

Worksession

M E M O R A N D U M

April 3, 2014

TO: Transportation, Infrastructure, Energy & Environment Committee

FROM: *KL* Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession: FY15 Washington Suburban Sanitary Commission (WSSC)
Operating Budget**

Summary of Council Staff Recommendations

- Concur with WSSC to maintain System Development Charge rates for FY15 at current approved levels, but to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment as allowed for under State law.
- Approve the FY15 Proposed Budget, but with a 5.5 percent rate increase instead of the 6.0 percent proposed by WSSC.
- Defer any assumption of debt service savings related to the Anaerobic Digestion/Combined Heat and Power Capital Project pending a Council recommendation on that project. (The County Executive assumes debt service savings).
- Make the following changes within the Proposed Budget:
 - Assume \$2.8 million in additional water/sewer rate revenue as a result of the Customer Affordability program not being implemented in FY15, since enabling State legislation will not be enacted this year.
 - Assume to utilize the \$4.4 million WSSC has allocated for salary enhancements to provide COLA and merit increases in line with what County Government employees will receive. *NOTE: The \$4.4 million could provide a 2.6% COLA (effective 7/1/14) and 3.5 percent merit increases for eligible employees.*

Attachments to this Memorandum

Excerpts from the Proposed FY15 WSSC Budget (©1-31)
County Executive's FY15 Recommended Budget Section for WSSC (©32-36)
Summary Table of FY15 Additional and Reinstated Programs (©37)
Detail of FY15 Additional and Reinstated Programs (©38-41)
Slide: National Trends – Rate Increases Since 2002 (©42)
Excerpt of Council Packet on FY15 Spending Control Limits (©43-44)

The following officials and staff are expected to attend this worksession:

WSSC

Commissioner Adrienne Mandel
Jerry Johnson, General Manager/CEO
Chris Cullinan, Acting Chief Financial Officer
Letitia Carolina Powell, Acting Budget Group Leader

County Government

Matthew Schaeffer, Office of Management and Budget

Budget Highlights

Below are some major highlights of the WSSC's Proposed FY15 Budget:

- The combined total of the Capital and Operating Budget is \$1.3 billion, a decrease of \$108.4 million (or -7.5 percent) from the Approved FY14 amount of \$1.41 billion.
- The total proposed Operating Budget is \$707.2 million, an increase of \$7.9 million (or 1.1 percent) from the Approved FY14 Operating Budget of \$699.3 million.
- 6.0 percent average rate increase – *During the spending control limits process last fall, the Montgomery and Prince George's County Councils both recommended a 6.0 percent rate increase ceiling. About three-quarters of the rate increase is needed to cover revenue shortfalls, debt service and PAYGO, and regional sewage disposal charges.*
- Water production is projected at 168 million gallons per day (mgd), which is a reduction from the amount assumed in FY14 (170mgd) and the same as assumed for FY15 during the spending control limits process last fall. *Water production for FY13 was 161.2mgd, which was a significant drop from the FY12 total of 165.7mgd. FY14 production is running lower than original projections. WSSC's latest projection for FY14 is 162mgd.*
- Includes \$55.2 million (an increase of \$1.97 million, or 3.7 percent; the same percentage increase as from FY13 to FY14) for regional sewage disposal costs for WSSC sewage treated at the Blue Plains Wastewater Treatment Facility. *Note: WSSC estimates that the cost per thousand gallons of treatment of WSSC sewage at Blue Plains is \$1.16, compared to \$2.09 at WSSC facilities.*
- Includes \$21.3 million (\$15.05 million rate impact) for “additional and reinstated” programs in both the Operating Budget and CIP. This includes an increase of 8 workyears. Capital funding of \$5.8 million is assumed for a new Large Valve Assessment, Repairs & Replacement program (no ratepayer impact). NOTE: WSSC is proposing to use \$12.3 million in excess fund balance for one-time initiatives in FY15. *(More discussion is provided later in this memorandum. Additional details are attached on ©37-41.)*
- Includes \$26 million for 18 miles of large diameter pre-cast concrete cylinder pipe (PCCP) water main inspection, repairs, and acoustic fiber optic (AFO) installation, as well as acoustic fiber optic monitoring of all previously installed AFO (\$24.4 million

was approved for FY14). *During FY13, WSSC completed the first inspection cycle of all PCCP water mains 48 inches in diameter and greater (77 miles). This program is a high priority of the Council, and the FY15 proposed program spending represents a continued strong commitment to this effort. WSSC is also inspecting some 36-and 42-inch pipe.*

- Funds 60 miles of water main reconstruction (up from 51 miles budgeted in FY14). *WSSC's long-term goal is to reach a steady state of approximately 55 miles of replacement per year (or about a 100-year replacement cycle).*
- Adds \$1.0 million to the base budget for retiree health costs (the final year of an 8 year schedule, in response to GASB 45 reporting requirements) to increase funding ultimately up to \$19 million per year. *The eight year schedule is consistent with other agencies' approved plans as of FY10. However, budget pressures over the past several years have caused other agencies to fall behind on their funding plans.*

Schedule

On March 1, WSSC transmitted its proposed FY15 Operating Budget to the Montgomery and Prince George's County Executives and County Councils. On March 17, the County Executive transmitted his recommendations to the Council. The Council will finalize its recommendations in early May. The Bi-County meeting to resolve any CIP and Operating Budget differences with Prince George's County is scheduled for May 8.

General Information about WSSC

The Washington Suburban Sanitary Commission (WSSC) provides public water and sewer services to nearly 1.8 million residents in a sanitary district covering nearly 1,000 square miles in Montgomery and Prince George's Counties. WSSC has 3 reservoirs and 2 water treatment plants (providing about 170 mgd of drinking water) and maintains 7 wastewater treatment plants (including the Blue Plains Plant in Washington DC). WSSC has more than 5,500 miles of water mains and more than 5,400 miles of sewer mains. WSSC has about 448,000 customer accounts (see ©28 for more statistical information) and is one of the ten largest water and wastewater utilities in the country.

WSSC's governing board consists of six commissioners, three from Montgomery County and three from Prince George's County, serving staggered 4 year terms. The positions of Chair and Vice Chair alternate annually between the counties. The six commissioners are:

Montgomery County

Gene W. Counihan, Chair
Adrienne A. Mandel
Dr. Roscoe Moore, Jr.

Prince George's County

Chris Lawson, Vice Chair
Omar M. Boulware
Mary Hopkins-Navies

General Manager Jerry Johnson was hired in the fall of 2009 after a long tenure in a similar position with the District of Columbia Water and Sewer Authority (DCWater).

An organizational chart is attached on ©36. The Chair's budget transmittal letter and other excerpts from the Proposed FY15 budget are attached on ©1-31.

About 65 percent of all WSSC sewage and over 83 percent of Montgomery County's sewage (generated within the WSSC service area) are treated at the Blue Plains Wastewater Treatment Plant in the District of Columbia. This plant is managed by DCWater.¹ WSSC makes operating and capital payments each year to DCWater consistent with the Blue Plains Intermunicipal Agreement (IMA) of 2012. Blue Plains-related costs are a major element of the sewer program and reflect a majority of overall CIP expenditures. The projected FY15 operating payment is \$55.2 million (about 7.8 percent of WSSC's Proposed Operating Budget).

County Executive Recommendations for the FY15 WSSC Budget

(See Operating Budget Excerpt on ©32-36)

In his March 17 transmittal, the County Executive recommended one change to WSSC's Proposed FY15 Operating Budget: Reduce debt service in the FY15 WSSC Operating Budget by \$9.4 million. This change is related to the County Executive's CIP recommendation to remove funding for the Anaerobic Digestion (AD)/Combined Heat and Power (CHP) Project.

Council Staff intends to bring the AD/CHP project back to the Council for discussion in late April or early May after further discussions with WSSC, Executive Staff, and Prince George's County Staff. However, if the project is ultimately removed, the debt service savings is likely to be far less than \$9.4 million, as the FY15 bond-funded expenditure request is only \$7.3 million, and half of that is assumed to be Federal Aid.

The County Executive also supports WSSC's proposed salary enhancements of \$4.4 million (assuming these enhancements are no greater than those provided for Montgomery County Government employees).

The County Executive recommends keeping the rate increase at the proposed level of 6.0 percent, which would result in the debt service savings reverting to fund balance.

Performance Measures

WSSC has included a number of performance measures in its FY15 Proposed Budget. Most of these measures speak to water quality, quality of service, timeliness of service, and customer satisfaction. Council staff believes these measures highlight WSSC's success in delivering high-quality service. As noted in the budget document, "WSSC has never exceeded a maximum allowable contaminant level (MCL) established by the US. Environmental Protection Agency (EPA) in accordance with the Safe Drinking Water Act."

¹ The Montgomery and Prince George's County Governments each have two representatives (with two alternates) on the eleven-member DCWater Board of Directors. Fairfax County has one representative. The other six members represent the District of Columbia. The Montgomery, Prince George's, and Fairfax County boardmembers only vote on "joint use" issues (i.e., issues affecting the suburban jurisdictions). These boardmembers do not vote on issues affecting only the District of Columbia.

As noted in past years, in general, Council Staff believes WSSC is doing an excellent job in measuring its drinking water quality, responses to customer concerns, and customer satisfaction. It would be helpful if WSSC published information on how these measures and other fiscal measures compare over time to other similarly sized water and sewer utilities. For instance, the Council receives correspondence from residents questioning the rationale for WSSC's annual level of rate increases (which Council Staff will review in more detail later in this memorandum), often noting that these rate increases are above inflation and greater than rate increases in nearby jurisdictions. Council Staff has asked WSSC to provide more information on the rate increase history of nearby water/sewer utilities.

Also, in a briefing last year regarding the Chevy Chase Lake water main break, the Committee asked WSSC to provide comparative data with other water utilities on service quality measures (such as number of leaks and breaks per mile, repair times, and others). WSSC agreed to assemble this information and forward it to the Council. Council Staff has asked WSSC for an update on this information.

System Development Charge (SDC) Fees and Exemptions

WSSC's Proposed CIP and draft Operating Budget assumes no change in the SDC rate. However, WSSC supports increasing the maximum rate the charge could be increased in future years by a CPI adjustment for FY15, as permitted under State law. The proposed charge and the maximum allowable charge are presented in Table 1.

Table 1:
Proposed SDC Charges

Item	Max. Allowable	
	FY15 Charge	Charge
Apartment		
- Water	\$896	\$1,257
- Sewer	\$1,140	\$1,602
1-2 toilets/residential		
- Water	\$1,344	\$1,887
- Sewer	\$1,710	\$2,398
3-4 toilets/residential		
- Water	\$2,240	\$3,145
- Sewer	\$2,850	\$4,000
5 toilets/residential		
- Water	\$3,135	\$4,401
- Sewer	\$3,991	\$5,603
6+ toilets/residential*		
- Water	\$88	\$124
- Sewer	\$115	\$162
Non-residential*		
- Water	\$88	\$124
- Sewer	\$115	\$162

*costs shown are per fixture unit

The SDC fund itself is discussed in more detail in the Council CIP packet from March 11 (Agenda Item #5).

Council Staff is supportive of WSSC's approach, with the caveat that the issue of SDC rates is an annual decision. NOTE: Both the maximum rate and the adopted rate will be noted in the annual Council resolution approved in mid-May. The Council will act on the SDC resolution in mid-May.

Other Fees

A list of WSSC fees (and proposed revenue changes) is attached on ©16-21. Most of these fees have to do with construction activity. Neither WSSC nor the Council has received any concerns from the building industry regarding the fee schedule.

Water and Sewer Main Infrastructure

Large Diameter Water Pipe

WSSC has approximately 960 miles of large diameter water main (mains ranging in size from 16 inches to 96 inches in diameter), of which 350 miles are PCCP. These are the highest priority for inspection, monitoring, repair, and replacement because (unlike pipes made out of iron or steel), PCCP pipe can fail in a more catastrophic manner. Both Montgomery and Prince George's Counties have experienced large diameter PCCP failures in recent years (most recently with a break in Prince George's County in January of 2013) and have averted some potential breaks.

Of the PCCP inventory, there are 77.7 miles of pipes 48 inches or greater, which has been WSSC's highest priority for inspection, repair, and acoustic fiber optic (AFO) monitoring over the past few years. WSSC completed its first round of inspections, urgent repairs, and AFO work on these 77 miles in late FY13 (Spring of 2013). WSSC has begun to expand this program to pipes smaller than 48 inch diameter as well. WSSC has 86 miles of PCCP mains that are 36 to 48 inches in diameter. WSSC plans to do 9.21 miles of small diameter work in FY14 and 4.94 miles in FY15.

On March 25, the Council received an update from Senior Legislative Analyst Marlene Michaelson, who is the Council's representative on the Ad Hoc Committee on large Diameter Water Mains. This group, with governmental and non-governmental officials from both Montgomery and Prince George's Counties, was formed to look at policy options related to potential breaks in large diameter water mains. The WSSC General Manager/CEO had previously supported a requirement for an 80 foot setback from large diameter PCCP water transmission mains. The Ad Hoc Group is finalizing a draft report, which recommends a number of general recommendations and more specific recommendations involving prevention, mitigation, and response. The Ad Hoc Group does not support the 80 foot setback concept.

Ms. Michaelson noted that WSSC is a national leader in its inspection, repair, and AFO efforts, which is expected over time to diminish the likelihood and frequency of major PCCP breaks. This, along with some new mitigation and response measures will appropriately address the risk issue.

WSSC's FY15 Proposed budget (both capital and operating) includes \$26 million for 18 miles of large diameter PCCP pipe inspection, assessment, urgent repairs, and AFO monitoring of all 77 miles of the large diameter PCCP. Larger section repairs are funded out of the CIP.

WSSC believes the 18 miles per year is the maximum pace they can do, given the need to de-water sections of pipe and reroute water as part of the inspection process.

New within the FY15 budget is \$5.8 million for a new large Valve Assessment Repairs and Replacement program. Councilmembers may recall that WSSC was able to avoid a major water main failure in Prince George's County last year by utilizing a previously non-working valve. WSSC estimates that it has approximately 775 valves built between 1920 and 1960 which are now past their useful lives. This new program will allow for the repair and/or replacement of about 100 valves per year.

WSSC is also incorporating into its large diameter pipe inspection process a review of major pipe sections between joints and outlets (like the pipe section that failed in the Chevy Chase Lake break last year). The AFO monitoring is not designed to provide warning of failures that occur at these pipe locations. WSSC has documented 234 pipe sections between joints and outlets in its transmission system and is now inspecting, repairing, and replacing these joints as needed.

Water Reconstruction Program

WSSC has approximately 5,500 miles of water mains. WSSC has an "Information Only" project presented in the CIP each year which shows its assumed funding for the budget year and five following years (FY15-20: \$688.3 million). This work is funded with bonds, but is not technically part of the WSSC CIP, and is approved annually within the WSSC Operating Budget.

WSSC has ramped up the annual number of miles of pipe to be replaced. Beginning with the Approved FY10-15 CIP, budgeted and actual replacement miles began to increase steadily. The budget level for FY10 was 27 miles per year, but it has been increased each year and is 51 miles for FY14. For FY15, approximately \$104.5 million in bond funding is assumed, with 60 miles of replacement proposed. WSSC's long-term goal is to reach a steady state of approximately 55 miles of replacement per year (or about a 100-year replacement cycle).

Originally, this ramp-up was to be a major multi-year commitment predicated on a substantial increase in the Account Maintenance Fee (ready to serve) charge that was ultimately not agreed upon by the WSSC Commission. Without a new funding source, the ramp-up has been accommodated within available dollars from annual water and sewer rate increases.

This ramp-up is having an impact on rates of new debt and debt service costs in the Operating Budget. Fortunately, favorable interest rates and WSSC's move from 20 year debt to 30 year debt (with accompanying reinvestment of a portion of the debt service savings back into Paygo contributions) have helped temper this impact. Debt service is expected to remain around 34 percent of the budget in coming years and perhaps even decline somewhat in the outyears.

The Bi-County Infrastructure Funding Working Group is continuing to look at possible infrastructure charges and possible changes in the current rate structure. A consultant hired by WSSC recently completed a rate study that is currently under review by the Working Group.

Sewer Reconstruction Program

This “information only” project funds comprehensive sewer system evaluations and rehabilitation programs. The six-year cost is \$376.5 million, with \$16.5 million assumed in FY15. As with the Water Reconstruction Program above, the sewer reconstruction project does not include funding for “major capital projects” as defined in State law. Capital-size projects that are identified in this project become stand-alone projects.

WSSC has approximately 5,400 miles of sewer pipe. As discussed in past years, this project is a major element of WSSC’s SSO Consent Decree compliance efforts. Expenditures have already ramped up in this program as a result. As mentioned earlier, WSSC developed a new project in FY11 to deal specifically with trunk sewer reconstruction. Costs associated with that work were previously included in this project. The focus of this project is on sewer mains and house connections.

Both the water and sewer reconstruction efforts are a major area of concern to Montgomery County, given WSSC’s aging infrastructure. However, recent years of significant rate increases and continued rising debt requirements make this effort a major challenge. The rate study noted earlier is needed so that WSSC and both counties can identify how to address WSSC’s infrastructure needs over the long term with a sustainable and equitable revenue stream.

Spending Control Limits

Background

In April 1994, the Council adopted Resolution No. 12-1558, which established a spending affordability process for the WSSC budget. Under this process, which stems from the January 1994 report of the bi-County Working Group on WSSC Spending Controls, each Council appoints a Spending Affordability Committee (SAC). For Montgomery County, the SAC is the Transportation, Infrastructure, Energy and Environment Committee.

There are four spending control limits: Maximum Average Rate Increase, Debt Service, New Debt, and Total Water and Sewer Operating Expenses.

Councilmembers should keep in mind that the spending control limits only provide a ceiling regarding what the Councils direct WSSC to propose in its budget. The limits do not cap what the Councils can approve within the regular budget process that concludes in May of each year.

