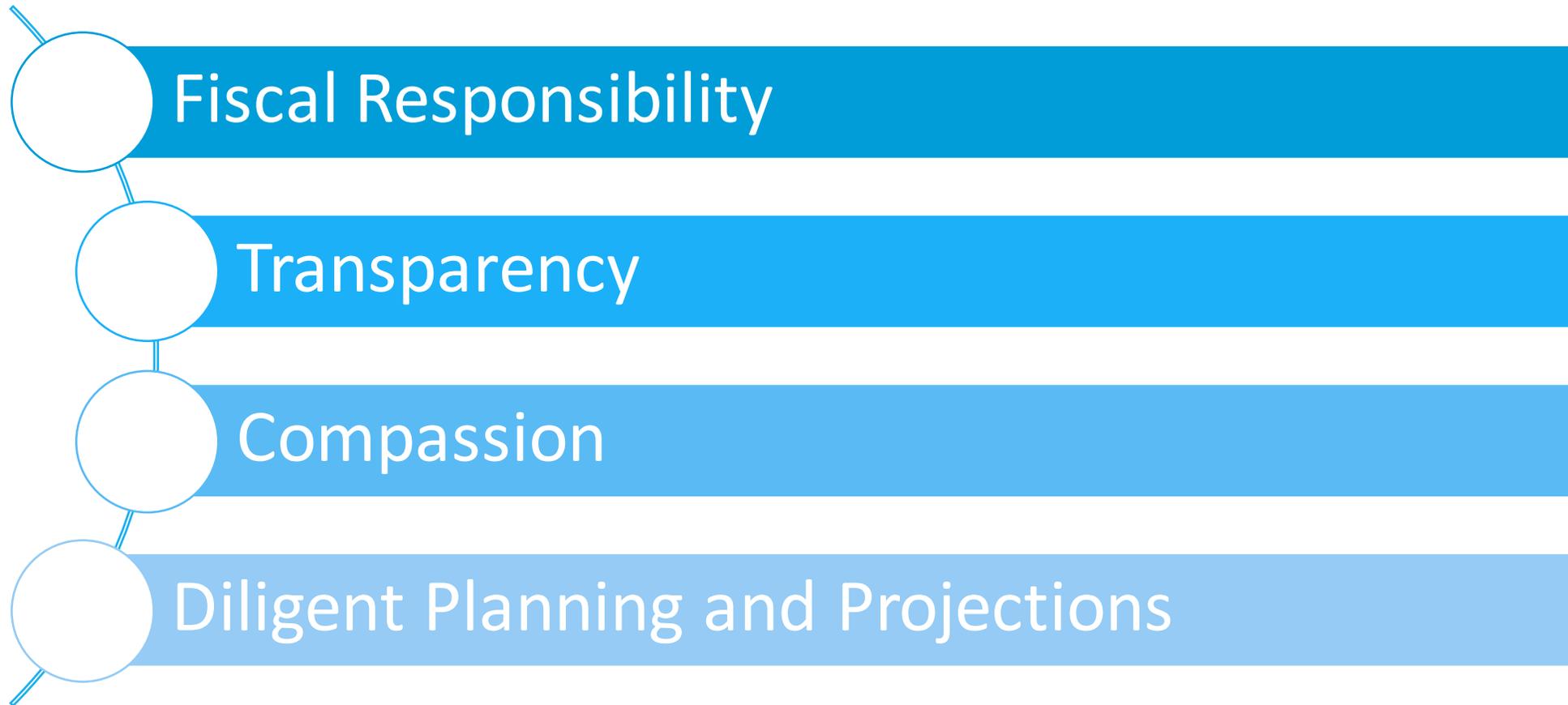
Easy to
Understand

Adequate
Notice

Minimize
Rate Shock



Tenets of Board Rate Policy



AlexRenew Board of Directors Guidance to Staff on Rate Adjustments



- Limit proposed rate changes to two years to allow for better knowledge of costs.
 - July 1, 2019
 - July 1, 2020
- Structure proposed rates to increase at a steady rate for the first two years to allow customers to plan.
- Increase rates using the existing rate structure so that all customers see the same percentage increase.
- Continue providing customer assistance within State of Virginia requirements.



Customer Assistance Related to Rate Increases

- Billing and Collections
 - Extended payment Terms
 - Reduce Interest on past due accounts
 - Reduce or eliminate late fees
 - Crisis assistance program – Water Fund
- Other Options
 - Partner with existing City programs



AlexRenew Financial Policy Review



- Objective to maintain financial strength consistent with a AA rated utility credit
 - Directly relates to management and policies of utility
- 20-year financial plan with model
- Model exercised after completion of audit
 - Ensure covenants and policies are met
- Plan is to enable a path to ensure rate sustainability and long-term stability



AlexRenew Financial Policy Review



Required Compliance with Financial Documents

- ***Master Indenture of Trust*** (March 1999)
 - Adopted for protection of bond holders
- Adopted ***Financial Policies*** (August 2010)
 - In addition to Master Indenture of Trust
 - Recommended by financial advisor
 - Reviewed annually and updated as recommended by financial advisor
- Objective – to maintain fiscal resiliency
 - Minimize financial risk
 - Sources of funding are limited to customer service charges and wholesale monthly payments from Fairfax County



AlexRenew Financial Policy Review



Master Indenture of Trust Overview

- Serves as contract with bond holders
- Authorized Issuance of outstanding debt
 - **\$113.3M** Outstanding secured in accordance with provisions of Master Indenture (as of end of 9/30/2018)
 - Has “senior lien” on net (“pledged”) revenues
 - Authority can issue subordinate lien debt
- Requires compliance with General Covenants
(Minimum Requirements)
 - Levels of Rates
 - Operating Cash Reserves
 - Annual Budget
 - Audit
 - No Free Service
 - Flow of Funds



AlexRenew Financial Policy Review



Master Indenture of Trust – <i>Flow of Funds</i>	
Revenue Fund	Revenues are initially deposited to the Revenue Fund and then transferred to other respective funds based on priority / flow of funds.
Operating Fund	Revenues are first deposited to the Operating Fund to pay Operating Expenses. Must maintain at least 1/6 th of annual budgeted expenses (<u>60 Days</u>).
Bond Fund	Revenues are then deposited to the Bond Fund in order to pay debt service payments.
Debt Service Reserve Fund	Any required transfers to the debt service reserve account must be made (typical requirement when issuing new debt / equivalent to debt service pmt)
Improvement, Renewal and Replacement (IRR) Fund – Joint	Revenues then deposited to the Joint Improvement, Renewal and Replacement Fund to meet required Joint Improvement, Renewal, and Replacement transfers per Fairfax Agreement.
Improvement, Renewal and Replacement (IRR) Fund – General	Revenues then deposited to the General Improvement, Renewal and Replacement Fund to meet required AlexRenew Specific Improvement, Renewal and Replacement needs.
General Fund	Any remaining revenues deposited within the General Fund.



