

**DATE:** April 15, 2024  
**TO:** Justin Carl, Chief Executive Officer, AlexRenew  
**FROM:** Mark Jinks, Chair, Finance and Audit Committee /s/  
**SUBJECT:** FY 2025 Operating and Capital Budget Questions  
**CC:** Chair and Members, Alex Renew Board

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I have reviewed the FY 2025 Operating and Capital Budget as well as the 10-year Capital Improvement Program and have a number of questions and comments which are outlined below. In general, I found the explanations clear and moving most of the appendices to the end of the Budget/CIP is an improvement. However, I found the explanation of changes in the operating budget not present, or were explained in too little detail. For the FY26 budget, I would like to see the operating budget explanations in the budget text expanded. Also there needs to be a CIP table created that shows the amounts and source names by year of each of the sources used to fund the CIP. The stacked bar chart 6.1 (p14) does not provide sufficient detail given the importance of CIP financing to the overall Alex Renew annual budget and resulting customer rates.

#### **OPERATING BUDGET**

1. (p7) What are the elements of the \$0.9 million increase in the personnel element of the operating budget? What portion are for annual step increases, fringe benefits, and the set-aside for addressing the results of the forthcoming compensation study?

**The \$0.9 million increase represents a 5% salary increase in the form of any salary adjustments due to compensation study results, merit increases, and spot awards.**

- a. What dollar and percentage cost increases in health insurance premiums are contemplated?

**AlexRenew's health insurance renewal is based on the calendar year, so our impact to the FY2025 budget is a known number for the first six (6) months, and we estimated the last six (6) months based on our current utilization and advice from benefits broker. We budgeted 5% to the medical insurance line item in the draft FY2025 budget.**

- b. What is the employee/employer cost share of the annual health insurance premium?

**For employee only medical coverage, AlexRenew pays 85%, employee pays 15%; for dependent coverage AlexRenew pays 84%, employee pays 16%.**

- c. What percent of employees elect health insurance?

**Currently, 91% of the employees take AlexRenew medical insurance coverage.**

- d. Do lower paid employees (such as those below AlexRenew's median average salary) not elect health insurance at a higher or lower rate than higher paid employees?

AlexRenew offers only one medical insurance plan, and the employees who do not elect our medical plan have elected to stay on another medical plan (such as spouse or parent's). We do not offer different payroll deductions based on an employee's annual base salary, everyone pays the same for the medical insurance based on the tier of coverage elected.

- e. What are the primary co-pays required of employees (doctor office visits, inpatient hospital stays, drugs, emergency room visits)? Is there an annual monetary out-of-pocket cost cap for employees?

AlexRenew offers a high-deductible medical insurance plan. Employees have to reach a deductible of \$3,200 (individual) or \$6,400 (family). Max out of pocket is \$4,000 (individual) or \$8,000 (family). AlexRenew contributes \$2,200 (individual) or \$4,400 (family) to a health savings account to assist with the deductible.

Deductible limits are set by the IRS. There are no co-payments except in some cases with prescription coverage. Employees pay 10% co-insurance after they reach the deductible for most services except preventive care which is still covered at 100%, no deductible required.

2. (p7) Did the Virginia Retirement System (VRS) employer rates change for FY25? If so what was the change? What is the net pension liability at the current discount rate and how does that compare with the last measure of net pension liability at the end of fiscal FY22? Did the discount rate remain at 6.75%?

The VRS employer rate changed from 8.19% to 8.21% for the next 2-year cycle starting July 2024 through June 2026. We budgeted a 1.5% increase in rates since we do not receive notification of rate changes until after the budget is prepared. Staff is currently working with consultants to develop the net pension liability at the current discount rate and anticipates a report by early May.

3. (p6) Are there any particular drivers of the chemicals 6.7% increase?

AlexRenew is seeing higher chemical usage in FY2024 due to wet weather impacts. The chemical budget was increased to accommodate anticipated higher usage in line with FY2024 and planned yearly increases.

4. (p6) The Operations and Maintenance line is proposed to increase 38.1%. What are the major elements of this increase?

The 38.1% increase is primarily due to the reallocation of the pest services and janitorial services from the General, Admin and Other expense to the Operations and Maintenance expense. This reallocation represents approximately \$0.3 million of the \$0.5 million increase for the Operations and Maintenance expense category.

5. (p6) What items does AlexRenew purchase through the COG cooperative procurement program? Are there items on the COG list that we purchase but not from the COG vendor(s)? If so what is the reason? Has AlexRenew's use of COG's procurement program increased or decreased over the last three years? If it has changed what are the reasons?

