



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Derrick Leon Davis

Council Member, District 6

MEMORANDUM

October 17th, 2013

TO: Derrick L. Davis, Chair
Transportation, Housing and Environment Committee (THE)

FROM: Hawi Sanu, Director *HS*
Transportation, Housing and Environment Committee (THE)

Howard Stone *ep*
Office of Audits and Investigations

THRU Robert Williams, Council Administrator *R.W.*
Prince Georges County Council

SUBJECT: WSSC FY 2015 Spending Control Limits

Montgomery and Prince George's County Councils created a Bi-County Working Group on WSSC Spending Controls to focus on the financial concerns of increasing water and sewer rates, debt, and debt service levels.

Background

In May of 1993, the Montgomery and Prince George's County Councils created a Bi-County Working Group on WSSC Spending Controls to focus on the financial concerns of increasing water and sewer rates, debt, and debt service levels. This group's January 1994 report recommended "the creation of a Spending Affordability Process that requires the Counties to set annual ceilings on WSSC's rates and debt, and then place corresponding limits on the size of the capital and operating budgets of the Commission."

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A Bi-County team was put together and a process was created to control capital, operational, and new debt service costs for the purpose of moderating or avoiding water and sewer bill increases. WSSC's FY 1996 Budget was the first budget to be formulated with the limits set by the Spending Affordability Process. The Spending Affordability Process focused the financial performance discussions on the need to balance affordability considerations against providing resources necessary to serve existing customers, meet environmental mandates, and provide the facilities needed to accommodate growth.

The major objectives of this process are to establish the framework for (1) controlling costs, (2) achieving low or moderate water/sewer bill increases, and (3) slowing the rate at which WSSC incurs debt. (Below 40% of the Operating Budget) The impact of this process has been integral in keeping customer bill increases at a stable and reasonable level.

The Spending Affordability process provides a framework within which the Council can review and decide on spending control limits. The limits do not cap what the Councils can approve within the regular budget process that concludes in May of each year.

Schedule

The FY 2015 Spending Affordability Group met on September 9th and 23rd 2013. The base case scenario presented at the first meeting, assuming a same services level as FY 2014 yielded a 7.5% rate increase. This scenario represented a .25% rate increase above the FY 2014 adopted budget. The base scenario did not include additional and reinstated programs. A base case with same level of service as FY 2013, with the additional and reinstated programs yielded a rate increase of 8.00%.

Historical Data on Spending Control Limits

Historically, the Spending Affordability Process has worked and the limits have been used as a basis to formulate the Commission's budget. Over the years, lower rate increases were achieved by use of fund balance; staff continues to urge caution in using a one-time revenue source such as fund balance to reduce rates as this only reassigns expenses to later years and does not eliminate it.

While the Spending Affordability Process was put in place to review four limits: Rates, Operating Budget, Debt Service Expense and New Debt; the most reviewed has been the rate increase and the other three limits are then adjusted accordingly.

HISTORICAL INFORMATION ON RATE INCREASES

<i>Fiscal Year =></i>	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Adopted Rate Increase	3.00%	2.50%	3.00%	6.50%	8.00%	9.00%	8.50%	8.50%	7.50%	7.25%
Montgomery County SAG	3.00%	2.50%	3.00%	5.30%	9.70%	9.50%	9.90%	9.90%	8.50%	8.00%
Prince George's County SAG	3.00%	2.50%	3.00%	5.30%	8.00%	6.00%	8.00%	8.00%	8.50%	7.50%

WSSC FY 2015 SPENDING LIMITS SUMMARY

	<u>WSSC Base Case</u>	<u>Council Staff Recommendation</u>
New Debt:	\$384,622,000	\$384,622,000
Debt Service	\$227,042,000	\$226,042,000
Total Water & Sewer Expenses:	\$689,527,000	\$678,591,000
Projected Rate Increase:	8.00%	6.0%*
Average Residential Monthly Impact	<u>\$5.95</u>	<u>\$4.48</u>

* Unspecified Reductions - \$10.9 Million at No More Than 6.0% rate increase*

Scenarios

Several scenarios were discussed over the course of the Spending Affordability Process in conjunction with an adjustment to the billing factor; with additional and reinstated programs and without. The billing factor discussion came about as a result of the past years projected revenues not being reflected in the actual revenues. In an effort to be more realistic, WSSC proposed lowering the billing factor to be more reflective of the actual revenues to be earned. In FY15 \$5.6 million has been factored into the base case as a billing factor reduction offset. Both County Council staff concurred with this approach in previous budget discussions.

