



City of Newport News Virginia

Waterworks Ratings Presentation

April 27, 2017



NEWPORT NEWS
Waterworks
DEPARTMENT



I. Overview

Newport News Waterworks Mission Statement:

To provide high quality drinking water and support public health, safety, and the community with a professional team of dedicated employees committed to excellence

Newport News Overview

- The City's tax base is experiencing expansion and diversification
- Continued reinvestment by major employers, including Huntington Ingalls, Canon Virginia, Continental Automotive Systems, and Jefferson Lab
- Growth in other economically sensitive revenues, including meals tax, sales tax and business and professional licenses
- Military and defense-related activity within the City has been steady over the past year, with several notable wins in new federal contracting
- Maintain a solid financial position
 - Strong reserves, with an Unassigned General Fund Balance at \$51.1 million or 11% of annual General Fund Revenues in FY 2016 (compared to \$49.9 million or 11% of General Fund Revenues in FY 2015)
 - Fully funded the City's pension ARC in FY 2016, one year ahead of the initial eight-year pension funding plan
 - Utilize a five-year financial plan to assist in making prudent, strategic financial decisions

Newport News Water System Overview

- One of the largest water systems in Virginia, overseen by an experienced and conservative management team
- System is relatively new and capacity is more than adequate for at least 30 years
- New development throughout the service area will be strong in the near-term based on confirmed projects underway
- To solidify financial strength going forward, Council adopted formal financial policies for Waterworks in March 2016 and in FY 2014, enhanced a fixed rate recovery charge to reduce reliance on volumetric charges
- Historically solid financial performance, with extremely strong senior lien debt service coverage and stable liquidity
- Low debt levels and very rapid debt repayment
- Manageable capital plan, of which less than one percent is driven by regulatory requirements

Service Area

- Supplies treated water to a population of approximately 406,968 people via 128,000 active customer accounts and approximately **34 million gallons delivered daily** as of FY 2016
- **Serves five cities and counties** including: Newport News, Hampton, Poquoson, York County and parts of James City County
- Known **new development** throughout the service area is **strong**



Service Area Wealth

Service Area Wealth (MFI as % of US) is 101.3%.

	Population	% of Service Area	MFI	% of Service Area x MFI
City of Poquoson	12,017	3.0%	\$97,684	\$2,885
York County	67,976	16.7%	94,141	15,724
James City County	9,740	2.4%	90,901	2,176
City of Hampton	135,410	33.2%	60,693	20,194
City of Newport News	181,825	44.7%	58,040	25,931
Total	406,968	100.0%		\$66,910
US Median Family Income				\$66,011
Service Area Wealth				101.3%

Source: U.S. Bureau of the Census, American Factfinder 2015



II. Operating System

Water Supply, Treatment and Distribution Facilities

Raw Water Supply	Amount Available
Brackish ground water wells	7.0 MGD
Chickahominy River	60 MGD
Diascund Creek Reservoir	3,122 million gallon storage
Harwood's Mill Reservoir	587 million gallon storage
Lee Hall Reservoir	726 million gallon storage
Little Creek Reservoir	6,854 million gallon storage
Skiffe's Creek Reservoir	168 million gallon storage
Safe Yield of System	62.70 MGD

Distribution:

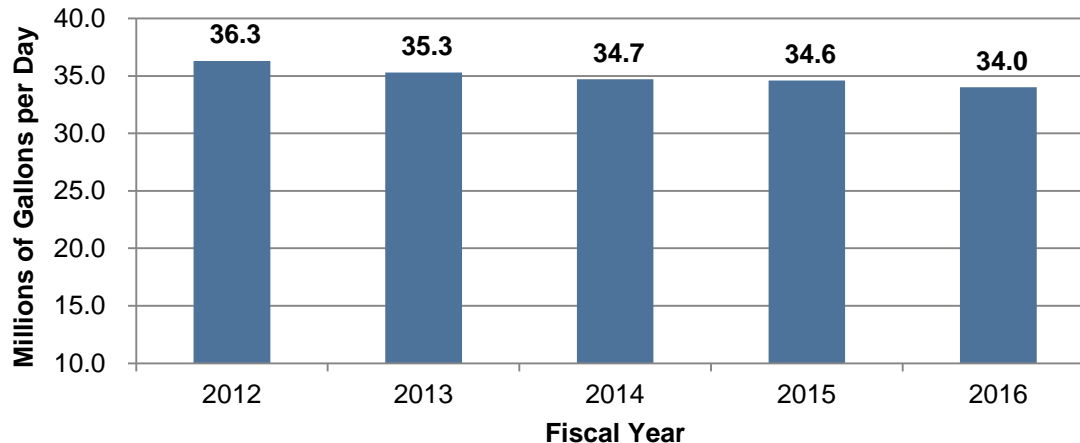
- 6 elevated tanks and 5 ground level tanks
- 1,750 miles of pipeline
- 11,100 fire suppression hydrants, 32,500 valves, and 135,000 water meters
- Owner and operator of the York County Lightfoot water system including three wells, a treated water system, and nearly 500 retail accounts
- Average age of pipeline is approximately 42 years

