WASHINGTON SUBURBAN SANITARY COMMISSION

Subject: A RESOLUTION by the Washington Suburban Sanitary Commission ("Commission" or "WSSC") adopting the recommendations of the Washington Suburban Sanitary Commission Bi-County Infrastructure Funding Working Group ("Working Group") transmitted in a letter to the WSSC Commissioners at the May 16, 2012 Commission Meeting by WSSC Commissioner and Working Group Chairman Antonio Jones.

WHEREAS, a 10-Year Fiscal Plan Team composed of Montgomery and Prince George’s county executive agency staff and WSSC staff began multiple meetings on May 31, 2007 with the goal of selecting a funding alternative/model for recommendation to the Commission; and

WHEREAS, a 10-Year Fiscal Plan Team recommendation for an Infrastructure Renewal Fee (Ready to Serve Charge) was rejected for several reasons and in 2008 additional discussions followed on various alternatives and potential modifications to an earlier proposal; and

WHEREAS, the Washington Suburban Sanitary Commission (WSSC) Bi-County Infrastructure Funding Working Group was reinvigorated in 2010 to resume earlier efforts to fund infrastructure renewal; and

WHEREAS, the Working Group includes representation from the Montgomery County and the Prince George’s County executive branches of government, the Prince George’s County and the Montgomery County legislative branches of government, WSSC Commissioners, the WSSC General Manager and CEO, as well as other WSSC management staff; and

WHEREAS, the WSSC Bi-County Infrastructure Funding Working Group adopted the “WSSC Bi-County Working Group Charter” on October 18, 2010; and

WHEREAS, a WSSC Bi-County Working Group Charter goal was to provide actionable recommendations for implementation or further study of near-, medium- and longer-term options for attaining access to alternative and/or less costly, sustainable sources and methods of support for operating and capital requirements for WSSC; and

WHEREAS, the WSSC Bi-County Working Group Charter outlined an approach to this effort that resulted in a structured review of existing program requirements, statutory, budget and financial parameters, and included the engagement of external subject matter experts as appropriate to review financial instruments and funding methods, as well as other factors such as affordability, and regional and national benchmarking; and
WHEREAS, the Consultant Project Team, together with the Working Group, developed a scope of services and an approach for an engagement that would outline recommendations falling into four categories, including: a Capital Funding Analysis, a Finance Operational Review, Revenue Generation Structures and Practices, and Customer Affordability Program; and

NOW, THEREFORE, BE IT RESOLVED, this 20th day of June, 2012, that the Commission accepts the recommendations of the WSSC Bi-County Infrastructure Funding Working Group transmitted in a letter to the WSSC Commissioners at the May 16, 2012 Commission meeting and which are referenced and broadly outlined as follows:

1. Capital Funding Analysis
   a. The Working Group is in agreement that WSSC should employ the 30-year approach to finance future debt, a common practice with water and wastewater utilities that will more closely match the life of the assets to the term of the debt issuances, and will generate annual cash savings over the existing debt approach. The annual savings must be utilized to further strengthen WSSC’s financial metrics and implement cash-funded capital to reduce the trajectory of planned rate increases.
   b. The Commission should consider the option to refinance a portion of existing debt over a 30-year term because the Working Group acknowledges the benefits of refinancing some existing debt under a 30-year approach to provide immediate cash flow savings that would allow WSSC to achieve certain financial targets on an accelerated basis.
   c. The Working Group strongly urges that the Commission work with County and other stakeholders as necessary to adopt policies to enforce financial discipline and safeguard future customers because the Working Group is cognizant of the pitfalls of longer term financing (or refinancing) related to the undisciplined use of resulting cash. If freed cash flow is not designated for adequate levels of cash-funded capital, the financial position of the utility will be negatively and potentially severely impacted.

2. Finance Operational Review
   The Working Group recommends that WSSC continue periodic process audits and benchmarking to ensure continued efficiency and effectiveness with respect to its financial operations. The Consultant Project Team analyses (high level process reviews and benchmarking against industry peer groups) were sufficient to demonstrate the overall effectiveness of WSSC financial operations.

3. Revenue Generation Structures and Practices
   a. The Working Group endorses WSSC’s efforts to identify entrepreneurial and other activities with the potential to generate incremental revenue and recommends that the Commission direct management to evaluate the potential for sale of certain assets such as timber, real estate and unneeded capacity at Blue Plains to generate cash that can be put toward funding infrastructure improvements within the utility system. Such an evaluation should also assess the impact of such transactions on future utility expenditures.
b. Stakeholder feedback showed a strong interest in funding infrastructure through a separate rate or charge on the customer’s bill, and the Consultants’ Report identifies several options for how this rate or charge may be developed. The Working Group prefers the volumetric approach since it resulted in less severe customer impacts while allowing a customer the ability to mitigate rising costs by controlling their consumption. In the immediate term, the Working Group is convinced that savings resulting from a move to 30-year financing, coupled with a continuation of reasonable rate increases, could adequately fund critical investments in WSSC’s infrastructure, but also believes a comprehensive evaluation of the existing rate and charge structure is necessary so the utility can ensure equitable cost recovery into the future.

4. Customer Affordability Programs
Utility stakeholder input overwhelmingly favored implementation of a robust affordability program for economically disadvantaged customers (a third party administrator administers WSSC’s existing assistance program which provides one-time support to a qualifying customer), and the Working Group recommends that the Commission direct management to evaluate and take action to implement a more aggressive Customer Affordability Program as outlined in the Consultants’ Report in conjunction with efforts to establish a separate volumetric rate or charge on the customer’s bill. Such a program will mitigate potential adverse customer impacts that can become an impediment to a utility’s ability to generate adequate revenue to effectively maintain and invest in system infrastructure.

BE IT FURTHER RESOLVED, that the General Manager/CEO will develop and present to the Commissioners an agenda for management action that will outline the steps required to evaluate and successfully implement the May 16, 2012 Bi-County Infrastructure Funding Working Group recommendations referenced and adopted herein; and,

BE IT FURTHER RESOLVED, that the General Manager/CEO will provide a status report no later than October 2012 and as often as deemed necessary thereafter to update the Commissioners on the progress toward implementing these recommendations; and,

BE IT FURTHER RESOLVED, that this resolution will take effect on July 1, 2012.

A True Copy

Charlett Bundy
Corporate Secretary