

# AlexRenew Rate History and Principles

Briefing for AlexRenew Board of Directors

February 21, 2023

# Presentation outline

- AlexRenew's vision and values
- Who AlexRenew serves
- AlexRenew financial policies and covenants
- AlexRenew rate setting principles and board guidance
- Overview of rate adjustments associated with RiverRenew
- Next steps for FY2024 AlexRenew budget and rate adjustment

# AlexRenew's 2040 Vision is to effectively partner with watershed stakeholders to:

Enable local citizens the opportunity to embrace the best use of water resources and **establish a personal connection** with local waterways.

Create a **healthy environment** and improve our quality of life through the exceptional reclamation of used water resources.

**Sustainably manage water** as a single resource through the entire water cycle.

Maximize use of multiple financial options to continue our **fiscal stability**.

# In support of AlexRenew's 2040 Vision, our Strategic Outcomes set organizational objectives and budget



## Operational Excellence

Continually enhance water resource and recovery procedures to provide exceptional quality products.



## Public Engagement and Trust

Engage our community to help them become informed consumers and supporters of clean water.



## Watershed Stewardship

Facilitate collaboration to collectively manage and improve water resources.



## Adaptive Culture

Establish an organization-wide commitment to exceptional outcomes through an enthusiasm for learning, adapting, and solving problems to achieve clean water.



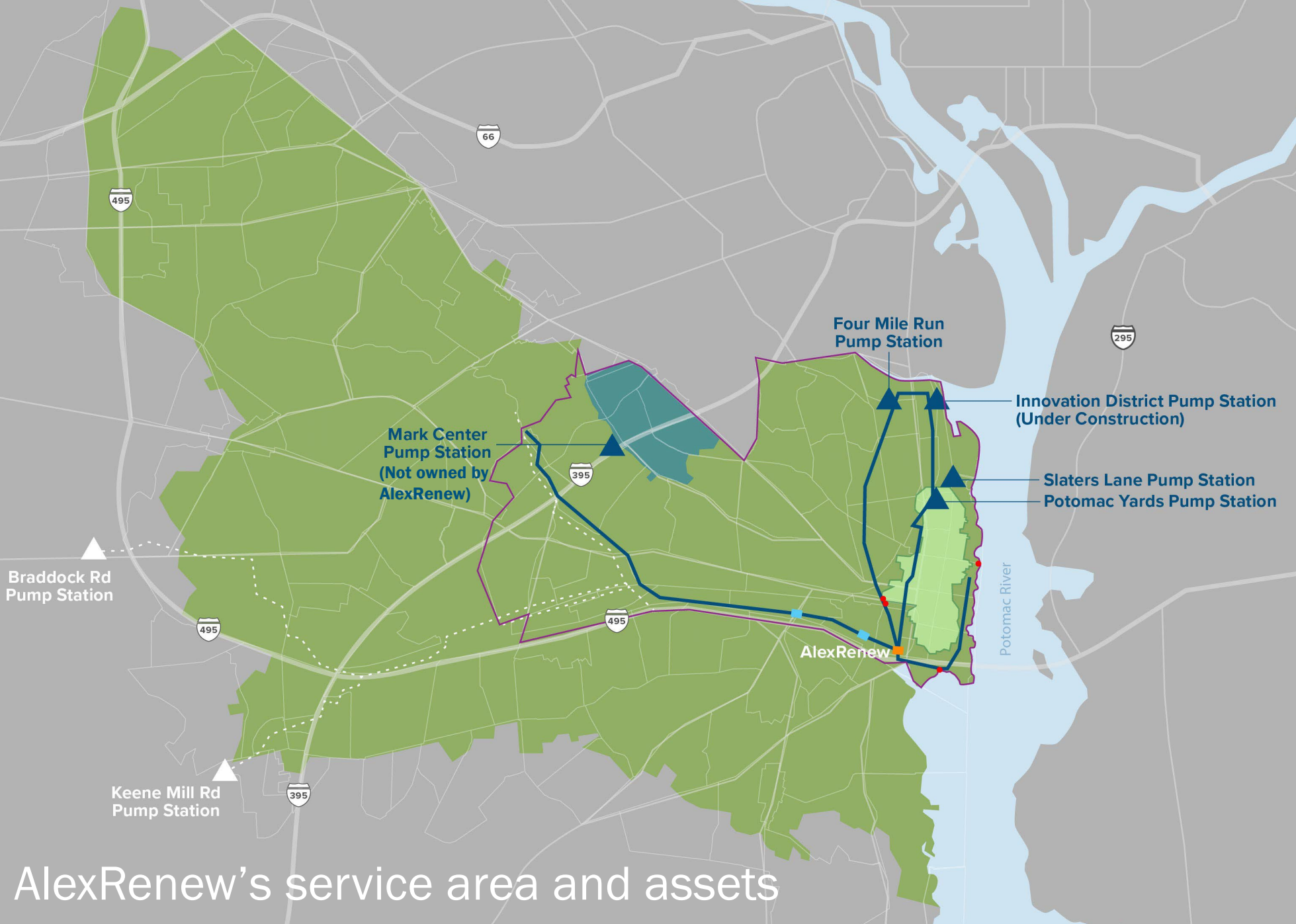
## Financial Resilience

Manage our financial resources to create an efficient and resilient organization that contributes to the health of the local economy.