Treatment Plants	Year Built	Year Renovated	Capacity (MGD)	FY2016 Average Flow (MGD)	FY2016 Peak Flow (MGD)
Lee Hall Water Treatment Plant	2005	N/A	54.0	19.9	24.3
Harwood's Mill Water Treatment Plant	1989	2015	31.0	15.5	20.8
Reverse Osmosis Facility	1997	N/A	5.7	0.9	1.91
Total	--	--	90.7	36.3	47.0

Key Operating Statistics

- FY 2016 customer water availability averaged 99.999%
- During FY 2016, experienced zero instances of being unable to meet customer water demands
- Consumption reductions declined 1.6% on average over the past 5 years, and 1.7% in FY 2016
- Water loss averaged approximately 4% of total pumped volume for most recent five year period
- During FY 2016, maintained 100% compliance of regulatory requirements

Historical Water Consumption



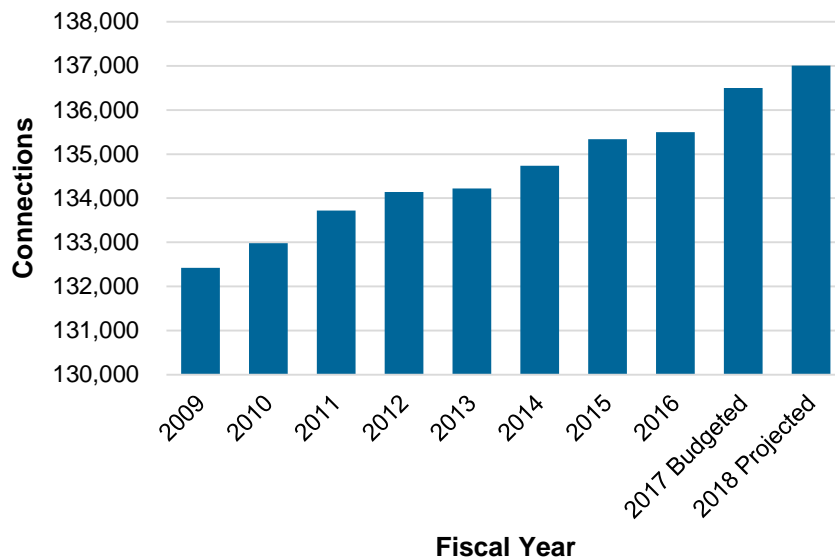
Recent Awards and Accomplishments

- All three of our major facilities have attained the highest level in the Department of Environmental Quality (DEQ) Virginia Environmental Excellence Program (VEEP). Extraordinary Environmental Enterprise (E4) certification was granted for **Lee Hall Maintenance and Operations Center, Harwood's Mill Water Treatment Plant** and the **Lee Hall Water Treatment Plant**.
 - Status is granted to facilities with a fully-implemented Environmental Management System and a pollution prevention program with documented results and a record of sustained compliance with environmental regulations
- Partnership for Safe Drinking Water Distribution System Optimization Program Phase III Director's Award (2015)
- Best Maintained Dam, Public Owned, Virginia Lakes and Watershed Association (2015)
- Forest Steward Award, Alliance for the Chesapeake Bay and U.S. Forest Service (2014)
- Association of Metropolitan Water Agencies Platinum Award for Utility Excellence (2010)
- Received AWWA Virginia Section Employer Support Award (only Virginia recipient) in 2009 recognizing Waterworks' promotion of employee growth and development

