



Washington Suburban Sanitary Commission

14501 Sweitzer Lane • Laurel, Maryland 20707-5901

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April 27, 2011

The Honorable Rushern L. Baker III
Prince George's County Executive
County Administration Building
14741 Governor Oden Bowie Drive
Upper Marlboro, MD 20772

The Honorable Isiah Leggett
Montgomery County Executive
Executive Office Building
101 Monroe Street – 2nd Floor
Rockville, MD 20850

Dear County Executive Baker and County Executive Leggett:

The purpose of this letter is to request approval of a budget supplement for WSSC's Approved Fiscal Year 2011 Budget to pay for the following unbudgeted item:

Early Redemption of WSSC's General Construction Refunding Bonds of 2001 (\$26,871,050)

The General Construction Refunding Bonds of 2001 were issued with a call provision allowing WSSC to redeem any and all of the outstanding bonds on June 1st of this year. These outstanding bonds carry coupon rates of 5%, which are considerably higher than the rate bonds issued today would carry. Normally, WSSC takes advantage of the lower current interest rate environment by refunding the higher-rate bonds. A refunding analysis prepared by Public Advisory Consultants, WSSC's Financial Advisor, identifies potential gross savings of \$2.3 million if WSSC refunds the General Construction Refunding Bonds of 2001.

While gross savings of \$2.3 million is an excellent opportunity for the Commission, there is an alternative approach that could generate higher savings. That approach uses fund balance of the General Bond Debt Service Fund to redeem the bonds instead of issuing refunding bonds. The use of fund balance is temporary because front foot benefit collections from 2012 through 2016 will replace all of the fund balance. The reason that the savings are so much better under this approach is due to the fact that the outstanding bonds pay interest at 5%, while the Commission is able to earn less than that rate on its investments (current investment rates being realized are 0.25%). Even if future earnings rate mirror those earned by the Commission from FY 2007 through FY 2010, the cash redemption approach saves \$2.4 million.

The additional expenditure authority needed for this item will require a budget supplement in the amount of \$26,871,050. We propose to transfer the funding from fund balance. As previously mentioned, sufficient funds are available from fund balance and will be completely replenished from front foot benefit collections from 2012 through 2016.

The Honorable Rushern L. Baker III
Prince George's County Executive
April 27, 2011
Page 2

The Honorable Isiah Leggett
Montgomery County Executive

Your prompt approval of this FY'11 budget supplement in the amount of \$26,871,050 is respectfully requested.

Sincerely,

A handwritten signature in cursive script, appearing to read "Antonio L. Jones".

Antonio L. Jones
Chair

cc: The Honorable Ingrid M. Turner, Chair
Prince George's County Council
The Honorable Valerie Ervin, President
Montgomery County Council