# AlexRenew

- Purifies 13 billion gallons of wastewater at its Water Resource Recovery Facility each year
- Serves over 300,000 customers in Alexandria and Fairfax County
- Independent political subdivision
- Invests over \$50M annually to protect waterways and the Chesapeake Bay
- Governed by a 5-member citizen Board










**Legend:**

- Alexandria City Limits
- Service Area
- Fairfax Sewers
- Fairfax Pump Stations
- AlexRenew Interceptors
- AlexRenew Pump Stations
- Combined Sewer Outfall
- Service Chamber
- Combined Sewer System
- Separate Sewer System
- Arlington Service Area

AlexRenew's service area and assets

# AlexRenew treats about 13 billion gallons of wastewater each year from residential, commercial, and industrial customers

Customer Class	 Accounts	 Billed Flow* (kgal/yr)
 <b>Residential Single Family.</b> Designed for living, includes single family homes, some townhouses	<b>23,908</b>	<b>987,647</b>
 <b>Commercial.</b> Not designed for living, business related units	<b>3,439</b>	<b>3,269,387</b>
 <b>Multi-Family.</b> Designed for living, includes apartments and townhomes greater than 4 units	<b>3,439</b>	<b>3,269,387</b>
 <b>Industrial / Other Public Agencies.</b> Industrial business units, schools, government agencies	<b>172</b>	<b>146,315</b>
 <b>Fairfax County.</b> Wholesale customer	<b>N/A</b>	<b>6,204,234</b>

\*Amounts shown reflect billed flows based on metered flows for the Fiscal Year 2022.

# The Master Indenture of Trust represents the legal covenant between AlexRenew and bond holders

## Provisions and covenants of the Master Indenture of Trust

- Authorizes issuance of outstanding debt
- Level of rates/rate covenant
- New debt
- Minimum cash reserves
- Flow of funds
- No free service
- Annual budget
- Audit
- Sale of property >\$250k

## Flow of funds

<b>Revenue Fund</b>	Revenues are initially deposited to the Revenue Fund and then transferred to other funds
<b>Operating Fund</b>	Revenues are first deposited to the Operating Fund to pay operating expenses
<b>Bond Fund</b>	Revenues are then deposited to the Bond Fund in order to pay debt service payments
<b>Debt Service Reserve Fund</b>	Any required transfers to the debt service reserve account must be made
<b>Joint IRR Fund</b>	Revenues then deposited to the Joint IRR Fund to meet required Joint IRR transfers per Fairfax Agreement
<b>General IRR Fund</b>	Revenues then deposited to the General IRR Fund to meet required Alex-only specific IRR needs
<b>General Fund</b>	Any remaining revenues deposited within the General Fund



# AlexRenew's budget categories to fund peak performance of our facilities



Operation of utility and routine maintenance to efficiently and effectively achieve our mission



Projects that improve, renew, or replace existing assets for unit processes, facilities, business support, and infrastructure



Major non-recurring projects that add to or replace existing unit processes, facilities, business support, and infrastructure

# AlexRenew has sound financial policies guiding its future



## Debt Service Coverage

- Based on Master Indenture of Trust
- Current minimum target set at 1.5x



## Minimum Reserves

- 120 days of operating expenses



## PayGo

- Fund a minimum of 15 percent of 10-year Capital Improvement Program from cash



## Budget


- Submit 10-year Capital Improvement Program and minimum of 3-year budget

AlexRenew Financial Policy was developed in 2010 and last endorsed by the AlexRenew Board in 2021