Review of AlexRenew Board Adopted Financial Policies



These policies are adopted to promote sound financial management and business guidance

Board can adjust based on advise and short term needs to balance long term financial outcomes

Minimum Debt Service Coverage

- Based on Master Trust Indenture and Financial Manager Advice
- Currently Minimum Target Set at 1.5X

Minimum Reserves

- Currently adopted as 120 Days of Operating Expense
- Financial Advisor currently recommends 180 Days

Non Debt Capital

- Fund at least 15% of Total Capital Program from Operations (Cash Flow and Reserves)



Rate Design Process Overview

Net Revenue Requirement

Rates must fully fund this total expenditures and funding needs



Full Cost of Service

Costs allocated to customer classes are based on the nature of the expense



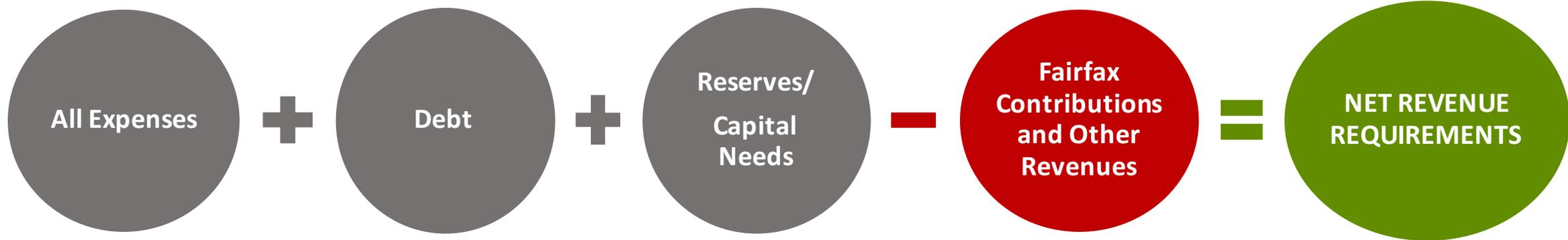
Rate Design

Rates must be designed to meet financial policies, applicable laws, Rate Covenants and any other rate requirements



Rate Setting Process Overview

Overview of Net Revenue Requirement Determination



Current O&M, Capital Program and Renewal and Replacement Costs

Analyze Capital Program Debt needs over 10 year period

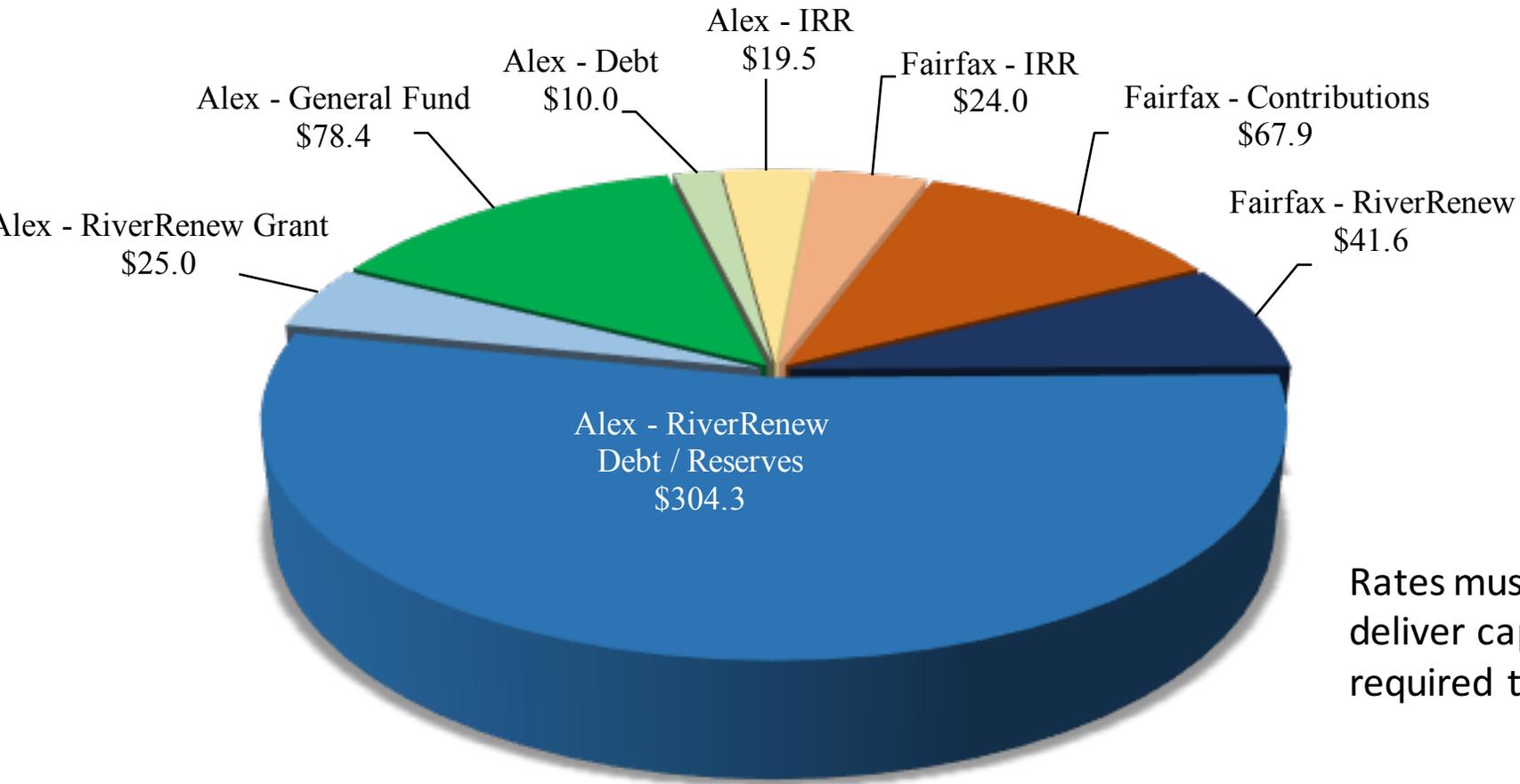
Reduces amount of costs recovered from rates



