

# UTILITY SYSTEM OVERVIEW

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## PART 2



# At the last City Council Meeting...

- We presented an overview of the Utility System
- Outlined ARWA capital plans
- Outlined SCWWA capital plans
- Summarized Petersburg infrastructure needs of \$52 million
- Reported total needs of \$97 million (which will impact rates)
  
- We explained that we had no ability to finance these needs due to the City's severe financial condition
  
- And we recommended that Council authorize us to take the next step in the PPEA process



# At the last City Council Meeting...

- City Council postponed commencement of the next phase of the PPEA process, and decided to appoint a citizen committee to study the matter, and
- Council requested that the Administration respond to a list of 13 questions prepared by a Council member



# As a follow-up, tonight we will...

- Present written answers to 12 of the 13 questions
  - Discuss serious problems with the utility billing and collection system
  - Discuss the history of rate increases and show how rates compare with surrounding jurisdictions
  - Remind you of the poor condition of the utility system
- and
- Make a recommendation for an urgent and immediate rate increase of 13.4% to prevent a bond covenant default



# Council Questions

1. Volumes purchased from ARWA: (1,793,956,000 gallons)  
Volumes treated by SCWWA: (2,769,981,640)  
Unit cost water: .9018/ 1,000 gallons  
Unit cost wastewater: 55.42% of O&M and other costs, billed quarterly.
2. Utility revenues FY2016: \$6,542,171.  
Accounts Receivable (Utilities/Refuse/Storm) current balance: \$6,542,171.
3. Water purchased: 1.8 billion gallons; water sold approx. 1.3 billion gallons.



# Council Questions

4. SCWWA processed 2.7 billion gallons in FY16 and Petersburg billed customers for 1.1 billion gallons.
5. Net position of Utility System is \$15.5 million as of FY2015. Market value is best indicated by PPEA proposals submitted by two willing buyers.
6. Rates charged by AQUA and American Water in other cities are presented in documents provided to Council.
7. Estimated infrastructure needs: \$52.5 million.
8. City has replaced 11,408 meters with highly accurate new meters, with 1,100 old meters still needing replacement.



# Council Questions

9. O&M budget is approximately \$2,792,000.
10. Contractual services is approximately \$561,000 of that amount.
11. Cost for processing and collecting bills within the Utility Department is approx. \$432,000 (not including Treasurer's Office).
12. Analysis of Service Agreements with other jurisdictions will be provided at a later date.
13. Other data from the PPEA process is posted on the City's website.