# AlexRenew has three service agreements that support our budget

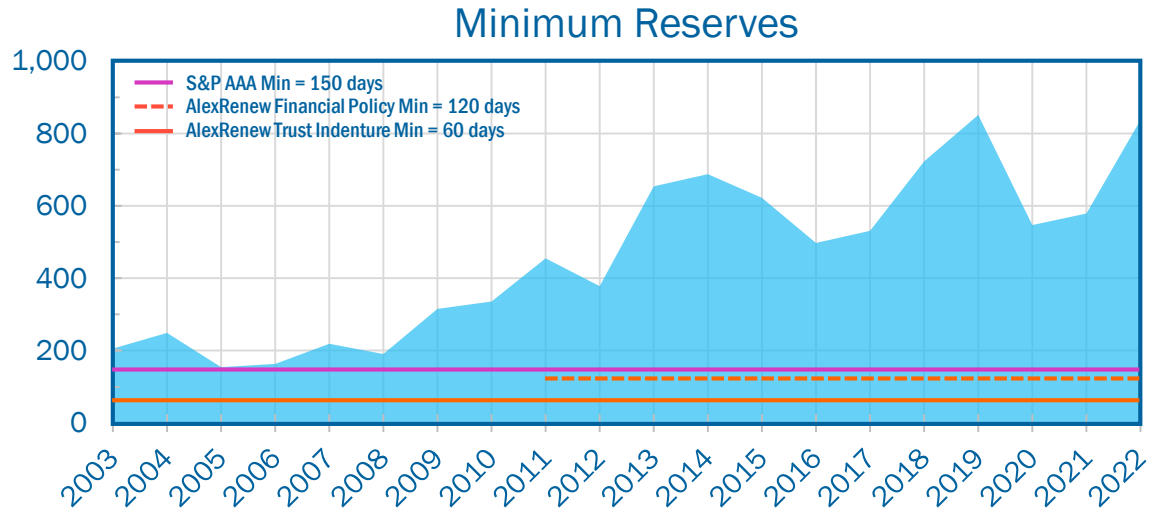
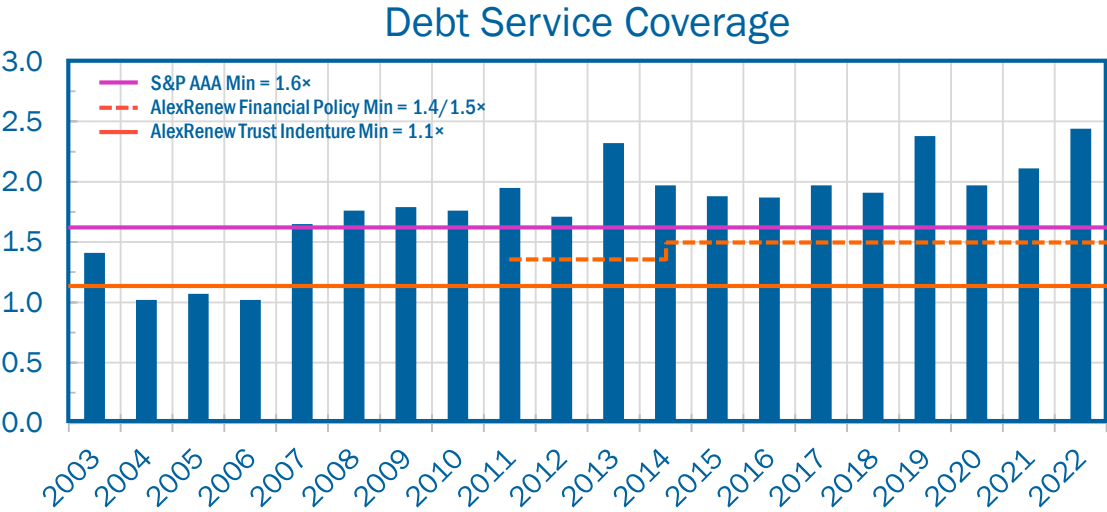
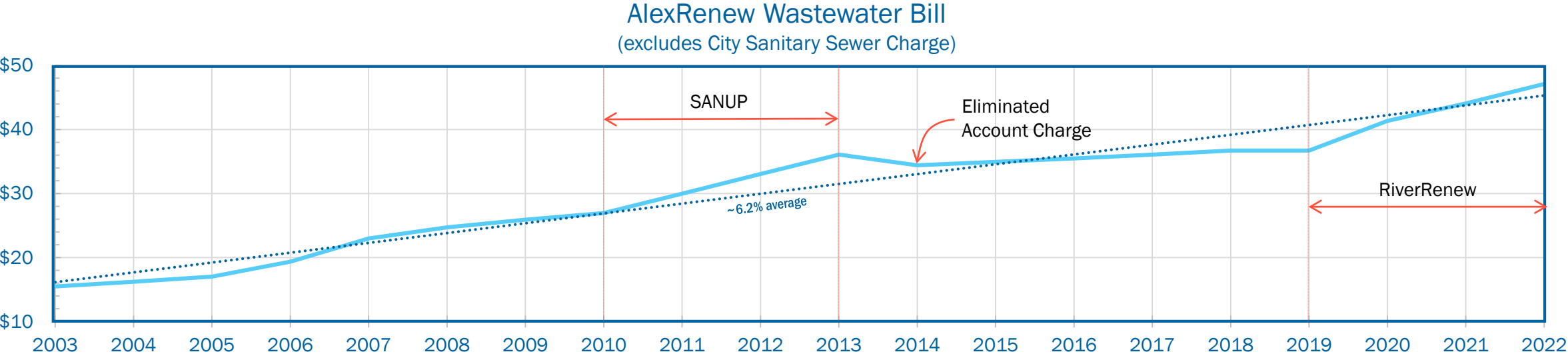
Item	Fairfax County	Arlington County	City of Alexandria
Original date	1973	1977	1954
Last amendment	1998	1994	2018
Capacity	32.4 MGD to WRRF	3.0 MGD to Arlington WPCP	21.6 MGD to WRRF
Billing	Fairfax pays AlexRenew for wholesale wastewater treatment services	AlexRenew pays Arlington for wholesale wastewater treatment services for small portion of City flows to WPCP	Alexandria customers pay AlexRenew via wastewater rates: <ul style="list-style-type: none"> <li>• <b>Volumetric charge</b> based on monthly water use</li> <li>• <b>Base charge</b> based on maintenance of assets and debt</li> </ul>
Operating expenses	Share proportionate to actual flows to the WRRF	Share proportionate to actual flows to the WPCP	
Capital costs	Share based on service agreement and project-specific agreements	Share based on service agreement	