AlexRenew System Needs – Capital Planning



Total CIP Funding Sources FY19-28 (\$Millions)



Total 10-Year CIP & Infrastructure Renewal & Replacement (IRR)

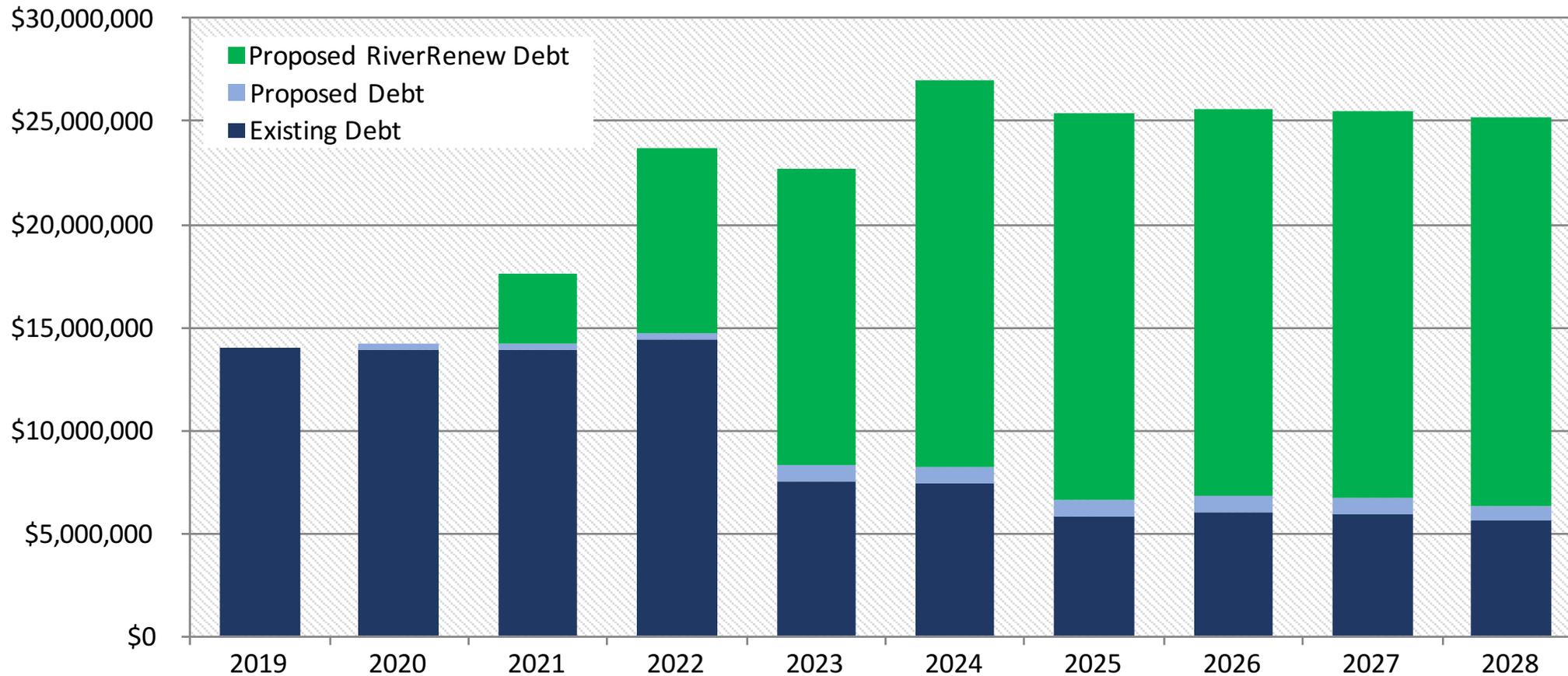
RiverRenew Cost:	\$370.9m
Alex Renew Share	\$329.3m
Fairfax Share	\$41.6m
Total CIP Cost:	\$570.7m
Alex Renew Share	\$437.2m
Fairfax Share	\$133.4m