FY15 Spending Control Limits

Last fall, the T&E Committee and the Council reviewed WSSC’s major revenue and expenditure assumptions as part of the FY15 spending control limits process. WSSC developed a “base case” scenario (roughly a “same services” scenario with some enhancements) that included an 8.0 percent rate increase.

The Montgomery County and Prince George's County Councils supported a 6.0 percent rate ceiling.

The FY15 Proposed WSSC Budget is within each of the four limits recommended by both Councils, including the rate increase limit of 6.0 percent. Table 2 below shows how WSSC's Proposed FY15 Budget compares to the approved limits and to the County Executive's FY15 budget recommendations. The Executive's recommendation is the same as all of the amounts assumed in WSSC's Proposed Budget.

**Table 2:
FY15 Spending Control Limits Approved by Each Council
versus the FY15 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC
	MC	PG	Proposed
New Debt (in \$000s)	384.6	384.6	384.6
Water and Sewer Debt Service (in \$000s)	227.0	227.0	227.0
Water/Sewer Operating Expenses (in \$000s)	678.6	678.6	678.1
Maximum Avg. Rate Increase	6.0%	6.0%	6.00%

Fund Balance Status

WSSC's fund balance projections and potential uses for excess fund balance were previously discussed last fall during the Council's spending control limits discussion. The text from the Council Staff packet from last fall is attached on ©43-44. An updated chart is presented below:

**Table 3:
Estimated Excess Fund Balance Calculation (in \$000s)**

Estimated Fund Balance (end of FY13)	133,930
Use of Fund Balance for Billing Factor Adjustment	(8,110)
ERP	(2,500)
PAYGO	(5,000)
One-Time Additional & Reinstated Programs	(670)
Debt Service Adjustment (Blue Plains)	500
Budgeted Reserve	(53,300)
Projected Unreserved Fund Balance (end of FY14)	64,850
Billing Factor Adjustment	(5,640)
PAYGO	(5,000)
FY15 Operating Reserve Contribution (to achieve goal of 10% of revenues)	(2,300)
AMI/Billing System Replacement	(3,500)
Watershed Improvements	(1,500)
Additional and Reinstated: IT Strategic Plan	(9,000)
Additional and Reinstated: Supply Chain Management Re-engineering	(1,000)
Additional and Reinstated: IT Data Modular Center	(2,000)
Additional and Reinstated: Electric Rate Case Intervention Services	(250)
Projected Unreserved Fund Balance (end of FY15)	34,660
FY16-19 REDO Extinguishment	(6,000)
FY16-19 AMI Billing System Replacement	(8,000)
FY16-19 Additional Operating Reserve Increase	(17,500)
Estimated Unallocated Fund Balance	3,160

Both Montgomery and Prince George's County Council Staffs have been supportive of WSSC's use of excess fund balance to fund items such as PAYGO, one-time items, and special projects rather than to provide one-time rate relief. **Using one-time excess fund balance for rate relief would result in a revenue shortfall the following year, which could cause rates to rise higher in that second year than would otherwise be required.**

The additional and reinstated programs to be funded with excess fund balance total \$12.25 million. The use of fund balance for these items is taken into account when considering the rate increase requirement later in this memorandum.

WSSC's January Monthly Status Report assumes revenues to be \$27.1 million less than budgeted, primarily as a result of lower than previously projected water production. However, expenditures are also expected to be lower than projected (by about \$39.3 million) as a result of savings in salary and wages and various operating expenses. Overall, an additional \$12.2 million surplus is projected in unallocated reserves from what was projected last fall. **Council Staff suggests that this additional unallocated reserve, if realized, can be considered in the context of the FY16 spending control limits process this fall.**

Revenues

Table 4:

WSSC Revenue Trends: FY14 to FY15

Revenue	Approved FY14	Requested FY15	change	% change	Impact on Rate (%)
Water and Sewer Rate Revenue	571,055,000	555,872,000	(15,183,000)	-2.7%	2.75
Customer Affordability Program	-	(2,800,000)	(2,800,000)		0.51
Interest Income	1,000,000	1,000,000	-	0.0%	-
Account Maintenance Fee	22,850,000	22,900,000	50,000	0.2%	(0.01)
Plumbing/Inspection Fees	5,560,000	6,880,000	1,320,000		(0.24)
Rockville Sewer Use	2,444,000	2,694,000	250,000		(0.05)
Miscellaneous	16,099,999	16,999,999	900,000	5.6%	(0.16)
Total Revenues	619,008,999	603,545,999	-15,463,000	-2.5%	2.80

Revenue trends were discussed in detail during last fall's spending control limits process. The above chart compares WSSC's FY15 revenue assumptions (assuming no water/sewer rate increase) with FY14 approved revenues. The chart shows that water/sewer rate revenue (WSSC's dominant source of revenue) is expected to decline by \$15.2 million. This drop is offset slightly by some increases in other smaller revenue sources. Overall, however, a 2.8 percent rate increase is needed just to offset the revenue loss from FY14 to FY15.

This trend of flat to declining revenues is not new and is the result of overall water consumption in the WSSC service area being essentially unchanged from 20 years ago, despite some growth in the WSSC customer base. Per capita water usage is down 17.8 percent since FY96. While water conservation is a good thing from an environmental standpoint, it means WSSC's dominant revenue source has been stagnant, putting more pressure on rates.

New in FY15, WSSC is assuming a "customer affordability program" with a writedown of \$2.8 million in rate revenue. This affordability program is an outgrowth of the Bi-County

Infrastructure Task Force, which has expressed support for an expanded customer affordability program. The program would allow WSSC customers who qualify for other income-based programs to receive a continuing benefit to offset a portion of their WSSC bill. Currently, WSSC has a small program in place which allows customers to donate to a fund that is used to provide short-term assistance to WSSC customers.

Enabling State legislation is needed for this new expanded affordability program. However, the legislation introduced during the current State Legislative Session has been withdrawn pending further study. Therefore, the new affordability program will not be able to proceed in FY15. This means the related \$2.8 million revenue reduction should no longer be assumed for FY15.

Council Staff recommends increasing the total revenue assumption by \$2.8 million and reducing water/sewer rates accordingly (from 6.0 percent to 5.5 percent).

FY15 WSSC Proposed Budget

Summary Charts

The following chart presents summary budget data for WSSC for the FY14 Approved and FY15 Proposed Budgets.

**Table 5:
WSSC Expenditures by Fund (in \$000s)**

	Approved	Proposed	Change	
	FY14	FY15	\$	%
Capital				
Water Supply	246,702	265,079	18,377	7.4%
Sewage Disposal	475,352	341,997	(133,355)	-28.1%
General Construction	20,133	18,305	(1,828)	-9.1%
Total Capital	742,187	625,381	(116,806)	-15.7%
Operating				
Water Operating	280,166	298,593	18,427	6.6%
Sewer Operating	378,252	379,496	1,244	0.3%
Subtotal W&S Operating	658,418	678,089	19,671	3.0%
Interest and Sinking	40,355	29,101	(11,254)	-27.9%
Total Operating	698,773	707,190	8,417	1.2%
Grand Total	1,440,960	1,332,571	(108,389)	-7.5%

The combined total of the FY15 Capital and Operating Budget is \$1.3 billion, a decrease of \$108.4 million (or -7.5 percent) from the Approved FY14 amount of \$1.4 billion.

The total proposed FY15 Operating Budget is \$707.2 million, an increase of \$8.4 million (or 1.2 percent) from the Approved FY14 Operating Budget of \$698.8 million.

The following chart summarizes the Approved and Proposed operating expenditures by major category.

**Table 6:
Total Operating Expenditures by Category**

Expense Categories	Approved	Proposed	Change	
	FY14	FY15	\$\$	%
Salaries and Wages	104,645	107,705	3,060	2.9%
Heat, Light, and Power	23,910	22,906	(1,004)	-4.2%
Regional Sewage Disposal	53,207	55,176	1,969	3.7%
All Other	252,202	267,065	14,863	5.9%
Debt Service	264,809	254,338	(10,471)	-4.0%
Total	698,773	707,190	8,417	1.2%

Debt service continues to be the biggest category. This is not unexpected for WSSC, given its large capital program. However, for FY15, overall debt service costs are decreasing by 4.0 percent. This is due to a number of factors, including:

- WSSC’s move to 30 year debt (resulting from the recommendations of a consultant study, as discussed last year)
- WSSC’s increase in use of PAYGO (also a recommendation of the same consultant study)
- Slower Growth in the WSSC CIP (and other bond-funded efforts) after many years of high growth. WSSC has a number of large projects moving toward completion (including projects at the Blue Plains Wastewater Treatment Plant), and WSSC has also deferred some major work in its Trunk Sewer Rehabilitation program in order to focus on priority 1 Consent Decree work over the next several years. Water and Sewer related debt (which funds non-growth related infrastructure) had also been going up steadily in recent years as a result of upward trends in WSSC’s CIP and non-CIP infrastructure recapitalization. However, much of this ramp-up of work is now within the base of the WSSC budget.

However, even with a slowing in debt service increases, water and sewer related debt service (approximately \$227 million of the total \$254 million shown above) still makes up about 34 percent of WSSC’s Proposed Budget.

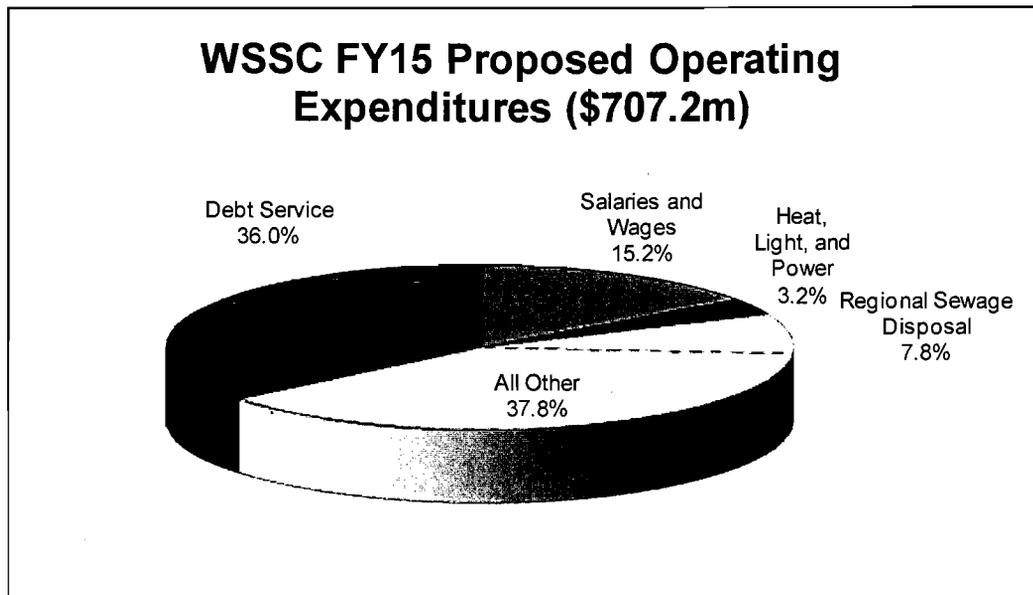
The heat, light, and power category is down slightly for FY15² (by 4.2 percent). This follows a 1.3 percent decline last year and more substantial declines in the previous two years as a result of reductions in the weighted average unit price of electricity and also reductions in natural gas usage. Over the past 9 years, WSSC has also pursued a number of electricity retrofit initiatives, funded mostly through a large performance contract with Constellation Energy, that have helped offset operational changes that have increased WSSC’s energy requirements (such as installation of ultraviolet disinfection processes). WSSC also has made a major long-term investment in wind power through wholesale purchases from a wind farm in Pennsylvania. This purchase provides approximately 28 percent of WSSC’s power needs at fixed kWh rates for a ten year period ending in March 2018. WSSC expects to advertise for a new 10 year agreement to follow the expiring agreement.

² WSSC’s FY15 budget for heat, light, and power DOES NOT assume any whole or partial sunset in Montgomery County’s energy tax increase from three years ago. If a sunset were to occur in whole or in part, WSSC would achieve some additional budget savings in FY15 from lower energy costs for its facilities located in Montgomery County.

The “All Other” category includes all operating costs not otherwise broken out above and also includes employee benefits (\$48.4 million), the largest item in this category. The other major cost items in this category include: bio-solids management and hauling (\$16.9 million), implementation of the IT Strategic Plan (\$14.5 million), chemicals (\$13.8 million), materials (\$11.1 million), and a number of other smaller items.

Compensation

Salary and wages remain a comparatively small, although still significant, part of the WSSC Operating budget (as shown in the following pie chart).



Even adding employee benefits (which are included in the “All Other” category) in order to look at personnel costs as a whole, personnel costs for FY15 make up less than 25 percent of operating budget expenditures. This ratio contrasts sharply with ratios in County Government, where personnel costs are 53.4 percent of County Government expenditures in the FY15 Recommended Budget. MCPS’ personnel costs represent about 90 percent of its budget.

“Salaries and Wages”³ costs within the Operating Budget are estimated to increase by 2.9 percent. This increase covers WSSC’s proposed salary enhancements totaling \$4.4 million as well as 8 new positions (discussed in more detail later), with an estimated ratepayer impact of \$408,000. The type of salary enhancements to be provided were left to the two Councils to decide, based on their decisions regarding County Government employee compensation.

WSSC’s personnel costs (and increases) are a small part of WSSC’s budget. The ratepayer impact of the \$4.4 million in salary enhancements equates to a 0.8 percent rate increase. *Note: since WSSC’s budget is funded by ratepayers rather than by tax dollars, WSSC’s compensation increases do not directly compete for the same tax-supported funding that covers other County*

³ Benefit costs (such as Social Security, Group Insurance, and Retirement) are loaded in the “All Other” expense category

agency employees. However, both the County Executive and the Council have expressed support for the concept of the equitable treatment of employees across agencies, especially in the context of annual pay increases.

The Council's Government Operations and Fiscal Policy (GO) Committee is scheduled to discuss compensation and benefit assumptions across agencies on April 24. Final Council decisions on County Government (and other agencies) employee compensation and benefit changes will not occur until May 16, when the Council reconciles the Capital and Operating budgets.

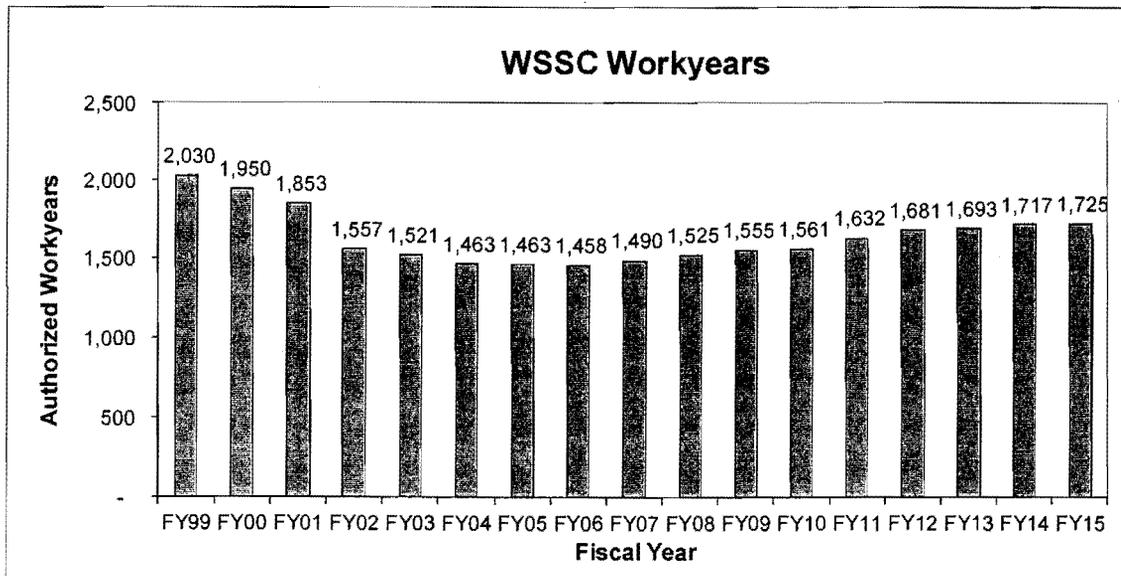
For FY15, the County Executive is recommending full funding of the second year of negotiated contracts with all of the County Government's employee unions. For non-public safety employees, this includes a COLA of 3.25 percent effective in September of 2014 (effectively a 2.7 percent COLA in FY15, but annualized in future years) and service increments of 3.5 percent for eligible employees not at the top of their salary grade.

WSSC's \$4.4 million in compensation funding could provide for a COLA of about 2.6 percent (effective July 1, 2014) and merit increases of 3.5 percent.

Council Staff supports the concept of treating employees consistently across all agencies whenever possible. WSSC's additional compensation funding overall may be slightly below what would be needed to match what County Government employees would receive under the County Executive's recommendation, but it is pretty close. Council Staff supports the level of funding proposed by WSSC (\$4.4 million) pending any adjustments to County Government employee compensation that may be made by the Council.

Workyear Trends

After about a 1/3 reduction in the workforce achieved as a result of a Competitive Action Program (CAP) and retirement incentive program, WSSC has been adding workyears since FY07. Workyears by organizational unit for the Approved FY14 and FY15 Proposed budget are presented on ©30-31. The chart below presents workyear trends since FY99.



For FY15, 8 new positions are requested, as summarized on ©37. The total annual cost of these new positions is about \$737,600, with \$407,900 in water and sewer rate-related costs. More information on each new position was provided by WSSC and is attached on ©38-41. Three positions are involved with the Cross Connection program begun last year (and are fully fee supported). Three positions are involved in water main work. The other two positions include a Customer Care (Maintenance) unit coordinator and Industrial Discharge Program Coordinator.

Council Staff recognizes that WSSC’s operating and capital workload is growing substantially and that much of the additional staffing approved over the past several years has been needed to support this work throughout WSSC. Staff from both Montgomery and Prince George’s Counties will continue to review WSSC’s staffing needs in the context of the annual spending control limits process each fall and the budget each spring.