**AlexRenew does not currently purchase any items through the COG cooperative procurement program. AlexRenew is participating in a COG workgroup that is exploring a cooperative purchase for wastewater chemicals.**

6. (p6) What amount of the 17.8% increase in the Arlington Sewage Disposal charge is for capital/debt service reasons? Has Arlington indicated if AlexRenew can expect larger than inflationary increases due to capital/debt service pressures for FY26 and FY27?

**The 17.8% increase in the Arlington Sewage Disposal charge is only for operating expenses. The estimated capital expenses for Arlington County are based on Arlington County's adopted FY2023-FY2032 CIP, approved on July 19, 2022. There has been no indication from Arlington that these numbers will dramatically change over the next three fiscal years.**

7. (p6) What is the estimated FY24 spend of the current \$5.4 million general/admin/Cust. Service/Other budget line? With some previously contracted legal services being brought in house, what contract legal services operating budget savings is reflected in the FY25 budget?

**The FY2024 General, Admin and Other expense spend is currently projected to be approximately \$5.0 million, slightly higher than the FY2024 budget of \$4.8 million due to increased IT licenses and subscription costs.**

**The FY2025 operating budget reflects \$0.185 million in reduced external legal services.**

8. (p8) There are two positions added to the budget. Is one the new Deputy Director/General Counsel position? What is the other position and its duties?

**The other added position in the draft FY2025 budget is an Asset Manager to support the development of our asset management program. The Asset Manager will report directly to the Chief Engineering Officer and work cross functionally with our Maintenance, Engineering, IT, and Finance teams to support data-driven decision making by assessing asset risk and prioritizing capital expenditures.**

## **FINANCING**

9. (B-6 ) What is the timing of the upcoming bond sale? What is the assumed overall True Interest Cost (TIC) that the FY25 debt service budget is based on? What is the proposed length of amortization of the bond principal?

**AlexRenew anticipates closing on the bonds in late June 2024.**

At the time the FY2025 preliminary draft budget was developed for presentation to the Board, the amortization schedule had not yet been completed. The \$0.15 million interest included in the FY2025 budget was an estimate of anticipated interest payment.

The proposed length of amortization of the bond principal is 30 years.

10. (p B-6) How was the \$150,000 in interest from the upcoming 2024 sale calculated? It seems low given the borrowing plan. Is this \$150,000 an amount with interest earnings on unspent bond proceeds netted out? If so, what is the estimated gross interest due to bond holders in FY25 and the amount of estimated interest earnings on unspent bond proceeds during FY25?

AlexRenew received a preliminary amortization schedule on April 15, 2024. Based on current projections, the schedule shows debt service payments of \$1.8 million in January 2025 and \$2.6 million in July 2025. The second debt service payment includes \$1.0 million for principal and \$1.6 million in interest. AlexRenew pays 1/12 of anticipated debt service amounts to the Trustee monthly in advance of upcoming debt service payments and would accrue these debt service payments throughout FY2025.

With a greater understanding of the anticipated debt service payments in FY2025 and early FY2026, the estimated interest and principal payments for FY2025 are significantly underestimated. Staff proposes that the draft budget be adjusted to reflect the anticipated debt service payments. Adjustments to the budget are being prepared for Board review during the April 16 Board meeting.

11. (p B-6) Given the near end of the 2024 fiscal year plan for selling the bonds, why set any principal due for payment in FY 25? Why not shift it out and set first repayment for early July, 2025 which would be the start of FY26? This would reduce the debt service for FY25 by \$0.5 million that could be used to fund capital needs and reduce the amount to be borrowed by that amount. Such a shift could then move out all the principal due dates/amounts from the upcoming bond sale by one fiscal year and result in some reduced future rate pressure.

See answer to above question.

#### **CAPITAL BUDGET AND 10-YEAR CIP**

12. (p-b-7) The proposed IRR capital spending level is based on a 0.7% of assets measure. How was this 0.7% percentage rate determined? Is the asset level amount used in determining the level of needed IRR reflect the actual cost of the asset when acquired/constructed?, the current remaining depreciated value of the asset?, or the replacement cost of the asset? Will the new maintenance management system provide a better more accurate measure of future IRR needs?

Based on the service agreement with Fairfax County, a transfer is required to the IRR fund of 0.7% of the total capital expenditures made with respect to the joint use facilities, subsequent to October 1, 1997. The amount reflects the actual expenses for capital assets acquired and/or constructed since October 1, 1997.

The asset management program and associated system will significantly help in identifying and prioritizing future asset renewal and replacement needs.

13. Can staff provide a numeric table showing on separate lines for all 10 years of the CIP what each source is and the amount of the sources? A stacked bar chart does not provide sufficient detail given the importance of the overall capital funding plan to the annual operating budget and resultant customer rates.