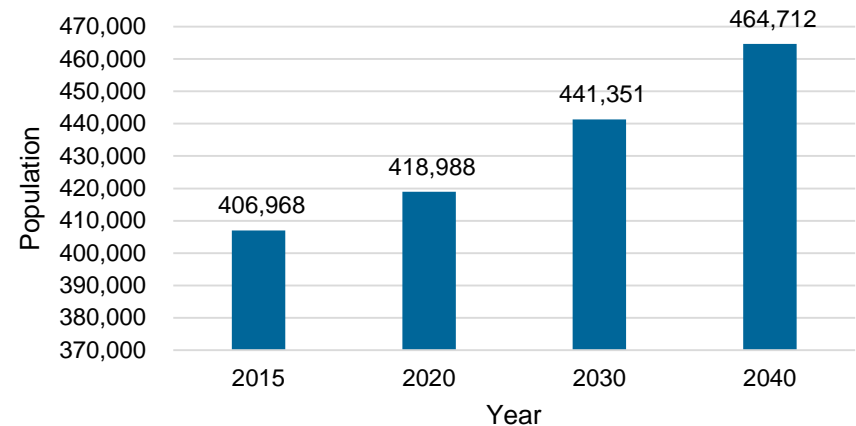
Service Area Population

- Service area is comprised of five (5) cities and counties including: Newport News, Hampton, Poquoson, York County and parts of James City County
- FY 2016 serviced population of approximately 406,968 people via 128,000 active customer accounts
- Current capacity is expected to meet projected demand through 2050