New and Expanded Programs

The chart on ©37 presents a list of additional and reinstated programs included in the FY15 Proposed Budget. Each of the items is described in more detail on ©38-41. These items total about \$21.3 million, with an operating budget impact of about \$15.1 million (including costs for new staffing detailed earlier). Several items totaling \$12.25 million are assumed to be funded via the use of fund balance. Overall, these items (including the new positions described earlier) would result in a rate increase requirement of approximately 2.7 percent. However, with the fund balance funded items removed, the rate increase impact is 0.51 percent.

Customer Impact

With regard to the impact on the WSSC ratepayer, the following chart shows that each 1.0 percent rate increase adds about 75 cents per month to an average residential bill (\$2.24 to a quarterly bill and \$8.94 annually).

**Table 7:
Impact of Rate Increases in FY15
on Avg. Residential Customer Bill**

% Increase	Impact			
	Monthly	Quarterly	Annual	
1.00%	\$0.75	\$2.24	\$8.94	Impact of 1% Change
4.10%	\$3.05	\$9.16	\$36.65	Revenue Changes, Fixed Costs, w/o Customer Affordability Pr
5.00%	\$3.73	\$11.18	\$44.70	"Same Services" Rate w/o Customer Affordability Program
5.50%	\$4.10	\$12.29	\$49.17	WSSC Proposed w/o Customer Affordability Program
6.00%	\$4.47	\$13.41	\$53.64	WSSC Proposed (same as MC/PG Spending Control Limit
Current Avg. E	\$78.34	\$235.01	\$940.04	

*based on avg. usage of 210 gallons per day and account maintenance fee of \$11 per quarter

The effect of WSSC’s proposed 6.0 percent rate increase (which is identical to the rate ceiling agreed upon by Montgomery County and Prince George’s County last fall) on the average quarterly residential bill is about \$4.47 per month (\$13.41 quarterly and \$53.64 annually).

Council Staff believes there is a relatively narrow range of rates to consider. Covering fixed costs and revenue adjustments alone results in a 4.1 percent rate increase. Taking into

account inflationary increases in programs results in a 5.0 percent increase. WSSC's proposed budget, taking into account additional revenue from the delay of the customer affordability program, results in a rate increase of 5.5 percent. Council Staff is supportive of the 5.5 percent increase.

Rate Increase History

The Council periodically receives correspondence from WSSC customers concerned about WSSC's rate increases. The chart below presents WSSC's rate increases over the past 20 years.

**Table 8:
Spending Control Limits & Actual Rates**

Fiscal Year	Approved* Limit	Actual	Fiscal Year	Approved* Limit	Actual
FY96	3.0%	3.0%	FY06*	2.5%	2.5%
FY97	3.0%	3.0%	FY07	3.0%	3.0%
FY98	3.0%	2.9%	FY08	5.3%	6.5%
FY99	2.0%	0.0%	FY09*	9.7%	8.0%
FY00	1.5%	0.0%	FY10*	9.5%	9.0%
FY01	0.0%	0.0%	FY11*	9.9%	8.5%
FY02*	2.0%	0.0%	FY12*	9.9%	8.5%
FY03	0.0%	0.0%	FY13	8.5%	7.5%
FY04	0.0%	0.0%	FY14*	8.0%	7.25%
FY05	3.0%	3.0%	FY15	6.0%	TBD

*No agreement was reached in FYs 02,06,09,10,11,12, and 14. Limits shown for those years reflect Montgomery County Council recommendations.

Rate increases have been particularly high since FY08, ranging from 6.5 percent to as high as 9.0 percent. Complaints often focus on how these rates are significantly higher than inflation and higher than other water and sewer utilities in the region over the same period of time.

The compounded consumer price index (CPI) for the region since November 1996 to November 2013 was 53.2 percent while rates have increased at a compounded amount of 102 percent from FY96 through FY14.

Interestingly, if WSSC were to have had the same overall compounded increase over the last 20 years, with the same rate increase every year, the rate increase would have been about 3.75 percent per year. However, rate increases from FY96 through FY07 were well below this level (including six straight years without a rate increase).

Council Staff asked WSSC for comparative rate increases for other utilities. The slide on ©42 shows rate increases since 2002 for a number of utilities. The utilities are clustered into categories of 70 to 89 percent, 90 to 129 percent and 130 to 233 percent. WSSC's rate increase since 2002 is 85 percent. The regional CPI during that time was 34.4 percent. The chart shows that many water and sewer utilities have increased rates well above the CPI in the last decade. WSSC's rate increase over that time is not the lowest but is in the lower third of the utilities presented.

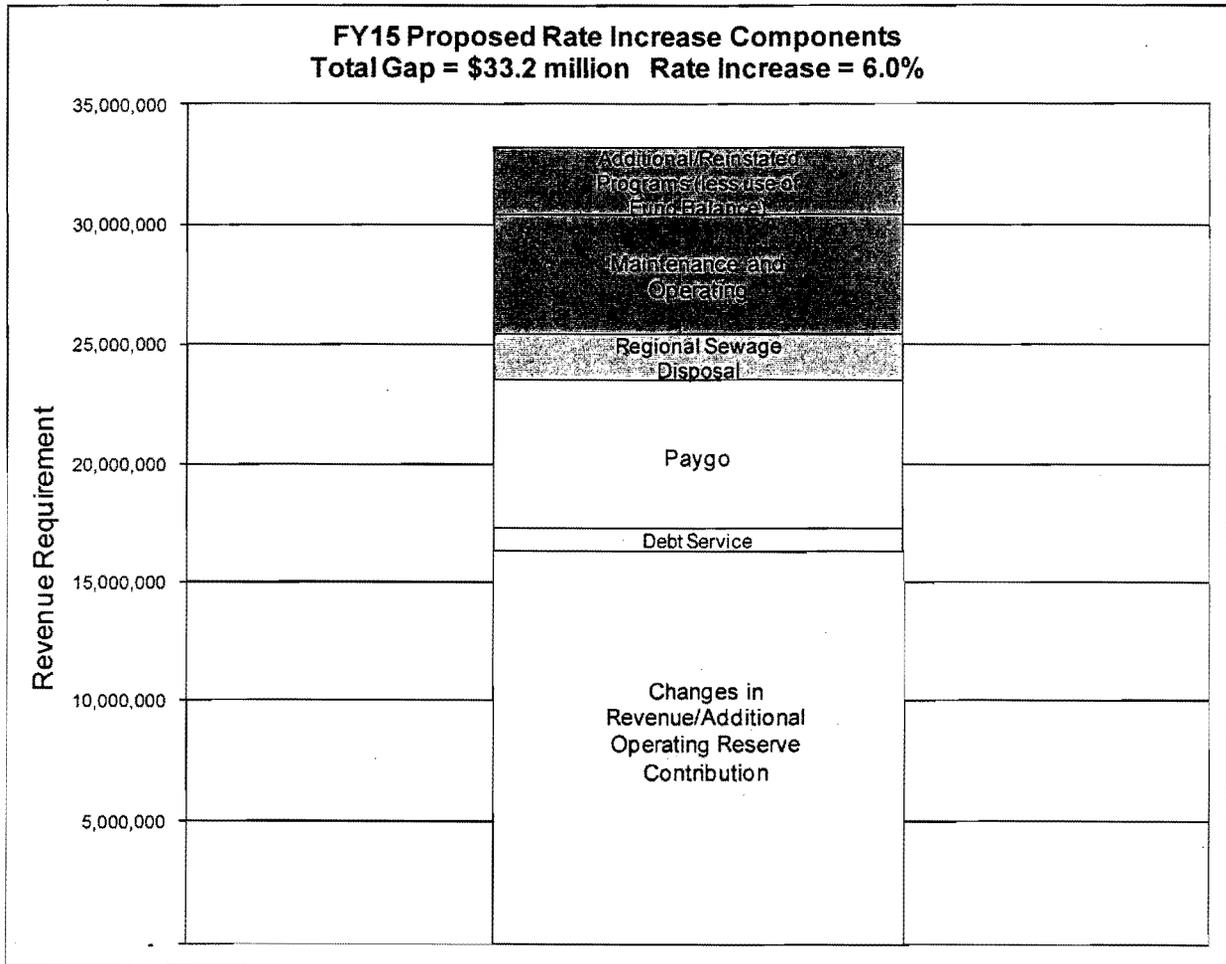
Another reason for WSSC's recent large rate increases is WSSC's flat water production experience, resulting in the vast bulk of WSSC's revenue (water/sewer rate revenue) not increasing, and even declining, in some years. Water production has grown only 1.2 percent since FY2000. This issue was noted earlier and has caused a bump in rates, especially in recent years.

WSSC's expenditures since FY2000 have increased about 58.6 percent, a bit higher than the CPI over the same period (about 45.9 percent) but not nearly as much as rates have increased. **This is further evidence that much of the rate pressure above CPI stems from revenue trends, not expenditure trends.**

Closing the Gap

Each 1% of rate increase provides an estimated \$5.5 million in revenue. A revenue gap of approximately \$11 million was estimated to get from WSSC's "base" case forecast of last fall (8.0 percent rate increase) down to the 6.0% rate increase proposed now. WSSC was able to close this gap by budgeting about \$8.3 million less in "all other" costs than assumed during the spending control limits process (a 4.0 percent increase in "all other" costs was assumed at that time), about \$2.5 million less in salary and wage increases, and slightly less in heat, light, and power as well. Revenues are also up slightly.

The end result is a 6.0 percent rate increase proposal, with the following major rate increase components:



Summary of Council Staff Recommendations

- Concur with WSSC to maintain System Development Charge rates for FY15 at current approved levels, but to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment as allowed for under State law.
- Approve the FY15 Proposed Budget but with a 5.5 percent rate increase instead of the 6.0 percent proposed by WSSC.
- Defer any assumption of debt service savings related to the Anaerobic Digestion/Combined Heat and Power Capital Project pending a Council recommendation on that project. (The County Executive assumes debt service savings).
- Make the following changes within the Proposed Budget:
 - Assume \$2.8 million in additional water/sewer rate revenue as a result of the Customer Affordability program not being implemented in FY15 since enabling State legislation will not be enacted this year.
 - Assume to utilize the \$4.4 million WSSC has allocated for salary enhancements to provide COLA and merit increases in line with what County Government employees will receive. *NOTE: The \$4.4 million could provide a 2.6% COLA (effective 7/1/14) and 3.5 percent merit increases for eligible employees.*

Attachments

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Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5901
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

February 28, 2014

To The Honorable:

Isiah Leggett, Montgomery County Executive
Rushern L. Baker, III, Prince George's County Executive

Craig Rice, President, Montgomery County Council
Mel Franklin, Chair, Prince George's County Council

Members of Montgomery County Council
Members of Prince George's County Council

Elected Officials, Valued Customers, and Interested Citizens:

We are hereby transmitting the Fiscal Year 2015 (FY'15) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'15 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 5, and Thursday, February 6, 2014. The FY'15 Proposed WSSC Budget is now submitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 17-202 of the Public Utilities Article, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2014.

This proposed budget reflects our continued mission to provide safe and reliable water, life's most precious resource, and returning clean water to the environment, all in an ethically, sustainable, and financially responsible manner. The programs, goals, and objectives included in this budget seek to achieve the Commission's mission through the following strategic priorities:

- Sustain Infrastructure
- Ensure Financial Stability
- Optimize Workforce Management
- Integrate Supply Chain Management and Supplier Diversity
- Deliver Excellent Customer Service
- Ensure Security and Safety
- Enhance Communications and Stakeholder Relationships
- Demonstrate Environmental Stewardship

The combined average 6.0% rate increase in the FY'15 budget meets the Spending Affordability Guidelines established by each County and will help us to continue achieving our critical objectives. Approximately half of the FY'15 proposed rate increase results from an adjustment to the projection methodology for water production to more accurately estimate revenues. The rate increase will add approximately \$4.47 per month to the bill of a customer who uses 210 gallons of water per day. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table VI (page 14).

Like many utilities, WSSC continues to face the challenge of balancing increasing costs for infrastructure and operations and affordability to our customers. The Bi-County Infrastructure Funding Working Group recommended the creation of a more aggressive Customer Affordability Program (CAP) to target economically disadvantaged customers and provide financial assistance with water and sewer bills. The Commission is currently seeking enabling legislation from the Maryland General Assembly to establish a CAP. The FY'15 budget includes \$2.8 million in revenue offsets to create, implement, and begin administering a CAP.

Water and Sewer Infrastructure

The state of WSSC's infrastructure remains a significant concern. In July 2013, parts of Southern Prince George's County faced the possibility of an extended disruption of service after our early warning system detected a weakness in a 54-inch pipe in Forestville. The hard work of our crews averted the water emergency by rebuilding a troublesome valve by hand while the main was repaired prior to rupture. A section of 54-inch pipe in Chevy Chase ruptured in March 2013, creating a huge geyser that disrupted traffic for several days while repairs were made. It is not only our responsibility to provide safe and reliable water service to our customers but also to ensure public safety by preventing the rupture of these large mains.

The FY'15 proposed budget includes \$26.0 million in support of the large diameter Prestressed Concrete Cylinder Pipe (PCCP) program including continued inspections of PCCP water lines augmented with a hi-tech monitoring system to detect potential weaknesses. The budget also proposes the rehabilitation of 60 miles (the approximate length of the Capital Beltway) of smaller water mains (<16 inches in diameter), house connections, large meters and vaults. The Commission is currently completing the assessment, repair, and replacement of water valves smaller than 16 inches in diameter. Beginning in FY'15, the Commission's focus will shift to large valves (like the one associated with the Forestville 54-inch main). Rehabilitation work will be underway in all environmentally sensitive area (ESA) basins to meet the requirements of the Consent Decree. All trunk sewer inspections, sewer system rehabilitation survey (SSES) work and all other related collection system evaluations are complete. In FY'15, the total costs of the Trunk Sewer Reconstruction Program have decreased as a result of shifting the design of Priority 2 projects until after the completion of the Consent Decree.

FY'15 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'15 includes a 6.0% rate increase. The budget includes funds for an additional 8 workyears to support critical programs and enhanced customer service. These additional workyears account for 0.07% of the proposed rate increase as only 4 of the positions will be funded with rate revenue. The new positions will support the protection of the potable water supply, support PCCP Management and provide enhanced preventative maintenance of the Commission's infrastructure. In addition to investments in the Commission's physical infrastructure, the budget also provides for investment in the Commission's internal

infrastructure through the use of strategic contributions from Fund Balance. Funds are included to implement the Commission's Supply Chain Management (SCM) initiative and fund the second year of the Information Technology (IT) Strategic Plan. The goal of the SCM initiative is to drive costs out of the organization through strategic sourcing to acquire the products and services needed to run the Commission. The IT Strategic Plan is an aggressive undertaking to improve our operations, contain costs, and vastly improve customer service. Just as we invest in our aging infrastructure, it is imperative that we invest in planning, designing, and implementing IT systems that will replace legacy systems and drastically improve business processes. The Proposed Budget also includes funds for knowledge capture and transfer to ensure a seamless level-of-service as the Commission's most experienced and knowledgeable employees retire and are replaced by the next generation of workers.

Comparative Expenditures by Fund

	FY'14 Approved	FY'15 Proposed	FY'15 Over / (Under) FY'14	% Change
<u>Capital Funds</u>				
Water Supply	\$246,702,000	\$265,079,000	\$18,377,000	7.4 %
Sewage Disposal	475,352,000	341,997,000	(133,355,000)	(28.1) %
General Construction	20,133,000	18,305,000	(1,828,000)	(9.1) %
Total Capital	742,187,000	625,381,000	(116,806,000)	(15.7) %
<u>Operating Funds</u>				
Water Operating	280,166,000	298,593,000	18,427,000	6.6 %
Sewer Operating	378,252,000	379,496,000	1,244,000	0.3 %
General Bond Debt Service	40,355,000	29,101,000	(11,254,000)	(27.9) %
Total Operating	698,773,000	707,190,000	8,417,000	1.2 %
GRAND TOTAL	\$1,440,960,000	\$1,332,571,000	(\$108,389,000)	(7.5) %

The FY'15 Proposed Budget further secures the long-term fiscal sustainability of the Commission with a contribution of \$2.3 million from Fund Balance to bring the operating reserve to 10% of water and sewer rate revenues. FY'15 also marks the complete phase-in of full funding of the annual required contribution for other post-employment benefits (OPEB). At this point in our budget

process, we are including a pool of \$4.4 million for salary enhancements which accounts for 0.66% of the proposed rate increase. The specific use of these funds will be determined during the budget approval process as the two Counties decide how they will address salary enhancements for their employees.

The FY'15 Proposed Capital Budget of \$625.4 million represents a decrease of \$116.8 million (-15.7%) from the FY'14 Approved Budget. The change can be primarily attributed to the significant decrease in the Trunk Sewer Reconstruction project due to the shifting of planned Priority 2 work to future fiscal years, and projected decreases in spending for Enhanced Nutrient Removal projects and the Blue Plains WWTP Digester projects as construction winds down.

In summary, the FY'15 estimated expenditures for all operating and capital funds total \$1.3 billion or \$108.4 million (7.5%) less than the FY'14 Approved Budget. The FY'15 Proposed Operating Budget of \$707.2 million represents an increase of \$8.4 million (1.2%) from the FY'14 Approved Operating Budget. The primary drivers of the increase in operating costs are funding the second year to the IT Strategic Plan, PAYGO financing of capital projects as recommended by the Bi-County Infrastructure Funding Working Group, cost increases for the regional sewage disposal, the SCM initiative, expansion of the Water Main Condition Assessment program, and new workyears in support of the safety and operations and maintenance of the water and sewer systems. These costs are partially offset by reduced general bond debt service expenses.