All scenarios include the use \$10 million funding for the GASB 45 requirement which is its final year, and a proposed contribution of \$2.3 million to the operating reserve; the Commission will be at 10.0% of estimated water and sewer revenues at the end of FY'15. **(Attachment A)** details the Excess Fund Balance Calculations and Analysis.

In reviewing WSSC's projected revenues for FY'15 as compared to FY'14's Approved Budget, there is a reduction of \$15.2 Million, which translates into the equivalent of 2.7% in rate equivalent impact. This reduction can be attributed to the flat water consumption levels, which has necessitated the need for the adjustment of the billing factor and a reduction in projected interest income.

Scenario 1: A same services scenario as last fiscal year with an adjustment of 2.7% to the billing factor without additional and reinstated programs yielded a rate increase of 7.5%. This scenario assumes a 30 year debt repayment and wages and salary increase of 5%. A 7.5% rate increase adds approximately \$5.56 to an average monthly consumers' bill.

Scenario 1 = 7.5% rate increase. (Attachment B)

Scenario 6: A same services scenario as last fiscal year with an adjustment of 2.7% to the billing factor **with additional and reinstated programs** yielded a rate increase of 8.0%. This scenario assumes a 30 year debt repayment and wages and salary increase of 5%. An 8.00% rate increase adds approximately \$5.95 to an average monthly consumers' bill.

Scenario 6 = 8.00% rate increase. (Attachment C)

A further breakdown of the rate increase component between FY-2014 and FY2015 – based on same services is attached. **(Attachment D)**

Scenario 8 : is exactly as Scenario 6 restrained at an 6.00% rate increase, which yielded \$10.9 Million in unspecified reductions. This scenario adds \$4.48 a monthly to the average consumer's bill. **(Attachment E)**

(Attachment F) is a consolidated list of all additional and reinstated programs projected within the spending affordability assumptions.

Council Staff Recommendations

- *Council Staff recommends Scenario 8 which is the rate increase of no more than 6.0%, and no more than \$4.48 to be added to an average consumer's bill. This scenario also recommends \$10.9 Million in unspecified reductions.*
- *The Commission must continue to implement strategies and plans that will have long term benefits to the Commission and Consumers.*



Washington Suburban Sanitary Commission

Memorandum

TO: Spending Affordability Group
FROM: Chris Cullinan, Acting CFO
DATE: September 23, 2013
SUBJECT: Projected Use of Fund Balance FY'15 – FY'19

Attached for your information is the projected use of Fund Balance over the next five fiscal years.

In summary, the projected uses:

- ▶ Are consistent with prior uses provided to the Spending Affordability Guidelines group.
- ▶ Are consistent with the Information Technology Strategic Plan's funding assumption to use Fund Balance as approved by WSSC Commissioners.
- ▶ Are one-time in nature for long-term, strategic investments (Watershed Improvements, one-time costs associated with re-engineering the Supply Chain Management process, electric rate case intervention services).
- ▶ **Maintain** the 10% reserve requirement into the future (do not exceed 10% target).
- ▶ Maximize rate stabilization benefits to customers as the majority of the funds are to be spent in FY'15.

The projected uses and a brief description of the use are listed below.