# AlexRenew received a AAA credit rating from S&P as part of securing a WIFIA loan for RiverRenew

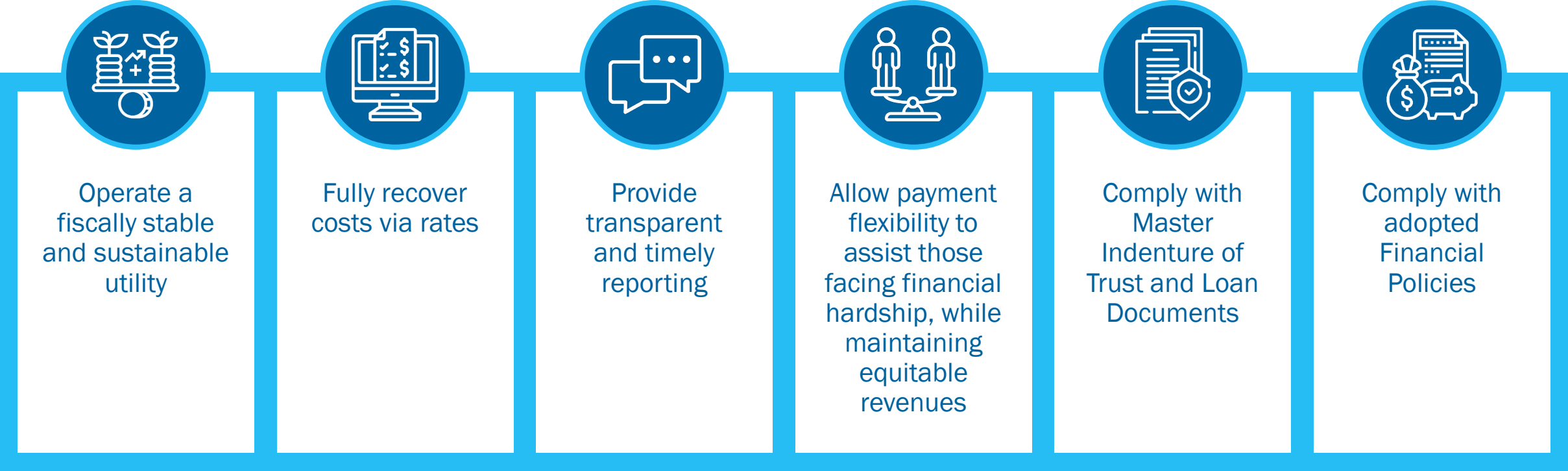


Grade	Moody's	S&P/Fitch/Kroll
Investment Grade	Aaa Aa A Baa	AAA AA A BBB
Non-Investment Grade	Ba B Caa Ca C	BB B CCC CC C

# AlexRenew historical trends for billing, debt service coverage, and minimum reserves



# AlexRenew's fiscal principles guide the rate setting process to maintain a strong fiscal position and stable adjustments to our customers



# AlexRenew's rates are designed to fully cover our expenditures and funding needs

Net Revenue Requirement

Rates must fully fund the total expenditures and funding needs



Full Cost of Service

Costs allocated to customer classes based on the treatment demands of the customer and nature of the expense

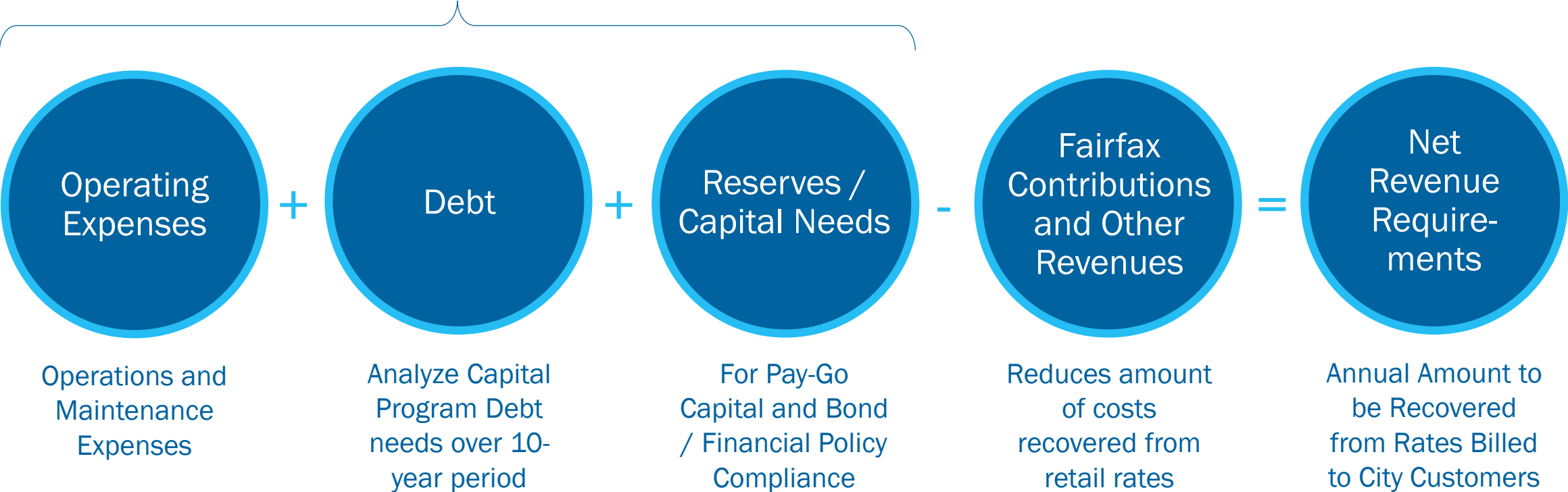


Rate Design

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

# Net revenue requirements are gross revenue requirements less revenues from sources other than the user fees

Annual amount to be recovered from rates billed to City customers









# In 2019, the AlexRenew Board adopted the approach to recover RiverRenew costs through combined base and flow charges.

This approach ensures that all customers contribute equally based on need and it promotes predictability, consistency, and fairness.

