

## Response to Questions on the FY 2012 Budget

**Request By:** Supervisor Foust

**Question:** Sewer Bond Construction (Fund 408) in Fiscal 2011 had additional funding “available due to favorable bids on capital projects and is being held in reserve until project schedules require additional funding.” What is the impact on the projected future sewer rate increases as a result of this additional available funding?

**Response:** As part of the *FY 2011 Carryover Review*, Fund 408, Sewer Bond Construction fund balance of \$11,517,084 was available to appropriate to the capital project reserve to provide funding for future treatment plant and capital project requirements. The fund balance is made up of accumulated project surplus funding and represents 6.72 percent of the *FY 2011 Revised Budget Plan*. Funds were available due to favorable construction bids for various capital projects. Based on the economic conditions in the construction market, project bids have been below anticipated levels. Any bond project surpluses are held in reserve to help offset future project costs. Significant future capital improvements at the Noman M. Cole, Jr. Pollution Control Plant (NMCPCP) will be required to meet new water quality standards associated with the Chesapeake Bay and nutrient reduction requirements.

The availability of fund balances in Fund 408 has also allowed the Wastewater Management Program to delay the issuance of bonds, which were originally scheduled for FY 2011. An amount of \$150 million in revenue bonds was anticipated to be issued in FY 2011 to support enhanced nitrogen removal projects within the Capital Improvement Program (CIP). The bond sale is currently planned for FY 2012. It should also be noted that the bond sale requirements for Fund 408 have been reduced by \$39,807,586 due to revenue received from the sale of capacity to Prince William County which was approved by the Board of Supervisors on January 25, 2011. Original bond sale projections of \$150 million have been reduced to approximately \$110 million.

In addition to the reduction in bond requirements, one of the financial goals of the agency is to reduce reliance on debt/borrowing for the annual Replacement and Reinvestment program. This should result in long-term interest expense savings which may result in adjustments to future sewer rate increases.

The availability of the Fund 408 fund balance will not directly impact the future sewer rates, as it is one-time capital project money which will be redirected to future capital requirements. However, staff will examine favorable financial conditions within all of the sewer system funds when conducting the annual rate analysis and preparing the FY 2013 budget.