Notes:

Unallocated Reserve End of FY'14	\$64,849,000
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PROJECTED FY'15 USES

FY'15 Billing Factor Reduction Offset	-\$5,643,000	Identified in previous fiscal years. Already incorporated in FY'15 base case.
FY'15 AMI/Billing System Replacement	-\$3,500,000	Identified in previous fiscal years. Already incorporated in FY'15 base case.
FY'15 Operating Reserve Contribution	-\$2,300,000	Identified in previous fiscal years. Already incorporated in FY'15 base case. This contribution accomplishes goal of 10%.
FY'15 PAYGO	-\$5,000,000	Continued use. This is the same amount used in the FY'14 budget.
FY'15 Supply Chain Management Re-engineering	-\$1,000,000	New use. To be used by CPO to fund strategic and one-time items associated with re-engineering supply chain management (SCM).
FY'15 IT Strategic Plan	-\$9,000,000	New use. This is the amount requested by CIO in Add'l and Reinstated. This is consistent with funding scheme for IT Strategic Plan as approved by the Commissioners.
FY'15 IT Data Modular Center	-\$2,000,000	New use. This is the amount requested by CIO in Add'l and Reinstated. This is consistent with funding scheme for IT Strategic Plan as approved by the Commissioners.
FY'15 Watershed Improvements	-\$1,500,000	New use. Average of proposed improvements for boat access at Duckett and Triadelphia.
FY'15 Electric Rate Case Intervention Services	-\$250,000	New use. Consultant will participate in all aspects of electric rate cases including evaluation of rate case filings, PSC precedents, promoting WSSC issues and rate designs, and writing direct and rebuttal testimonies.

PROJECTED USES IN FY'16-FY'19

FY'16-FY'19 Maintain 10% Reserve Requirement	-\$17,500,000	Revised use. Previously identified use was to get to 10% requirement. This has been modified to maintain 10% as budgets increase in the future.
FY'16-FY'19 AMI/Billing System Replacement	-\$8,000,000	Continued use. \$3.5 million is to be used in FY'15. This sets aside \$2.0 million per year over next 4 years.
FY'16-FY'19 REDO Extinguishment	-\$6,000,000	New use. This provides for beginning extinguishment of REDO subsidy. Sets asides \$1.5 million over next 4 years. An additional \$4.0 million needed for full extinguishment.

Subtotal	-\$61,693,000
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Balance	\$3,156,000
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From a cash flow perspective, the majority of the funds are projected to be used in FY'15 thus providing more immediate rate stabilization benefits:

	2015	2016	2017	2018	2019	TOTAL
Beginning Fund Balance	\$64,849,000	\$34,656,000	\$27,256,000	\$19,556,000	\$11,456,000	
FY'15 Billing Factor Reduction Offset	-\$5,643,000					-\$5,643,000
FY'15-FY'19 Billing System and AMI Replacement	-\$3,500,000	-\$2,000,000	-\$2,000,000	-\$2,000,000	-\$2,000,000	-\$11,500,000
FY'15 Supply Chain Management Re-engineering	-\$1,000,000					-\$1,000,000
FY'15-FY'19 Operating Reserve Contribution	-\$2,300,000	-\$3,900,000	-\$4,200,000	-\$4,600,000	-\$4,800,000	-\$19,800,000
FY'15 IT Strategic Plan	-\$9,000,000					-\$9,000,000
FY'15 IT Data Modular Center	-\$2,000,000					-\$2,000,000
FY'15 PAYGO	-\$5,000,000					-\$5,000,000
FY'15 Watershed Improvements	-\$1,500,000					-\$1,500,000
FY'15 Electric Rate Case Intervention Services	-\$250,000					-\$250,000
FY'16-FY'19 REDO Extinguishment		-\$1,500,000	-\$1,500,000	-\$1,500,000	-\$1,500,000	-\$6,000,000
Subtotal	-\$30,193,000	-\$7,400,000	-\$7,700,000	-\$8,100,000	-\$8,300,000	-\$61,693,000
Ending Fund Balance	\$34,656,000	\$27,256,000	\$19,556,000	\$11,456,000	\$3,156,000	