Rates must be sufficient to deliver capital program in required timeframe

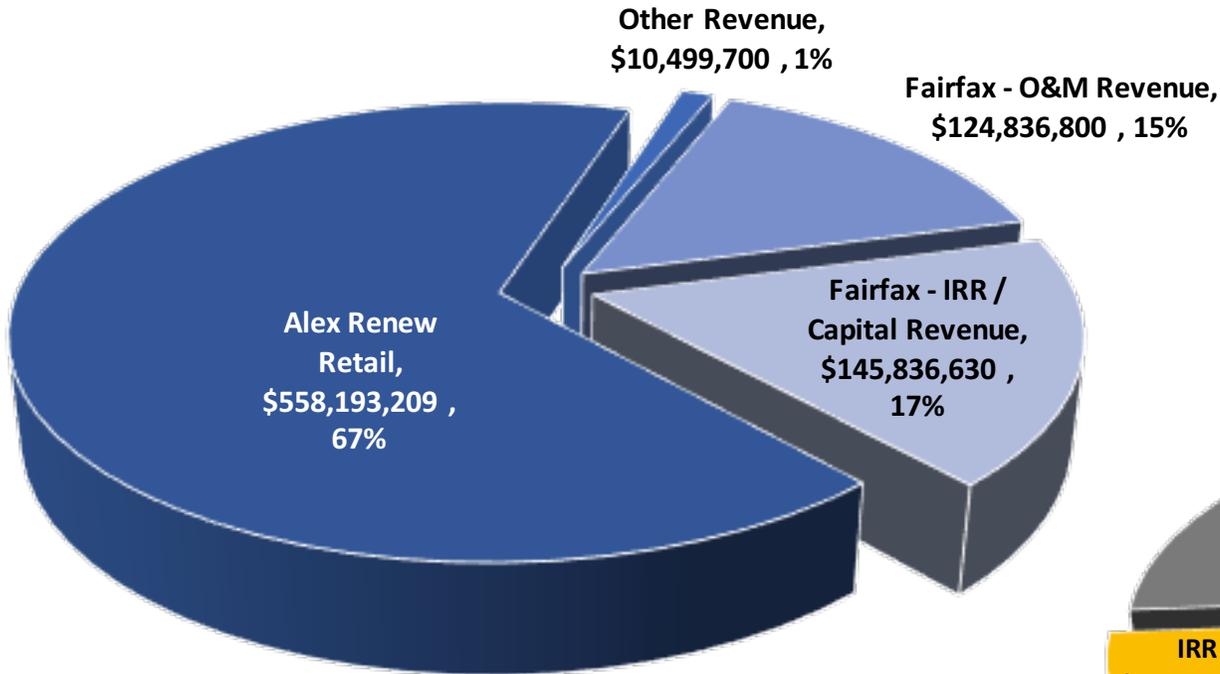


AlexRenew System Needs – Debt Projections

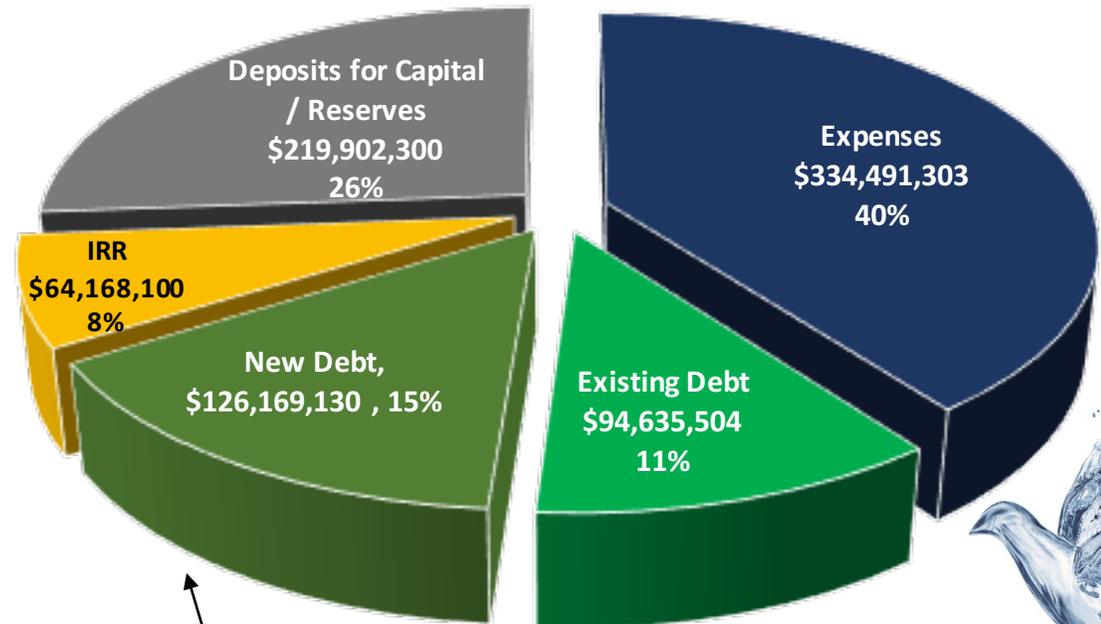
Existing and Proposed Debt Payments



AlexRenew Revenue & Expenditures



Projected Expenditures FY19-FY28 = \$839.4M



Revenues FY19-FY28 = \$839.4M

AlexRenew	\$558.2 M
Fairfax	\$270.7 M
Other	\$10.5 M

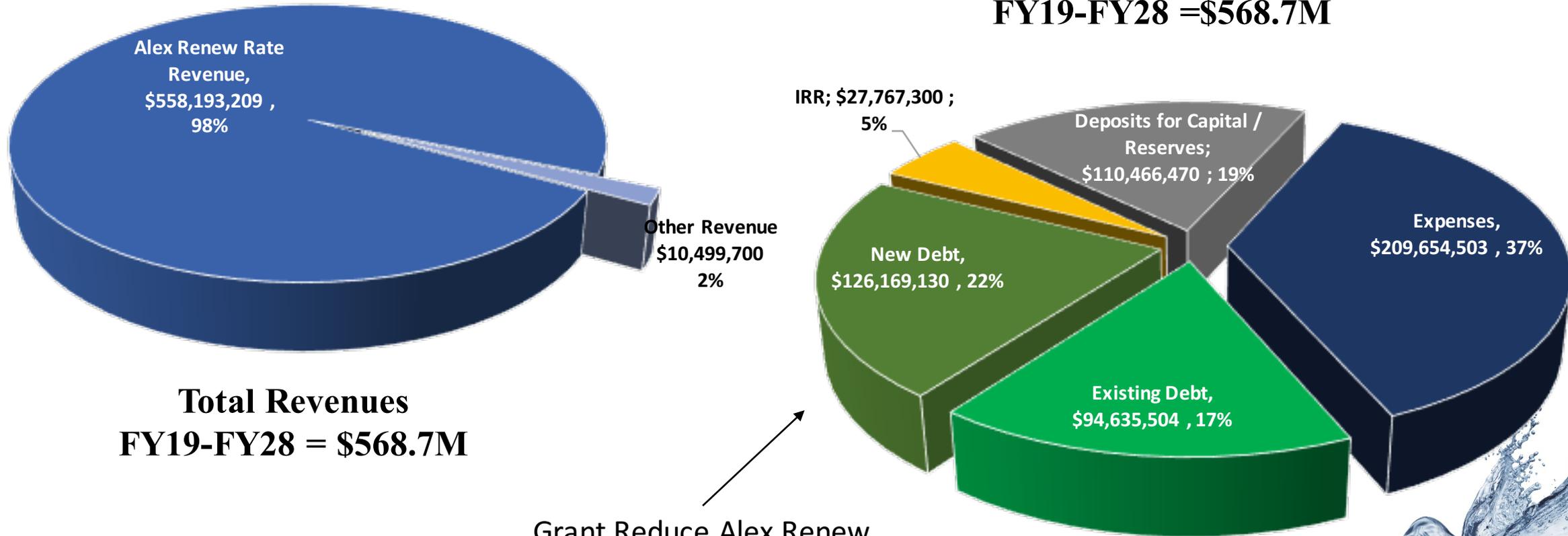
Grant Reduce FY19-FY28 New Debt Payments by \$16M