A summary of estimated funding sources for the 10-year CIP is shown in the table below. The table will be added to the draft FY2025 budget and available for Board review during the April 16 Board meeting.

**Table 1.** Summary of Estimated Funding Sources for 10-year CIP

Summary of Estimated Funding Sources	Prop. FY25	Est FY26	Est FY27	Est FY28	Est FY29	Est FY30	Est FY31	Est FY32	Est FY33	Est FY34	10-year Total
Operating Revenue	\$18.7	\$21.8	\$17.4	\$34.1	\$39.5	\$15.0	\$13.0	\$10.3	\$7.1	\$7.1	\$183.9
Fairfax IRR Contributions	\$3.9	\$4.1	\$9.2	\$4.9	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$49.4
Fairfax Capital Contributions	\$36.9	\$50.5	\$58.0	\$46.3	\$17.7	\$15.0	\$15.6	\$21.7	\$31.5	\$37.3	\$330.5
Series 2021 WIFIA Bonds	\$82.6	-	-	-	-	-	-	-	-	-	\$82.6
Future Debt	\$33.1	\$34.4	\$38.7	\$31.8	\$12.7	\$10.0	\$10.4	\$14.5	\$21.0	\$24.9	\$231.6
Debt or Grant Funding Subtotal	\$175.2	\$110.8	\$123.4	\$117.0	\$74.4	\$44.7	\$43.6	\$51.0	\$64.1	\$73.8	\$878.1
Total Estimated CIP Funding	\$175.2	\$110.8	\$123.4	\$117.0	\$74.4	\$44.7	\$43.6	\$51.0	\$64.1	\$73.8	\$878.1

### USE OF FY23 AND FY24 SURPLUS FUNDS

14. What is the proposed use the FY23 surplus and the FY24 estimated surplus from higher use rates/revenues than what was budgeted? At the end of FY23, I thought that the plan was to use the \$6.1 million FY23 surplus towards capital projects (see stacked bar chart in the lower right-hand corner of page 9 of the 2023 AlexRenew annual report).

Any revenues not used for operating, capital, or debt service expenses will flow to the General Fund for use on capital work.

1. I have looked on the AlexRenew web site and cannot find that the proposed FY 2025 Operating and Capital Budget document has been posted. It would seem that AlexRenew's home page announcement of the May 18 public hearing should have a link to the document that the FY 2025 Operating and Capital Budget hearing is covering.

**The FY2025 Operating and Capital Budget was added to the Budgets and Reports. The link to the budget was also added to the announcement of the public hearing and associated event listing.**

2. From the compensation presentation on April 16, it appears that only \$40,000 of the funds set aside for addressing the results of the compensation study will be needed, leaving some unstated balance not required for FY 2025. What is the amount that was budgeted for compensation study costs that will not be needed in FY 2025? Also, in response to my question about the VRS rate increase it appears that only a .02% increase will need to be budgeted and not the full 1.5% rate increase previously estimated and included in the proposed budget, leaving 1.48% no longer needed. What is the dollar value of that 1.48%? Will you be proposing to reduce the FY 2025 proposed budget by the amount of these two compensation savings?

**The amount set aside for the compensation study results was \$40,000. There is no difference remaining.**

**The value associated with the 1.48% difference in the projected and actual VRS rates is approximately \$195,000.**

**AlexRenew uses the budget as a planning tool, projecting anticipated expenses at the time of its preparation. We do not plan to update the budget at this time.**

3. While 60% of the 38.1% (equivalent to about 23%) increase in the Operations and Maintenance line item can be explained by the moving of the pest and janitorial costs to this line item, the remaining 15% increase is not explained. What are the prime causes of this remaining 15% increase?

**The 38.1% increase (\$436,005) for the Operations and Maintenance line includes:**

- **\$296,000 associated with janitorial and pest services reallocated from a different expense category.**
- **\$104,005 associated with additional vendor services to maintain plant equipment, previously captured in IRR.**
- **\$36,000 associated with additional funding for snow removal services (in line with the FY2024 actual expense).**

4. I look forward to learning of the results of the COG cooperative buying review by COG workgroup. COG's cooperative buying program has produced significant savings in areas of common procurement of the some two-dozen COG member jurisdictions and their related

governmental entities through consolidated buying power. I hope that similar savings results can be achieved in the governmental wastewater sector.

Allison Deines, our Chief Water Quality Officer, participates on the COG regional wastewater procurement workgroup. We look forward to providing an update to the Board.

- Why did the Arlington Sewage Disposal operating charge increase by 17.8%? I looked at the FY 2025 proposed Arlington budget and their overall wastewater operating budget increase is listed at between 7% and 9% (depending on which chart is viewed). Does AlexRenew pay on a usage basis or a set % of Arlington’s wastewater operating budget basis? If it is usage based, has our usage increased significantly?