Reminder



Pipes don't last forever



# Petersburg must invest in its Infrastructure



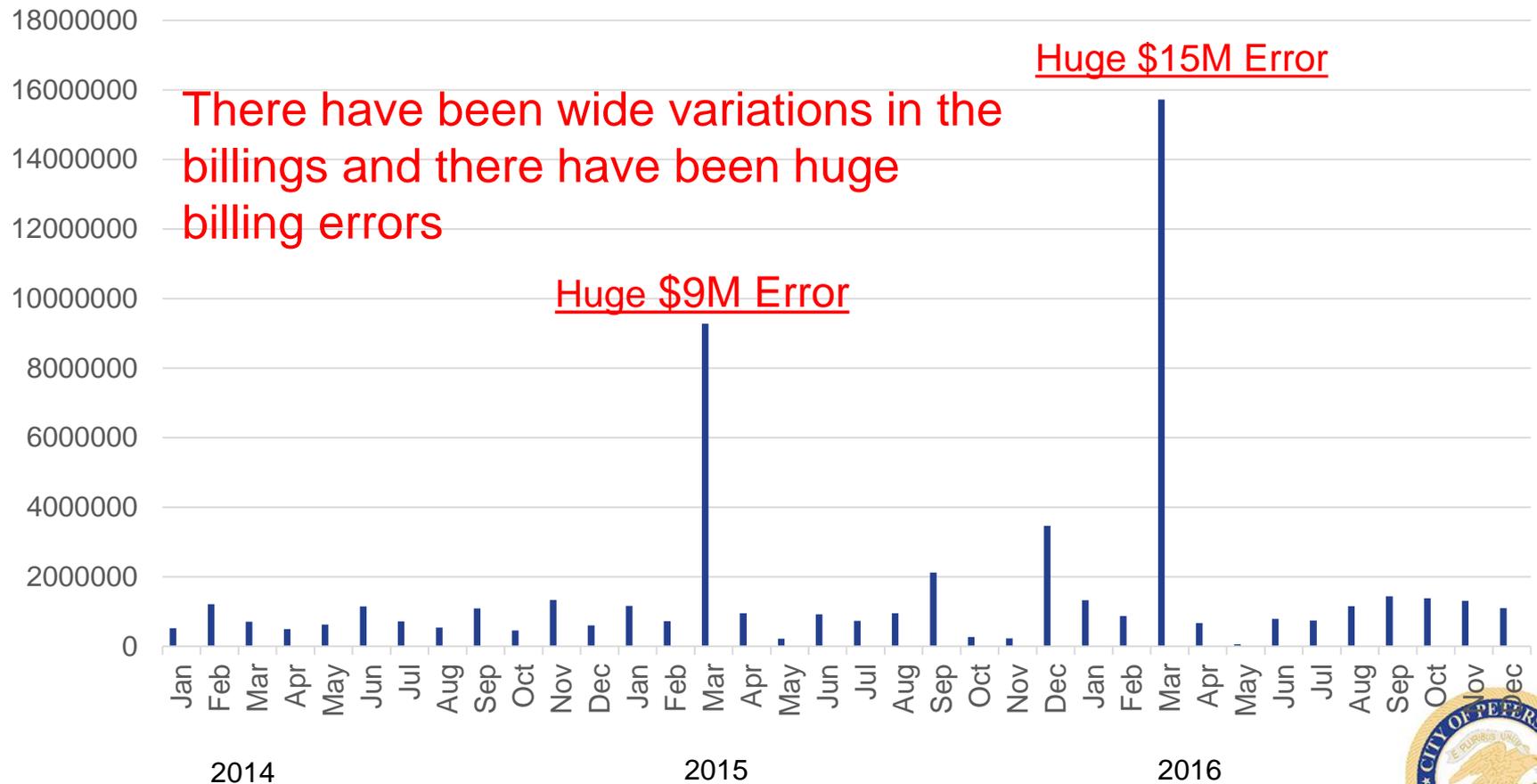
# LET'S START WITH A REVIEW OF THE BILLING PROBLEM