All In Financial Resources AlexRenew Only



**Revenue Requirements
FY19-FY28 = \$568.7M**



Grant Reduce Alex Renew
FY19-FY28 New Debt
Payments by \$16M



AlexRenew Rate Adjustment Consideration



Rate Recommendation

- **Total projected increases of 13% July 2019 and 11% July 2020**
 - Increase rates by **1.25% for each of TWO FISCAL YEARS** to meet **AlexRenew needs**
 - Increase rates by **11.75% and 9.75% in the next two FISCAL YEARS** for **RiverRenew needs**
- Apply rate change to both **base and wastewater treatment charge**
 - Provides customer equity
 - Ensures revenue stability
 - Viewed as good practice by rating agencies

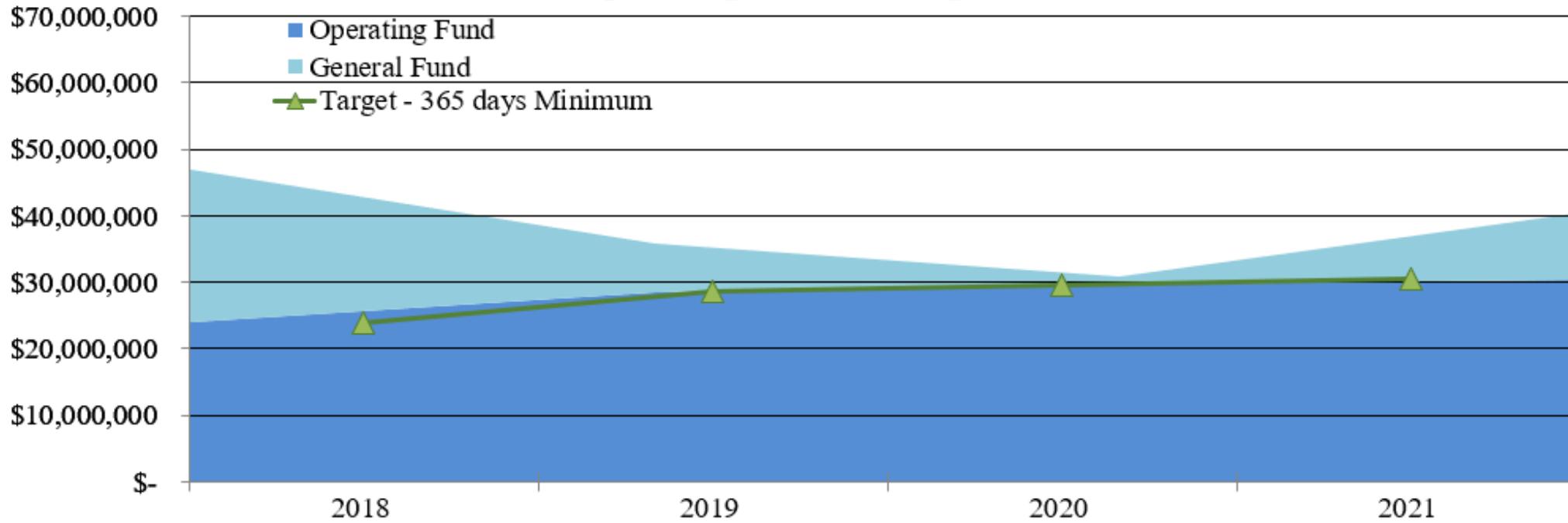


AlexRenew Rate Adjustment Considerations

Projected Liquidity

- Provides sufficient funding for capital program

General and Operating Fund Ending Cash Balances

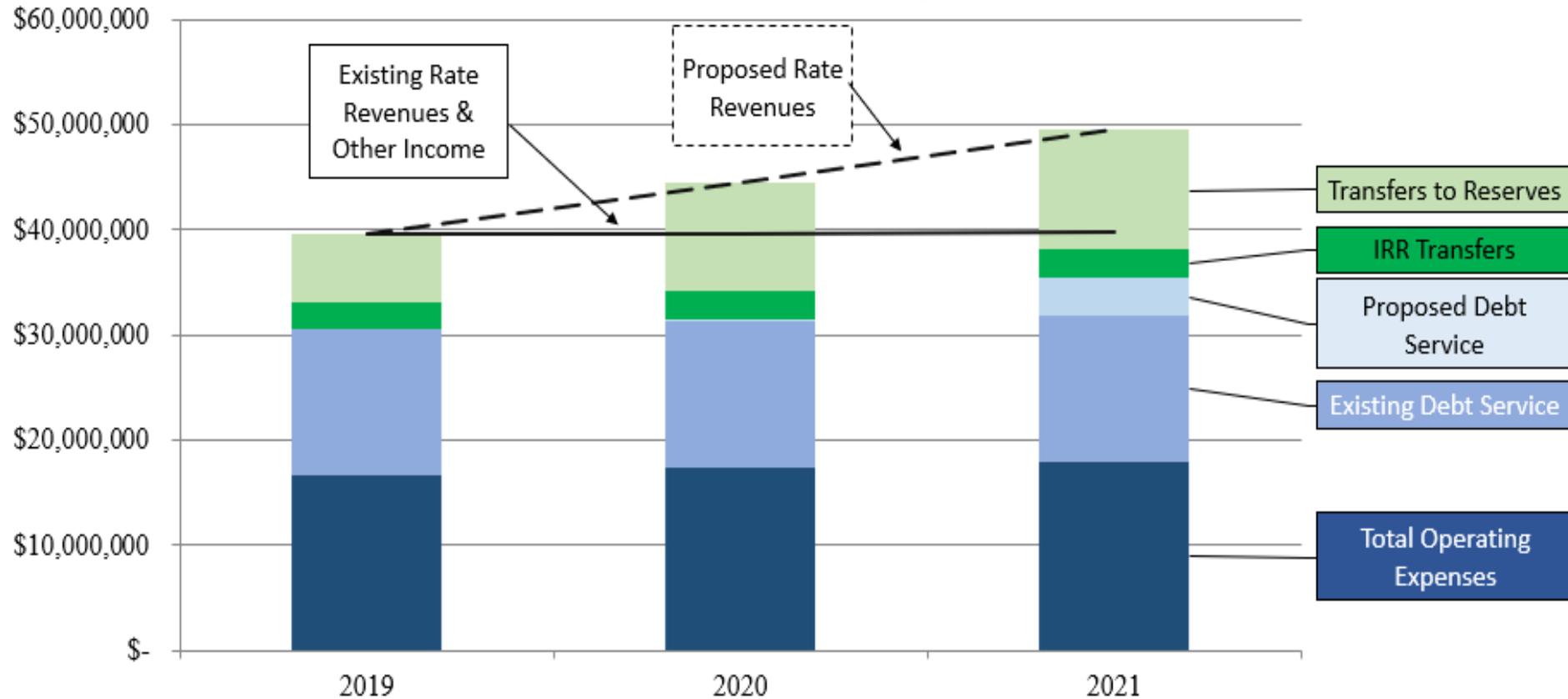


AlexRenew Rate Adjustment Considerations

Projected Cashflows



Alex Renew Only Revenue Requirements



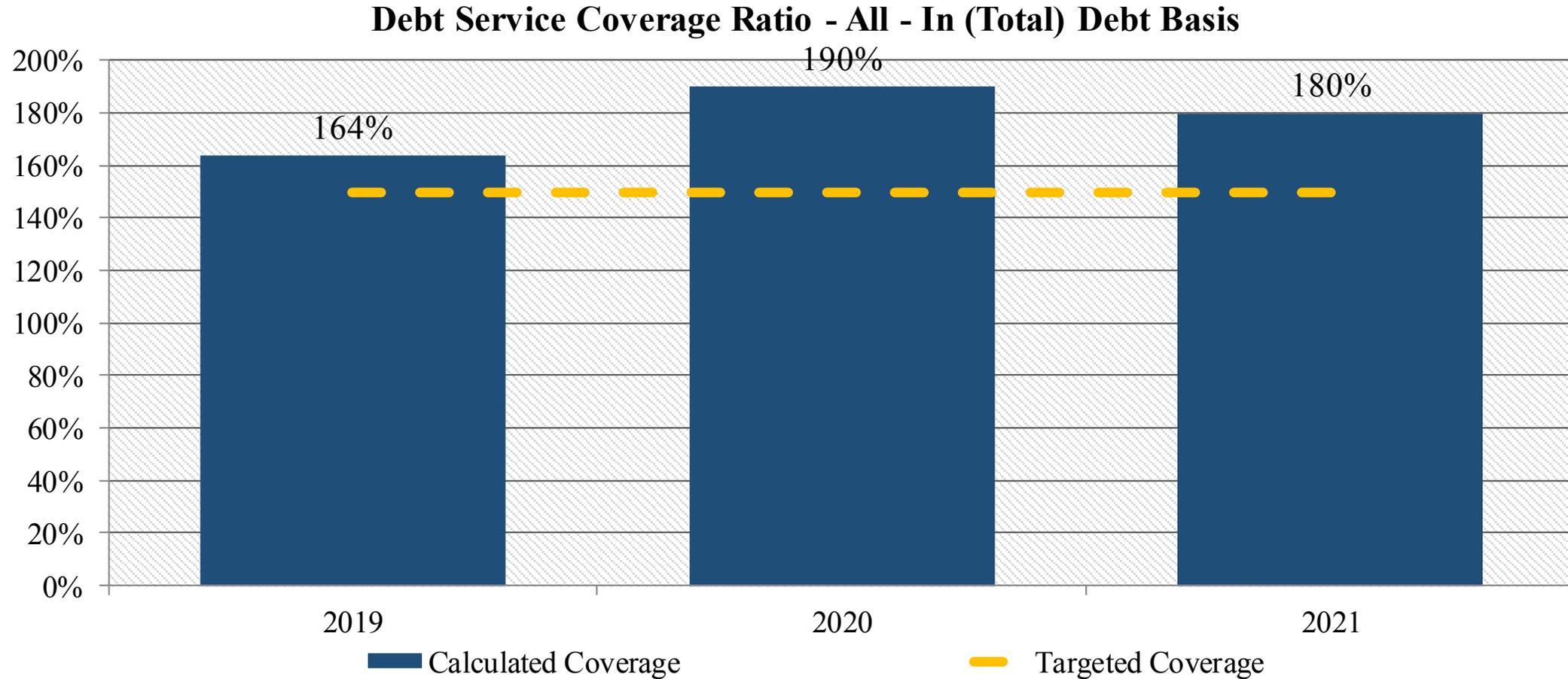
Key Assumptions & Findings:

- Assumes Recommended Rate Increases
- Assumes Increases to Operating Expenses & New Debt to Fund RiverRenew
- Recommended Rates projected to Meet Cashflow Needs



AlexRenew Rate Adjustment Considerations

Projected Coverage



Full Listing of Rate Adjustment Recommendations Proposed for Implementation Starting July 1, 2019