Customer Connections



Population Served by Newport News Waterworks

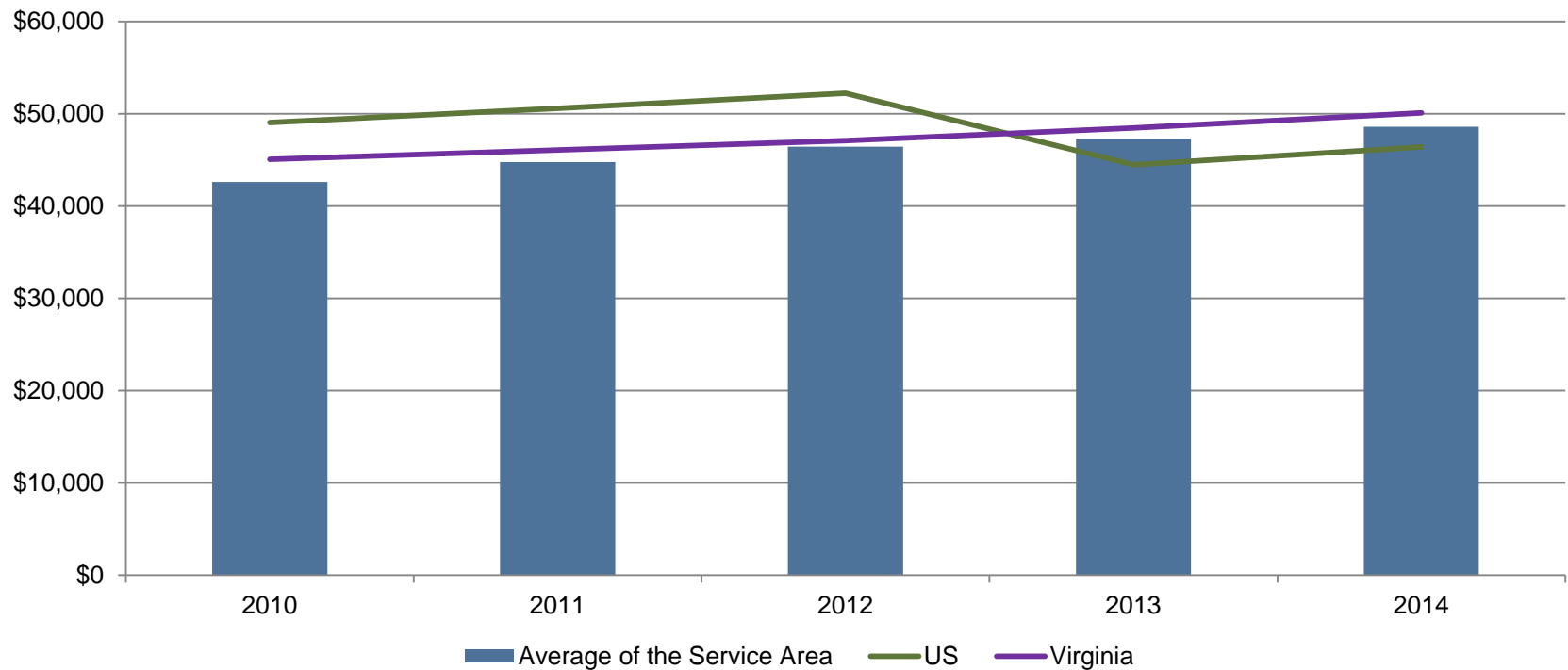


Source: University of Virginia Demographics Research Group

Wealth of Customer Base

- The per capita income of the service area is 5% above that of the United States and in line with the Commonwealth

Per Capita Personal Income



Source: US Department of Commerce, FY2016 CAFRs for the Cities of Hampton, Newport News, Poquoson, York County and James City County.



III. Financial Update

Financial Policies

City Council recently formalized these long-standing financial practices.

• The Waterworks Department Fund will be self-supporting.	✓
• The Waterworks Department Fund will maintain revenues available annually to pay debt service, net of transfers, of at least 1.20 times annual debt service.	✓
• In order to cover emergencies and revenue shortfalls within the Waterworks Department Fund, at the end of each fiscal year, the Waterworks Department Fund will maintain a Revenue Fund with unrestricted cash and short-term investments equal to a minimum of 90 days of operating expenses and transfers.	✓
• The Waterworks Department Fund will maintain a Renewal and Replacement Fund (in accordance with its bond requirements) with a targeted balance equal to a minimum of 25% of average 5-year CIP.	✓
• The Waterworks Department Fund will maintain a Rate Stabilization Fund (in accordance with its bond requirements) with a targeted balance equal to 30 days of annual operating expenses and transfers.	✓
• If the Waterworks Department Fund uses balances in the revenue Fund, Renewal and Replacement Fund or the Rate Stabilization Fund such that the funds fall below the minimum, the City will develop a plan to replenish such funds over a period not to exceed three years.	✓
• The Waterworks Department Fund will fund at least 25% of its 5-year CIP in cash.	✓