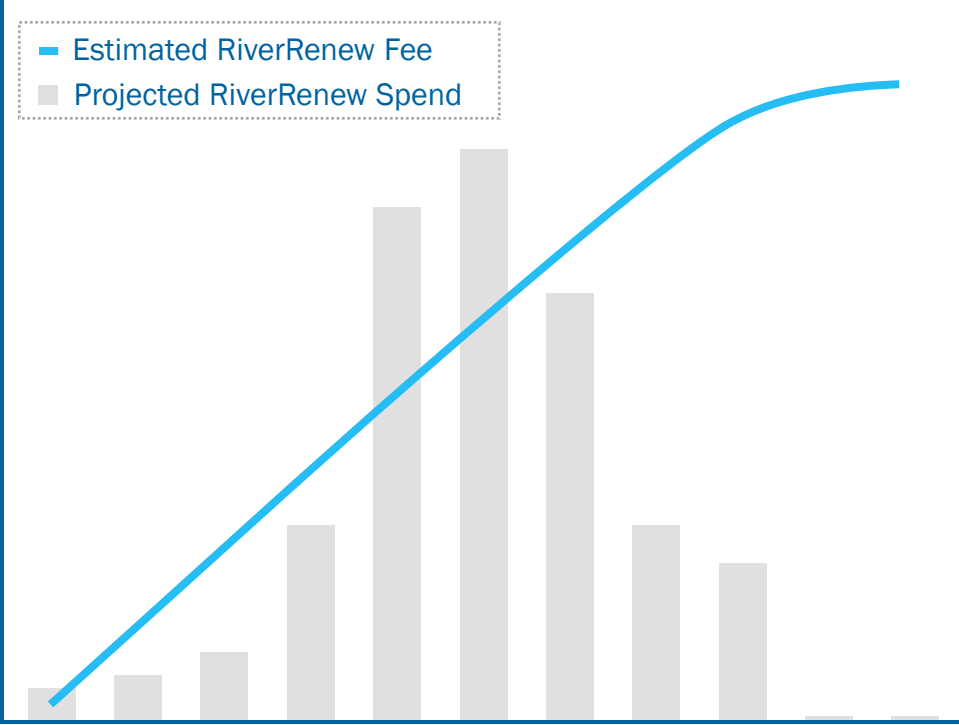
Current Charges	Bill Date: Sep 15, 2022
Wastewater Treatment Charge	46.50
Base Charge	13.14
<i>Wastewater Treatment and Base Charges cover equipment, buildings and their major repair and replacement, and the water professionals, energy and other resources to make your used water useful</i>	
City Sanitary Sewer System Capital Investment and Maintenance Fee	11.40
<b>Current Charges</b>	<b>70.84</b>
<i>Find bill details on the back side of your statement</i>	

Customer Class	2019 Estimated Range of Rate Adjustment		
	Option 1 Recover 100% of costs in <u>base charge</u>	Option 2 Recover 100% of costs in <u>flow charge</u>	Option 3 Recover costs on <u>combined</u> base and flow charges
 Residential Single Family User	73-106%	63-91%	65-94%
 Small Commercial Low Volume User	210-311%	22-29%	65-94%
 Small Commercial High Volume User	26-35%	77-112%	65-94%
 Large Commercial High Volume User	20-26%	79-115%	65-94%

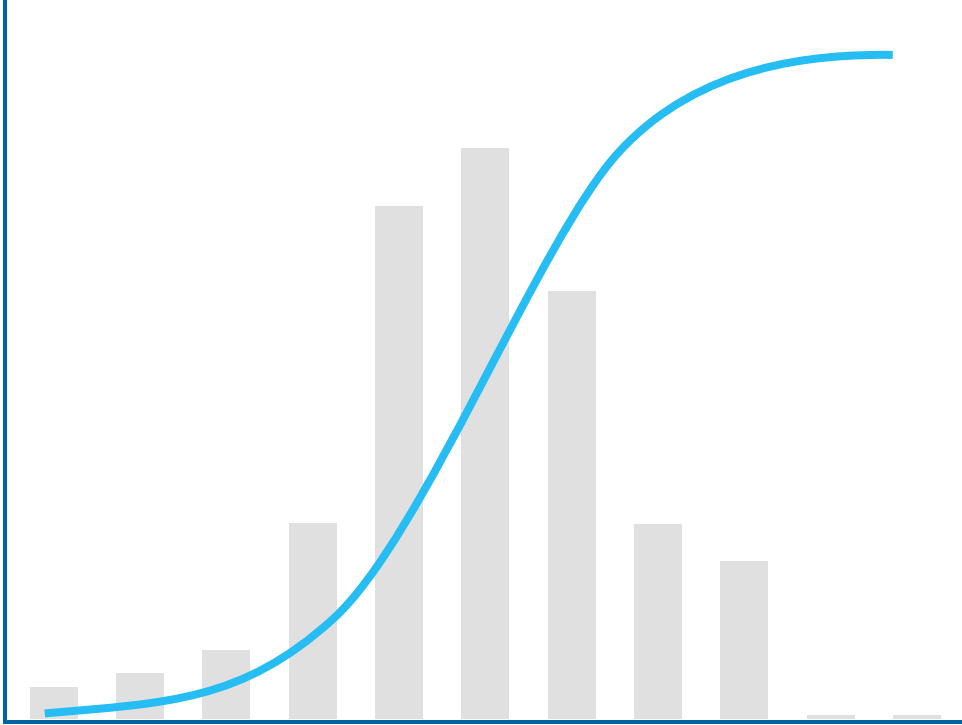
# AlexRenew's adopted rate setting plan for RiverRenew ensures rate consistency and predictability to our customers