	<u>Existing</u>	<u>July 2019</u>	<u>July 2020</u>
Base - Residential	\$9.61	\$10.83	\$12.05
Base - Commercial			
5/8"	\$28.83	\$32.49	\$36.14
3/4"	\$28.83	\$64.97	\$72.29
1"	\$72.07	\$81.22	\$90.36
1-1/2"	\$144.16	\$162.43	\$180.71
2"	\$230.65	\$259.88	\$289.14
3"	\$432.47	\$487.28	\$542.14
4"	\$720.77	\$812.13	\$903.56
6"	\$1,441.56	\$1,624.26	\$1,807.13
8"	\$2,306.50	\$2,598.81	\$2,891.40
Flow	\$6.77	\$7.63	\$8.50
AlexRenew Residential Bill, 4,000 gallons	\$36.69	\$41.35	\$46.06
Change in \$		\$4.66	\$4.71
Change by %		13%	11%

Recommendation:

Increase Charges as shown in July 2019 (Fiscal Year 2020) and July 2020 (Fiscal Year 2021)



AlexRenew and Alexandria Residential Bill Example – Current



Current Charges

Wastewater Treatment Charge
(\$6.77 x 4.000 thousands of gallons)

27.08

Volume charge based on
metered water
consumption

Base Charge

9.61

Base charge based on
meter size

Total Wastewater Treatment

36.69

City Sanitary Sewer System
Capital Investment and Maintenance Fee
(\$2.28 x 5.000 thousand of gallons)

11.40

City sanitary sewer charge

Total Current Charges

48.09



AlexRenew and Alexandria Residential Bill

Example – Effective July 1, 2019



Current Charges

Wastewater Treatment Charge
(\$7.63 x 4.000 thousands of gallons)

30.52

Volume charge based on
metered water
consumption
(\$7.63 per thousand gallons)