Spending Affordability

The Commission, in cooperation with the Montgomery County and Prince George's County governments, continues to participate in the spending affordability process. The spending affordability process focuses debate, analysis, and evaluation on balancing affordability considerations against providing the resources necessary to serve existing customers (including infrastructure replacement/rehabilitation), meet environmental mandates, and provide the facilities needed for growth. In October 2013, the Montgomery County Council and Prince George's County Council approved resolutions establishing four limits on the WSSC's FY'15 budget. As indicated in the following table, the proposed FY'15 budget is in compliance with all of the spending affordability limits.

WSSC FY'15 Proposed Budget vs. Spending Affordability Limits
 (\$ in Millions)

	<u>FY'15 Proposed Budget</u>	<u>Prince George's County Limit</u>	<u>Montgomery County Limit</u>
New Water and Sewer Debt	\$384.6	\$384.6	\$384.6
Total Water and Sewer Debt Service	\$227.0	\$227.0	\$227.0
Total Water/Sewer Operating Expenses	\$678.1	\$678.6	\$678.6
Water/Sewer Bill Increase	6.0%	6.0%	6.0%

(4)

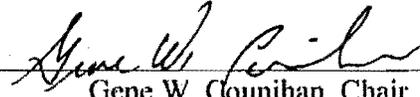
The proposed budget provides for:

- Funding the first year of the FYs 2015-2020 Capital Improvements Program;
- Increasing funding for the large and small Water Reconstruction Programs;
- Complying with the Sanitary Sewer Overflow Consent Decree;
- Inspecting and monitoring our large diameter water main transmission system;
- Establish and implement a program dedicated specifically to the assessment, repair and/or replacement of large water valves 16" or larger;
- Promptly paying \$254.4 million in debt service on \$2.5 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Paying the WSSC's share of operating (\$55.2 million in FY'15) and capital costs (\$119 million in FY'15; \$362 million FY'15-FY'20) for the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Funding for employee salary enhancements in a manner coordinated with the Counties;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to make recommended safety and access improvements in our watershed;
- Continuing to increase the operating reserve to 10% of water and sewer rate revenues; and
- Funding the final year of an eight-year ramp-up to achieve full funding of the annual required contribution for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45.

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table IX (page 17).

Budget Review Process

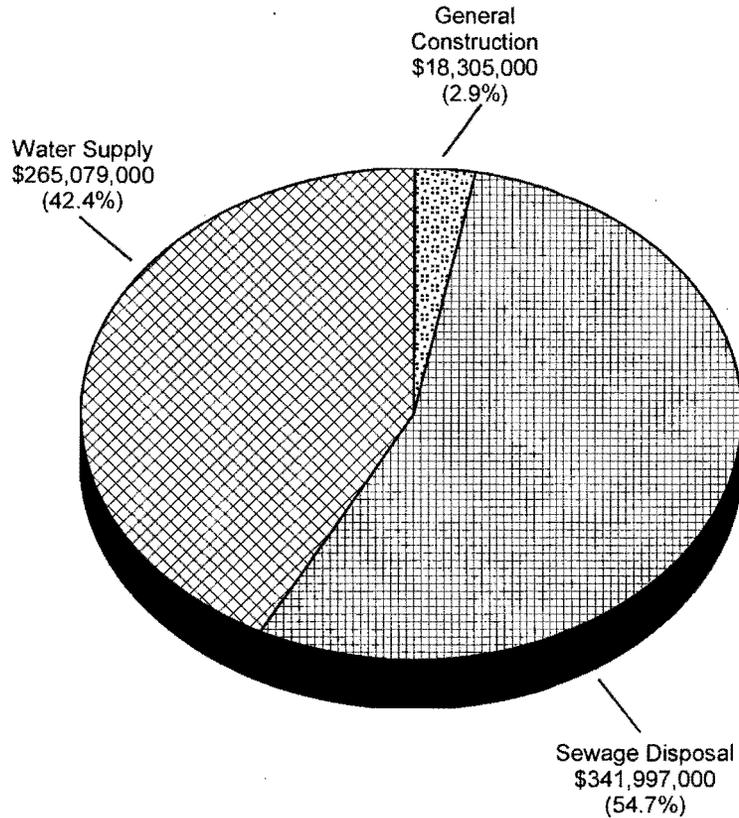
The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2014.



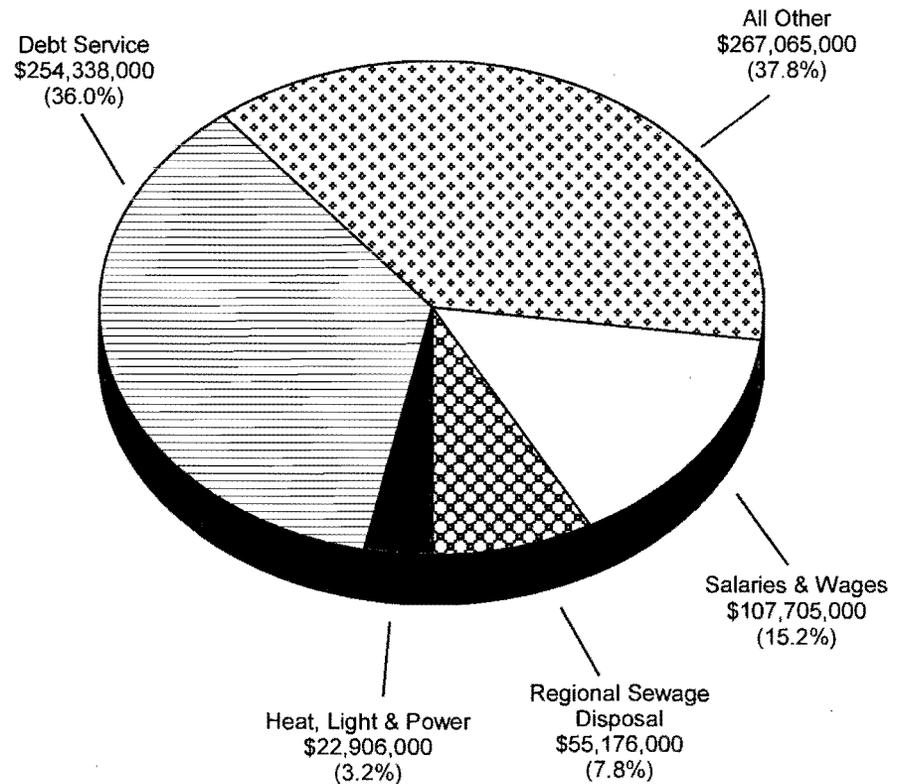
Gene W. Clounihan, Chair
Washington Suburban Sanitary Commission

FY 2015 PROPOSED BUDGET

CAPITAL = \$625,381,000



OPERATING = \$707,190,000

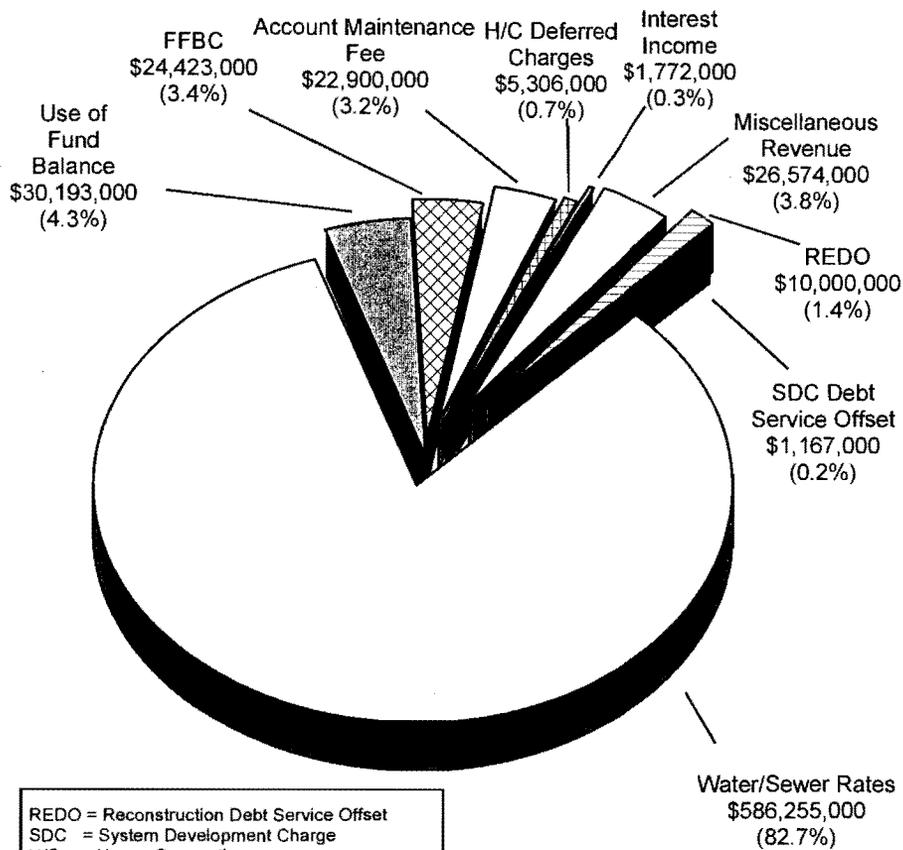


GRAND TOTAL = \$1,332,571,000

FY 2015 PROPOSED BUDGET

OPERATING

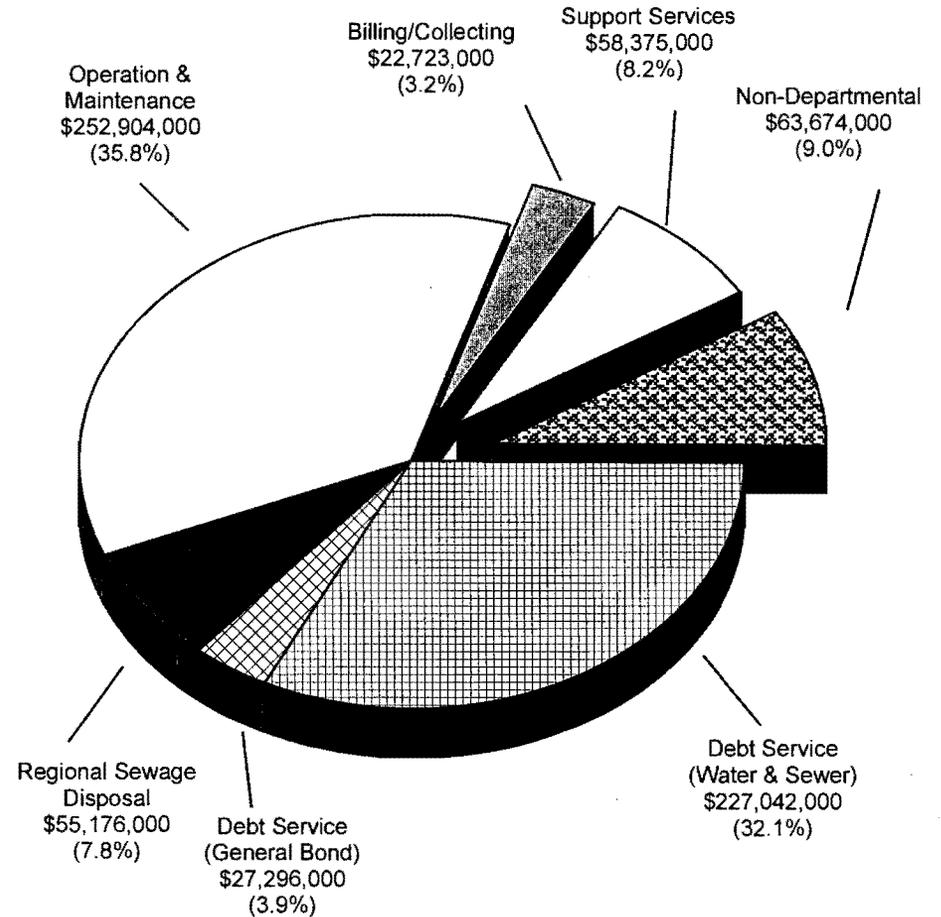
FUNDING SOURCES



REDO = Reconstruction Debt Service Offset
 SDC = System Development Charge
 H/C = House Connection
 FFBC = Front Foot Benefit Charge

TOTAL SOURCES = \$708,590,000

FUNDING USES



TOTAL USES = \$707,190,000

TABLE I

Comparative Expenditures by Fund

	<u>FY'12 Actual</u>	<u>FY'13 Actual</u>	<u>FY'14 Approved</u>	<u>FY'15 Proposed</u>	<u>FY'15 Over / (Under) FY'14</u>
Capital Funds					
Water Supply	\$ 158,078,000	\$ 182,393,000	\$ 246,702,000	\$ 265,079,000	\$ 18,377,000
Sewage Disposal	262,507,000	356,179,000	475,352,000	341,997,000	(133,355,000)
General Construction	14,912,000	8,617,000	20,133,000	18,305,000	(1,828,000)
Total Capital	<u>435,497,000</u>	<u>547,189,000</u>	<u>742,187,000</u>	<u>625,381,000</u>	<u>(116,806,000)</u>
Operating Funds					
Water Operating	229,538,000	236,478,000	280,166,000	298,593,000	18,427,000
Sewer Operating	289,022,000	301,807,000	378,252,000	379,496,000	1,244,000
General Bond Debt Service	48,424,000	44,527,000	40,355,000	29,101,000	(11,254,000)
Total Operating	<u>566,984,000</u>	<u>582,812,000</u>	<u>698,773,000</u>	<u>707,190,000</u>	<u>8,417,000</u>
GRAND TOTAL	<u>\$ 1,002,481,000</u>	<u>\$ 1,130,001,000</u>	<u>\$ 1,440,960,000</u>	<u>\$ 1,332,571,000</u>	<u>\$ (108,389,000)</u>

TABLE II

Comparative Expenditures by Major Expense Category

(\$ in Thousands)

Expense Categories	FY'13 Actual			FY'14 Approved			FY'15 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Salaries & Wages	\$ 23,632	\$ 93,502	\$ 117,134	\$ 23,541	\$ 104,645	\$ 128,186	\$ 24,684	\$ 107,705	\$ 132,389
Heat, Light & Power	-	22,979	22,979	-	23,910	23,910	-	22,906	22,906
Regional Sewage Disposal	-	49,226	49,226	-	53,207	53,207	-	55,176	55,176
Contract Work	244,636	-	244,636	378,963	-	378,963	348,052	-	348,052
Consulting Engineers	88,396	-	88,396	113,090	-	113,090	63,753	-	63,753
All Other	190,525	189,474	379,999	226,493	252,202	478,695	188,817	267,065	455,882
Debt Service	-	227,631	227,631	100	264,809	264,909	75	254,338	254,413
TOTAL	\$547,189	\$582,812	\$1,130,001	\$742,187	\$698,773	\$1,440,960	\$625,381	\$707,190	\$1,332,571



TABLE III

FY 2014 - FY 2015 Summary of Revenue & Expenses

(\$ in Thousands)

	Water Operating Fund		Sewer Operating Fund		General Bond Debt Service Fund		Capital Funds	
	2014	2015	2014	2015	2014	2015	2014	2015
	Approved	Proposed	Approved	Proposed	Approved	Proposed	Approved	Proposed
REVENUES								
Water Consumption Charges	\$ 241,112	\$ 252,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Use Charges	-	-	329,943	333,628	-	-	-	-
Front Foot Benefit & House Connection Charges (Deferred)	-	-	-	-	37,823	29,729	-	-
Account Maintenance Fees	11,425	11,450	11,425	11,450	-	-	-	-
Interest Income	300	200	700	800	1,176	772	-	-
Miscellaneous	13,380	13,640	10,724	12,934	700	900	-	-
Use of Fund Balance								
Reserve Contribution	5,967	1,173	5,733	1,127	-	-	-	-
Other	7,692	14,226	8,089	13,667	10,500	10,000	-	-
Reconstruction Debt Service Offset	-	5,000	10,500	5,000	(10,500)	(10,000)	-	-
SDC Debt Service Offset	290	277	1,138	890	-	-	-	-
Bonds & Notes	-	-	-	-	-	-	570,121	495,607
Anticipated Contributions:								
Federal & State Grants	-	-	-	-	-	-	60,461	27,723
System Development Charge	-	-	-	-	-	-	90,274	69,893
Other	-	-	-	-	-	-	21,331	32,158
TOTAL REVENUES	\$ 280,166	\$ 298,593	\$ 378,252	\$ 379,496	\$ 39,699	\$ 31,401	\$ 742,187	\$ 625,381
EXPENSES								
Salaries & Wages	\$ 54,125	\$ 56,653	\$ 49,931	\$ 50,434	\$ 589	\$ 618	\$ 23,541	\$ 24,684
Heat, Light & Power	12,718	12,931	11,192	9,975	-	-	-	-
Regional Sewage Disposal	-	-	53,207	55,176	-	-	-	-
Contract Work	-	-	-	-	-	-	378,963	358,071
Consulting Engineers	-	-	-	-	-	-	113,090	75,903
Contribution to Required Reserve	5,967	1,173	5,733	1,127	-	-	-	-
All Other	103,946	111,171	121,688	132,411	1,086	1,187	226,493	166,648
Debt Service	96,519	106,683	129,610	120,359	38,680	27,296	100	75
PAYGO	6,891	9,982	6,891	10,014	-	-	-	-
TOTAL EXPENSES	\$ 280,166	\$ 298,593	\$ 378,252	\$ 379,496	\$ 40,355	\$ 29,101	\$ 742,187	\$ 625,381
Net Increase (Decrease) in Fund Balance	-	-	-	-	(656)	2,300	-	-
Fund Balance - July 1	\$ 53,963	\$ 46,271	\$ 79,967	\$ 71,878	\$ 75,015	\$ 63,859	\$ 189,358	\$ -
Net Increase (Decrease) in Fund Balance	-	-	-	-	(656)	2,300	-	-
Use of Fund Balance	(7,692)	(14,226)	(8,089)	(13,667)	(10,500)	(10,000)	(189,358)	-
Fund Balance - June 30	\$ 46,271	\$ 32,045	\$ 71,878	\$ 58,211	\$ 63,859	\$ 56,159	\$ -	\$ -



TABLE IV

**Change in Ending Fund Balance
FY 2014 Projected Budget Compared to FY 2015 Proposed**
(\$ In Thousands)

	FY 2014 Projected Ending Fund Balance	FY 2015 Proposed Ending Fund Balance	Change in Fund Balance	%
				Change
Water Operating Fund	\$ 46,271	\$ 32,045	\$ (14,226)	-30.7%
Sewer Operating Fund	71,878	58,211	(13,667)	-19.0
General Bond Debt Service Fund	63,859	56,159	(7,700)	-12.1
Capital Fund	-	-	-	-
	\$ 182,008	\$ 146,415	\$ (35,593)	-19.6%

Explanation of Changes in Fund Balance Greater Than 10%

Water and Sewer Operating Funds – The FY 2015 proposed ending fund balances are lower than the projected FY 2014 ending fund balances for the Water and Sewer Operating funds. A majority of the change is due to planned use of fund balance to finance the second year of the IT Strategic Plan and one-time projects and expenses so that these costs are not permanently built into water and sewer rates. Another driver is a planned use of fund balance to offset a reduction in our budgeted billing factor which is the amount of rate revenue received per 1,000 gallons of water production.