**Consistent increase in rates each year**



**Gradual increases to start, then steeper**



Recommended rate adjustments were set over two-year periods to:

- Promote revenue predictability and stability
- Allow for adjustment of rates as conditions evolve
- Provide certainty for CIP funding (RiverRenew spending peaks)

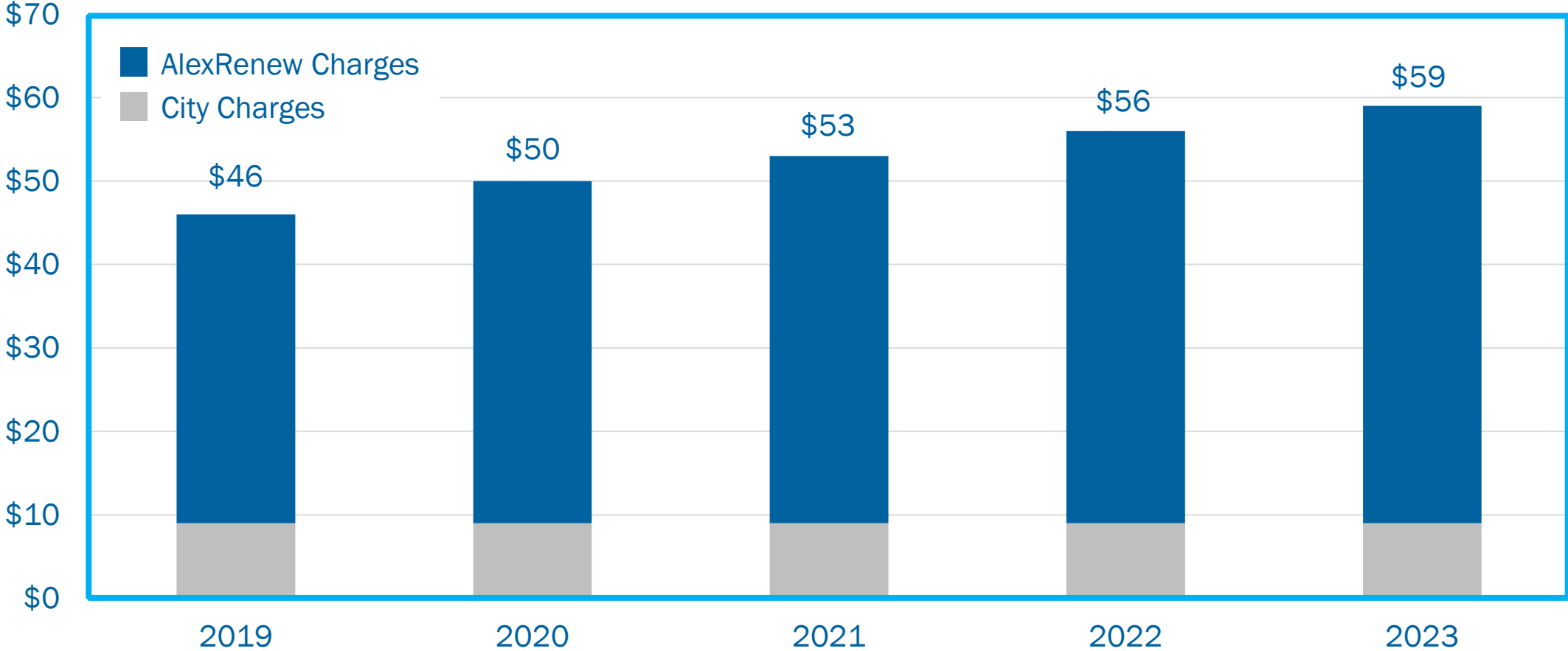
# Starting in Fiscal Year 2020, AlexRenew has adopted two, two-year rate adjustments to fund AlexRenew revenue requirements including initiation of RiverRenew

Rate Adjustment	Fiscal Year	Beginning on:	Adopted Rate Adjustment	Estimated Monthly Bill Change (1)
First	2020	July 1, 2019	12.7%	\$4.70
	2021	July 1, 2020	6.6% (2)	\$2.70
Second	2022	July 1, 2021	6.9%	\$3.00
	2023	July 1, 2022	6.5%	\$3.00

Notes:

- 1. Based on 4,000 gallons consumption for average residential customer
- 2. Rate adjustment reduced from 11.4% due to COVID-19 pandemic