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 1 - Base Case

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 Revenue							
2 Water & Sewer Rate Revenue	\$571,055	\$555,872	\$597,296	\$658,380	\$715,954	\$779,170	\$840,205
3 All Other Sources	87,363	70,618	69,958	70,069	68,058	69,298	70,618
4 Total Revenue	658,418	626,490	667,254	728,449	784,012	848,468	910,823
5 Expenses							
6 Maintenance & Operating	353,600	368,156	386,121	404,706	424,201	444,669	466,013
7 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
8 Debt Service	226,129	227,286	250,357	268,179	282,941	292,956	301,358
9 PAYGO	13,782	14,996	27,341	45,503	69,256	97,770	130,120
10 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	11,400
11 Unspecified reductions	-	-	-	-	-	-	-
12 Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13 Total Expenses	658,418	667,913	728,338	786,023	847,228	909,503	975,059
14 Revenue Gap (Revenue - Expenses)	-	(41,423)	(61,084)	(57,574)	(63,216)	(61,035)	(64,237)
15 Water Production (MGD)	170.0	168.0	168.0	168.0	168.0	168.0	168.0
16 Debt Service Ratio (debt service / budget)	34.3%	34.0%	34.4%	34.1%	33.4%	32.2%	30.9%
17 Rate Increase	7.25%	7.5%	10.2%	8.7%	8.8%	7.8%	7.6%
18 Operating Budget	\$658,418	\$667,913	\$728,338	\$786,023	\$847,228	\$909,503	\$975,059
19 Debt Service Expense	226,129	227,286	250,357	268,179	282,941	292,956	301,358
20 New Debt	323,396	389,372	364,894	335,620	310,226	241,952	162,876
NOTE:							
21 Impact of Rate Increase on Average Residential Monthly Bill	FY 2014 \$4.86	FY 2015 \$5.56	FY 2016 \$6.20	FY 2017 \$7.73	FY 2018 \$8.49	FY 2019 \$8.20	FY 2020 \$8.63

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 1 - Base Case

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 REVENUE							
2 Water / Sewer Use Charges	\$571,055	\$555,872	\$597,296	\$658,380	\$715,954	\$779,170	\$840,205
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,900	22,900	22,900	22,900	22,900	22,900
4 Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5 Plumbing/Inspection Fees	5,560	5,600	5,650	5,650	5,700	5,700	5,750
6 Rockville Sewer Use	2,444	2,747	2,827	2,858	2,893	2,910	2,943
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	16,100	15,761	15,853	15,954	16,065	16,188	16,325
9 Total Revenue	619,009	603,880	645,526	706,742	764,512	827,868	889,123
10 Adjustments to Revenue							
11 Use of Fund Balance	27,481	11,443	11,000	11,500	9,500	10,600	11,700
12 Less Rate Stabilization	1,428	1,167	728	207	0	0	0
13 SDC Debt Service Offset	10,500	10,000	10,000	10,000	10,000	10,000	10,000
14 Reconstruction Debt Service Offset	39,409	22,610	21,728	21,707	19,500	20,600	21,700
15 Adjustments to Total Revenue	658,418	626,490	667,254	728,449	784,012	848,468	910,823
16 FUNDS AVAILABLE							
	658,418	626,490	667,254	728,449	784,012	848,468	910,823
17 EXPENDITURES							
18 Salaries and Wages	104,056	109,260	114,724	120,461	126,485	132,810	139,452
19 Salaries and Wages - Additional & Reinstated Programs	-	-	-	-	-	-	-
20 Heat, Light and Power	23,910	23,596	24,832	25,851	26,902	28,004	29,013
21 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
22 All Other	225,634	235,300	246,565	258,394	270,814	283,855	297,548
23 All Other - Additional & Reinstated Programs	-	-	-	-	-	-	-
24 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	11,400
25 Unspecified reductions	-	-	-	-	-	-	-
26 Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
27 Total Operating Expenses	418,507	425,632	450,639	472,341	495,031	518,776	543,581
28 Debt Service	226,129	227,286	250,357	268,179	282,941	292,956	301,358
29 Debt Reduction (PAYGO)	13,782	14,996	27,341	45,503	69,256	97,770	130,120
30 Total Financial Expenses	239,911	242,282	277,698	313,682	352,197	390,726	431,478
31 TOTAL GROSS EXPENSES (Operating & Financial)	658,418	667,913	728,338	786,023	847,228	909,503	975,059
32 NET EXPENSES	658,418	667,913	728,338	786,023	847,228	909,503	975,059
33 Revenue - Expenditure Gap before rate increase	-	(41,423)	(61,084)	(57,574)	(63,216)	(61,035)	(64,237)
34 Rate Increase	7.25%	7.5%	10.2%	8.7%	8.8%	7.8%	7.6%

