



Regional Consolidation of
Sanitary Sewer Assets
March 21, 2013 Update

- Federal Consent Decree and State Special Order by Consent basis:
 - Overflows can be reduced by tightening the system to reduce the amount of rainwater and groundwater that leak into the system and/or building a system with more capacity to handle flow during wet weather
 - Localities keep as much water from leaking into their systems as cost effective and feasible
 - HRSD builds regional infrastructure to handle remaining flows

- Locality work focused on rehabilitation plans – defining:
 - What work they will do and where
 - How much they plan to spend
 - Estimate of how much I/I they can eliminate
- Localities required to make a peak flow commitment – currently just a preliminary number
- Under independent structure, commitments would become binding Flow Agreements with HRSD

Why the Regional Study?

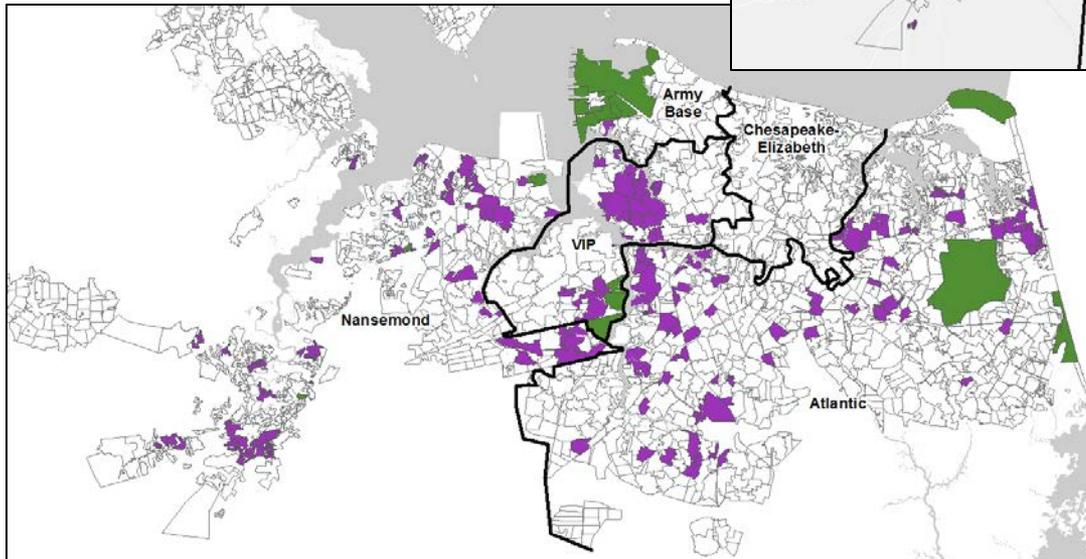
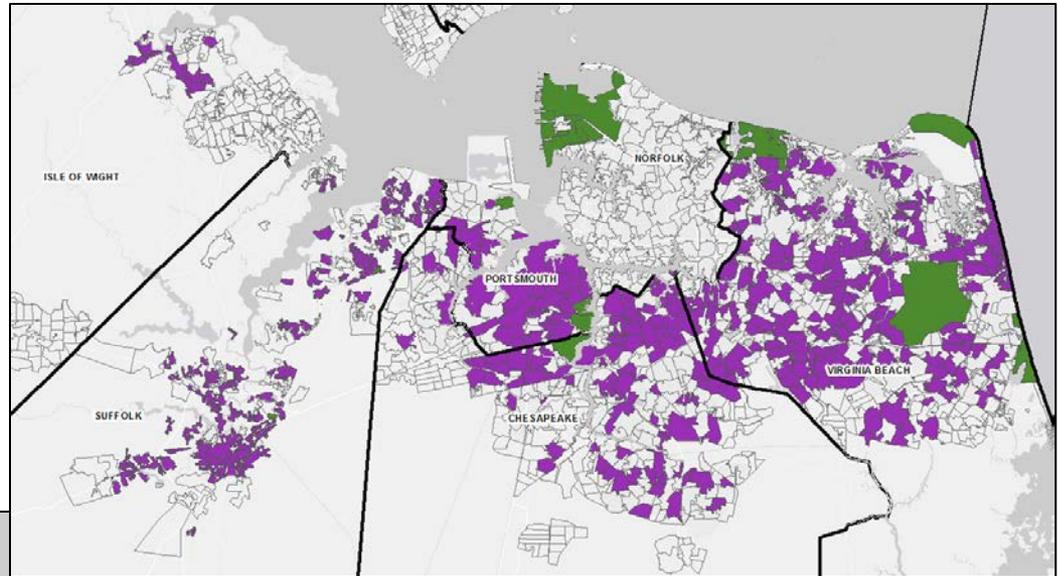
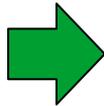
- Study investigates whether there is a more affordable and cost effective regional solution when political borders are ignored
 - Focus efforts in leakiest sewer basins in plant service areas that are most capacity challenged
 - Identify other potential savings from shared services
 - Facilitate timing and right-sizing of region-wide improvements