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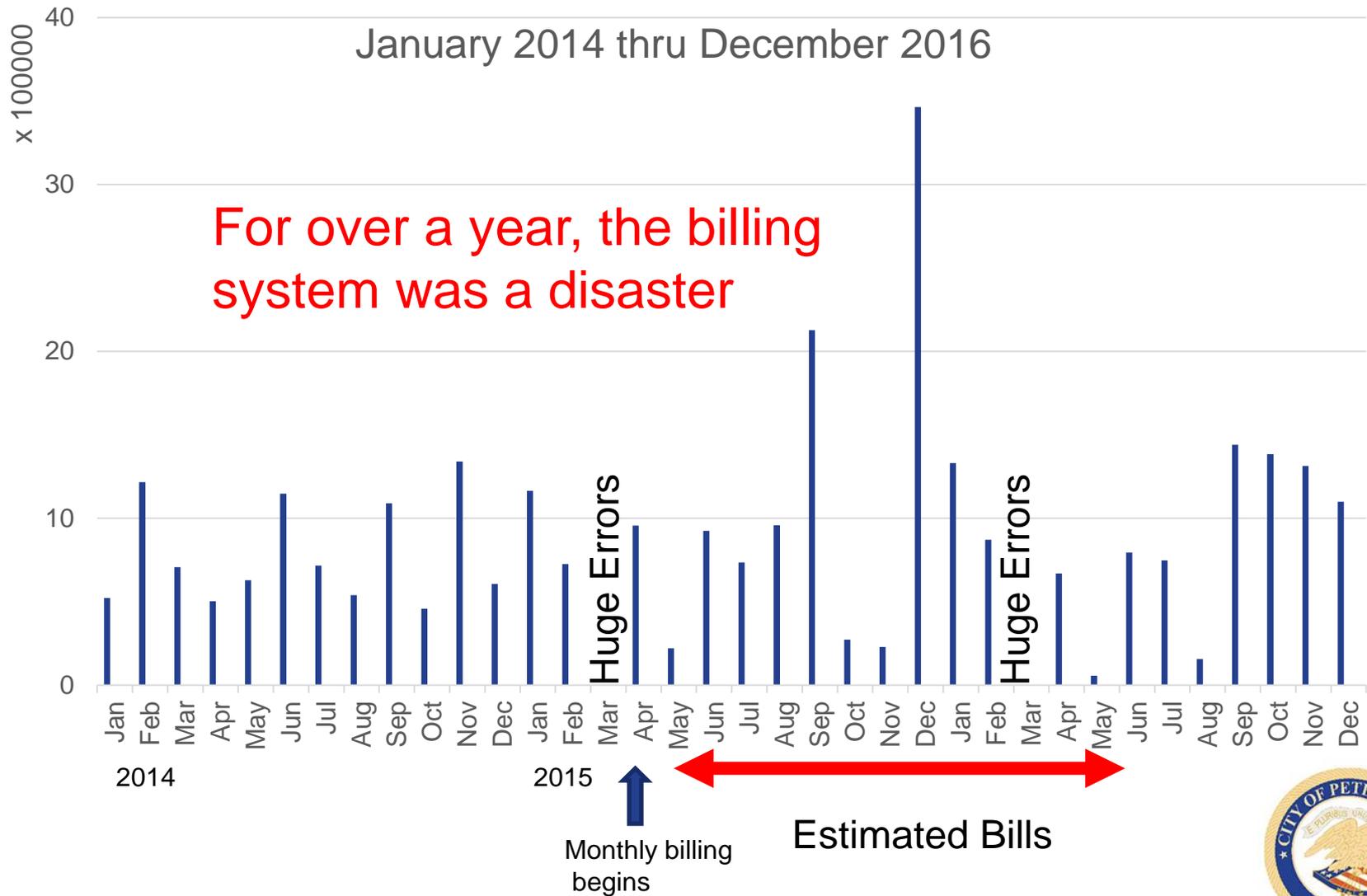


