



November 2, 2016

The Honorable John M. Seward  
Chairman, Surry County Board of Supervisors  
PO Box 65  
Surry, VA 23883

**Re: HRSD Rates and Service Agreement**

Dear Chairman Seward:

I understand there have been some concerns about the potential sewer rate impact of Surry County entering into an agreement with HRSD for sanitary sewer collection and treatment. As you are well aware, the Surry Circuit Court has ordered that the Hampton Roads Sanitation District territory be expanded to add all of the County of Surry, including the Towns of Surry and Dendron but excluding the Town of Claremont. This court action provides an opportunity for the Town and/or the County to enter into an agreement with HRSD to provide sewer services but does not compel either party to do so.

In general, the service agreement would have HRSD be responsible for providing sanitary sewer services to the residents of the Surry County provided the County convey all real and personal property related to the existing sewer system to HRSD. A draft agreement is attached for your review. Resolving the property issues will most likely be the most complicated and time consuming issue. Once that is done, we can execute the agreement in short order with your Board of Supervisors' approval and approval of the HRSD Commission.

HRSD operates as a cost recovery utility, charging customers the full cost of providing sewer service. In the case of small communities, such as the Surry County, that cost is made up of two components, a treatment component and a collection system operations and maintenance component. The treatment component is a metro treatment rate, charged to all customers based on the quantity of water used by the customer during the billing period. This can also be charged on a flat rate basis for residential customers that use a significant amount of water that is not discharged to the sewer system, i.e., for irrigation or swimming pool filling. The collection system maintenance component is intended to recover the costs to operate and maintain the local collection system. In many areas served by HRSD, the locality performs this service and recovers their costs directly from their citizens. In the small communities, HRSD performs this service and charges a rate based on the average paid by all communities HRSD serves. The current small community rates and a proposed rate for Surry County are shown in the table on Page 2.

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Commissioners: Frederick N. Elofson, CPA, Chair • Maurice P. Lynch, PhD, Vice-Chair • Vishnu K. Lakdawala, PhD  
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[www.hrsd.com](http://www.hrsd.com)

**FY17 Small Communities Treatment and Collections Bill**

	HRSD Rate (\$/k-gals)	Collections (\$/k-gals)	Capital Recovery (\$/k-gals)	FY17 Rate	Minimum Monthly Bill - 3,000 gals	Estimated Avg Monthly Bill <sup>1</sup>
West Point	\$6.03	\$5.34	\$2.24	\$13.61	\$40.83	\$68.05
Urbanna	\$6.03	\$5.34	\$2.13	\$13.50	\$40.50	\$67.50
King William	\$6.03	\$5.34	\$0.54	\$11.91	\$35.73	\$59.55
Surry	\$6.03	\$5.34	N/A	\$11.37	\$34.11	\$56.85*

<sup>1</sup> Assumes 5,000 gals per month

\*Surry rate is proposed and has not been approved by HRSD Commission

	HRSD Rate (\$/k-gals)	Collections (\$/k-gals)	Capital Recovery (\$/k-gals)	FY17 Rate	Min Monthly Bill based on ERU Usage Rate - 4,000 gals per month	Estimated Avg Monthly Bill <sup>1</sup>
Mathews	\$6.03	\$5.34	N/A	\$11.37	\$45.48	\$56.85

<sup>1</sup> Assumes 5,000 gals per month

The amount charged to Mathews residential customers is a flat rate based on an Equivalent Residential water Usage (ERU) of 12,000 gallons per quarter. All others, including commercial, government and professional customers, are charged based on a schedule of fractions or multiples of the ERU as appropriate for each customer category. This schedule is derived from information supplied by the Mathews Courthouse Sanitary District and may be subject to verification or revision.

The HRSD Commission must approve the Surry rate and it must be publically advertised in accordance with the HRSD Enabling Legislation before going into effect. Commission action to establish a Surry rate will not be scheduled until the terms of a service agreement are negotiated to both parties' satisfaction.

There have also been rumors about HRSD rate increases going forward. The HRSD Commission only approves rates on an annual basis. Each year, as part of the budget process, the HRSD Commission approves a 20-year financial plan with projected rate increases required to support the anticipated future operating costs and investments in infrastructure. Using these projections and an estimate of future collection system cost escalation, a five-year forecast of rates that may be expected for Surry is provided on Page 3.

**Surry Rate Projection**

	2017	2018	2019	2020	2021	2022
HRSD Proposed Rate Increases		9.1%	8.9%	9.0%	9.1%	8.9%
HRSD Rate (\$/k-gals)	\$6.03	\$6.58	\$7.17	\$7.81	\$8.52	\$9.28
Estimated Locality Rate Increases		2.00%	2.00%	2.00%	2.00%	2.00%
Collections Rate (\$/k-gals)	\$5.34	\$5.45	\$5.56	\$5.67	\$5.78	\$5.90
Projected Treatment + Collections Rate (\$/k-gals)	\$11.37	\$12.03	\$12.73	\$13.48	\$14.30	\$15.18
Minimum Monthly Bill - 3,000 gals/month	\$34.11	\$36.08	\$38.18	\$40.43	\$42.89	\$45.53

**Notes:**

- HRSD's proposed rate increases are based on financial modeling output that is driven by projected capital expenditures, operating expenses and revenues. HRSD's \$1.5 billion ten year capital improvement program is 71% regulatory driven.
- Most Localities do not publish projected rate increases. The 2% estimated annual increase is used as a conservative estimate. HRSD will evaluate the weighted average collection rates annually based on published Locality rates.

The decision to execute a service agreement with HRSD is entirely yours. In my opinion the benefits to the environment and to the citizens of Surry are many, and I look forward to working with you should you decide to pursue an HRSD agreement.

You may contact me at 757-460-4242 (office), 757-274-7904 (cell) or [thenifin@hrsd.com](mailto:thenifin@hrsd.com) if you have any questions.

Sincerely,



Ted Henifin, P.E.  
 General Manager

Enclosure