Potential Capital Expense Savings

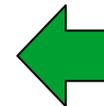
- Study will compare capital costs for current independent structure and regionalized approaches
 - Rehabilitation cost
 - From locality submitted plans for current independent structure
 - Targeted plan as developed by consultant for regionalized approach
 - Wet weather management cost to increase capacity
 - Based on preliminary peak flow commitments proposed by localities for current independent structure
 - Based on post rehab flows calculated as a result of regionalized rehab plan

Potential Differences in Rehabilitation South Shore

SSES Basins
Rehabilitated in
Current Plan

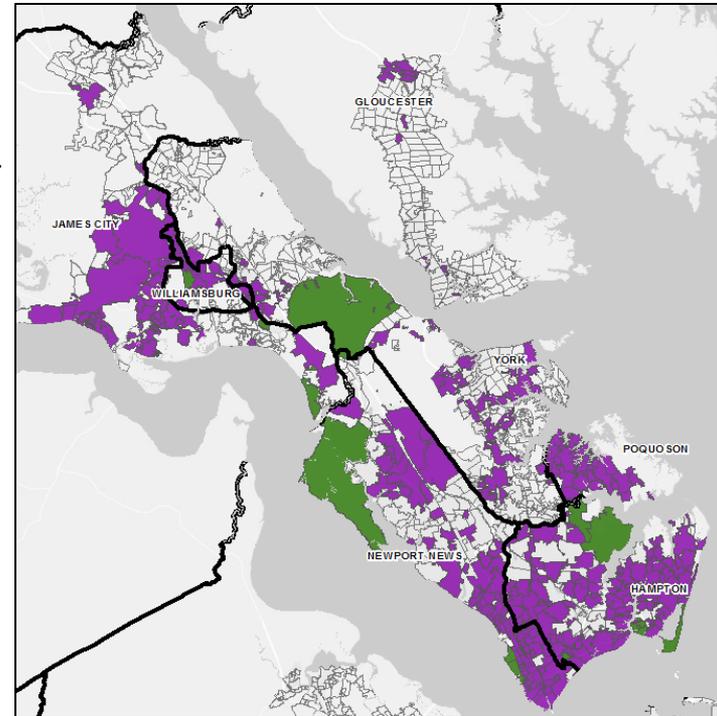
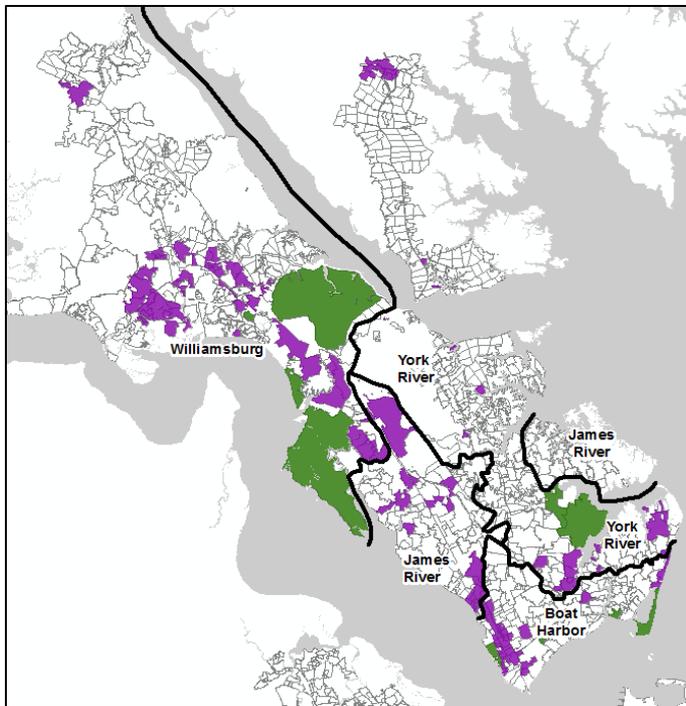
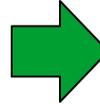