# Monthly Utilities Billings (\$)

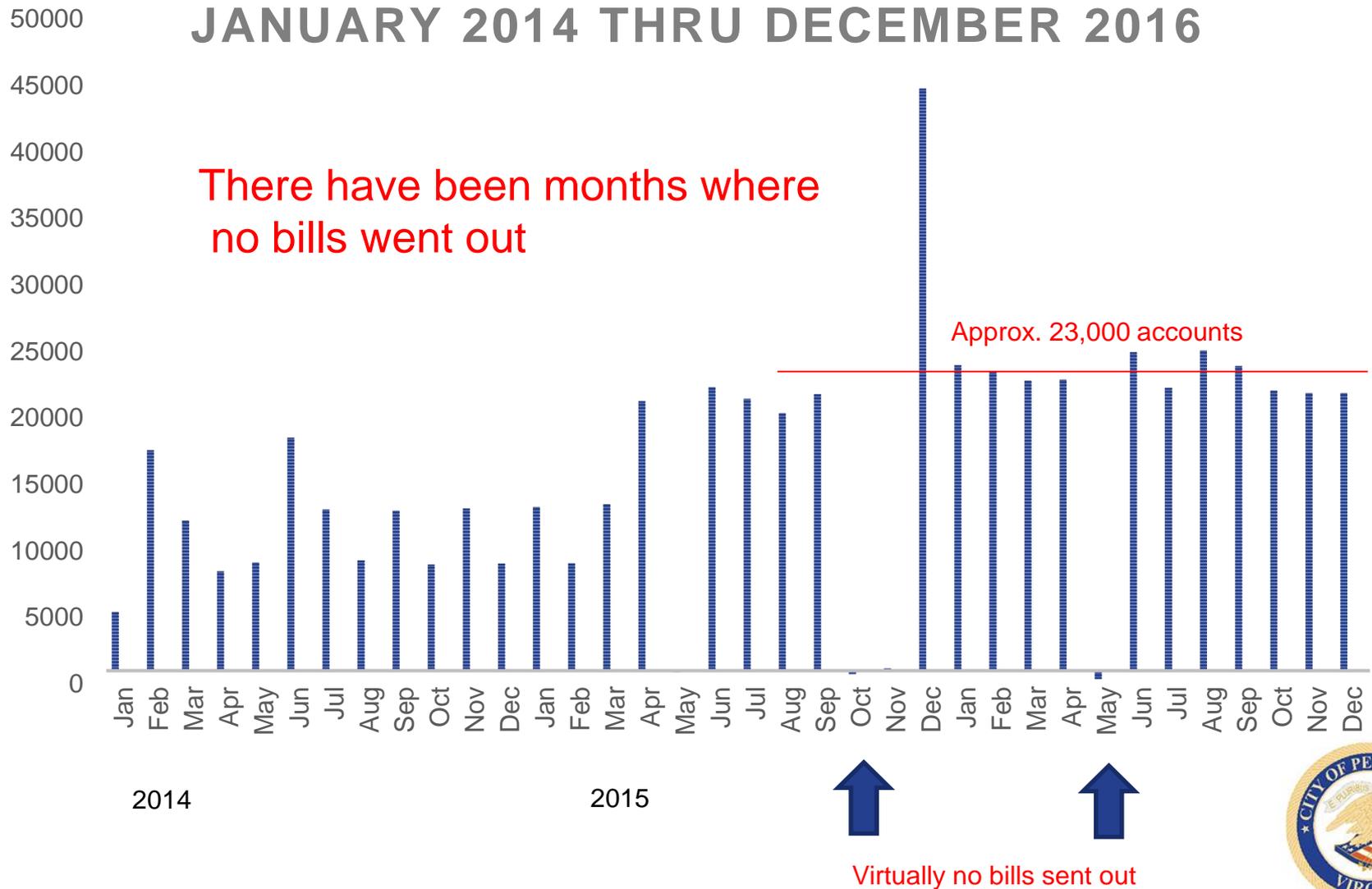
January 2014 thru May 2016



# Monthly Utilities Billings (\$)



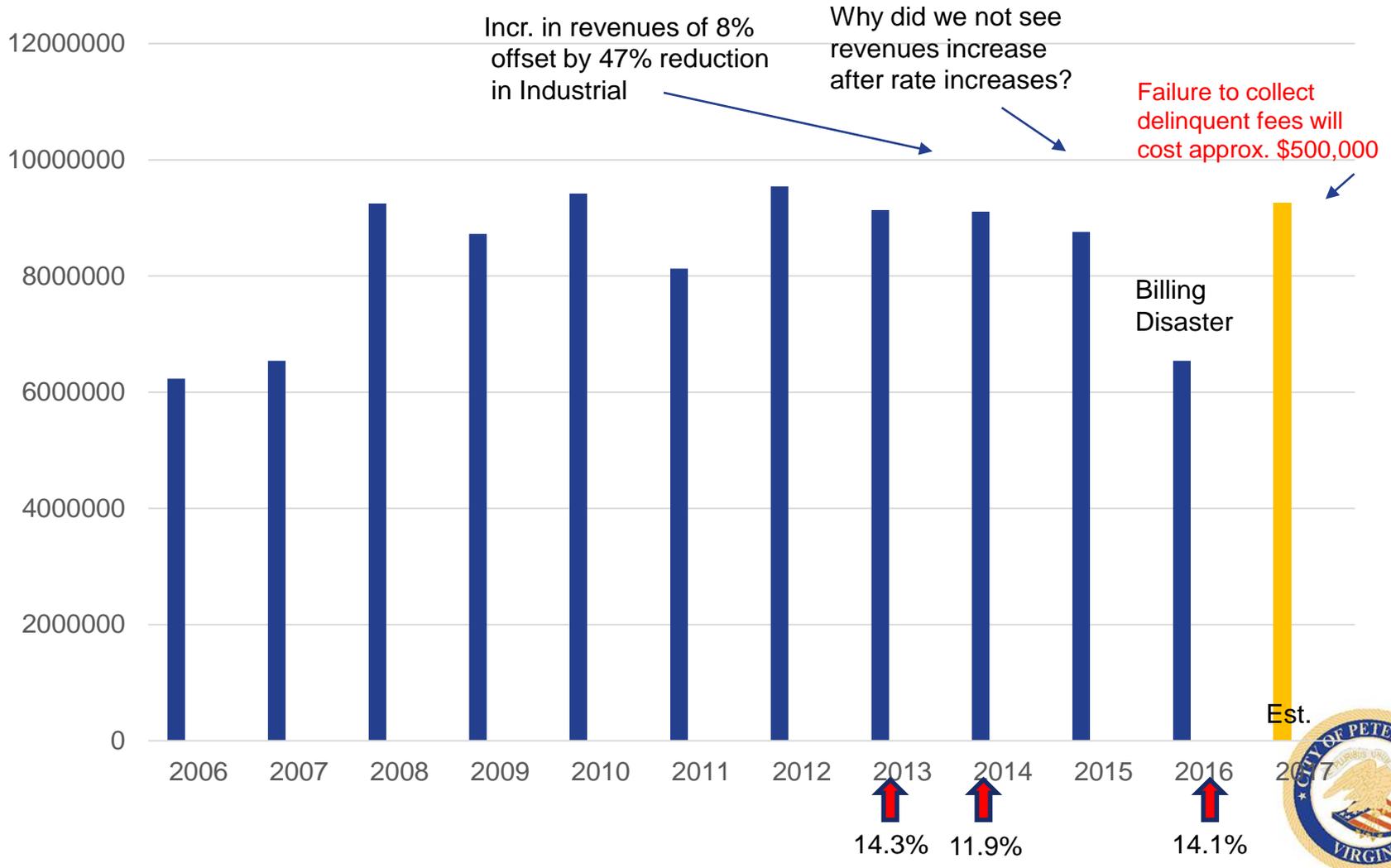
# Number of Monthly Bills Sent Out



# Utility Fund Revenues

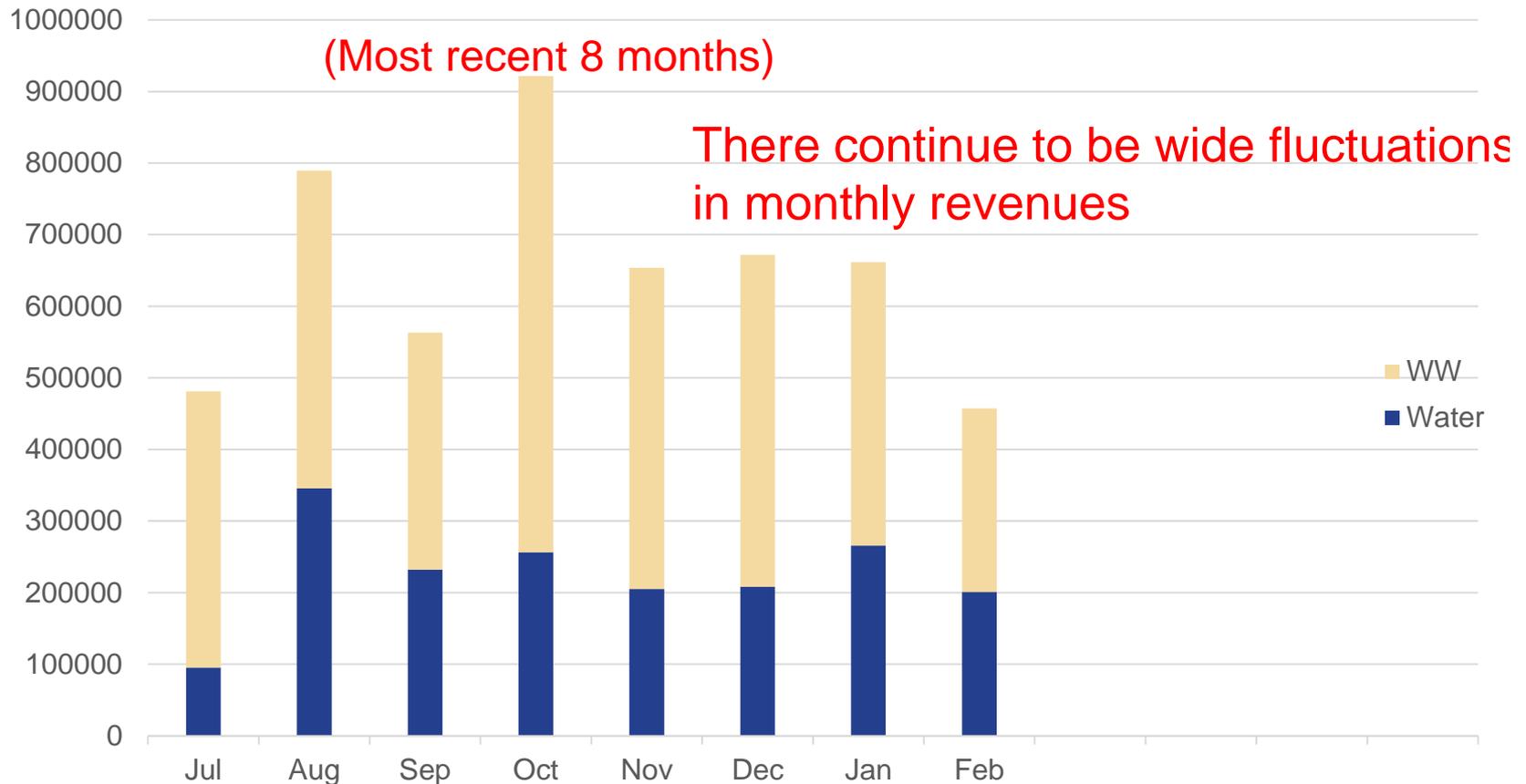
Rate increases have not generated expected revenue increases

Recent Rate Increases



# FY 2017 Utility Fund Revenues

## Commercial and Residential



June was first month of actual bills

Renewed cutoffs caused a spike



# Conveyance Payments from Other Jurisdictions

(use of our pipes and pumps)

**Council members have raised the question of whether other localities owe us money**

- We have determined that other localities are current in their payments
- Annual conveyance revenue is only approximately \$70,000
- Rate increases are in fact long overdue to cover our costs
- New rates require renegotiation of service agreements and unanimous approval by localities
- Service Agreement renewal process has been underway for approx. two years and will take much longer to complete



# To summarize the billing problems...

**We have a huge problem collecting what is owed !!!**

- Rate of uncollected bills is excessive
- Petersburg does not charge a delinquent fee (this must change)
- The lag in processing payments by the Treasurer has made it difficult to impose delinquent fees
- Only 192 customers have been cut off from November to March
- 1,483 accounts are 90+ days delinquent
- 507 customers are on payment plans for past due amounts
- Total outstanding past due is currently \$1.9 million including Utilities, Refuse and Stormwater
- About 1,000 active accts. per month have zero usage readings
- About 1,100 old, cubic-foot meters (about 10% of total) still are manually read (and need to be replaced)