Per the service agreement between the City, Arlington County, and AlexRenew, AlexRenew pays Arlington on behalf of the City for actual flows from the City entering Arlington system. For budgeting purposes, Arlington provided an anticipated operating expense estimate according to a 3-year average of actual flows sent to Arlington. For FY2025, Arlington projected an anticipated operating expense for AlexRenew of \$1,727,726, rounded to \$1,800,000 in the budget. We confirmed the estimate with Arlington County on May 9, 2024.

- For the upcoming bond sale, what is the True Interest Cost (TIC) percentage rate estimate used in the preparation of the recently revised debt service table for this future sale? Does this reflect the current market or is it higher to provide some margin of budgeting comfort? If it is higher than the current market, by how much?

The true interest cost estimate is 4.35%, which includes a margin of 25 basis points above tax-exempt borrowing rates for budgeting purposes.

- For the upcoming 2024 bond sale, please provide the standard 30-year principal and interest amortization chart used to provide the new (FY 2025, FY 2026, and FY 2027) interest and principal amounts now shown in the revised FY 2025 proposed budget document.

The revised draft FY2025 budget presented at the April Board meeting included debt service payments based on a bond issuance of \$70M. Since the April Board meeting, staff, in conjunction with our bond counsel and financial advisor, have finalized the amount for bond issuance to \$51M. The below table provides the anticipated principal and interest payments for FY2025-2027 based on the projected bond issuance of \$51M.

2024 BOND ISSUANCE (\$51M)	Proposed FY25	Est. FY26	Est. FY27
Principal	\$0.7	\$0.7	\$0.8
Interest	\$2.3	\$2.3	\$2.2
<b>TOTAL PARITY DEBT SERVICES</b>	<b>\$3.0</b>	<b>\$3.0</b>	<b>\$3.0</b>

For comparison, the below table provides the principal and interest payments for the bond issuance of \$70M that were used for the budget.

2024 BOND ISSUANCE (\$70M)	Proposed FY25	Est. FY26	Est. FY27
Principal	\$1.0	\$1.0	\$1.1
Interest	\$3.5	\$3.2	\$3.2
<b>TOTAL PARITY DEBT SERVICES</b>	<b>\$4.5</b>	<b>\$4.2</b>	<b>\$4.3</b>

8. Is the \$900,000 in interest income revenue listed (page 10) in each fiscal year (FY 2025, FY 2026 and FY 2027) represent earnings from the investment of unexpended bond proceeds? Is this \$900,000 exclusively from the investment of bond funds, or does it include the investment of other unexpended AlexRenew operating funds, IRR monies, reserves, and other unexpended cash?

**The \$900,000 included in the budget as interest income represents projected interest income from our \$21M in investments managed through PFM and interest from our bank balances. It does not include any interest income from the anticipated 2024 bond sale.**

9. There is \$900,000 in interest earnings listed for FY 2025 in the summary and debt service fund charts, \$100,000 in interest earnings listed as Operating Fund revenues (B-5), and \$75,000 listed in the General Fund statement chart (B-7) for FY 2025. These three listings total \$1,075,000, however the overview summary table (3.1) of FY 2025 revenues lists just \$900,000 as expected and budgeted interest earnings. What is overall AlexRenew’s estimated interest earnings total for FY 2025? Can a table be produced that shows these estimated total interest earnings and in what funds these monies are proposed to be budgeted?

**There was a formula error in Table B.4 resulting in showing an interest income of \$900,000. The correct interest income for Table B.4 is \$725,000. Table B.4 will be updated. There is no change/impact to the overall budget.**

10. I am surprised that the recent substantial budget amendment for FY 2025 debt service increased by \$3,797,528 from the draft budget amount of \$650,000 to a revised total of \$4,447,528. What was the basis/assumption that the \$650,000 was calculated on and what changed to increase debt service by the \$3.8 million amount of debt service needed for FY 2025 and subsequent fiscal years?

**The initial \$650K was included as a placeholder, pending the finalization of the bond issuance amount and receipt of the preliminary amortization schedule. The preliminary bond amortization schedule based on the \$70M bond issuance was provided on April 15 and the budget was subsequently updated.**

11. This budget amendment increase of \$3.8 million for debt service is proposed to be funded entirely by increasing the use of Fund Balance by \$3.8 million in FY 2025. For FY 2025, is fund balance being used to fund the operating budget only? For FY 2025, the total use of Fund Balance is now proposed (table 4.1) to be \$6.6 million which represents 11% of the



total AlexRenew operating and debt service costs for FY 2025 and is now proposed to increase in FY 2026 to \$9.5 million equal to 17% of the operating and debt service budget for FY 2026. I reviewed the adopted Board Policy / Financial Policy in regards to any guidance and parameters on use of Fund Balance to fund the operating and find (3.ii.1) language that whereby current budgetary revenues are sufficient to meet current budgetary expenses (those that are of an ongoing nature)...” How is the FY 2025 budget consistent with this policy if Fund Balance (in a substantial amount) is being used to fund the operating budget?