ATTACHMENT B

ASSUMPTIONS

WSSC's Multi-Year Financial Forecast

FY 2015 thru 2020 Forecast : SCENARIO 5 - w / unspecified reductions @ 7.25%

	FY 2015 <u>Proposed</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>	FY 2019 <u>Estimate</u>	FY 2020 <u>Estimate</u>
<u>WATER PRODUCTION</u>						
Yearly Growth Increment (MGD)	-	-	-	-	-	-
Estimated Annual Average Water Production (MGD)	168.0	168.0	168.0	168.0	168.0	168.0
<u>OPERATING FUNDS</u>						
Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (Includes savings from Energy Performance Program)						
Water (\$ thousands)	12,978	13,658	14,218	14,796	15,402	15,957
Sewer (\$ thousands)	10,618	11,174	11,633	12,106	12,602	13,056
Blue Plains (Regional Sewage Disposal) Rate of Increase	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
All Other - % Annual Increase	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%
GASB 045 Expense	10,000	10,000	10,000	10,000	10,000	10,000
Water REDO (\$ thousands)	5,000	5,000	5,000	5,000	5,000	5,000
Sewer REDO (\$ thousands)	5,000	5,000	5,000	5,000	5,000	5,000
Work Years / FTE \$	-	-	-	-	-	-
Operating Program	-	-	-	-	-	-
Capital Programs	-	-	-	-	-	-
<u>BOND FUNDS</u>						
Short-term Construction Note Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Long-Term Bond Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Life for Non-SRF Water and Sewer Debt (years)	30	30	30	30	30	30
Life for SRF Water and Sewer Debt (years)	20	20	20	20	20	20
<u>CAPITAL EXPENDITURES RELATED PARAMETERS</u>						
Construction Inflation	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Construction Completion Factor	80%	80%	80%	80%	80%	80%
Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
Blue Plains Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
ENR Construction Completion Factor	80%	80%	80%	80%	80%	80%
Reconstruction Completion Factor	100%	100%	100%	100%	100%	100%

Budget Group
Printed: 9/20/2013

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 6 - Base Case with Additional & Reinstated @ 8%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 Revenue							
2 Water & Sewer Rate Revenue	\$571,055	\$555,872	\$600,159	\$666,474	\$724,492	\$785,563	\$856,231
3 All Other Sources	87,363	89,368	66,358	66,269	66,658	58,532	58,918
4 Total Revenue	658,418	645,240	666,517	732,743	791,150	844,095	915,149
5 Expenses							
6 Maintenance & Operating	353,600	385,013	390,959	409,788	429,539	450,273	471,899
7 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
8 Debt Service	226,129	227,042	250,013	267,835	282,596	292,612	301,014
9 PAYGO	13,782	19,996	27,341	45,503	69,256	97,770	130,120
10 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	-
11 Unspecified reductions	-	-	-	-	-	-	-
12 Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13 Total Expenses	658,418	689,527	732,832	790,761	852,221	914,763	969,201
14 Revenue Gap (Revenue - Expenses)	-	(44,287)	(66,315)	(58,019)	(61,071)	(70,668)	(54,052)
15 Water Production (MGD)	170.0	168.0	168.0	168.0	168.0	168.0	168.0

Debt Service Ratio (debt service / budget)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
17 Rate Increase	7.25%	8.0%	11.0%	8.7%	8.4%	9.0%	6.3%
18 Operating Budget	\$658,418	\$669,527	\$732,832	\$790,761	\$852,221	\$914,763	\$969,201
19 Debt Service Expense	226,129	227,042	250,013	267,835	282,596	292,612	301,014
20 New Debt	323,396	384,622	384,894	335,620	310,226	241,952	162,876