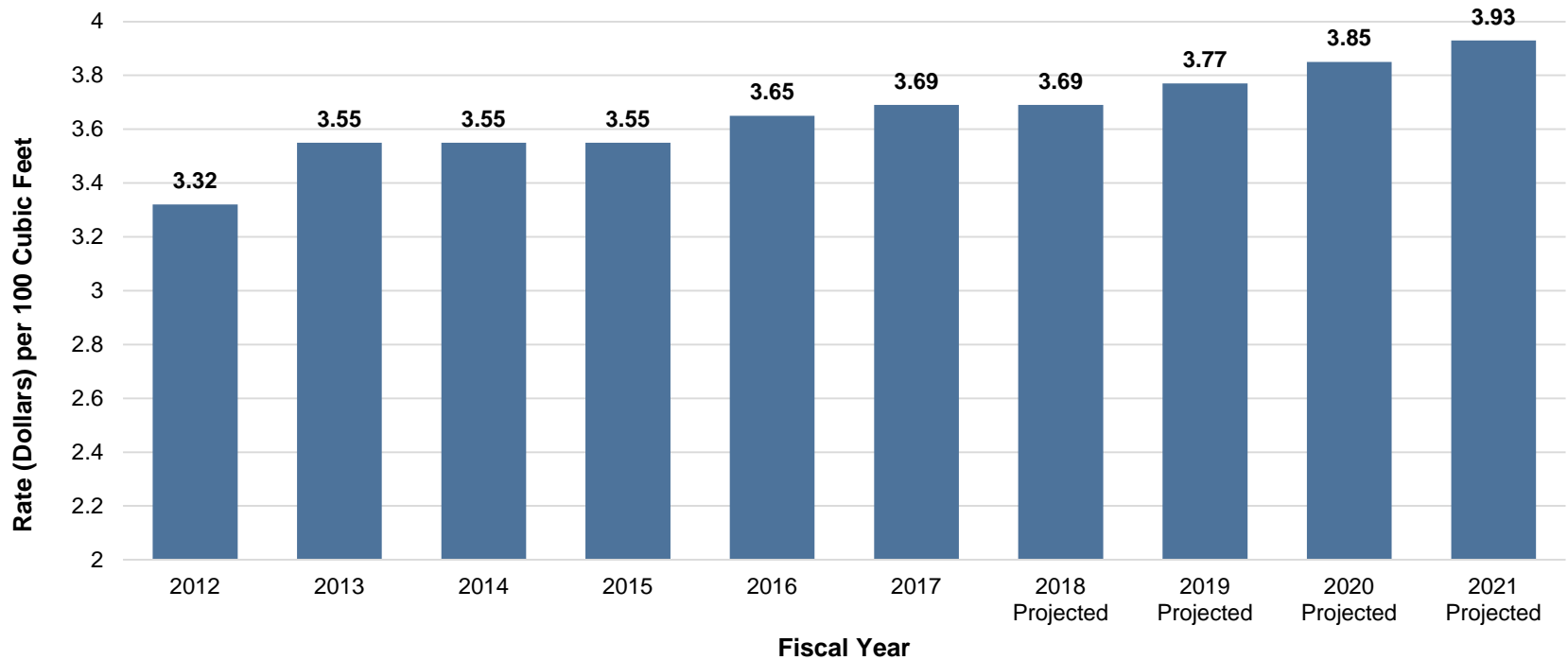
Management and Rate Setting

- Waterworks typically requests nominal rate or fee increases each year rather than periodic, larger increases over an inconsistent period.
- Waterworks has experienced no political or practical pressure to limit rates, likely because the rates are very reasonable when compared to other utilities in the region.
- In recent years, the utilities governing Council has consistently approved the Manager's recommended rate or fee increase.
- Waterworks has no known or anticipated compliance issues or concerns that would impact rates. The utility is currently in full compliance with all Federal, State and local regulatory requirements.