**Based on the Master Indenture of Trust, the flow of funds follows this order:**

<b>Funds</b>	<b>Description</b>
Revenue Fund	Revenues <sup>1</sup> are initially deposited to the Revenue Fund and then transferred to other funds in the following order of priority.
Operating Fund	Revenues are then deposited to the Operating Fund to pay operating expenses. At the end of each month, AlexRenew must ensure that 1/6 <sup>th</sup> (or 60 days) of annual budgeted operating expenses is deposited into the Operating Fund.
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.
Joint IRR <sup>2</sup> Fund	Revenues are then deposited to the Joint IRR Fund to meet required Joint IRR transfers per Fairfax Agreement.
General IRR <sup>2</sup> Fund	Revenues are then deposited to the General IRR Fund to meet required Alex-only specific IRR needs.
General Fund	Any remaining revenues are deposited within the General Fund.

**For FY2025, revenues will first be used to pay the operating expenses. Revenues will then be used to pay debt service payments associated with bonds and loans. Any remaining revenues will flow into our capital funds to pay capital expenses. Use of Fund Balance (cash) will be used to pay for any remaining capital expenses. The FY2025 draft budget is consistent and in compliance with our financial policy.**

- Given that the \$3.8 million in added debt service for FY 2025 is proposed to be funded entirely by an increase in use of Fund Balance, it raises the question of how the CIP and the operating budget are each financed. That is difficult to discern because that the sources and uses for operating expenses, debt service and capital are melded into a single sources and uses chart. In addition, the categories of funding sources on Table 6.1 are not the same categories listed in Table 3.1. I think it would help clarify the situation if AlexRenew staff could prepare a new Table which reframes Tables 3.1 and 3.2:

**Table 6.1 is incorrect as it was not updated with the new debt service associated with the bonds. The table has been updated (shown below) to include the new debt service as well as greater detail associated with categories of funding sources. The updated Table 6.1 will be included in the Budget document. Note the new debt service also impacted Table B.7. An updated Table B.7 will be included in the Budget document.**

<b>Funding Sources</b>	<b>Prop. FY25</b>	<b>Est. FY26</b>	<b>Est. FY27</b>	<b>Est. FY28</b>	<b>Est. FY29</b>	<b>Est. FY30</b>	<b>Est. FY31</b>	<b>Est. FY32</b>	<b>Est. FY33</b>	<b>Est. FY34</b>	<b>10-year Total</b>
Operating Revenue	\$14.4	\$21.8	\$17.4	\$34.1	\$39.5	\$15.0	\$13.0	\$10.3	\$7.1	\$7.1	\$179.7
Fairfax IRR Contributions	\$3.9	\$4.1	\$9.2	\$4.9	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$49.7
Fairfax Capital Contributions	\$36.9	\$50.5	\$58.0	\$46.3	\$17.7	\$15.0	\$15.6	\$21.7	\$31.5	\$37.3	\$330.5
Debt/Grant	\$113.3	\$24.8	\$36.6	\$29.6	\$10.6	\$7.9	\$8.3	\$12.4	\$18.9	\$22.8	\$285.2
Interest Income	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$1.0
PAYGO	\$6.6	\$9.5	\$2.1	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0	\$32.2
<b>Total Estimated CIP Funding</b>	<b>\$175.2</b>	<b>\$110.8</b>	<b>\$123.4</b>	<b>\$117.0</b>	<b>\$74.4</b>	<b>\$44.7</b>	<b>\$43.6</b>	<b>\$51.0</b>	<b>\$64.1</b>	<b>\$73.8</b>	<b>\$878.1</b>

**Operating Budget**

Revenue and Other Sources Categories  
Alexandria Wastewater Treatment Charges  
Fairfax Operating Expense Charge  
Interest Income  
Use of Fund Balance for Operating  
(Less Transfer Out to Capital Fund of Alex. Wastewater Treatment Charge Revenue)  
Total Revenues and Other Sources  
Expense and Other Uses Categories  
O&M (list each of the 7 categories)  
O&M Subtotal  
Debt Service  
Total Expenses

**Capital Outlay Budget**

Revenues and Other Sources  
Fairfax County IRR Contribution  
Fairfax County Capital Contribution  
Parity Debt Proceeds  
Interest Income  
Use of Fund Balance for Capital  
Transfer In of Alexandria Wastewater Treatment Revenue for Capital Outlay  
Total Revenues and Other Sources

**Capital Outlay**

Capital Expenses (list each of the seven categories)  
Total Capital Outlay

**GRAND TOTAL OPERATING AND CAPITAL BUDGET 5**

In lieu of the proposed table detailed above, the following tables show greater detail on the funding sources based on the flow of funds. The tables will be incorporated into the Budget document.