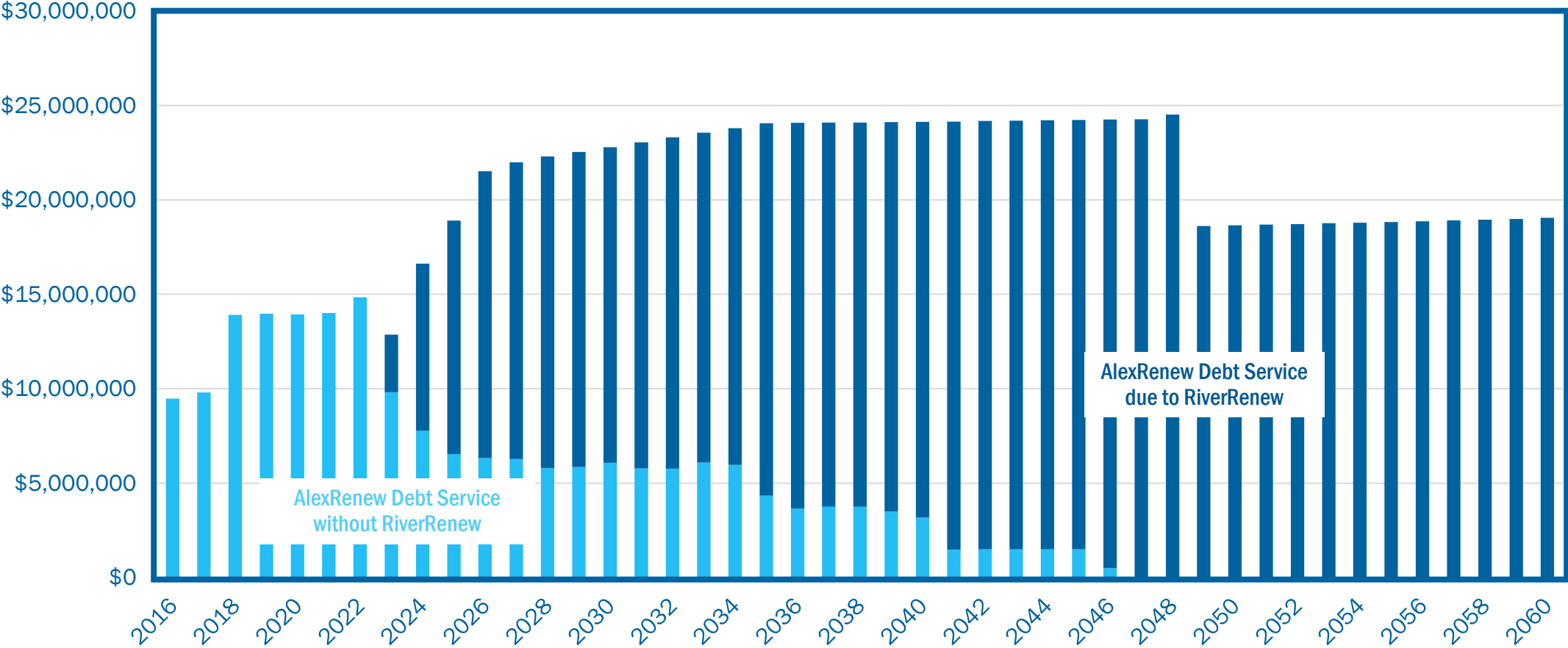
# Fiscal Year 2019-2023 monthly Wastewater and City Sewer Residential Bill at 4,000 gallons



Notes:

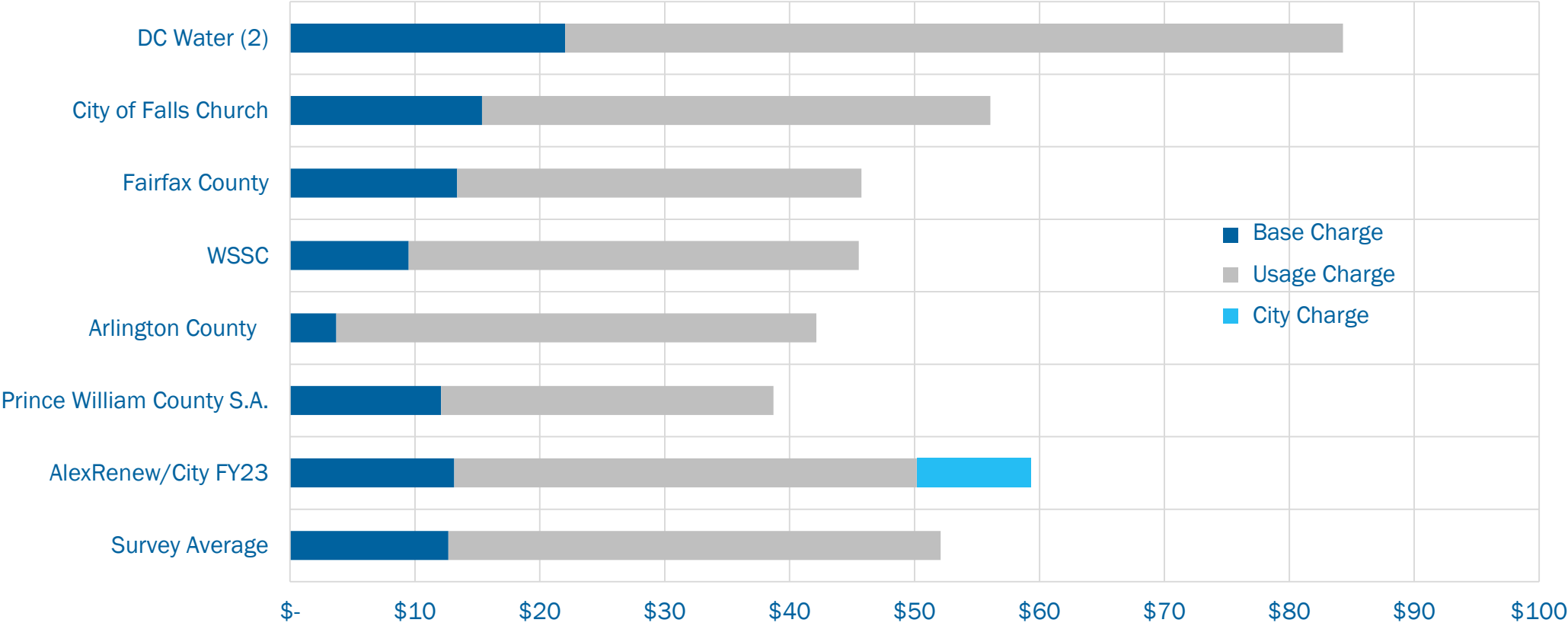
- Based on 4,000 gallons consumption, including City sewer charge of \$2.28 per kgal
- Includes previous rate adjustments associated with RiverRenew