Water Rates

- Rates are adopted on an annual basis by City Council

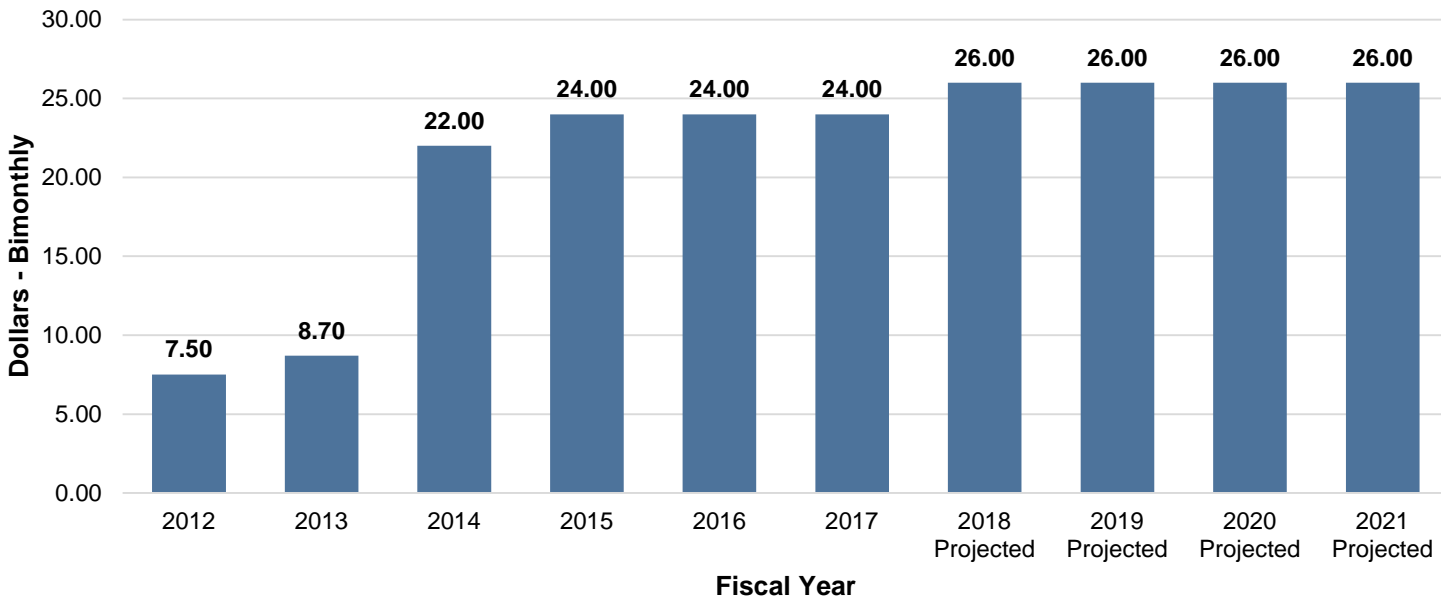
Volumetric Water Rates



Service Fees

- In FY 2014, enhanced the service fee to increase fixed cost recovery
 - Target 40% Fixed / 60% Volumetric charges for average residential customer
 - Service fee varies by meter size and billing frequency
 - For 5/8" meters, bimonthly service fee is \$24.00 (\$16/mo) for FY 2017

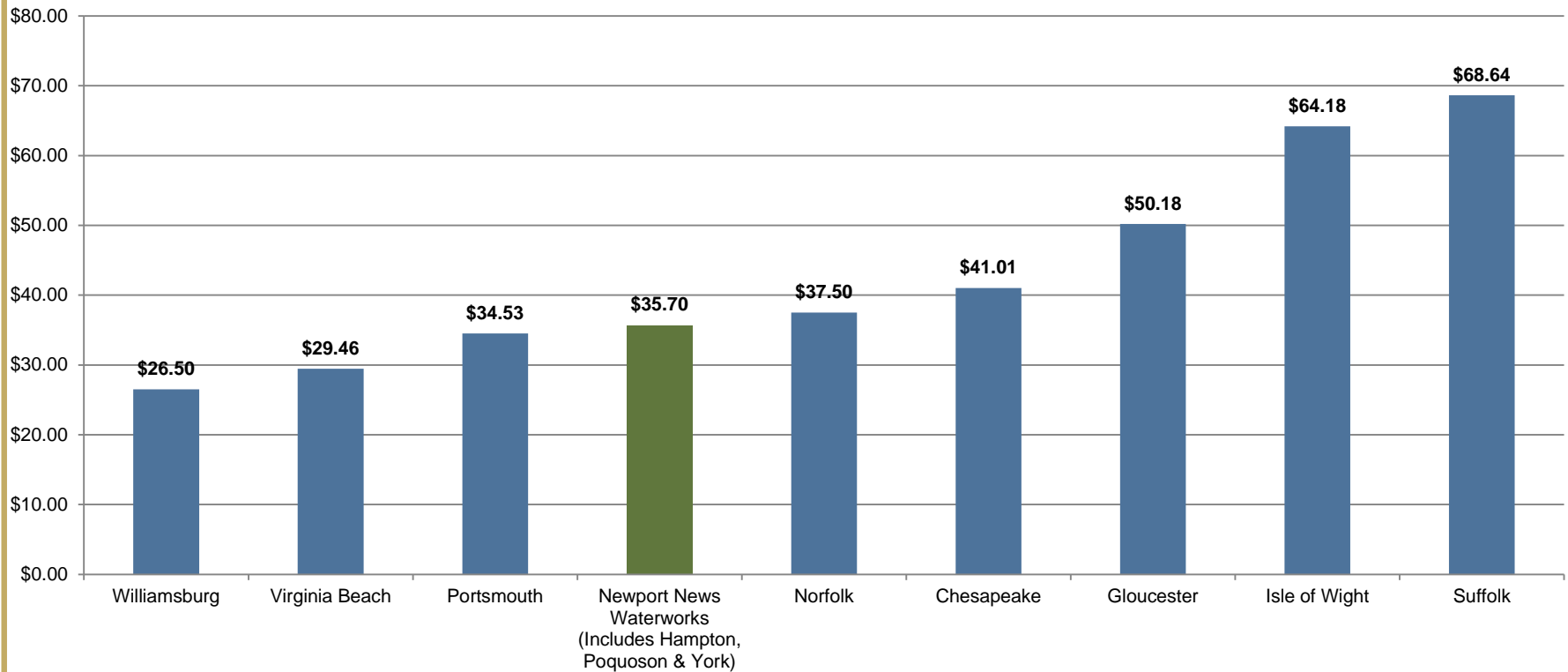
Fixed 5/8" Meter Service Fee - Bimonthly