The following table represents the funding sources that will be used to fund the operating expenses.

OPERATING BUDGET	Adopted FY24	Proposed FY25	VAR %
<b>FUNDING SOURCES</b>			
Wastewater Treatment Charges	\$53.7	\$60.4	12.6%
Fairfax Operating Charge	\$12.8	\$12.8	0.3%
Interest Income	\$0.0	\$0.1	900.0%
<b>TOTAL OPERATING FUNDING SOURCES</b>	<b>\$66.5</b>	<b>\$73.4</b>	<b>10.3%</b>
<b>EXPENSES</b>			
Personnel	\$16.1	\$17.2	6.9%
Utilities	\$4.2	\$4.2	0.2%
Chemicals	\$3.3	\$3.6	6.7%
Operation Maintenance	\$1.1	\$1.6	38.1%
Arlington Sewage Disposal	\$1.5	\$1.8	17.8%
Sludge Disposal	\$1.3	\$1.4	4.9%

General, Admin., Customer Service and Other	\$5.4	\$5.5	1.8%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$33.0</b>	<b>\$35.3</b>	<b>6.9%</b>
<b>DEBT SERVICE RESERVES</b>			
Parity Debt Service	\$16.4	\$23.6	43.4%
Less Parity Interest Income	(\$0.1)	(\$0.7)	705.6%
<b>TRANSFER TO PARITY DEBT SERVICES</b>	<b>\$16.4</b>	<b>\$22.9</b>	<b>39.7%</b>
<b>CAPITAL OUTLAY RESERVES</b>			
<b>TRANSFER TO CAPITAL OUTLAY</b>	<b>\$17.1</b>	<b>\$15.2</b>	<b>-11.1%</b>
<b>TOTAL OPERATING EXPENSES AND TRANSFERS</b>	<b>\$66.5</b>	<b>\$73.4</b>	<b>10.3%</b>

The following table represents the revenues that will be used to fund the debt service expenses.

DEBT SERVICE BUDGET	Adopted FY24	Proposed FY25	VAR %
<b>FUNDING SOURCES</b>			
Transfer from Operating Revenue	\$16.4	\$22.9	39.7%
Parity Interest Income	\$0.1	\$0.7	705.6%
<b>TOTAL DEBT SERVICE FUNDING SOURCES</b>	<b>\$16.4</b>	<b>\$23.6</b>	<b>43.4%</b>
<b>EXPENSES</b>			
Principal	\$10.6	\$14.1	32.6%
Interest	\$5.8	\$9.5	63.1%
<b>TOTAL PARITY DEBT SERVICES EXPENSES</b>	<b>\$16.4</b>	<b>\$23.6</b>	<b>43.4%</b>

The following table represents the revenues that will be used to fund the capital outlay expenses.

CAPITAL OUTLAY BUDGET	Adopted FY24	Proposed FY25	VAR %
<b>FUNDING SOURCES</b>			
Transfer from Operating Revenue	\$17.1	\$15.2	-11.1%
Fairfax IRR Contributions	\$3.7	\$3.9	4.8%
Fairfax Capital Contributions	\$32.7	\$36.9	12.7%
Capital Interest Income	\$0.0	\$0.1	400.0%
Cash	\$6.2	\$6.6	6.5%
Debt/Grant	\$153.7	\$112.6	26.7%
<b>TOTAL CAPITAL OUTLAY FUNDING SOURCES</b>	<b>\$213.3</b>	<b>\$175.2</b>	<b>-17.9%</b>
<b>EXPENSES</b>			
IRR	\$10.8	\$11.8	8.7%
CIP	\$201.6	\$163.5	-18.9%
Other	\$0.9	-	-100.0%
<b>TOTAL CAPITAL OUTLAY EXPENSES</b>	<b>\$213.3</b>	<b>\$175.2</b>	<b>-17.9%</b>

13. I appreciate having the capital funding sources Table 6.1 (p-14) prepared. This chart raises a few questions:

- a. On page 14, the WIFA Bonds and Future Debt for FY 2025 totals \$115.7 million while the FY 2025 debt proceeds listed in the budget overview (Table 3.1) is listed as just \$112.6 million? What explains the difference?

