

**PRINCE GEORGE'S COUNTY COUNCIL
AGENDA ITEM SUMMARY**

Meeting Date: 11/25/2003

Reference No.: CR-77-2003

Proposer: Shapiro

Draft No.: 1

Sponsors: Shapiro

Item Title: A Resolution establishing spending control limits on the
Fiscal Year 2005 Water and Sewer Operating and Capital
Budgets of the Washington Suburban Sanitary
Commission (WSSC)

Drafter: Sandra Eubanks, Transportation,
Housing and Environment
Committee Director

Resource Thomas Traber, Chief
Personnel: Financial Officer, WSSC

LEGISLATIVE HISTORY:

Date Presented: __/__/__

Executive Action: __/__/__

Committee Referral: __/__/__

Effective Date: __/__/__

Committee Action: 11/04/2003 NR

Date Introduced: 11/18/2003

Public Hearing: __/__/__ __:__ __

Council Action:1 11/18/2003 TABLED

Council Votes: PS:A, MB:A, SHD:A, TD:A, CE:A, DCH:A, TH:A, TK:-, DP:A

Pass/Fail: P

Council Action:2 11/25/2003 ADOPTED

Council Votes: PS:-, MB:N, SHD:A, TD:N, CE:A, DCH:A, TH:A, TK:-, DP:A

Pass/Fail: P

Remarks: _____

11/18/2003: On a motion made by Council Member Peters; seconded by Council Member Exum, CR-77-2003 was tabled until 11/25/2003. (Motion carried 8-0; Absent: Council Member Knotts)

TRANSPORTATION, HOUSING AND ENVIRONMENT COMMITTEE DATE: 11/04/03

Committee Vote: No Recommendation

Staff explained the purpose and the need for the Spending Affordability Process. Staff further indicated that the Spending Affordability Process has been successful in the last 10 years, since there has been no rate increase since FY 99, and a decline in the Washington Suburban Sanitary Commission's (WSSC) debt. The WSSC transmitted their Spending Affordability Report to both Councils in October of 2003. The report proposes a 3% rate increase in water and sewage rates. This is the first rate increase in six (6) years. WSSC's General Manager indicated that their Fiscal Plan didn't project a rate increase until FY 2006. However, due to 911 and ongoing regulatory issues with the Environmental Protection Agency

(EPA) regarding sanitary system overflows and diversity issues, a proposed rate increase appears to be unavoidable.

The Spending Affordability Report consisted of two scenarios; Revised Base Case and the Unrestrained Base Case. Certain assumptions were used to generate the two scenarios; interest and inflation rate construction completion factors, and water production estimated. The Revised Base Case was designed to limit rate increases to not more than 3% in FY 2005 and FY 2006. The Unrestrained Base Case was designed to examine an unrestrained rate forecast. The outcome of this scenario identifies the natural rate increases without imposing other controls. The Bi-County Working Group recommended the Revised Base Case scenario to the two Counties.

WSSC's staff indicated that work years will remain at the FY 2004 approved level of 1,463 for FY 2005. This will delay reaching the reduction of 214 work years based upon the competitive gap reassessment until FY 2009. Work year reductions will be attained through normal attrition during this period.

The Revised Base Case increases the fund balance by \$1.5 million to gradually increase the operating reserve of 5% of water and sewer rate revenues to 10% as initialed in the FY 2004 budget. A question was raised regarding the use of PAYGO (\$7 million for FY 2005) when there is a sizable unspecified reduction. WSSC's staff indicated that the money being used for PAYGO was a one-time revenue, therefore, it wouldn't want to use it for ongoing expenses. Staff explained that the Spending Affordability Process set guidelines that can be revisited during the budget process.

Montgomery County Council approved the Bi-County Working Group's recommendation on November 4, 2003.

A motion was made to approve the Working Group's recommendation on the four spending control limits, to include the 3% rate increase in FY 2005. The motion failed for lack of a second.

BACKGROUND INFORMATION/FISCAL IMPACT

(Includes reason for proposal, as well as any unique statutory requirements)

In May 1993, the Prince George's and Montgomery County Councils agreed to establish a Working Group on WSSC Spending Controls. A Council Member from each County was appointed to serve on the Working Group. In January of 1994 the Working Group issued their report calling for a spending

affordability process and a better coordination of the land use and development processes with the Counties ten-year water and sewerage plans. The Working Group's recommendations were approved by both Councils and utilized for the first time in the formulation of WSSC's FY 1996 Operating and Capital Budgets.

This resolution proposes to set spending control limits on the Fiscal Year 2005 Water and Sewer Operating and Capital Budgets of the WSSC for the following items:

Water and Sewer Rates including the service charge - 3%
 New Bond Debt - \$111.5 million
 Water and Sewer Operating Debt service - \$145.3 million
 Water and sewer Operating Expenditures - \$388.8 million

A summary of the spending limits set by the Counties is shown below:

(ALL FIGURES IN MILLIONS DOLLARS)

	<u>ADOPTED CR-112-94</u>	<u>ADOPTED CR-66-95</u>	<u>ADOPTED CR-53-96</u>	<u>ADOPTED CR-5-98</u>	<u>ADOPTED CR-73-1998</u>	<u>ADOPTED CR-81-1998</u>	<u>ADOPTED CR-52-1999</u>	<u>ADOPTED CR-65-2000</u>
Rate Increase	3%	3%	3%	2%	1%	1.5%	0%	0%
New Debt	\$ 26.5	\$ 80.4	\$ 64.5	\$ 78.8	\$ 45.9	\$ 44.3	\$ 45.4	\$ 66.0
Debt Service	\$136.7	\$141.2	\$141.7	\$145.7	\$146.1	\$146.0	\$140.1	\$141.0
Operating Expenses	\$358.2	\$357.4	\$366.3	\$368.4	\$364.8	\$366.3	\$375.9	\$381.6
	<u>ADOPTED CR-64-2001</u>	<u>ADOPTED CR-72-2002</u>						
Rate Increase	0%	0%						
New Debt	78.6	121.6						
Debt Service	137.1	144.1						
Operating Expenses	385.5	371.0						

NOTE: Copies of the October 29, 2003, Spending Affordability Report are available from the Clerk of the County Council.