Regional Water Bill Comparison

- Newport News FY 2017 rates average 0.64% of the median family income for the population served

Average Monthly Residential Water Bill
(as of FY2017, 5,000 gal/month)

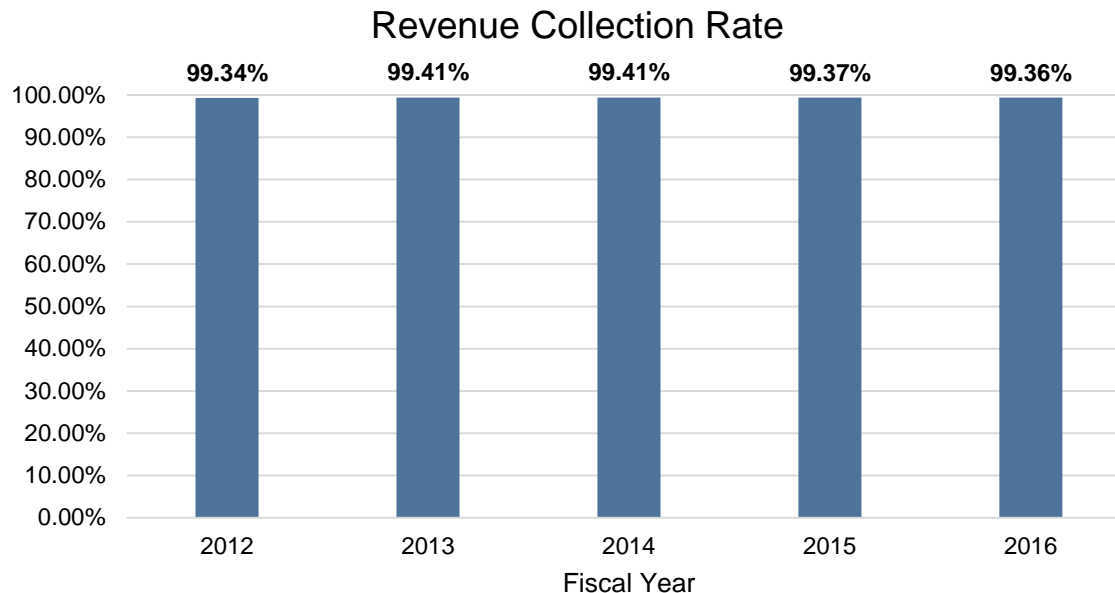


Source: Hampton Roads Planning District Commission.

Notes: Newport News Rate excludes the Monthly Fire Protection Service Fee; Average bills for Norfolk and Virginia Beach include Utility Tax.

Revenue Collection

- Waterworks maintains a very strong collection rate
- Section 42-15 Newport News City Ordinance - Water service may be stopped through cut off or removal of water meter by the City for...nonpayment for water service, sewer service or other fees accrued pursuant to Section 42
- In addition, Waterworks participates in the Virginia debt collection set-off program