NOTE:

21 Impact of Rate Increase on Average Residential Monthly Bill

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	\$4.86	\$5.95	\$8.91	\$7.79	\$8.20	\$9.49	\$7.26

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 6 - Base Case with Additional & Reinstated @ 8%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 REVENUE							
2 Water / Sewer Use Charges	\$571,055	\$555,872	\$600,159	\$666,474	\$724,492	\$785,563	\$856,231
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,900	22,900	22,900	22,900	22,900	22,900
4 Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5 Plumbing/Inspection Fees	5,560	5,600	5,650	5,650	5,700	5,700	5,750
6 Rockville Sewer Use	2,444	2,747	2,827	2,858	2,893	2,910	2,943
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	16,100	15,761	15,853	15,954	16,065	16,188	16,325
9 Total Revenue	619,009	603,880	648,389	714,836	773,050	834,261	905,149
10 Adjustments to Revenue							
11 Use of Fund Balance	27,481	30,193	7,400	7,700	8,100	(166)	-
12 Less Rate Stabilization	1,428	1,167	728	207	0	0	0
13 SDC Debt Service Offset	10,500	10,000	10,000	10,000	10,000	10,000	10,000
14 Reconstruction Debt Service Offset	39,409	41,360	18,128	17,907	18,100	9,834	10,000
15 Adjustments to Total Revenue	658,418	645,240	666,517	732,743	791,150	844,095	915,149
16 FUNDS AVAILABLE							
17 EXPENDITURES							
18 Salaries and Wages	104,056	109,260	114,724	120,461	126,485	132,810	139,452
19 Salaries and Wages - Additional & Reinstated Programs	-	306	322	340	358	376	396
20 Heat, Light and Power	23,910	23,596	24,832	25,851	26,902	28,004	29,013
21 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
22 All Other	225,634	236,800	248,140	260,048	272,550	285,678	299,463
23 All Other - Additional & Reinstated Programs	-	15,052	2,942	3,089	3,243	3,405	3,576
24 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	-
25 Unspecified reductions	-	-	-	-	-	-	-
26 Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
27 Total Operating Expenses	418,507	442,489	455,477	477,423	500,369	524,380	538,067
28 Debt Service	226,129	227,042	250,013	267,835	282,596	292,612	301,014
29 Debt Reduction (PAYGO)	13,782	19,996	27,341	45,503	69,256	97,770	130,120
30 Total Financial Expenses	239,911	247,038	277,354	313,338	351,852	390,382	431,134
31 TOTAL GROSS EXPENSES (Operating & Financial)	658,418	689,527	732,832	790,761	852,221	914,763	969,201
32 NET EXPENSES	658,418	689,527	732,832	790,761	852,221	914,763	969,201
33 Revenue - Expenditure Gap before rate Increase	-	(44,287)	(66,315)	(58,019)	(61,071)	(70,668)	(54,052)
34 Rate Increase	7.25%	8.0%	11.0%	8.7%	8.4%	9.0%	6.3%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Capital and Bond Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 6 - Base Case with Additional & Reinstated @ 8%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 <u>Approved</u>	FY 2015 <u>Proposed</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>	FY 2019 <u>Estimate</u>	FY 2020 <u>Estimate</u>
Capital Expenditures							
1 Water & Sewer CIP Projects	\$ 629,300	\$ 472,036	\$ 371,864	\$ 296,473	\$ 230,144	\$ 158,770	\$ 91,524
2 Information Only Projects (@ < 100% completion)	24,989	27,672	33,653	41,447	40,026	31,384	15,139
3 Additional High Probability Future CIP Projects	-	-	-	-	-	-	-
4 SAG Adjustments (unspecified capital spending reductions)	-	-	-	-	-	-	-
5 Subtotal - Capital Expenditures less unspecified SAG capital spending reductions	654,289	499,708	405,517	337,920	270,170	190,154	106,663
6 Subtotal - Capital Expenditures w/ scaling, completion, & inflation index factors	\$ 523,608	\$ 399,976	\$ 334,361	\$ 286,800	\$ 236,178	\$ 171,217	\$ 98,922
Information Only Projects (@ 100% completion)							
7 Water Reconstruction	96,774	104,509	110,024	113,304	116,681	120,078	123,679
8 Sewer Reconstruction	49,902	16,419	54,574	62,116	78,736	81,097	83,531
9 EPP & Water Storage Facility Rehab	5,540	5,000	5,000	7,310	8,960	6,210	5,000
10 Total Capital Funding Required	675,824	525,904	503,959	469,530	440,555	378,602	311,132
Funding							
11 Debt Issues (includes SRF Water and Sewer Debt)	323,396	384,622	364,894	335,620	310,226	241,952	162,876
12 5% Debt Buydown of Short-term Construction Notes	13,199	18,986	18,994	17,664	16,328	12,734	8,572
13 System Development Charges (w/ scaling, completion & inflation index factors)	72,220	55,915	61,120	36,398	20,277	7,189	4,945
14 PAYGO	13,782	19,996	27,341	45,503	69,256	97,770	130,120
15 Grants - Federal & State (includes ENR Grants)	45,466	22,178	16,163	26,180	22,292	17,851	376
16 Developers and Government Contrib. (w/ scaling, completion & inflation index factors)	21,004	24,204	15,426	8,164	2,176	1,105	4,242
17 Previous Year's Funds Available after Construction	186,758	1	1	1	1	2	1
18 Total Funds Available	675,824	525,904	503,959	469,530	440,555	378,602	311,132
19 Funds Available after Construction	-	-	-	-	-	-	-