General Bond Debt Service Fund – The FY 2015 proposed ending fund balance is 12.1% lower than the projected FY 2014 ending fund balance for the General Bond Debt Service fund. Revenues for this are derived from Front Foot Benefit and House Connection Charges. These types of mains and lines are now built by developers. The revenues that are currently collected are from prior assessments that are paid over a multi-year period. Paid in full assessments have caused revenues to decrease and, combined with lower interest income expectations, a small portion of fund expenses are not covered.

TABLE V

Combined Water/Sewer Operating Funds - FY'15 Proposed Rate Impact

(\$ in Thousands)

(6.0% AVERAGE RATE INCREASE PROPOSED FOR FY'15)

Funding Sources	FY'15 Proposed
<u>Revenues at Current Rates</u>	
Consumption Charges at 168.0 MGD	\$ 553,071
Account Maintenance Fee	22,900
Interest Income	1,000
Miscellaneous Revenues	26,574
Sub-Total	603,545
Reconstruction Debt Service Offset	10,000
SDC Debt Service Offset	1,167
Use of Fund Balance	30,193
Total Funding Sources	644,905
<u>Requirements</u>	
Operating, Maintenance & Support Services Expenses	428,751
Debt Service	227,042
PAYGO	19,996
Operating Reserve Contribution	2,300
Total Requirements	678,089
Shortfall to be Covered by Rate Increase	\$ (33,184)
PROPOSED AVERAGE WATER AND SEWER RATE INCREASE	6.0%

TABLE VI

Annual Customer Bills At Various Consumption Levels

Average Daily Consumption (ADC) Gallons Per Day	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
100 (36,500 GAL/YR) Residential Meter	\$ 310.82	\$ 333.45	\$ 354.98	\$ 377.61	\$ 397.69
210 (76,650 GAL/YR) Residential Meter	760.68	821.23	879.49	940.04	993.69
500 (182,500 GAL/YR) Residential Meter	2,263.20	2,451.18	2,631.85	2,819.83	2,985.90
1,000 (365,000 GAL/YR) 2" Meter	4,890.60	5,288.45	5,675.35	6,073.20	6,423.60
5,000 (1,825,000 GAL/YR) 3" Meter	24,348.50	26,392.50	28,363.50	30,389.25	32,196.00
10,000 (3,650,000 GAL/YR) 6" Meter	50,661.00	54,895.00	58,983.00	63,180.50	66,903.50

Annual customer bills include the Account Maintenance Fee shown on page 16.

TABLE VII

WSSC Water/Sewer Rate Schedules Effective July 1, 2013 & Proposed for Implementation July 1, 2014

(Rates per Thousand Gallons)

(6.0% AVERAGE RATE INCREASE PROPOSED FOR FY'15)

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	Water Rates		Sewer Rates		Combined Water & Sewer Rates	
	July 1, 2013 Rates Per 1,000 Gallons	July 1, 2014 Rates Per 1,000 Gallons	July 1, 2013 Rates Per 1,000 Gallons	July 1, 2014 Rates Per 1,000 Gallons	July 1, 2013 Rates Per 1,000 Gallons	July 1, 2014 Rates Per 1,000 Gallons
0-49	\$ 2.95	\$ 3.19	\$ 4.06	\$ 4.24	\$7.01	\$ 7.43
50-99	3.29	3.56	4.74	4.95	8.03	8.51
100-149	3.61	3.91	5.53	5.78	9.14	9.69
150-199	4.05	4.39	6.37	6.66	10.42	11.05
200-249	4.73	5.13	6.96	7.26	11.69	12.39
250-299	5.13	5.56	7.53	7.86	12.66	13.42
300-349	5.42	5.88	8.04	8.39	13.46	14.27
350-399	5.66	6.13	8.42	8.79	14.08	14.92
400-449	5.88	6.37	8.61	8.99	14.49	15.36
450-499	6.03	6.54	8.89	9.28	14.92	15.82
500-749	6.14	6.65	9.07	9.47	15.21	16.12
750-999	6.29	6.82	9.27	9.67	15.56	16.49
1,000-3,999	6.41	6.95	9.67	10.09	16.08	17.04
4,000-6,999	6.56	7.12	9.89	10.32	16.45	17.44
7,000-8,999	6.64	7.20	10.03	10.47	16.67	17.67
9,000 & Greater	6.76	7.33	10.29	10.74	17.05	18.07

Current Flat Rate Sewer Charge - \$100.00 per quarter
 Proposed Flat Rate Sewer Charge - \$105.00 per quarter

TABLE VIII

Account Maintenance Fees Proposed for Implementation July 1, 2014

<u>Meter Size</u>	<u>Current FY'14 Quarterly Charges</u>	<u>Proposed FY'15 Quarterly Charges</u>
<u>Small Meters</u>		
5/8" to 1-1/2" (Residential)	\$ 11.00	\$ 11.00
<u>Large Meters</u>		
1-1/2" (Commercial)	31.00	31.00
2"	51.00	51.00
3"	92.00	92.00
4"	145.00	145.00
6"	237.00	237.00
8"	379.00	379.00
10" & 12"	458.00	458.00
<u>Detector Check Meters</u>		
2" to 4"	53.00	53.00
6"	73.00	73.00
8"	197.00	197.00
10"	256.00	256.00

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

The Commission provides a number of services for which separate fees or charges have been established. Recent review of the costs required to provide these services indicates a need to change the amounts charged for some of the services. The fee and charge changes listed below are proposed to be effective July 1, 2014.

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>
1. Inspection Fees - Water/Sewer Connection Hookup, Well/Septic Hookup, Plumbing and Gasfitting Inspections		
New Single Family Detached Dwellings	\$550	\$550
New Attached Dwellings (townhouse/multiplex excluding apartments)	550	550
All Other Residential:		
Water/Well Hookup	75	75
Meter Yoke Inspection (meter only installation)	75	75
Water Hookup Converting from Well (includes 2 inspections)	150	150
Sewer/Septic Hookup	75	75
First Plumbing Fixture	75	75
Each Additional Fixture	25	25
SDC Credit Fixture Inspection (per fixture)	20	20
Minimum Permit Fee	170	170
Permit Reprocessing Fee	50	50
Long Form Permit Refund Fee	170	170
Long Form Permit Re-Issue Fee	-	* 170
All Non-Residential:		
Plan Review (without Permit Application)		
50 Fixtures or Less	360	360
51-200 Fixtures	1,220	1,220
Over 200 Fixtures	2,430	2,430
2 nd or 3 rd Review (with or without Permit Application)		
50 Fixtures or Less	145	145
51-200 Fixtures	275	275
Over 200 Fixtures	580	580
Water/Well Hookup	140	140
Meter Yoke Inspection (meter only installation)	140	140
Sewer/Septic Hookup	140	140
FOG Interceptor	140	140
First Plumbing Fixture	140	140
Each Additional Fixture	35	35
SDC Credit Fixture Inspection (per fixture)	20	20
Minimum Permit Fee	210	210
Permit Reprocessing Fee	50	50
Long Form Permit Refund Fee	210	210
Long Form Permit Re-Issue Fee	-	* 210

* New Fee

** Changed Fee

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>
2. Septic Hauler Discharge Permit Sticker		
<u>Category I</u>		
<u>Residential & Septic Waste & Grease</u>		
1 - 49 gallons	\$190/vehicle	** \$210/vehicle
50 - 799 gallons	2,740/vehicle	** 3,015/vehicle
800 - 2,999 gallons	7,805/vehicle	** 8,585/vehicle
3,000 - gallons and up	18,525/vehicle	** 20,375/vehicle
January through June	50% of fee	50% of fee
Transfer and/or Replacement Permit Sticker	60	** 65
Industrial/Special Waste Disposal Fee	240/1,000 gallons	** 265/1,000 gallons
Zero Discharge Permit Fee	60	** 65
Temporary Discharge Permit Fee	60 + Sewer Rate/1,000 gallons	** 65 + Sewer Rate/1,000 gallons
Sewer Rate – Domestic Low Strength Wastewater	7.79/1,000 gallons of truck capacity	** 9.67/1,000 gallons of truck capacity
Sewer Rate – Domestic High Strength Wastewater	37.31/1,000 gallons of truck capacity	** 44.04/1,000 gallons of truck capacity
3. Sub-Meter Installation Fee		
One-time Sub-Meter Charge - Small	\$225	\$225
One-time Sub-Meter Charge - Large	400	400
One-time Inspection Fee	50	50
Minimum Permit Inspection Fee	140	** 170
4. Tapper License Fee		
Permit Fee	\$300	\$300
Duplicate Fee	25	** 30
5. Temporary Fire Hydrant Connection Fee		
3/4" Meter - Deposit		
2 Weeks or Less w/approved payment record	\$0	\$0
Over 2 Weeks/Less than 2 weeks w/unapproved payment record	330	330
3" Meter - Deposit		
2 Weeks or Less w/approved payment record	0	0
Over 2 Weeks/Less than 2 weeks w/unapproved payment record	1,980	** 2,200
Service Charge		
2 Weeks or Less (3/4" meter)	35	** 40
2 Weeks or Less (3" meter)	130	130
Over 2 Weeks (3/4" and 3" meters)	130	130

* New Fee

** Changed Fee

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>
Water Consumption Charge - 3/4" Meter	Current approved rate for 1,000 gallons ADC; \$30 minimum	Current approved rate for 1,000 gallons ADC; \$30 minimum
Water Consumption Charge - 3" Meter	Current approved rate for 1,000 gallons ADC; \$180 minimum	Current approved rate for 1,000 gallons ADC; ** \$195 minimum
Late Fee for Return of Meter	\$7/day	\$7/day
Fee on Unpaid Temporary Fire Hydrant Meter Billings (per month)	1½%	1½%
Loss/Destruction of Meter	Replacement Cost	Replacement Cost
Loss/Destruction of Wrench	40	40
6. Water Turn-Off, Turn-On Fee		
Small Meter Turn-Off	\$60	** \$65
Small Meter Turn-On	60	** 65
Large Meter Turn-Off	160	** 175
Large Meter Turn-On	160	** 175
7. Industrial Discharge Control Program Fees by Category		
Industrial users subject to Categorical Pretreatment Standards (less than 5,000 gpd) (single visit)	\$3,170	** \$3,325
Industrial users subject to Categorical Pretreatment Standards (greater than 5,000 gpd) (double visit)	4,850	** 5,090
Non-Discharging Categorical Industries (zero discharge)	855	** 895
Significant Industrial User (less than 25,000 gpd) (single visit - priority pollutant sampling)	3,170	** 3,325
Significant Industrial User (greater than 25,000 gpd) (double visit - priority pollutant sampling)	4,850	** 5,090
Penalty Charge for Late Fee Payment	5% of fee	5% of fee
8. Boat Removal and Impoundment Fees		
Removal and Impoundment Fee	\$100	** Delete
Monthly Storage Fee	80	** Delete
9. Call Back Fee (large meters, plumbers)	\$150	** \$165
10. Erosion and Sediment Control Training Package Fee	\$600/package	** \$660/package
11. Fee for Review and Inspection of Site Work Potentially Impacting WSSC Pipelines		
Simple Review	\$300	\$300
Complex Review	1,500	1,500
Inspection	150	** 200

* New Fee

** Changed Fee

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>
12. Sewer Meter Maintenance Fee	\$7,500/year	** \$8,200/year
Quarterly Calibrations	1,880/year	** 2,050/year
13. Sale of WSSD Laws		
Bound Volume	\$75	\$75
Supplements	35	** 36
14. Extra Review Fee		
Additional Reviews of Unsigned Plans (per review)	\$2,000	** Delete
Minor Additional Reviews of Unsigned or Signed Plans (per review) ** (previously called Minor Revisions of Signed Plans (per review))	950	950
Major/Splitting Additional Reviews of Unsigned or Signed Plans (per review) ** (previously called Major Revision/Splitting Signed Plans (per review))	2,000	2,000
Per Site Utility/Minor Utility Additional Signed or Unsigned Plan Review		
Site Utility	1,200	1,200
Minor Utility	300	300
Per Hydraulic Planning Analysis/Systems Planning Forecast Application		
Additional Review of Required Data (per application)	650	650
15. Hydraulic Planning Analysis and System Planning Forecast		
Modeling and Re-Modeling Fee – up to 3 parts ** (previously called Water & Sewer Modeling)	\$1,045	** \$1,150
Water or Sewer Only Modeling	590	** Delete
Modeling and Re-Modeling Fee – per part over 3 ** (previously called Development Parts Over 3)	455/part	** 500/part
Pressure Sewer Review Fee (per system)	240	** 265
16. Partial Release Fee	\$825	** \$1,000
17. Project Amendment Fee		
Amendments without Hydraulics Modeling	\$360	** Delete
Amendments with Hydraulics Modeling	360 + same fee as Hydraulic Planning Analysis & System Planning Forecast	** Delete
18. Discharge Fee – Food Service Establishment (FSE)		
Full Permit FSE	\$350	** \$385
Best Management Practices Permit FSE	100	** 110

* New Fee

** Changed Fee

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>
19. Fee for the Preparation of Hold Harmless Agreement	\$700	** \$770
20. Change Fee for Open Hydraulic Planning Analysis & Amendments		
Basic (Both Water & Sewer)	\$330	** Delete
Moderate (Both Water & Sewer)	1,100	** Delete
Complex (Both Water & Sewer)	2,860	** Delete
Basic (Water or Sewer Only)	165	** Delete
Moderate (Water or Sewer Only)	550	** Delete
Complex (Water or Sewer Only)	1,430	** Delete
21. Cross Connection Fee		
Test Report Fee (per report)	\$10	** \$25
Base Fee for High Hazard Commercial Water Customer (per month) *	-	* 12
Base Fee for All Other Commercial Water Customer (per month) *	-	* 6
22. Protest Filing Fee *	\$-	* \$500

* New Fee

** Changed Fee

TABLE IX

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2014</u>	<u>CURRENT MAXIMUM ALLOWABLE CHARGE</u>	<u>PROPOSED MAXIMUM ALLOWABLE CHARGE</u>
23. *** System Development Charge				
Apartment				
Water	\$896	\$896	\$1,240	\$1,257
Sewer	1,140	1,140	1,580	1,602
1-2 toilets/residential				
Water	1,344	1,344	1,861	1,887
Sewer	1,710	1,710	2,365	2,398
3-4 toilets/residential				
Water	2,240	2,240	3,102	3,145
Sewer	2,850	2,850	3,945	4,000
5 toilets/residential				
Water	3,135	3,135	4,340	4,401
Sewer	3,991	3,991	5,526	5,603
6+ toilets/residential (per fixture unit)				
Water	88	88	122	124
Sewer	115	115	160	162
Non-residential (per fixture unit)				
Water	88	88	122	124
Sewer	115	115	160	162

*** No increase is proposed for the System Development Charge for FY'15 in any category. The maximum allowable charge is being adjusted pursuant to Division II, Section 25-403(c) of the Public Utilities Article of the Annotated Code of Maryland, based on the 1.4% change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for all items in the Washington, D.C. metropolitan area from November 2012 to November 2013.

EXPLANATION OF THE BUDGET

(Continued)

5. **New Debt** - The debt service estimates for FY'15 assume that \$179.2 million in Water bonds, \$181.1 million in Sewer bonds, and \$5.0 million in General Construction bonds will be issued in FY'15, in addition to repayment of existing debt. An estimated \$23.9 million in 20-year sewer loans will be borrowed from the Maryland Department of the Environment (MDE). The WSSC water and sewer issues will be 29-year bonds with an estimated 5.5 percent net interest rate. The General Construction bonds will be 30-year bonds.

6. **Salary and Wage Increase** – Funding for employee salary enhancements in a manner coordinated with the Counties is included in the budget.

The following major workload indices and demand projections were used to develop the proposed budget.

WORKLOAD DATA	ACTUAL					ESTIMATED						
	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17	FY'18	FY'19	FY'20
Water to be supplied (MGD)	162.3	168.7	175.0	165.7	161.2	170.0	168.0	168.0	168.0	168.0	168.0	168.0
Sewage to be treated (MGD)	178.6	200.3	182.4	183.7	177.2	211.0	214.2	215.8	217.5	219.2	220.9	222.6
Water lines to be added by the WSSC (miles)	.5	1.5	0	.3	**7.3	2	2	2	2	2	2	2
Sewer lines to be added by the WSSC (miles)	1.8	0	0	0	0.4	1	1	1	1	1	1	1
Water lines to be added – contributed (miles)*	23.3	9.9	12.5	20.5	15.3	25	25	25	25	25	25	25
Sewer lines to be added – contributed (miles)*	26.7	10.4	19.7	19.4	12.6	25	25	25	25	25	25	25
Population to be served (thousands)	1,710	1,727	1,734	1,742	1,749	1,757	1,764	1,778	1,791	1,805	1,818	1,832
House connections to be added												
Water	2,293	1,126	1,574	2,591	2,269	2,800	2,800	2,800	2,800	2,800	2,800	2,800
Sewer	2,006	909	1,417	2,374	2,018	2,600	2,600	2,600	2,600	2,600	2,600	2,600

* Contributed lines are built by developers and maintained by the WSSC (includes Bolling Air Force Base).

