



PRESENTATION TO PROVIDE

# Regional Consolidation of Sewer System Assets Study

HRPDC Contract: PDC 2013-01



**HRPDC Board Briefing**

**July 18, 2013**

Agenda Item #5

**HDR**

McGUIREWOODS

# Primary Objectives

- **Compare costs of providing wastewater service in 14 Hampton Roads Localities under two scenarios:**
  - Non-Regionalized : Localities own local sewer systems and HRSD owns interceptor system and treatment plants (current structure)
  - Regionalized: Single regional entity to own all sewer systems, interceptors and treatment plants
- **Recommend potential governing structure for the regional entity if Regionalization is financially feasible.**

# Preview of Conclusions and Recommendations

- **Regionalization = significant cost savings to the region's wastewater rate payers**
  - \$1 billion savings in Consent Order capital improvements
  - \$890 million net present value savings of 30-year expenditures
  - Significant savings to ratepayers in 13 of 14 Localities
    - 14<sup>th</sup> Locality just on the line of savings/no savings
- **Regionalization offers:**
  - More effective management of risk in program implementation and achieving wet weather flow reductions
  - More effective management of Consent Order negotiations and reduced risk of non-compliance
  - Less complex project logistics

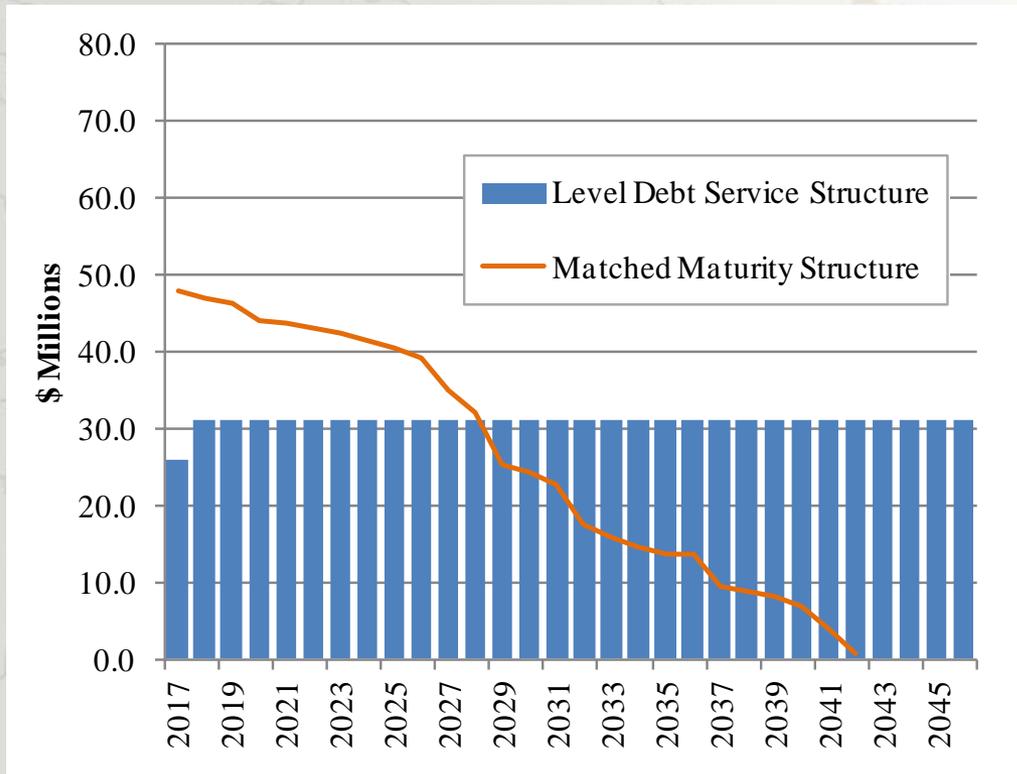
# Cost of Service – Financial/Rate Analysis

- **Looked at annual revenue requirements**
  - O&M expenses
  - Existing debt service
  - Future debt service for Consent Order capital improvements
  - “Repair and replace” projects funded from rates (depreciation expense)
- **Some key assumptions**
  - Locality sewer infrastructure, equipment donated to regional entity
  - Taxes, payment in lieu of taxes, transfer payments not included in analysis

# O&M Expenses

- **Key Assumptions**
  - All Locality sewer personnel transfer to regional entity (no layoffs)
  - All Locality sewer rolling stock, equipment and materials transfer to regional entity
  - Localities keep Operations and Maintenance facilities
  - Some increase in sewer O&M for Consent Order requirements
- **Regionalized Scenario cost savings from reduction of redundant management and admin positions, through attrition**