SSES Basins
Rehabilitated in
Regional Plan

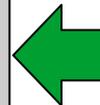


Potential Differences in Rehabilitation North Shore

SSES Basins
Rehabilitated in
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SSES Basins
Rehabilitated in
Regional Plan



Regionalized Approach - More Intense Work in Fewer Basins

Treatment Plant	Current Plan, # Catchments Rehab	Regionalized, # Catchments Rehab
Army Base	7	8
Atlantic	198	81
Boat Harbor	134	50
Ches-Liz	42	0
James River	56	19
Nansemond	117	52
VIP	29	36
Williamsburg	75	50
York River	82	22
TOTALS	740	318

Preliminary Results subject to revisions

Study Also to Address

- Estimated operations and maintenance cost from shared services
- Recovery of Payment in Lieu of Taxes or similar general fund contributions
- Economic development support process
- Extension to unserved areas – septic tank elimination
- Governance structure
- Retail service levels – response to citizens
- People issues – job guarantees – how long
- Regional rate transition
- Feasibility of partial regionalization
 - CD requires participation by HRSD and majority of localities for extended time frame to accommodate regionalization

Rate Modeling and Analysis

- Study will calculate a rate for each locality under the current independent structure to compare to a regional rate under a consolidated plan
 - Cost will be normalized based on actual assets in each system
 - Common method used to determine system value
 - Annual reinvestment based on a set percentage of system value
 - Annual O&M costs based on industry standards for assets in each system
 - Rehabilitation costs from locality plan

As structured, this comparative rate will differ from existing rate and rate forecasts.

- EPA – DEQ agreed to extension to RWWMP
 - One year to study: deadline **July 2013**
 - 6 months to consider results: deadline Feb 2014
 - Another year to draft documents if regionalization is pursued beyond study: deadline Feb 2015
- Results presented to regional governing bodies (including HRSD Commission) late summer/fall 2013

- HRPDC administering contract
- Regional steering team conducted consultant selection process
- HDR selected with contract awarded in August 2012
- Series of workshops scheduled to discuss issues and provide feedback to consultants
 - 3 workshops held to date
 - Focus has been on data gathering
 - Development of rate models
- No immediate “non-starters” identified to date

- There will still be some unknowns at time decision must be made
 - DEQ and EPA will negotiate the implementation schedule, determining if localities and HRSD have a short period or long period (10 to 30 years) to complete the Rehab and Wet Weather Management Plans
 - Schedule will not have been negotiated for rehabilitation plans or wet weather management plan
 - Schedule will ultimately dictate rate increases
 - Liabilities for failure to achieve flow commitments or to meet schedules undetermined

- Key factors if regionalization is recommended
 - Potential savings could be significant with reduced capital requirements
 - Savings are actually costs avoided – cost of sewer service goes up in all cases due to regulated SSO work
 - Savings will be regional and difficult to assign to individual localities at this time. Focus is on total sewer program costs for entire region regardless if costs are paid by HRSD or localities.

- Each governing body to make decision by Feb 2014
 - Compressed time for making decision
 - Final report due July 2013 – too complex to complete earlier
 - Decision date not negotiable – Federal enforcement action
 - Decision likely to have conditions attached
 - If decision is to pursue consolidation – region has another year to work out details and enter into firm agreements
 - If decision is to abandon consolidation concept – region re-starts DEQ/EPA process

Questions?

Addition Information for Questions

- If there is a less expensive way for the region to meet the DEQ and EPA wet weather requirements, why can't it be implemented even if we do not regionalize?
 - Solution is likely to require much more work in some localities and much less in others. Largely a function of existing plant and interceptor capacity as well as distance from locality to treatment plant.
 - Sharing of sewer revenue to accomplish that with independent systems would be challenging, if not impossible. Hard to invest bond proceeds in assets not owned by borrower. Program too large for cash funding.

Addition Information for Questions

- Focused solution carries more risk. Must get higher results in each basin to be successful.
- Future liabilities for overflows difficult to assign with some localities at more risk than others in focused plan.
- Interdependent portions of system – pipes that serve multiple localities – potentially more restrictive on one party than other.

Addition Information for Questions

- How does the MHI play into rates?
 - MHI is used by EPA and DEQ as a measure of fiscal stress. Regulators have used the sewer rate as a percentage of MHI as a guideline to establish schedule – not to reduce or increase the amount of work required to be accomplished.
 - EPA has traditionally used 2 percent as the indicator of potential fiscal stress in affordability analyses. The 2 percent is not a statutory requirement – as a ceiling or floor for rates. Purely guidance.