** Includes Laytonsville Project (4.4 miles).

EXPLANATION OF THE BUDGET

(Continued)

VII. KEY PROVISIONS OF THE FY'15 BUDGET

The total proposed budget for all funds is \$1.3 billion—\$625.4 million in capital and \$707.2 million in operating. A 6.0 percent average increase in water and sewer rates is required to fund water and sewer operating expenses. The budget provides for:

- Implementing the first year of the FYs 2015-2020 Capital Improvements Program;
- Treating and delivering 168.0 MGD of water to over 447,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards;
- Treating 214.2 MGD of wastewater and responsibly managing up to 1,000 tons of biosolids per day in a manner that meets or exceeds federal and state permit requirements and regulations;
- Operating and maintaining a system of 3 water reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 6 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main, 24 hours a day, 7 days a week;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Increasing the operating reserve to 10% of water and sewer rate revenues;
- Paying debt service of \$254.4 million—of which \$227.0 million is in the Water and Sewer Operating Funds;
- Funding the final year of an eight-year ramp-up to achieve full funding of the annual required contribution for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;
- Continuing to provide maintenance services at a level consistent with the objective of responding to the customer within 2 hours of receiving notification of a maintenance problem and restoring service to the customer within 24 hours from the time a service interruption occurs;
- Complying with the Sanitary Sewer Overflow Consent Order;
- Answering at least 95 percent of all customer billing calls received;
- Maintaining and fueling 970 vehicles, maintaining approximately 742 pieces of large field equipment, and operating 6 repair facilities;
- Replacing 33 pieces of major equipment which are needed to support construction, operations, and maintenance activities;

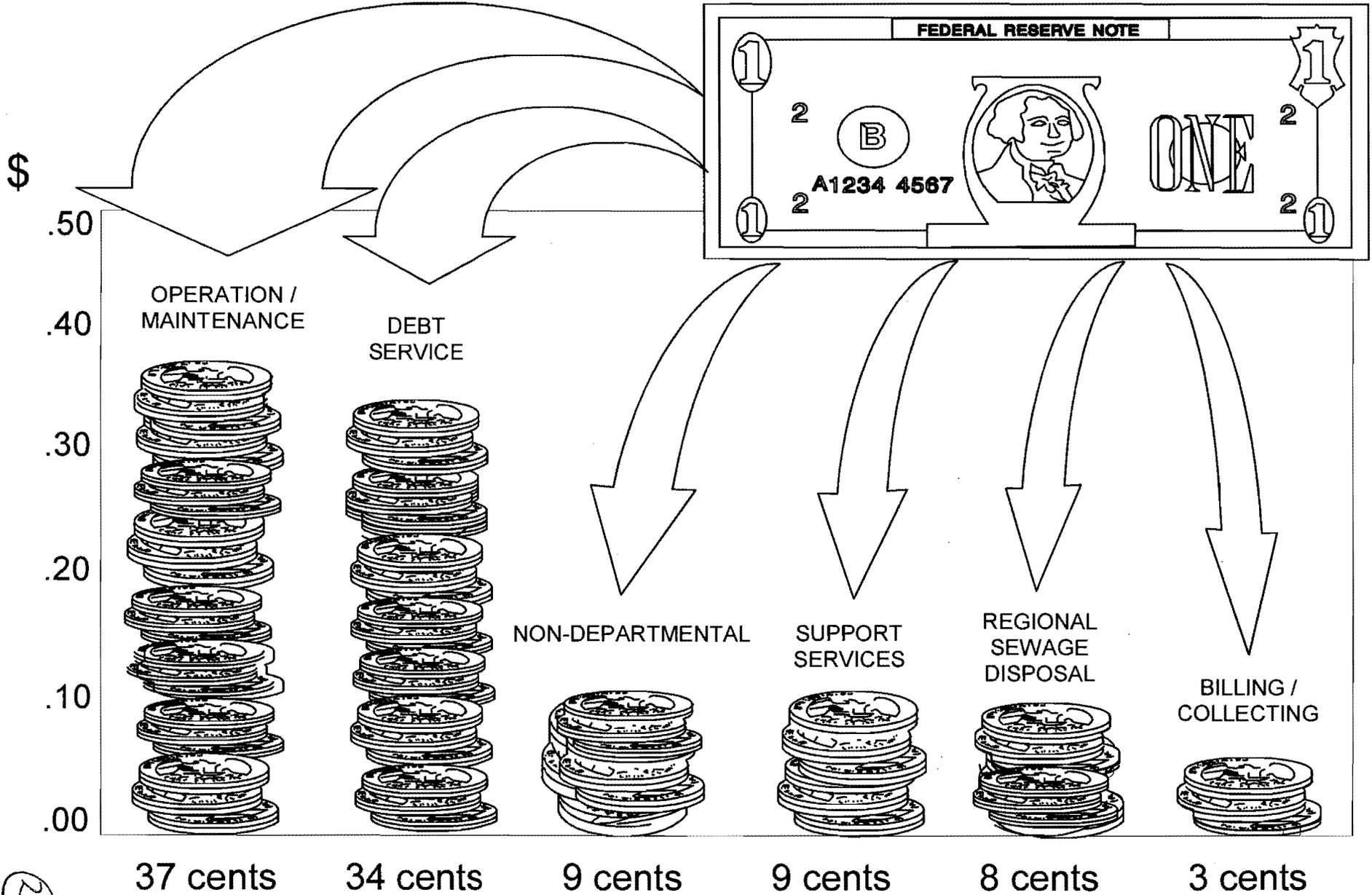
EXPLANATION OF THE BUDGET

(Continued)

- Replacing 105 and purchasing an additional 5 vehicles which are needed to support construction, operations, and maintenance activities; and
- Funding employee salary enhancements in a manner coordinated with the Counties, and continuing other benefits.

FY'15 PROPOSED BUDGET

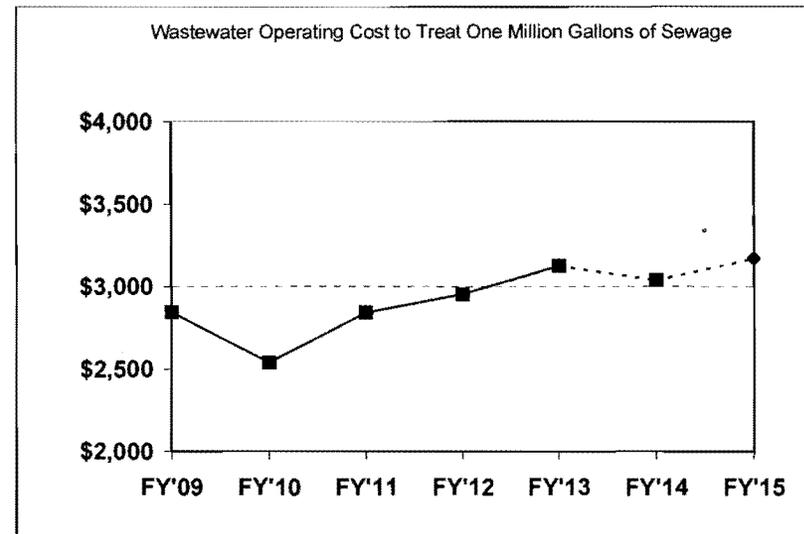
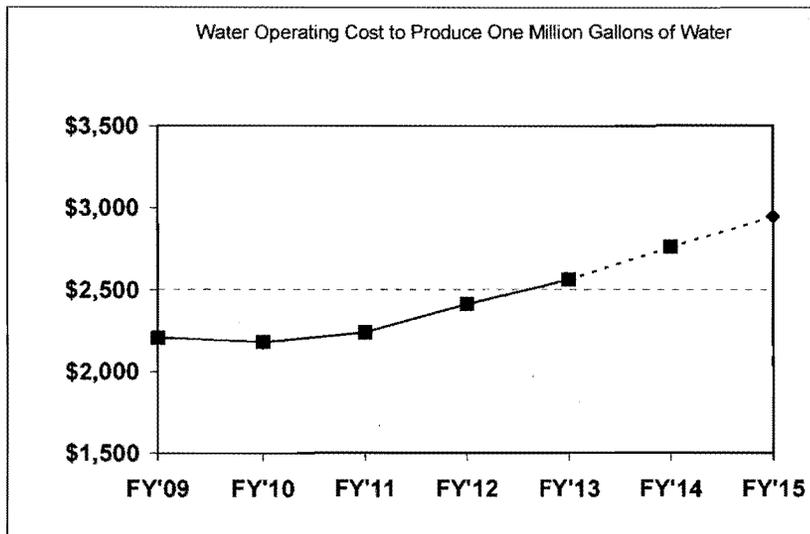
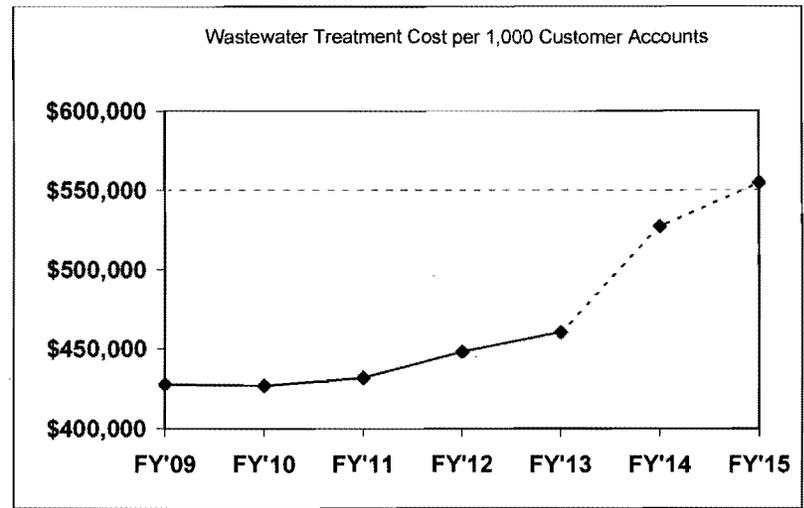
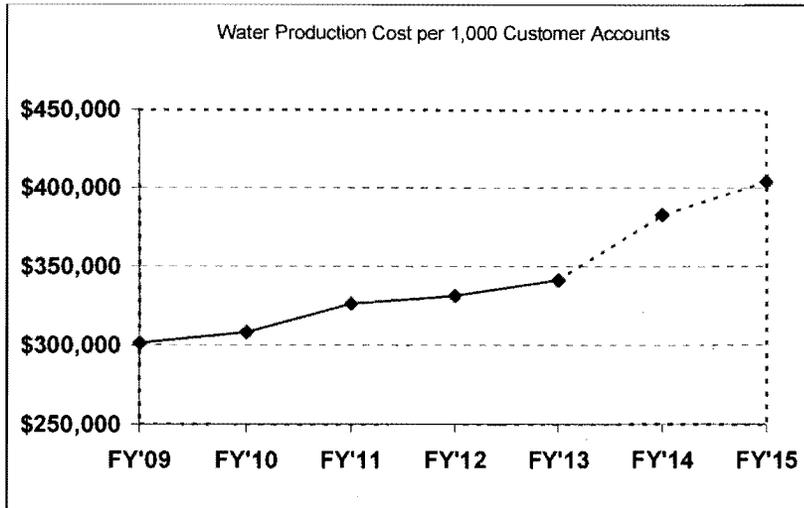
(How Each Dollar of a Water and Sewer Bill Is Spent)



29

WSSC

OPERATING EFFICIENCY MEASURES



Note: FY'14 & FY'15 are budgeted, not actual.

SELECTED STATISTICAL DATA

	<u>FY'09</u> <u>ACTUAL</u>	<u>FY'10</u> <u>ACTUAL</u>	<u>FY'11</u> <u>ACTUAL</u>	<u>FY'12</u> <u>ACTUAL</u>	<u>FY'13</u> <u>ACTUAL</u>	<u>FY'14</u> <u>APPROVED</u>	<u>FY'15</u> <u>PROPOSED</u>
Population Served	1,710,000	1,727,000	1,734,000	1,742,000	1,749,000	1,757,000	1,764,000
Customer Accounts	433,579	434,773	438,193	439,805	441,480	447,805	447,080
Water Produced (average MGD)	162.3	168.7	175.0	165.7	161.2	170.0	168.0
Water Produced (millions of gallons)	59,255	61,590	63,861	60,648	58,830	62,050	62,050
Water Mains Maintained (miles)	5,427	5,438	5,451	5,471	5,494	5,571	5,548
Water Mains Constructed (miles added by WSSC)	0.5	1.5	-	0.3	7.3	5.0	2.0
Water Mains Constructed (miles added by developers)	23.3	9.9	12.5	20.5	15.3	45.0	25.0
Water House Connections Maintained	438,893	440,019	441,593	444,184	446,453	452,184	452,053
Water House Connections Installed	2,293	1,126	1,574	2,591	2,269	4,000	2,800
Water Meters Issued	13,458	8,769	13,696	11,598	18,554	15,662	19,860
Sewage Systems Total Flow (average MGD)	178.6	200.3	182.4	183.7	177.2	211.0	214.2
Sewage Systems Total Flow (millions of gallons)	65,201	73,089	66,581	66,950	64,666	77,015	78,183
Sewer Mains Maintained (miles)	5,314	5,324	5,344	5,363	5,376	5,463	5,428
Sewer Mains Constructed (miles added by WSSC)	1.8	-	-	-	0.4	5.0	1.0
Sewer Mains Constructed (miles added by developers)	26.7	10.4	19.7	19.4	12.6	45.0	25.0
Sewer House Connections Maintained	416,392	417,301	418,718	421,092	423,110	429,092	428,310
Sewer House Connections Installed	2,006	909	1,417	2,374	2,018	4,000	2,600
Maintenance Work Orders (Emergency and Routine)	87,942	75,253	84,473	84,906	99,469	83,500	88,100
Vehicles in Fleet	865	883	927	933	955	965	970
Miles Traveled by Fleet	5,399,040	5,563,414	5,514,312	5,866,778	5,250,810	5,890,245	5,890,245
Water Meter Readings Completed	1,876,796	1,933,411	1,937,265	2,006,837	1,967,090	2,006,700	2,006,950
Authorized Positions	1,555	1,561	1,632	1,681	1,693	1,717	1,725
Authorized Workyears	1,555	1,561	1,632	1,681	1,693	1,717	1,725
Actual Employment Level - Beginning	1,434	1,455	1,468	1,528	1,549	1,549	
Actual Employment Level - Ending	1,455	1,468	1,528	1,549	1,549		
Actual Workyears	1,428	1,449	1,486	1,522	1,535		

SYSTEMS RECONSTRUCTION PROGRAM

	FY'13	FY'14	FY'15
	<u>Actual</u>	<u>Approved</u>	<u>Proposed</u>
• <u>Systems Reconstruction Program</u>	\$176,282,313	\$146,676,000	\$120,928,000

This program provides for the systematic replacement or rehabilitation of the Commission’s aging small diameter water mains (less than 16-inches in diameter) and sewer lines (less than 15-inches in diameter), as well as associated house connections (from the main to the property line). In order to extend their useful life, portions of these systems are rehabilitated. Through FY’13, WSSC maintained approximately 5,500 miles of water main and 5,400 miles of sewer main, along with 446,500 water house connections and 423,100 sewer house connections. In addition to the small diameter pipe rehabilitation programs, two rehabilitation programs for large diameter pipe projects (the Large Diameter Water Pipe Rehabilitation Program (W-161.01), and the Trunk Sewer Reconstruction Program (S-170.09)) are included in the Capital Improvements Program (CIP budget).

The Water Reconstruction Program consolidates several water main improvement activities designed to enhance water quality and reliability under one initiative. A majority of the funding is dedicated to replacing older water mains that are located in roadways and previously prone to breaks with new sections of cement lined ductile iron pipe. Projects also may include cathodic protection and pipeline appurtenances, including large meter and fire meter vaults. The FY’15 proposed budget of \$104.5 million is \$7.7 million greater than the FY’14 Approved Budget. It includes \$95 million for the design and rehabilitation of 60 miles of water main and associated house connection renewals, \$6.5 million for large water service rehabilitation, and \$3.0 million for cathodic protection. In FY’13, 52.3 miles of water main and associated house connection renewals were rehabilitated, along with 31 large water service meters, at a total cost of \$93.6 million dollars.

The Sewer Reconstruction Program provides for correcting structural deficiencies in sewer mains that may result from soil settlement, root penetration, or corrosion, and often contribute to sewage overflows and backups into homes. The FY’15 proposed budget of \$16.4 million provides for the rehabilitation of 4 miles of main and lateral lines located in roadways, as well as associated house connection renewals. The Sewer Rehabilitation Program decreased by \$33.5 million as the focus continues to shift to the Trunk Sewer Reconstruction Program. The Trunk Sewer Reconstruction Program provides for the inspection, evaluation, planning, design and rehabilitation of both trunk sewer mains (15-inches in diameter and greater) and smaller sewer mains (less than 15-inches in diameter) located in environmentally sensitive areas. In FY’13, 69.1 miles of sewer mains, sewer laterals, and associated house connections were rehabilitated at a total cost of \$82.7 million dollars.