Rate Increase Components

	FY 2014 Approved	FY 2015 Estimate	Dollar Change	Rate Impact	Description
Revenue					
Water & Sewer Revenue	571,055,000	555,872,000	(15,183,000)	2.7%	Decrease in billing factor and water production
Account Maintenance Fee	22,850,000	22,900,000	50,000	0.0%	Increase in account maintenance fee
Miscellaneous Revenue	24,104,000	24,108,000	4,000	0.0%	Based on historical miscellaneous revenue
Use of Fund Balance	11,700,000	2,300,000	(9,400,000)	1.7%	For operating reserve contribution
Use of Fund Balance	8,108,000	5,643,000	(2,465,000)	0.4%	For billing factor reduction offset
Use of Fund Balance	2,500,000	-	(2,500,000)	0.4%	ERP
Use of Fund Balance	673,000	-	(673,000)	0.1%	Additional & Reinstated one time use
Use of Fund Balance	(500,000)	-	500,000	-0.1%	Jt Council - Offset to debt service reduction
Use of Fund Balance	-	3,500,000	3,500,000	-0.6%	AMI
Use of Fund Balance	5,000,000	-	(5,000,000)	0.9%	PAYGO
Reconstruction Debt Service Offset	10,500,000	10,000,000	(500,000)	0.1%	
SDC Debt Service Offset	1,428,000	1,167,000	(261,000)	0.0%	
Revenue Subtotal	658,418,000	626,490,000	(31,928,000)	5.7%	
Debt Service					
Debt Service (Existing Debt)	226,129,000	194,625,000	(31,504,000)	-5.7%	
FY'14 New Debt	-	32,661,000	32,661,000	5.9%	Due to capital spending assumptions
Debt Service Subtotal	226,129,000	227,286,000	1,157,000	0.2%	
Expenses					
All Other	225,634,000	235,300,000	9,666,000	1.7%	
Salaries & Wages	104,056,000	109,260,000	5,204,000	0.9%	
Regional Sewage Disposal	53,207,000	55,176,000	1,969,000	0.4%	
Operating Reserve Contribution	11,700,000	2,300,000	(9,400,000)	-1.7%	
30 Year 1.25x Coverage PAYGO	8,782,000	14,996,000	6,214,000	1.1%	
PAYGO (fund balance)	5,000,000	-	(5,000,000)	-0.9%	
Heat, Light & Power	23,910,000	23,596,000	(314,000)	-0.1%	Based on projection from WSSC Energy Manager.
Expenses Subtotal	432,289,000	440,628,000	8,339,000	1.5%	
Total				7.5%	