**See response to question 12.**

- b. The “Debt or Grant Funding” line in all of the 10 years of Table 6.1 is exactly equal to the line below it which is labeled “Total Estimated CIP Funding”. Given the total CIP (excluding debt financing) is funded by operating revenue, and Fairfax sources, it seems that all of the numbers on the Debt or Grant Funding line are incorrect. It would seem that totaling the Future Bonds and WIFA Bonds would be a more logical math and title for this “Debt or Grant Funding” subtotal line of the 10-year CIP Table 6.1

**See response to question 12.**

- c. In my copy of the revised FY 2025 Operating and Capital Budget, the three-page CIP summary of all CIP projects (C-3, C-4, C-5) has been reduced from nearly full-page sized charts to unreadable postage-stamp sized reproductions. I assume that these charts have not changed from the original draft operating budget and CIP. Please confirm that, so I and other Board members (if they have the same problem) can swap out these three pages.

**Tables C-2, C-3, and C-4 changed from the original version provided to the Board in advance of the March 18 Finance and Audit Committee. The tables have not changed since the March 18 Finance and Audit Committee.**

- d. Is Fund Balance that is used to fund the budget used for capital purposes or operating purposes? Or both? If both, how much for capital? And how much for operating? (the requested chart in #12 when completed should answer this).

**The Fund Balance (cash) is used to fund capital expenses. See response to question 11.**

- e. I think that there would be merit in revising Table 6.1 (p 14) so each source of funding is listed separately for all ten years so one can track the sources of funding in more detail (such as the use of Fund Balance to fund capital projects). For the bar graphs, listing all the detailed sources of funding would not be necessary.

**See response to question 12.**

**DATE:** May 13, 2024  
**TO:** Justin Carl, Chief Executive Officer, AlexRenew  
**FROM:** Mark Jinks, Chair, Finance and Audit Committee /s/  
**C:** Chair and Members, Alex Renew Board  
**SUBJECT:** FY 2025 Budget Questions (Memo #3)

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Thank you for your follow up to my FY 2025 budget memo #2 of April 30<sup>th</sup>. It addressed many of my questions, with some questions still open. While revising the FY 2025 budget a third time to account for the \$1.5 million lower FY 2025 debt service from the upcoming 2024 bond sale is usually not the norm at this late stage in the budget process, a budget amendment making that revision is material enough to be warranted.

The following are the questions that remain not fully addressed in the May 9 response to my budget memo #2. Listed by Budget Memo #2’s question #s, the remaining and new items are:

2. Given that the compensation study ended up not requiring large pay adjustments, how much of the \$800,000 in budgeted total compensation after paying for merit pay, estimated amount of one-time discretionary awards, and the \$40,000 in compensation study salary adjustments is projected not to be needed? Why not lower the budget by the amount not projected to be needed?

A breakdown of the difference between FY2024 and FY2025 is shown below. The \$800,000 is incorrect.

Personal Category	FY2024 Budget	FY2025 Budget
Full Time Equivalent (FTE)	124.5	126.0
Salaries and Wages	\$12.2M	\$12.6M
Compensation Adjustments	-	\$0.04M
Merit Increase	-	\$0.36M
Fringe Benefits		
Health & Wellness	\$1.9M	\$2.2M

Life	\$0.04M	\$0.05M
Retirement	\$1.1M	\$1.4M
FICA	\$0.9M	\$1.0M
Total Fringe Benefits	\$3.9M	\$4.6M
Total Personnel Costs	\$16.1M	\$17.2M

5. Did AlexRenew flows to Arlington increase? If so by how much and how much of the 17.8% of the operating charge increase from Arlington can be attributed to increased flows?

Arlington monitors Alexandria City flows to its wastewater treatment plant. The table below summarizes Arlington’s projection for flows The FY2025 Operating Budget estimate is based on the three-year average between FY2021-2023. Flows were higher in FY2022, driving a higher average. See breakdown of actual and projected costs below.

	Actual FY2020	Actual FY2021	Actual FY2022	Actual FY2023	Projected FY2024	Projected FY2025
Alexandria % Flow of Total Flow at Arlington WPCP	5.603%	5.830%	6.467%	5.750%		6.010%
Total WPCP O&M Adjusted	\$21,667,412	\$22,890,892	\$23,272,050	\$25,944,563	\$26,299,000	\$28,748,000
Alexandria/AlexRenew Cost	\$ 1,214,084	\$ 1,334,615	\$ 1,504,997	\$ 1,491,899	\$ 1,512,280	\$1,727,726

Note: (1) Projected FY2025 cost is estimated \$1,800,000.

7. Please provide the requested 30-year principal and estimated interest amortization chart for the upcoming 2024 bond sale. The provided three years of estimated principal and interest payments of the 2024 bond sale does not provide the whole picture of how the \$51 million (lower than the \$70 million used in the revised April budget) will be amortized.

See page 4 of the attached for bond payment schedule.