# AlexRenew is funding RiverRenew primarily through State and Federal loan programs, which results in additional debt service through 2060



# AlexRenew rates compared to regional wastewater rates

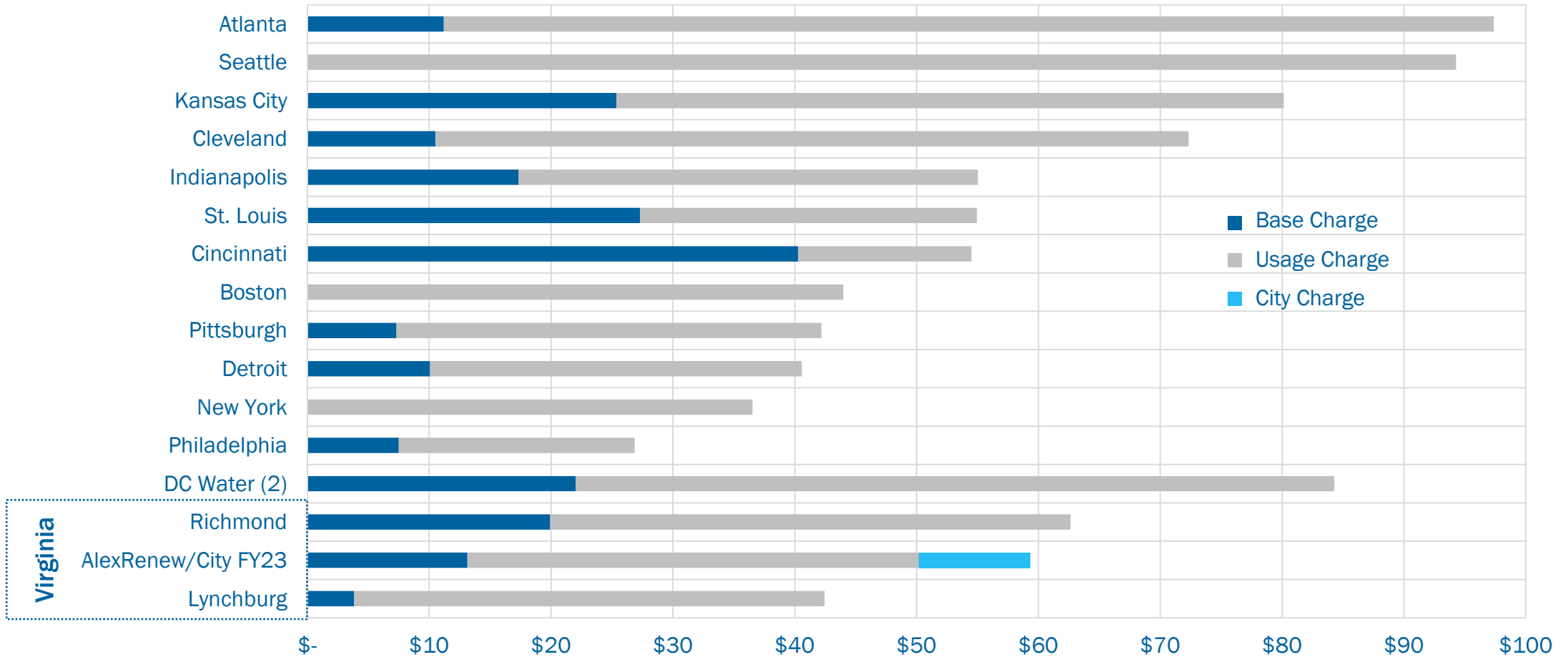
Monthly Sewer Charges For Single Family Residential Customers (1)



Notes:  
 (1) Based on 4,000 gallons monthly usage  
 (2) DC Water is the only other local combined sewer community besides AlexRenew

# AlexRenew rates compared to other combined sewer community rates

Monthly Sewer Charges For Single Family Residential Customers (1)



Notes:

(1) Based on 4,000 gallons monthly usage

(2) DC Water is the only other local combined sewer community besides AlexRenew

# Next Steps for FY2024 AlexRenew budget and rate adjustment

Item	Feb	Mar	Apr	May	Jun	Jul
<b>Board Meeting</b>	<b>Feb 21.</b> Rate History and Principles Presentation	<b>Mar 21.</b> FY2024 Preliminary Budget and Rate Proposal Presentation	<b>Apr 18.</b> Adopt Draft Budget and Approve Resolution for Public Hearing		<b>Jun 20.</b> Approve FY2024 Budget and Rate Proposal	
<b>Finance &amp; Audit Committee Meeting</b>		<b>Mar 27.</b> Review Preliminary Budget and Rate Proposal		Tentative meeting in May		
<b>Public Notice</b>			<b>Apr 20 or 27.</b> Alexandria Gazette	<b>May 4.</b> Alexandria Gazette (if 1st posting Apr 27)		
<b>Draft Budget and Rate Hearing</b>				Sat., May 20 9 a.m.-12 p.m.		
<b>Rate Adjustment</b>						<b>Jul 1.</b> Implement Rate Adjustment





To learn more, visit [www.alexrenew.com](http://www.alexrenew.com)