# Existing Locality Debt – Regionalized Scenario



- **\$882 million in outstanding debt payments for existing Locality debt**
- **All existing Locality debt transfers to regional entity**
  - No apparent obstacles to debt transfer
- **Assume existing debt is refinanced using level debt service (30-years at 5%)**
  - Lowers initial payments
  - Allocates debt evenly between current and future rate payers

# New Debt – Consent Order Capital Improvements

## Capital improvements - Comparative Analysis Report (\$millions)

Scenario	Regional Capacity Improvements	Locality Capacity Improvements	Sewer Rehab (Reduce I\I)	Private Lateral Rehab	Total
Non-Regional	\$659	\$364	\$1,957	\$289	\$3,269
Regionalized	\$635	\$347	\$1,005	\$211	\$2,198

- **Sewer rehab to reduce wet weather inflow and infiltration (I\I)**
  - Non-Regionalized – system-wide rehab in most sewer sheds
  - Regionalized – optimized, intensive rehab in leakiest sewer sheds
- **Assumptions for financial analysis**
  - Capital costs spread out over implementation
  - Capital improvements are debt funded – 30 year bonds at 5%

# Results – Region-Wide Cost of Service Comparison

- **Regionalized Scenario provides:**
  - Capital cost savings of almost \$1.1 billion
  - 30-year present value savings of \$890 million

Non-Regionalized 30-year Present Value	Regionalized 30-year Present Value	30-year Present Value Savings
\$11,779,000,000	\$10,889,000,000	\$890,000,000

- Breakdown of present value savings (and costs) of Regionalization

	Present Value Savings or (Cost)
Capital improvements	\$550 million
O&M	\$390 million
Refinancing Existing Debt	(\$50) million
<b>Total Savings</b>	<b>\$890 million</b>

# Governance and Enhanced Local Coordination

- **Current HRSD Governance Structure**
  - Governor appoints 8-member board, one from the following jurisdictions
    - Chesapeake
    - Hampton
    - Newport News
    - Norfolk
    - Portsmouth
    - Suffolk or Isle of Wight
    - Virginia Beach
    - Cities of Williamsburg or Poquoson; Counties of James City, Gloucester, King William, Mathews, Middlesex, King & Queen, York.
  - Board Members are not representatives of jurisdictions –legal and fiduciary responsibilities are to HRSD

# Recommendations on Governance – Regionalized Scenario

- **Expand Governing Board to 17 voting members**
  - One member from each locality in HRSD service area
  - Governor appoints from 3 candidates nominated by each locality
  - No current elected local government officials on the board
  - Professional qualifications relevant to the management and operations of a regional utility authority
  - 4-year terms; maximum of two successive terms
- **Add a 17-member *ex-officio* advisory board (non-voting)**
  - Local government employee appointed by each locality
  - Allow an alternate for each *ex-officio* member

# Recommendations for Enhanced Local Coordination – Regionalized Scenario

- **New Economic Development Coordinator in HRSD**
  - Point person for working with Locality planning, economic development staffs
- **Expand HRSD Planning and Analysis Staff to handle new connections, service extensions**
  - HRSD should accept new extensions, connections paid for by Localities if capacity is available
- **Two new Government Liaison positions in HRSD**
  - Coordinate policy, communications, public education, emergency response with localities
  - 1 North Shore, 1 South Shore position

# Regionalization Study Schedule

Item	Date
Draft Study Report	July 8, 2013
Review Workshops with Localities	July 12 – 19, 2013
Review Comments to HDR	July 22, 2013
Final Study Report	Aug 2, 2013
Submit Study Report to VDEQ and EPA	Aug 31, 2013

# Next Steps – Decision on Regionalization

Activity	Timeline
Local governing bodies consider Study Report and make decision	Aug 2013 – Feb 2014
Regionalization decision to VDEQ and EPA	Feb 28, 2014

- **Regionalization Decision Options**

- Do not want to consolidate sewer assets at this time
- Would like to consolidate with the following conditions...
- Would like to consolidate per the recommendations of the Study Report

# Next Steps - Implementation

- **“Most or All” want to move forward with Regionalization**
  - 12 to 18 months to work out details and transfer assets
    - Must be completed no later than Aug 28, 2015
  - Regional Wet Weather Management Plan due Oct 1, 2016
- **“Most or All” do not want to move forward with Regionalization**
  - Clock restarts on state Order and Consent Decree work
  - Regional Wet Weather Management Plan due Oct 1, 2015