11. The revised April budget increased debt service in FY 2025 by \$3.8 million and increased the use of fund balance also by \$3.8 million, so it seemed when I wrote budget memo #2 that fund balance was the source for this initial debt service budget increase. Is it correct (given your written response of May 9 was that fund balance is not being used to fund the operating budget) that what occurred when the debt service budget was increased by \$3.8 million was that the transfer from operating revenue for debt service increased by \$3.8 million at the

same time the transfer of operating revenue to the Capital Improvement Budget decreased by \$3.8 million? As part of that change then did the use of fund balance to support the Capital Improvement Budget increase by \$3.8 million? (I recognize with the third revised budget debt service numbers that this initial budget increase of \$3.8 million will now be \$1.5 million lower as will use of fund balance)

Yes, the fund balance is used to support the capital budget.

13. Thank you for correcting and expanding Table 6.1 which displays the funding sources for each year of the proposed 10-year CIP. In the response to my budget memo #2, the revised 10-year chart now shows \$113.3 million in Debt/Grant funding for FY 2025, but the three-year CIP funding source chart in response to question #7 shows \$112.6 million. What explains the difference?

The Debt/Grant funding is \$112.6M and the Operating Revenue is \$15.2M. Table 6.1 is updated below.

Funding Sources	Prop. FY25	Est. FY26	Est. FY27	Est. FY28	Est. FY29	Est. FY30	Est. FY31	Est. FY32	Est. FY33	Est. FY34	10-year Total
Operating Revenue	\$15.2	\$20.1	\$22.8	\$34.1	\$39.5	\$15.0	\$13.0	\$10.3	\$7.1	\$7.1	\$184.2
Fairfax IRR Contributions	\$3.9	\$4.1	\$9.2	\$4.9	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$4.6	\$49.7
Fairfax Capital Contributions	\$36.9	\$50.5	\$58.0	\$46.3	\$17.7	\$15.0	\$15.6	\$21.7	\$31.5	\$37.3	\$330.5
Debt/Grant	\$112.6	\$26.3	\$31.2	\$29.6	\$10.6	\$7.9	\$8.3	\$12.4	\$18.9	\$22.8	\$280.6
Interest Income	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$1.0
Use of Fund Balance	\$6.5	\$9.7	\$2.1	\$2.0	\$1.9	\$2.1	\$2.0	\$1.9	\$1.9	\$2.0	\$32.1
<b>Total Estimated CIP Funding</b>	<b>\$175.2</b>	<b>\$110.8</b>	<b>\$123.4</b>	<b>\$117.0</b>	<b>\$74.4</b>	<b>\$44.7</b>	<b>\$43.6</b>	<b>\$51.0</b>	<b>\$64.1</b>	<b>\$73.8</b>	<b>\$878.1</b>

13. New Table 6.1 lists a new funding source labeled “PAYGO”. In municipal finance language PAYGO is not a funding source, but a broad category comprised of many sources. Every source on the revised 10-year CIP chart except the Debt part of the Debt/Grant line is considered PAYGO. Is this line labeled PAYGO represent the use of fund balance? The chart on the prior page lists that line as “Cash” which is like PAYGO a broad category that entails all of AlexRenew’s funding sources except for Debt. If the source is “Use of Fund Balance” then that is the label that should be used. If there is some other source in that line besides fund balance, then I would suggest a “Use of Fund Balance” only line and then a new line labeled “Other”.

Staff will update the category to be “Use of Fund Balance”.



13. How much fund balance flexibility beyond holding the amounts dictated by legal and policy requirements did AlexRenew have as of the end of last fiscal year (June 30, 2023) and what is the estimated add to that for FY 2024? How much of that fund balance flexibility is planned to be spent down in the 10-year CIP?

Based on the rate model, the actual/projected fund balances and use of fund balances for the CIP is shown below. The use of fund balance for CIP projects over the next 10 years is approximately \$32.1M.

	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Fund Balances	\$50.2M	\$51.1M	\$63.6M	\$66.6M	\$48.9M	\$37.9M	\$39.3M	\$43.4M	\$45.4M	\$46.6M	\$48.0M
General Fund Balance	\$37.4M	\$46.7M	\$37.0M	\$48.4M	\$49.8M	\$31.0M	\$18.8M	\$19.1M	\$21.9M	\$22.6M	\$22.5M
Use of Fund Balance for CIP	\$0.7M	\$6.5M	\$9.7M	\$2.1M	\$2.0M	\$1.9M	\$2.1M	\$2.0M	\$1.9M	\$1.9M	\$2.0M

Note: (1) FY2023 amounts are actual, all other fiscal years are projected from the rate model. (2) Fund balances represent revenue, operating, and general fund balances.