Source: Newport News Waterworks

Revenues and Expenses

Category	Fiscal Year				
	2012	2013	2014	2015	2016
Operating Revenue					
Water Sales	\$58,502,977	\$60,354,102	\$59,945,989	\$59,976,284	\$59,913,931
Charges for Services*	12,280,099	13,105,344	22,773,477	24,878,676	25,423,843
Miscellaneous	2,554,746	2,640,028	2,861,368	3,964,866	4,654,970
Total Operating Revenues	<u>\$73,337,822</u>	<u>\$76,099,474</u>	<u>\$85,580,834</u>	<u>\$88,819,826</u>	<u>\$89,992,744</u>
Non-Operating Revenue					
Interest Income	213,743	196,652	153,241	167,947	276,491
Capital Contributions*	3,475,356	2,811,556	2,327,993	2,434,032	3,352,599
Total Non-Operating Revenues	<u>\$3,689,099</u>	<u>\$3,008,208</u>	<u>\$2,481,234</u>	<u>\$2,601,979</u>	<u>\$3,629,090</u>
Operating Expenses					
Personal Services	(21,632,442)	(22,676,706)	(23,610,208)	(23,029,590)	(26,393,569)
Contractual Services	(10,836,818)	(10,015,583)	(8,813,182)	(5,268,494)	(6,702,043)
Internal Services	(1,409,401)	(1,428,976)	(1,400,937)	(985,063)	(1,018,408)
Material and Supplies	(5,487,109)	(5,572,081)	(6,092,651)	(11,478,951)	(11,981,319)
Depreciation	(14,004,936)	(13,958,539)	(13,871,882)	(13,918,277)	(13,809,239)
Other	(4,172,499)	(4,396,382)	(3,949,201)	(2,437,231)	(2,340,102)
Total Operating Expenses	<u>\$(57,543,205)</u>	<u>\$(58,048,267)</u>	<u>\$(57,738,061)</u>	<u>\$(57,117,606)</u>	<u>\$(62,244,680)</u>
Non-Operating Expenses					
Gain (Loss) on Disposal of Assets	(4,040)	46,084	(32,922)	(1,908,761)	(20,184)
Interest Expense	(7,740,384)	(4,500,006)	(5,140,840)	(4,786,599)	(5,788,608)
Return on Investment	(9,891,000)	(9,891,000)	(9,391,000)	(9,500,000)	(9,500,000)
Non-Operating Expense Total	<u>\$(17,635,424)</u>	<u>\$(14,344,922)</u>	<u>\$(14,564,762)</u>	<u>\$(16,195,360)</u>	<u>\$(15,308,792)</u>
Change in Net Position	<u>\$1,848,292</u>	<u>\$6,714,493</u>	<u>\$15,759,245</u>	<u>\$18,108,839</u>	<u>\$16,068,362</u>

Source: FY 2016 Continuing Disclosure Filing.

* Connection fees are reported as Charges for Services (cash) and capital contributions (non-cash when work is completed by a contractor).

Financial Results and Budgets

	2016	2017	% Change
Operating Revenue			
Water Sales	\$58,050,000	\$59,700,000	3%
Charges for Services	24,650,000	24,900,000	1%
Miscellaneous	4,105,000	3,975,000	-3%
Total Operating Revenues	<u>\$86,805,000</u>	<u>\$88,575,000</u>	2%
Non-Operating Revenue			
Interest Income	\$145,000	\$175,000	17%
Operating Expenses			
Personal Services	\$26,874,028	\$28,277,039	5%
Contractual Services	8,663,445	8,359,111	-4%
Internal Services	858,362	958,500	10%
Material and Supplies ¹	19,804,953	20,419,289	8%
Other	2,711,960	2,748,159	1%
Total Operating Expenses	<u>\$58,912,748</u>	<u>\$60,762,098</u>	3%
Non-Operating Expenses			
Debt Service	\$18,537,252	\$18,487,902	0%
Return on Investment	9,500,000	9,500,000	0%
Non-Operating Expense Total	<u>\$28,037,252</u>	<u>\$27,987,902</u>	0%

1) Material and Supplies includes Fixed Assets
 Depreciation is not included in the calculations
 Source: Newport News Waterworks

Historical Days Cash on Hand

- The City projects its Cash & Cash Equivalents will increase through FY 2017

Fiscal Year	2012	2013	2014	2015	2016
Revenue Fund*	\$21,736,225	\$18,725,433	\$25,536,050	\$30,766,691	\$34,881,138
Renewal & Replacement Fund*	5,044,000	5,044,000	5,044,000	5,044,000	5,044,000
Rate Stabilization Fund*	8,375,400	8,375,400	8,375,400	8,375,400	8,375,400
Cash & Cash Equivalents	\$35,155,625	\$32,144,833	\$38,955,450	\$44,228,935	\$48,300,538
Operating & Maintenance Expenses	\$57,543,205	\$58,048,267	\$57,738,061	\$57,117,606	\$62,244,680
Revenue Fund as Days O&M	138 days	118 days	161 days	197 days	205 days
Renewal & Replacement Fund as % of 5-year average CIP	38%	31%	29%	35%	31%
Rate Stabilization Fund as Days O&M	53 days	53 days	53 days	54 days	49 days

* All three funds are considered “unrestricted” within the financial statements
 The City is in compliance with its Financial Policies relating to Days Cash on Hand:
 -Revenue Fund as Days O&M > 90 days
 -R&R Fund as % of 5 year CIP > 25%
 -Rate Stabilization Fund as Days O&M > 30 days