# THE UTILITY SYSTEM HAS BEEN RUN INTO THE GROUND

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If we don't make dramatic changes, including hefty rate increases, and quickly improve system performance, the Petersburg Utility may collapse



# LET'S TURN TO RATES

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# Petersburg Rate Increase History

	Approved Plan (4/21/15)	Rate Ord. Adopted	Rate Increase Implemented
• FY13	↓	14.3%	14.3%
• FY14		11.9%	11.9%
• FY15		-0-*	-0-*
• FY16	14.1%	-0-	14.1% <sup>(3/16)</sup>
• FY17	13.4%	-0-**	-0-**
• FY18	3.2%	TBD	
• FY19	4.9%	TBD	
• FY20	5.0%	TBD	

New Plan

\* 9.7% increase tabled by City Council 5/20/14

\*\* 13.4% increase tabled by City Council on rec. of City Mgr. 7/19/16



# Rate Comparison (2017)

## Current Monthly Charge (6CCF)

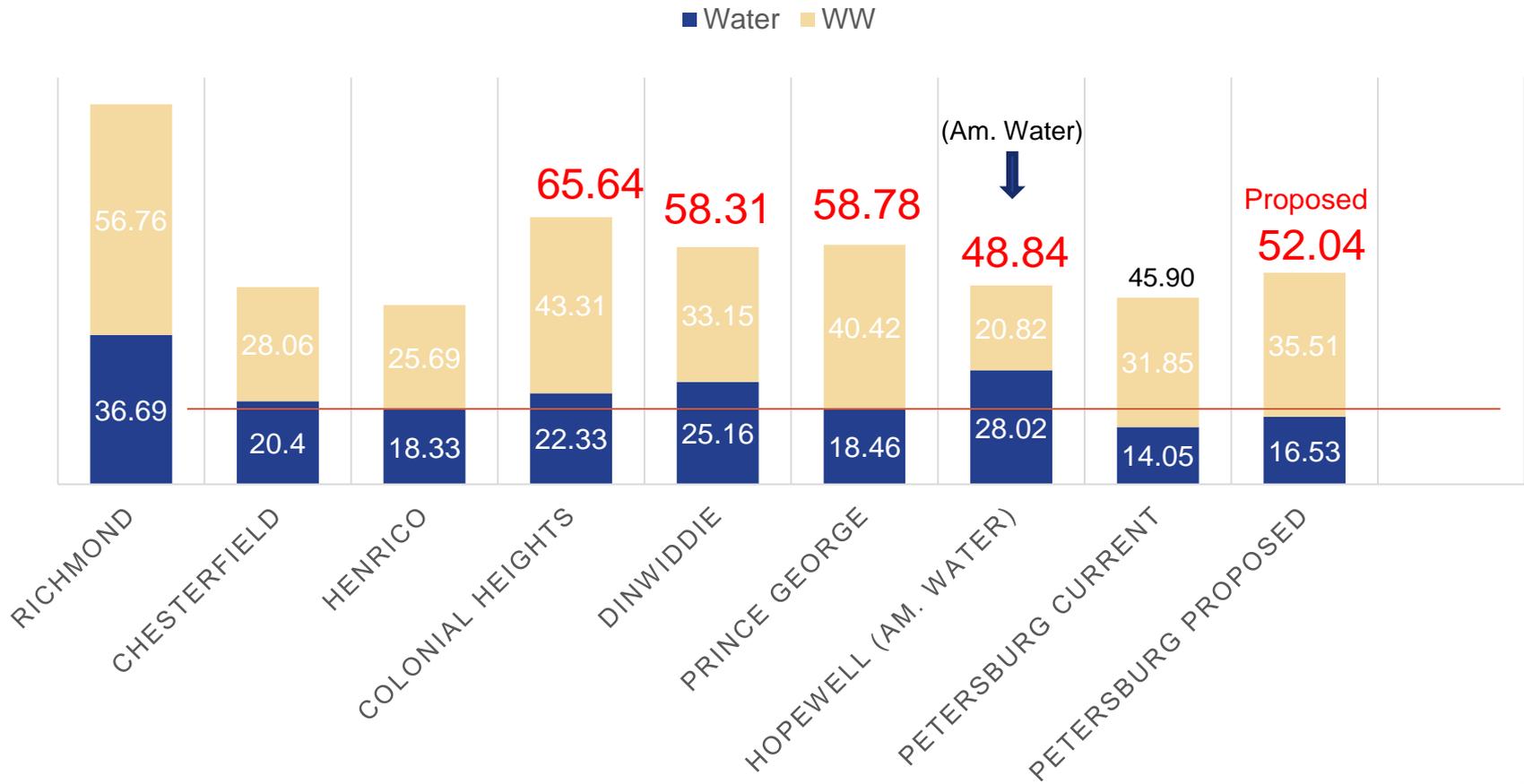
	Water	WW	TOTAL
Chesterfield	20.40	28.06	48.46
Colonial Heights	22.33	43.31	65.64
Henrico	18.33	25.69	44.02
Dinwiddie	25.16	33.15	58.31
Prince George	18.46	40.32	58.78
<b>Petersburg</b>	<b>14.05</b>	<b>31.85</b>	<b>45.90</b>
Hopewell	28.02	20.82	48.84
Richmond	36.69	56.76	93.45