Comparative Expenditures by Organizational Unit

	FY'14 Approved		FY'15 Proposed	
	Workyears	Amount	Workyears	Amount
Commissioners Office/Corporate Secretary's Office	2	\$ 347,200	2	\$ 346,300
Internal Audit	10	1,171,900	10	1,131,600
General Manager's Office	6	1,039,500	6	1,024,700
Intergovernmental Relations Office	4	628,000	4	626,800
Strategic Systems Management Office	7	958,300	7	929,200
General Counsel's Office	16	4,053,300	16	3,943,000
Communications & Community Relations Office	17	2,231,200	17	2,160,600
Human Resources Office	23	3,783,600	23	3,796,000
Small, Local and Minority Business Enterprise Office	8	1,183,700	8	1,216,800
Fair Practice Office	1	113,400	1	116,400
Procurement Office	26	2,370,700	26	3,532,500
Engineering & Construction Team	368	732,814,600	371	599,983,600
Production Team	299	152,413,300	296	153,953,700
Logistics Office	176	29,061,400	176	29,989,800
Finance Office	60	5,732,600	60	5,674,200
Customer Care Team	583	96,368,500	586	111,096,000
Information Technology Team	111	31,858,400	116	40,233,700
Non-Departmental (Finance)	-	40,903,800	-	44,584,200
Non-Departmental (Human Resources)	-	29,982,000	-	33,459,500
Debt Service	-	264,909,000	-	254,413,000
PAYGO	-	13,782,000	-	19,996,000
Depreciation Expense	-	13,553,600	-	13,703,000
Operating Reserve Contribution	-	11,700,000	-	2,300,000
Salary Enhancements	-	-	-	4,360,400
SUMMARY-TOTAL	<u>1,717</u>	<u>\$ 1,440,960,000</u>	<u>1,725</u>	<u>\$ 1,332,571,000</u>

Comparative Personnel Complement by Organizational Unit

	<u>FY'13 Actual</u>		<u>FY'14 Approved</u>		<u>FY'15 Proposed</u>	
	Authorized Positions	Workyears	Authorized Positions	Workyears	Authorized Positions	Workyears
Commissioners Office/Corporate Secretary's Office	*8	2.1	*8	2.0	*8	2.0
Internal Audit	9	8.8	10	10.0	10	10.0
General Manager's Office	5	4.3	6	6.0	6	6.0
Intergovernmental Relations Office	4	2.6	4	4.0	4	4.0
Strategic Systems Management Office	7	4.4	7	7.0	7	7.0
General Counsel's Office	16	15.0	16	16.0	16	16.0
Communications & Community Relations Office	17	17.0	17	17.0	17	17.0
Human Resources Office	24	24.7	23	23.0	23	23.0
Small, Local and Minority Business Enterprise Office	8	7.7	8	8.0	8	8.0
Fair Practice Office	2	1.2	1	1.0	1	1.0
Procurement Office	26	19.2	26	26.0	26	26.0
Engineering & Construction Team	359	326.9	368	368.0	371	371.0
Production Team	298	284.0	299	299.0	296	296.0
Logistics Office	177	141.2	176	176.0	176	176.0
Finance Office	61	55.6	60	60.0	60	60.0
Customer Care Team	583	554.9	583	583.0	586	586.0
Information Technology Team	95	65.7	111	111.0	116	116.0
SUMMARY-TOTAL	<u>1,693</u>	<u>1,535.3</u>	<u>1,717</u>	<u>1,717.0</u>	<u>1,725</u>	<u>1,725.0</u>

* Commissioners (6) not included in total positions.

Washington Suburban Sanitary Commission

MISSION STATEMENT

The Washington Suburban Sanitary Commission (WSSC) is a bi-county governmental agency established in 1918 by an act of the Maryland General Assembly. It is charged with the responsibility of providing water and sanitary sewer service within the Washington Suburban Sanitary District, which includes most of Montgomery and Prince George's counties. In Montgomery County, the Town of Poolesville and portions of the City of Rockville are outside of the District.

WSSC'S PROPOSED BUDGET

WSSC's proposed budget is not detailed in this document. The Commission's budget can be obtained from WSSC's Budget Group at the WSSC Headquarters Building, 14501 Sweitzer Lane, Laurel, Maryland 20707 (phone 301.206.8110) or from their website at <http://www.wsscwater.com>.

Prior to January 15 of each year, the Commission prepares preliminary proposed capital and operating budgets for the next fiscal year. On or before February 15, the Commission conducts public hearings in both counties. WSSC then prepares and submits the proposed capital and operating budgets to the County Executives of Montgomery and Prince George's counties by March 1.

By March 15 of each year, the County Executives of Montgomery and Prince George's counties are required by law to transmit the proposed budgets, recommendations on the proposed budgets, and the record of the public hearings held by WSSC to their respective County Councils.

Each County Council may hold public hearings on WSSC's proposed operating and capital budgets, but no earlier than 21 days after receipt from the County Executive. Each County Council may add to, delete from, increase, or decrease any item in either budget. Additionally, each Council is required by law to transmit by May 15 any proposed changes to the other County Council for review and concurrence. The failure of both Councils to concur on changes constitutes approval of the item as originally proposed by WSSC. Should the Councils fail to approve the budgets on or before June 1 of each year, WSSC's proposed budgets are adopted.

ACCOMPLISHMENTS AND INITIATIVES

- ❖ **Operate and maintain a system of three reservoirs impounding 14 billion gallons of water, two major water filtration plants, six wastewater treatment plants, 5,500 miles of water mains, and 5,400 miles of sewer mains 24 hours a day, seven days a week.**
- ❖ **Treat and deliver 168.0 million gallons of water per day to over 447,000 customer accounts, and treat 214.0 million gallons of wastewater per day in a manner that meets or surpasses all Federal and State water and wastewater quality standards and permit requirements.**
- ❖ **Inspect, repair, and install acoustic fiber optic cable (an early warning system) for 10 miles of large diameter pre-stressed concrete cylinder pipe (PCCP) water mains. During FY15, WSSC will continue inspecting PCCP water mains at 36 inches or smaller.**
- ❖ **Continue to renew WSSC's underground infrastructure through the Water and Sewer Reconstruction Programs. In FY15, the Commission will reconstruct 60 miles of small water mains (nine more miles than in FY13) and rehabilitate 56 miles of residential sewers.**
- ❖ **Fund the final year of the eight-year phase-in to achieve full funding for liabilities related to post-employment benefits other than retirement, based on Governmental Accounting Standards Board Statement No. 45.**
- ❖ **Continue to increase the operating reserve and meet the goal of having reserves equal to 10 percent of water and sewer rate revenues in FY15. (The reserve percentage will rise to 10.0% in FY15 from an estimated FY14 level of 9.3%.)**
- ❖ **Begin funding a large valve assessment, repair, and replacement program for valves 16" or greater with the goal of repairing or replacing 100 valves per year of the 775 valves of this kind in the WSSC system.**
- ❖ **Begin funding a Knowledge Capture and Transfer program to improve knowledge transfer between employees leaving the Commission and those tasked with continuing operations.**

❖ **Fund the above activities and initiatives in conjunction with a 6.0% rate increase consistent with the Spending Control Limits adopted by Montgomery and Prince George's counties.**

Spending Control Limits

The spending control limits process requires that the two counties set annual ceilings on WSSC's water and sewer rate increase and on debt (bonded indebtedness as well as debt service) and then adopt corresponding limits on the size of the capital and operating budgets. The two councils must not approve capital and operating budgets in excess of the approved spending control limits unless a majority of each council votes to approve them. If the two councils cannot agree on expenditures above the spending control limits, they must approve budgets within these limits.

The following table shows the FY15 spending control limits adopted by the Montgomery and Prince George's County councils, compared to the spending control results projected under WSSC's Proposed FY15 Budget and under the County Executive's Recommended Budget for WSSC. The Commission's Proposed Budget complies with all of the spending control limits approved by the two county councils.

FY15 Spending Control Limits Comparison				
SPENDING CONTROL LIMITS	Approved Spending Control Limits		Projected Levels Under	
	Montgomery County	Prince George's County	WSSC's Proposed Budget	County Executive Recommended Budget
Maximum Average Water/Sewer Rate Increase	6.0%	6.0%	6.00%	6.00%
New Debt (\$millions)	\$384.6	\$384.6	\$384.6	\$384.6
Water and Sewer Debt Service (\$millions)	\$227.0	\$227.0	\$227.0	\$227.0
Total Water and Sewer Operating Expenses (\$millions)	\$678.6	\$678.6	\$678.1	\$678.1

FY15 COUNTY EXECUTIVE RECOMMENDATIONS

Operating Budget

The County Executive recommends that WSSC's proposed FY15 operating budget be approved with the following changes:

The County Executive recommends that the Commission provide a salary enhancement no greater than what has been recommended for Montgomery County employees in FY15 as part of the County Executive's FY15 Recommended Operating Budget and Public Services Program. This will ensure that the compensation enhancements to be provided to WSSC employees in FY15 are consistent with those to be provided to Montgomery County employees under the County's Proposed FY15 Operating Budget and Public Services Program.

Capital Budget

The County Executive recommended the WSSC FY15-20 Capital Improvements Program (CIP) budget as submitted with the exception of the Anaerobic Digestion/Combined Heat and Power project. As a result, the WSSC Capital Budget request has been reduced by the debt service associated with the six-year period expenditures for this project as noted in the fiscal projections table below.

Executive Staff will continue to examine the cost data on the Anaerobic Digester project provided by WSSC and further recommendations regarding funding levels for this project may be provided at a later date.

FY15 fiscal projections for all funds and budgets are shown below. Six-year projections for the Water and Sewer Operating Budget are shown on page 15-4.

Expenditures by Category - FY15 WSSC Proposed and Executive Recommended							
Expenditure Categories	(\$000s)						
	WSSC Total	WSSC Total	WSSC Total	CE Capital	CE Operating	CE Total	% Change (CE Rec. vs. WSSC Proposed)
	Actual FY13	Approved FY14	Proposed FY15	Recommended FY15	Recommended FY15	Recommended FY15	
Salaries and Wages	117,640	128,186	132,389	24,684	107,705	132,389	0.0%
Heat, Light, & Power	22,979	23,910	22,906	--	22,906	22,906	0.0%
Regional Sewage Disposal	49,226	53,207	55,176	--	55,176	55,176	0.0%
Contract Work	244,636	378,963	358,071	358,071	--	358,071	0.0%
Consulting Engineers	88,396	113,090	75,903	75,903	--	75,903	0.0%
All Other	380,619	453,213	411,417	166,648	244,769	411,417	0.0%
PAYGO	--	13,782	19,996	--	19,996	19,996	0.0%
Reserve Contribution	--	11,700	2,300	--	2,300	2,300	0.0%
Debt Service	271,032	264,909	254,413	75	244,908	244,983	-3.7%
Total Budget	1,174,528	1,440,960	1,332,571	625,381	697,760	1,323,141	-0.7%

Note: Total expenditures include the water and sewer operating funds, the general bond debt service fund, and the three capital funds.

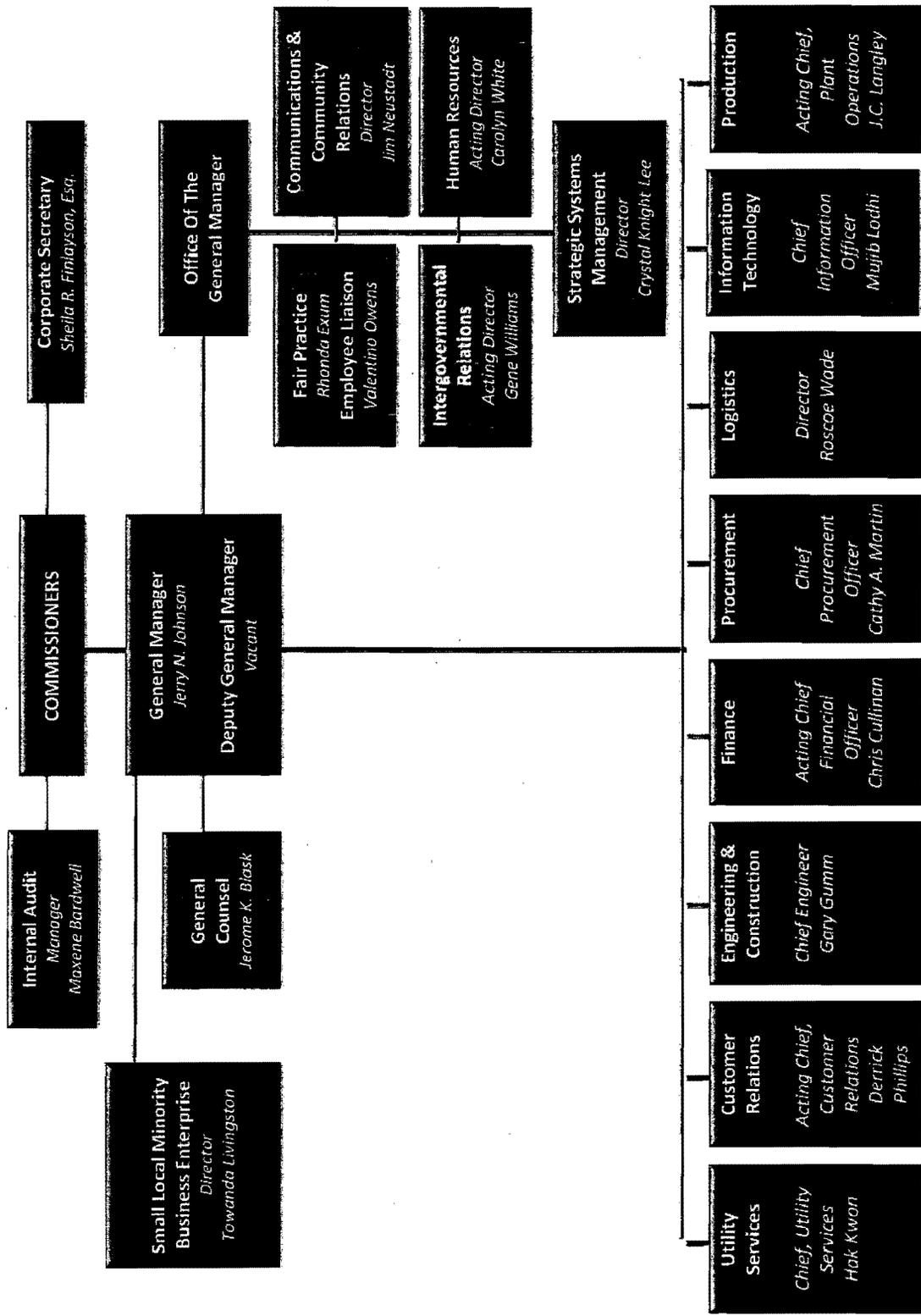
PROGRAM CONTACTS

Contact Letitia Carolina-Powell of the Washington Suburban Sanitary Commission at 301.206.8379 or Matt Schaeffer of the Office of Management and Budget at 240.777.2751 for more information regarding this agency's capital and operating budgets.

WSSC PROPOSED BUDGET: SIX-YEAR FORECAST FOR WATER AND SEWER OPERATING FUNDS

FISCAL PROJECTIONS	FY14 ESTIMATED	FY15 PROPOSED	FY15 RECOMMENDED	FY16 PROJECTION	FY17 PROJECTION	FY18 PROJECTION	FY19 PROJECTION	FY20 PROJECTION
SPENDING AFFORDABILITY RESULTS								
New Water and Sewer Debt (\$millions)	\$497.4	\$384.6	\$384.6	\$364.9	\$335.6	\$310.2	\$242.0	\$162.9
Total Water and Sewer Operating Expenses (\$millions)	\$658.4	\$678.1	\$678.1	\$721.5	\$778.9	\$839.8	\$901.7	\$955.5
Debt Service (\$millions)	\$226.1	\$227.0	\$227.0	\$250.0	\$267.8	\$282.6	\$292.6	\$301.0
Average Water and Sewer Rate Increase	7.25%	6.00%	6.00%	11.30%	8.80%	8.50%	9.10%	6.40%
BEGINNING FUND BALANCE (\$000)	132,932	128,851	128,851	110,388	110,288	110,888	112,088	122,554
REVENUES (\$000)								
Water and Sewer Rate Revenue	554,296	586,255	586,255	652,458	709,572	770,390	840,436	893,834
Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Account Maintenance Fee	22,850	22,900	22,900	22,900	22,900	22,900	22,900	22,900
Miscellaneous	23,844	26,574	26,574	27,060	27,192	27,388	27,528	27,748
Total Revenues	601,990	636,729	636,729	703,418	760,664	821,678	891,864	945,482
SDC Debt Service Offset	1,428	1,167	1,167	728	207	0	0	0
Reconstruction Debt Service Offset (REDO)	10,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Use of Prior Year Net Revenue	15,781	30,193	30,193	7,400	7,700	8,100	(166)	0
TOTAL FUNDS AVAILABLE	629,699	678,089	678,089	721,546	778,571	839,778	901,698	955,482
EXPENDITURES (\$000)								
Salaries and Wages	100,600	107,087	107,087	112,443	117,728	123,974	130,174	136,683
Heat, Light, and Power	23,910	22,906	22,906	24,832	25,851	26,902	28,004	29,013
Regional Sewage Disposal	53,207	55,176	55,176	57,218	59,335	61,530	63,807	66,168
Debt Service	221,300	227,042	217,612	250,013	267,835	282,596	292,612	301,014
PAYGO	13,782	19,996	19,996	27,341	45,503	69,256	97,770	130,120
All Other	205,200	243,582	243,582	242,399	254,019	266,220	279,031	292,484
Reserve Contribution	11,700	2,300	2,300	7,300	8,300	9,300	10,300	0
TOTAL USE OF RESOURCES	629,699	678,089	668,659	721,546	778,571	839,778	901,698	955,482
REVENUE/EXPENDITURE SURPLUS/(GAP)	0	0	9,430	0	0	0	0	0
YEAR END FUND BALANCE w/o additional reserve contribution	117,151	98,658	108,088	102,988	102,588	102,788	112,254	122,554
Additional Reserve Contribution	11,700	2,300	2,300	7,300	8,300	9,300	10,300	0
TOTAL YEAR END FUND BALANCE	128,851	100,958	110,388	110,288	110,888	112,088	122,554	122,554
Debt Service as a Percentage of Water and Sewer Operating Budget	35.1%	33.5%	32.5%	34.6%	34.4%	33.7%	32.5%	31.5%
Estimated Water Production (MGD)	165.0	168.0	168.0	168.0	168.0	168.0	168.0	168.0
Total End of Fiscal Year Operating Reserve	53,300	55,600	55,600	62,900	71,200	80,500	90,800	90,800
Total Operating Reserve as a Percentage of Water and Sewer Rate Revenue	9.6%	9.5%	9.5%	9.6%	10.0%	10.4%	10.8%	10.2%
Total Workyears (all funds)	1,527	1,717	1,717	--	--	--	--	--
Assumptions:								
1. The County Executive's operating budget recommendation is for FY15 only and incorporates the Executive's revenue and expenditure assumptions for that budget.								
2. The FY16-20 projections reflect WSSC's multi-year forecast and assumptions, which are not adjusted to conform to the County Executive's Recommended budget for WSSC. The projected expenditures, revenues, and fund balances for these years may be based on changes to rates, fees, usage, inflation, future labor agreements, and other factors not assumed in the County Executive's Recommended FY15 water and sewer operating budget for WSSC.								
3. The FY14 estimated spending affordability results are the values for the four spending affordability parameters implied by the FY14 budget jointly approved by Montgomery and Prince George's counties. The FY15 Proposed spending affordability results are the values of the spending affordability parameters associated with WSSC's proposed FY15 budget. The FY15 recommended spending affordability results are the spending affordability parameters associated with the County Executive's recommended WSSC budget for FY15. The FY16-20 spending affordability figures correspond to the values of the various spending affordability parameters based on the revenue and expenditure forecasts shown for the given year.								
4. The total FY14 estimated workyears shown correspond to the actual workyears as of December, 2013.								
5. Estimates of revenue in FY16-20 assume the rate increases projected by WSSC in the Average Water and Sewer Rate Increase line.								