Base Charge

10.83

Base charge based on
meter size
(\$10.83 for residential
customers)

Total Wastewater Treatment

41.35

City Sanitary Sewer System
Capital Investment and Maintenance Fee
(\$2.28 x 5.000 thousand of gallons)

11.40

City sanitary sewer charge
(No change)

Total Current Charges

52.75

Difference: \$4.66/month



AlexRenew and Alexandria Residential Bill Example – Effective On July 1, 2020



Current Charges

Wastewater Treatment Charge
(\$8.50 x 4.000 thousands of gallons)

34.00

Volume charge based on
metered water
consumption
(\$8.50 per thousand gallons)

Base Charge

12.05

Base charge based on
meter size
(\$12.05 for residential
customers)

Total Wastewater Treatment

46.05

City Sanitary Sewer System
Capital Investment and Maintenance Fee
(\$2.28 x 5.000 thousand of gallons)

11.40

City sanitary sewer charge
(No change)

Total Current Charges

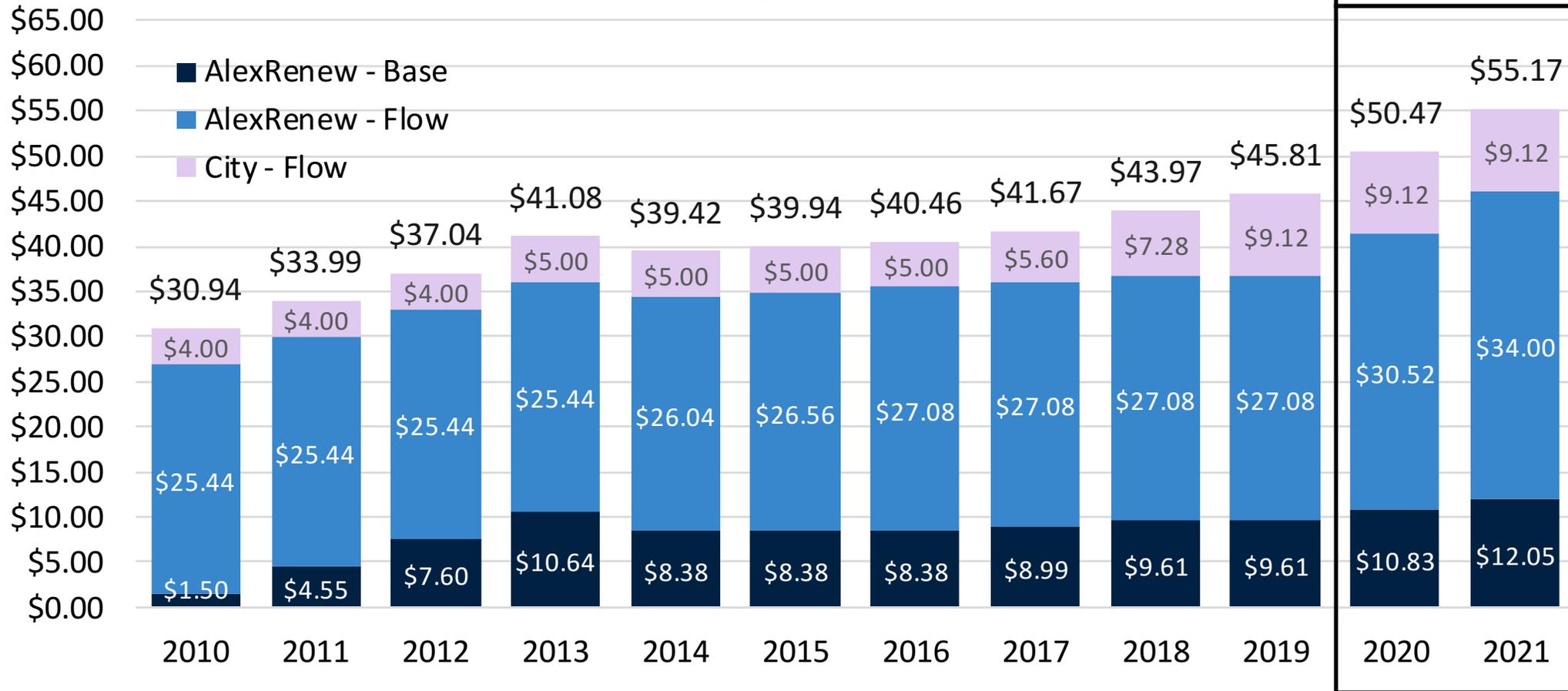
57.45

Difference from July 2019: \$4.71/month



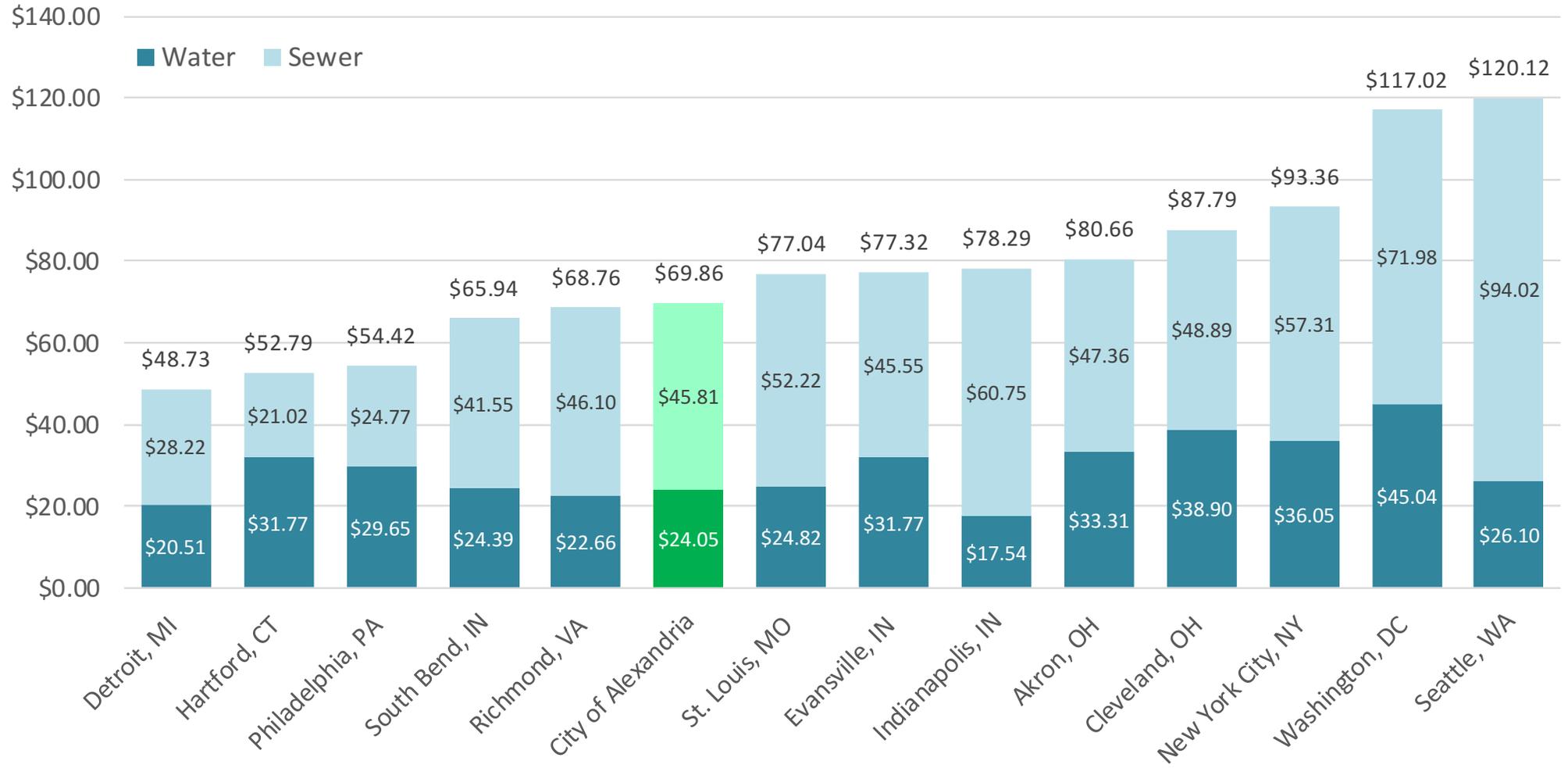
AlexRenew Rate History

Summary of Historical and Proposed Monthly Residential Sewer Bill Charges at 4,000 Gallons