Source: Timmons

**Petersburg is second lowest**



# Comparison of Current Rates (6CCF)



# Absolute Necessity of Rate Increase

- VRA Bond Covenants required enactment and implementation of a 5-year rate increase plan (approved by Council 4/21/2015)
- Failure to follow the plan will create bond covenant default, causing outstanding bonds to become immediately due and payable (\$7M)
- Default will cause loss of access to credit markets
- Legal consequences including criminal penalties
- Inability to correct environmental violations (sewer overflows)
- Potential catastrophic system failure if infrastructure is not renewed



# The reason we are doing all of this is...

To come up with the financial means to **fix the Utility System** and **fix the City's financial dilemma**.

We want to give Petersburg a **fresh start** and a path to a better future.



# REMINDER OF THE BENEFITS OF THE PPEA APPROACH:

**IT IS THE ONLY ALTERNATIVE THAT...**

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- Provides expert management of the system, and
- Provides ability to finance required improvements
- Provides a large payment that restores the financial position of the City
- Enables the City to establish a fund balance reserve
- Creates the opportunity for bond rating upgrades
- **Provides a fresh start for Petersburg**



# Utility System Options



	City			Private	
	Current	Better Management	Better Management w/investment	Private Management	Private Ownership/ Franchise
<b>Performance</b>	Low	High	High	High	High
<b>Infrastructure Investment</b>	No	No	Difficult	Difficult	Yes
<b>Rates</b>	Low	Moderate	Higher	Higher	Higher
<b>Regulatory Control</b>	City	City	City	SCC	SCC
<b>Money to General Fund (Annually)</b>	No	No	Maybe	Maybe	Yes
<b>Money to General Fund (One-Time)</b>	No	No	No	No	Yes
<b>Eliminate Deficit</b>	No	No	No	No	Yes
<b>Reserve Fund Higher Bond Rating</b>	No	No	No	No	Yes
<b>Time Frame</b>	Current	2017	2020	2020	2017



# Conclusion

- We must solve the revenue billing problem and collect what is owed, imposing delinquency penalties for those who do not pay, and reconsider bi-monthly billing.
- We must implement the planned FY17 13.4% rate increase, previously approved by Council (but later tabled), to avoid a bond covenant default
- We should immediately put the PPEA process back on the table and proceed to obtain and evaluate the detailed proposals