WSSC Organization Chart



Increased FY'15 Expenditure Assumptions Over and Above Inflation Factor

FY'15 Additional & Reinstated Programs:

New Workyears Impacting Water & Sewer Rates

PCCP Management Program

1 Principal Civil Engineer 79,900 79,900

Water Main Condition Assessment Program

1 Project Manager 79,900 79,900

Maintenance

1 Customer Care (Maintenance) Unit Coordinator 79,900 79,900

Industrial Discharge Program

1 Industrial Investigator 65,600 65,600

4 Subtotal Workyears

New Workyears With No Water & Sewer Rate Impact

Water Main Reconstruction Program (capital)

1 Contract Manager 70,000 -

Cross Connection (to be supported by restructured fee)

2 Plumbing Inspectors 122,800 -

1 Permit Agent 57,400 -

8 Total Workyears

	Cost	W/S Impact
<i>New Workyears Impact</i>	\$ 555,500	\$ 305,300
<i>Benefits</i>	166,700	91,600
<i>Miscellaneous Support Equipment</i>	15,400	11,000

Other Additional & Reinstated Programs

Watermain Condition Assessment Program	2,000,000	2,000,000
Large Valve Assessment, Repairs, Replacement	5,800,000	-
Electric Rate Case Intervention	250,000	250,000 *
IT Operations (Oracle & Permitting Mgmt Systems liscensing)	454,500	373,600
IT Security Hardware	99,000	16,500
Strategic Diversity & Inclusion Plan	4,500	3,600
IT Strategic Plan	9,000,000	9,000,000 *
Modular Data Center	2,000,000	2,000,000 *
Supply Chain Management	1,000,000	1,000,000 *
<i>Total Other Additional & Reinstated Programs</i>	20,608,000	14,643,700
Total Additional & Reinstated Programs	\$ 21,345,600	\$ 15,051,600

*Projects funded via use of fund balance. rojects funded via use of fund balance. (12,250,000)

Water & Sewer operating impact of additional & reinstated programs. **\$ 2,801,600**

WSSC
FY 2015 ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

Program: PCCP MANAGEMENT PROGRAM

Request: 1 Principal Civil Engineer

Cost including benefits: \$103,870, Water/Sewer Impact: \$103,870

Justification:

The PCCP program has increased the annual inspection rate from 12 miles to 18 miles. The inspections along with Acoustic Fiber Optic (AFO) monitoring are identifying critical pipe segments in need of repair or replacement. Due to the intense nature of this work, the current PCCP team is at capacity for providing the necessary on-site field investigations, the associated contract management for the inspections and AFO technologies, coordinating the scheduling of planned and emergency shut-downs, and recommending repair or replacements. An additional workyear would allow the program to maintain the current capacity of the PCCP.

Program: WATER MAIN CONDITION ASSESSMENT PROGRAM

Request: Acoustic (PIT) Contract, 1 Project Manager

Cost including benefits: \$2,103,870, Water/Sewer Impact: \$2,103,870

Justification:

Currently, water main replacement or rehabilitation decisions are based on a Level 1 (desktop condition modeling) analysis of the individual water segments. Pipe type, age, and work orders are used to identify replacement needs. However, a Level 1 assessment only estimates the condition on a pipe segment basis. If maintenance events are concentrated on only a few segments, it is not possible to determine if the adjacent water segments installed at the same time are also critically close to failure and in need of replacement. Inspection of the water mains would confirm whether or not the model assumptions accurately represent the pipe condition. Additionally, with such a large backlog of water mains already deemed at the end of their useful life (~300 miles) it is important to prioritize projects so that the most critical needs are addressed first. A Level 2 inspection would help prioritize the more critically failing water mains over others that may be old, but still functioning well.

Program: MAINTENANCE

Request: 1 Maintenance Unit Coordinator

Cost including benefits: \$103,870, Water/Sewer Impact: \$103,870

Justification:

An assessment of the Flexible Worker Program was completed in March 2010. The report indicated the Unit Coordinators are overwhelmed by their workload. Their responsibilities have increased by more participation at the management level of the Commission, training of staff, and oversight of geographically larger field operations. A recommendation from the study was to add one Unit Coordinator to each zone group.

Additionally, the large diameter Prestressed Concrete Cylinder Pipe (PCCP) inspection program, which involves direct Unit Coordinator oversight, has been expanding. The Transmission Main Inspection/Large Valve Exercising and Water Main Break Best Management Practices obtained additional staff in FY'12. An expanded Leak Detection Program obtained additional staff in FY'12 and FY'14.

Note that four (4) Unit Coordinator positions were requested for FY12. Our recommendation was to stage in the positions over 4 years. If approved, this would be the 4th and final position.

Program: LARGE VALVE ASSESSMENT, REPAIRS, & REPLACEMENT PROGRAM

Request: \$5,800,000, Water/Sewer Impact: \$0

Justification:

Many of the valves that were installed in the 1920's thru the 1960's (approx. 775 valves) are past their useful life. Often times, these valves cannot be operated without repairs. In many instances, when repairs are needed, the parts cannot be purchased because the manufacturers are no longer in business. While the WSSC currently uses an outside contractor to service its small diameter valves, the larger diameter valves (16" and larger) now require immediate and aggressive attention. In collaboration with the Asset Management Program, this initiative proposes the repair and/or replacement of the large diameter valves that were installed between the 1920's and 1960's at a rate of 100 valves per year for the next seven years.

Program: CROSS CONNECTION

Request: 3 Workyears

Cost including benefits: \$234,260, Water/Sewer Impact: \$0 (funded with fee revenue)

Justification:

The Cross Connection Control Program was approved in FY'11. Cross connections are any permanent or temporary connecting arrangements to any part of a potable water system through which it is possible for contaminants to enter into the potable water supply system. The Cross Connection Program is vital to the safety of the public and private drinking water distribution systems. Additional inspectors are part of a phased-in program; two additional inspectors will raise program inspection resources to 80% of needed level. The addition of the requested two inspectors plus the addition of two more inspectors in FY 17 will allow the program to complete inspection of all commercial account holders in a projected frequency of 12 years overall while allowing for inspection of high priority accounts twice in that same time frame. The following positions are requested for FY'15:

- Two (2) Plumbing Inspectors
- One (1) Permit Agent

It should be noted that revenue estimates for fee collection are not currently being realized. There is a proposal underway to implement a base fee for all commercial customers who have backflow preventers. The new fee structure would allow the program to be self-supporting.

Program: INDUSTRIAL DISCHARGE CONTROL PROGRAM

Request: 1 Industrial Investigator

Cost including benefits: \$85,280, Water/Sewer Impact: \$85,280

Justification:

The Industrial Discharge Control Program has local regulatory requirements related to the new 2012 Blue Plains' Inter-municipal Agreement (IMA). With the addition of the 2012 IMA requirements, a large volume of administrative work is required related to the waste haulers. DCWater is prohibiting the discharge of septage and grease from outside the counties within the Blue Plains Service Area. In addition, they are requesting flow data and monitoring data collected from waste haulers. Since we do not have modern disposal sites, we have to regulate discharge of waste from outside the counties by manifesting discharges at all of our sites. Flow data from only Muddy Branch and Tanglewood disposal sites will be entered into a database as the remaining two sites do not discharge to DCWATER. However, the other manifests will have to be reviewed to ensure that waste is not coming from outside the Blue Plains Service Area. These requirements call for a substantial amount of data entry. There is no staff currently available to perform these functions.

The Industrial Discharge Control Program has never had a non-compliance. Without an additional Industrial Investigator, it will be difficult to meet the IMA requirements.

Program: Diversity & Inclusion

Fair Practice

Request: \$4,500, Water/Sewer Impact: \$3,623

Justification:

Implement a comprehensive plan with a range of activities for improving inclusiveness, cultural understanding, and employee engagement.

Program: INFORMATION TECHNOLOGY

Maintenance and Licensing

Request: \$454,000, Water/Sewer Impact: \$373,600

Justification:

As new systems and hardware are procured, installed and implemented, the first year maintenance is included in the purchase price. Following the first year, its annual maintenance is added to the maintenance baseline. In FY15, our maintenance and licensing costs will increase as a result of the following:

- Oracle Exadata Quarter Rack: \$99,500
- Oracle Exalytics In-Memory Machine: \$45,000
- Oracle WAM Software: \$124,000
- Permitting Management System: \$186,000

IT Security

Request: \$99,000, Water/Sewer Impact: \$16,500

Justification:

Additional funding is needed for a hardware appliance to monitor irregular activities on the network and endpoint devices to facilitate proactive response to malicious activities and other security issues.

IT Strategic Plan

Request: \$9,000,000, Water/Sewer Impact: \$0

Justification:

Additional funding is needed to begin the implementation of the 5-Year IT Strategic Plan. Just as investments must be made into WSSC's external infrastructure, the internal infrastructure cannot continue to be neglected. Many of our legacy systems are severely outdated old and no longer supported by developers. The IT Strategic Plan addresses these issues. Some projects covered by the plan include the Customer Service Information System, Asset Management, Geographical Information Systems, Document & Record Management and Advanced Metering Infrastructure. See the IT Strategic Plan for more information.

It is proposed that the initial investment in this initiative be funded out of the Fund Balance.

Modular Data Center

Request: \$2,000,000, Water/Sewer Impact: \$0

Justification:

WSSC must mitigate risks to ensure that the business of purifying water and processing waste water continues. Our critical business operations require technological support resumed and maintained within reasonably acceptable time frames. This plan facilitates that requirement by implementing a secondary site to house critical computing systems in a geographically diverse area. In the case of a disaster rendering the RGH computing services inoperable, a secondary data center will enable seamless continuation and availability of critical applications and quick disaster recovery services for others.

It is proposed that initiative be funded out of the Fund Balance.

Program: Supply Chain Management Transformation

Request: \$1,000,000, Water/Sewer Impact: \$0

Justification:

Supply Chain Transformation, as it is implemented, will allow WSSC to reduce the costs of doing business. Our transformation efforts will result in WSSC realizing value through cooperatively working with suppliers. This cooperative relationship with suppliers will include supplier identification, management and development. Enhanced supplier relationships will lead to improved demand management by WSSC. The success will be measured by the amount of savings generated by implementing transformation initiatives across six key dimensions: Best Practices, Innovation and Technology, Supply Chain Roles, Stretch Objectives from a Total Cost of Ownership perspective, and an Optimized Organization supported by Good Leadership. It will also result in a training program that focuses on those primarily accountable for managing contracts. It will support strategies around entrepreneurship and innovation by providing highly skilled procurement and supply chain management professionals and a commitment to continuous learning.

The success of this process will support our strategic priority by creating a culture and a center led sourcing process that will ultimately drive cost out of the business. It will allow WSSC to review the direct and indirect spend of all dollars over a selected period of time to determine best in class strategies to reduce multiple solicitations, and begin building supplier relationships for contractors to consider WSSC as being the customer of choice. Realignment of responsibilities will help utilize cross functional teams to gather and evaluate data to select the most appropriate acquisition strategy, identify a negotiations approach and ultimately select the "right" supplier. The impact will not be just in the procurement office but for all business units. The impact will be sustainable over multiple years, reflecting in time reductions from cradle to grave purchasing, resource savings and lower costs of goods, supplies and services.

It is proposed that initiative be funded out of the Fund Balance.

Program: ELECTRIC RATE CASE INTERVENTION

Request: \$250,000, Water/Sewer Impact: \$0

Justification:

As annual WSSC electric distribution payments to PEPCO and BGE approach \$2 million, WSSC plans to hire consultant(s) to participate in all aspects of electric rate cases, including evaluation of electric utilities' rate case filings, identifying MD Public Service Commission (PSC) precedents, proposing WSSC issues and rate designs, and writing direct and rebuttal testimonies. PEPCO and BGE are the two major electric utility providers to WSSC. BGE implemented a rate increase in 2013, and PEPCO implemented a similar rate increase and is in the process of requesting another electric rate increase. PEPCO's high rate of return for WSSC's major accounts has not been contested.

This project's return on investment will be evaluated to determine the merit of future funding. It is proposed that initiative be funded out of the Fund Balance.

Program: WATER REHABILITATION

Request: 1 Contract Manager

Cost including benefits: \$91,000, Water/Sewer Impact: \$0

Justification:

This position supports the water rehabilitation program and will not impact water and sewer rates as it is part of the CIP.

**EXCERPT OF COUNCIL PACKET FOR ACTION ON FY15 SPENDING CONTROL
LIMITS – OCTOBER 29, 2013**

**Table 4:
Estimated Excess Fund Balance Calculation (in \$000s)**

Estimated Fund Balance (end of FY14)	64,849
FY15 Operating Reserve Contribution (to achieve goal of 10% of revenues)	(2,300)
Increase Working Reserve to offset billing Factor Reduction in FY14	(5,643)
FY15 Use of Fund Balance: AM/Billing System Replacement	(3,500)
Total Use of Fund Balance in FY15 (no additional and reinstated programs)	(11,443)
Additional Use of Fund Balance (included in Base Case at 8% Rate Increase Level)	
FY15 Use of Fund Balance: PAYGO	(5,000)
FY15 Use of Fund Balance: Supply Chain Management Re-engineering	(1,000)
FY15 Use of Fund Balance: IT Strategic Plan	(9,000)
FY15 Use of Fund Balance: IT Data Modular Center	(2,000)
FY15 Use of Fund Balance: Watershed Improvements	(1,500)
FY15 Use of Fund Balance: Electric Rate Case Intervention Services	(250)
Additional Use of Fund Balance in FY15 Total	(18,750)
Total Use of Fund Balance in FY15	(30,193)
Uses of Fund Balance in FY16 and Beyond	
FY16-19 AMI Billing System Replacement	(8,000)
FY16-19 Additional Operating Reserve Increase	(17,500)
FY16-19 REDO Extinguishment	(6,000)
Total Use of Fund Balance in FY16 and Beyond	(31,500)
Remaining Excess Fund Balance after All Uses	3,156

The above chart includes the following components:

- **An increase in the reserve requirement from \$41.6 million to \$53.3 million by the end of FY14 and up to \$55.6 million by the end of FY15.** These two infusions of funding will increase WSSC’s fund balance up to about 10 percent of estimated water and sewer revenues in FY15.

Several years ago, WSSC recommended allocating excess fund balance to increase the designated reserve over time from 5 percent up to 10 percent of operating revenues. This goal was identified based on discussions with rating agencies and WSSC’s interest in having sufficient working capital to overcome a potential short-term revenue shortfall. Four years ago, the Council agreed to a similar goal for the County’s Tax-supported Fund Balance.

- **The resulting excess fund balance available for FY15 uses (apart from the \$2.3 million operating reserve contribution mentioned earlier) is estimated at \$62.5 million.** This surplus is the result of several factors, including: continued lower than expected interest rates (reducing the cost to borrow money for the CIP), significant reductions in CIP spending (primarily as a result of a reprioritization in the Trunk Sewer

Rehabilitation program), and delays in some major program expenditures (such as EAM/ERP).

- **WSSC recommends using \$5.6 million** to offset lower than previously assumed “billing factor” assumptions for WSSC’s rate-related revenue. A similar use of fund balance was employed the past few years.

- **WSSC recommends an additional \$17.5 million in FY16 through FY19** to bump up the fund balance to keep the total revenue ratio at or close to the goal of 10 percent.

- **Of the remaining excess fund balance, WSSC recommends allocating most of it to a number of specific projects, including:**
 - using \$11.5 million (across FY15 through FY19) to offset a portion of the costs of the Billing System/AMI project (\$2.5 million in FY15)
 - PAYGO (\$5.0 million in FY15)
 - Supply Chain Management Reengineering (\$1.0 million in FY15)
 - IT Strategic Plan (\$9.0 million in FY15)
 - IT Data Modular Center (\$2.0 million in FY15)
 - Watershed improvements (\$1.5 million in FY15)
 - Electric rate case intervention services (\$250,000 in FY15)
 - REDO extinguishment (\$6.0 million total in FY16 through 19)

These initiatives are described in more detail on ©11-15.

About \$3.2 million of excess fund balance is left. Council Staff believes this balance should remain unallocated and available in case supplemental funding is needed during the fiscal year.