

## Response to Questions on the FY 2012 Budget

**Request By:** Supervisor Foust

**Question:** Sewer Revenue (Fund 400) in FY 2011 was \$7.9 million (5.4 percent) higher than the FY2011 estimate. When was staff aware of the increase? Is this higher revenue projected going forward to determine future sewer rates? Why the Board was not informed of these revenue increases before increasing sewer rates for FY 2012? What is the impact on the projected future sewer rate increases as a result of the current and projected revenue increases?

**Response:** Actual revenues in FY 2011 totaled \$154,881,205, an increase of \$7,866,205 or 5.4 percent over the FY 2011 estimate of \$147,015,000. This increase is primarily due to higher than anticipated Sewer Service Charges based on actual water consumption and wastewater treatment requirements in the County and in other jurisdictions for which the County provides sewer services. The increase was partially offset by lower than projected Availability Fee revenue due to reduced development activity in the County and lower interest earnings. The Wastewater Management staff became aware of the additional sewer revenue at the end of FY 2011. The FY 2011 actual revenue included several year-end accruals which were higher than anticipated. Revenue accruals are estimated each year based on water usage and prior year experience. In April and June 2011, water consumption was unusually high which could be due to weather or other factors. These entries were booked the last week of June. Wastewater Management staff makes budget revenue projections 9 to 21 months in advance, with the best information available; however, the economy, weather and other factors impact actual results.

The FY 2011 increase in revenue is already being used in the preparation of Wastewater Management Rate Analysis which includes the review of actual revenues, availability fees, Operations & Maintenance (O&M) requirements and CIP expenditures as well as debt service. Billed consumption data from billing agents and wastewater flows are also analyzed. Future projections are based on all this data and certain assumptions are made regarding future interest rates, expenses, inflation factors, and trends. Once all these reviews are complete, staff will know the impact of this increased revenue on future rate increases.

One of the issues identified to the Board of Supervisors several years ago was that the agency heavily relies on borrowing money, and relying on previous new development surpluses that had accumulated during the years when development was booming. This allowed the County to keep rates artificially low for a while. Recent rate increases are the result of a reduction in new development surpluses and the tightening of environmental laws. Positive outcomes of the recent economy have included favorable bids on capital projects, and the fact that operating supply costs did not increase as was predicted before the economy deteriorated. All of the favorable conditions will be factored into the FY 2013 rate analysis and budget development, and any surplus funds at year end will stay in the fund to help offset future costs.