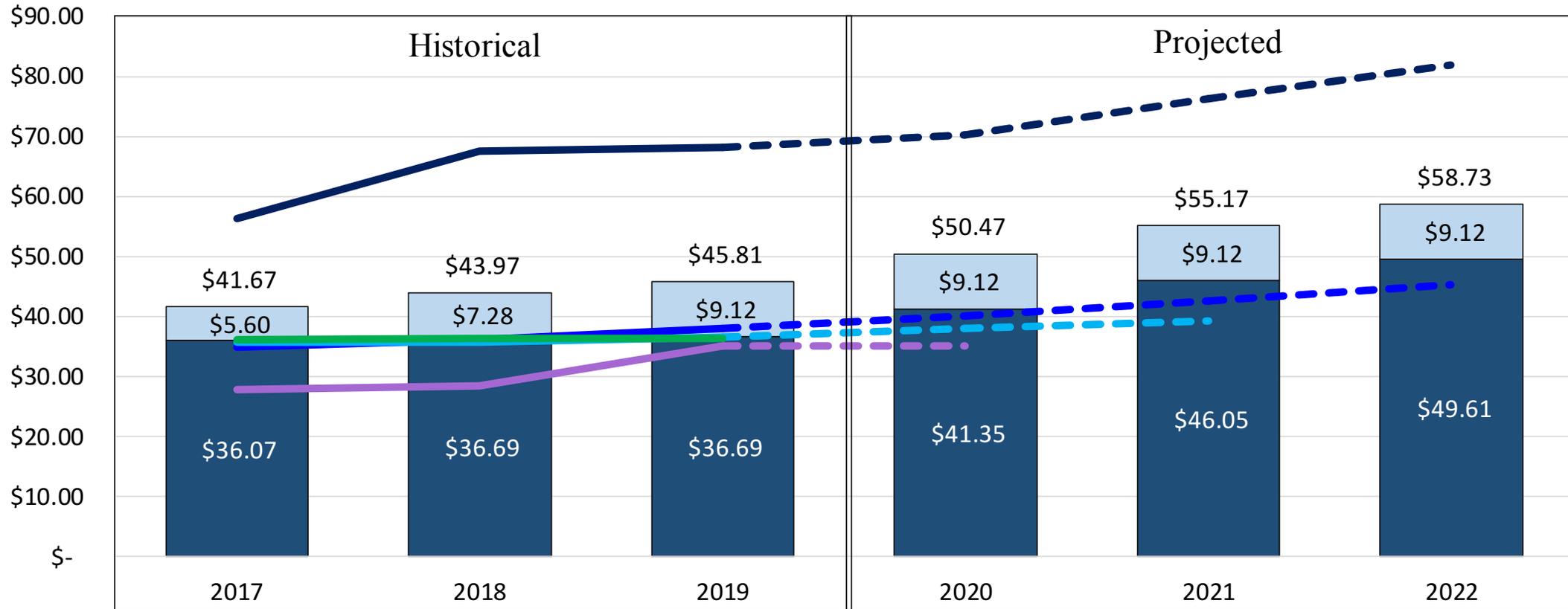
The Price of Water 2018

2018 CSO Water and Sewer Survey w/ Alex Renew Rates in FY19
 Monthly Residential Charge for 4,000 Gallons Water and Sewer Service



Historical & Projected Rates in Metro Area

Monthly Historical and Projected Residential Utility Wastewater Bill at 4,000 Gallons



■ Alex Renew
 ■ City
 — DC Water
 — Fairfax County
 — Prince William County S.A.
 — WSSC
 — Arlington County



AlexRenew Rate Adjustment Consideration

Rate Recommendation

Increase Rate Revenue by 13% and 11% over the next TWO FISCAL YEARS respectively

- Funds delayed investment for existing facility renewal projects
- Funds the FY20 and FY21 needs of the RiverRenew Program

Apply Rate Change to the Base and Wastewater Treatment Charges in the same manner as the previous rate structure

- Ensures Revenue Stability
- Considered Favorable by Credit Rating Agency's
- All customer groups see the same percentage increase

Re-assess subsequent rate increases for FY22 and beyond as contracts for RiverRenew program are awarded



[Thank You]