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WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary
 FY 2015 thru 2020 Forecast : SCENARIO 8 - Base with Additional & Reinstated @ 6.0%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 Revenue							
2 Water & Sewer Rate Revenue	\$571,055	\$555,872	\$589,223	\$654,992	\$712,436	\$772,905	\$842,941
3 All Other Sources	87,363	89,368	66,358	66,269	66,658	58,532	58,918
4 Total Revenue	658,418	645,240	655,581	721,261	779,094	831,437	901,859
5 Expenses							
6 Maintenance & Operating	353,600	385,013	390,959	409,788	429,539	450,273	471,899
7 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
8 Debt Service	226,129	227,042	250,013	267,835	282,596	292,612	301,014
9 PAYGO	13,782	19,996	27,341	45,503	69,256	97,770	130,120
10 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	-
11 Unspecified reductions	-	(10,936)	-	-	-	-	-
12 Unspecified reduction of future year's expenditure base	-	-	(11,482)	(12,056)	(12,658)	(13,290)	(13,954)
13 Total Expenses	658,418	678,591	721,350	778,705	839,563	901,473	955,247
14 Revenue Gap (Revenue - Expenses)	-	(33,351)	(65,768)	(57,445)	(60,469)	(70,036)	(53,388)
15 Water Production (MGD)	170.0	168.0	168.0	168.0	168.0	168.0	168.0
16 Debt Service Ratio (debt service / budget)	34.3%	33.5%	34.7%	34.4%	33.7%	32.5%	31.5%

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
17 Rate Increase	7.25%	6.0%	11.2%	8.8%	8.5%	9.1%	6.3%
18 Operating Budget	\$658,418	\$678,591	\$721,350	\$778,705	\$839,563	\$901,473	\$955,247
19 Debt Service Expense	226,129	227,042	250,013	267,835	282,596	292,612	301,014
20 New Debt	323,396	384,622	364,894	335,620	310,226	241,952	162,876

NOTE:

21 Impact of Rate Increase on Average Residential Monthly Bill

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	\$4.86	\$4.48	\$8.83	\$7.72	\$8.12	\$9.41	\$7.17

ASSUMPTIONS

WSSC's Multi-Year Financial Forecast
FY 2015 thru 2020 Forecast : SCENARIO 7 - Base with Additional & Reinstated @ 7.0%

	FY 2015 <u>Proposed</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>	FY 2019 <u>Estimate</u>	FY 2020 <u>Estimate</u>
WATER PRODUCTION						
Yearly Growth Increment (MGD)	-	-	-	-	-	-
Estimated Annual Average Water Production (MGD)	168.0	168.0	168.0	168.0	168.0	168.0
OPERATING FUNDS						
Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (Includes savings from Energy Performance Program)						
Water (\$ thousands)	12,978	13,658	14,218	14,796	15,402	15,957
Sewer (\$ thousands)	10,618	11,174	11,633	12,106	12,602	13,056
Blue Plains (Regional Sewage Disposal) Rate of Increase	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
All Other - % Annual Increase	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%
GASB 045 Expense	10,000	10,000	10,000	10,000	10,000	10,000
Water REDO (\$ thousands)	5,000	5,000	5,000	5,000	5,000	5,000
Sewer REDO (\$ thousands)	5,000	5,000	5,000	5,000	5,000	5,000
Work Years / FTE \$\$	-	-	-	-	-	-
Operating Program	-	-	-	-	-	-
Capital Programs	-	-	-	-	-	-
BOND FUNDS						
Short-term Construction Note Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Long-Term Bond Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Life for Non-SRF Water and Sewer Debt (years)	30	30	30	30	30	30
Life for SRF Water and Sewer Debt (years)	20	20	20	20	20	20
CAPITAL EXPENDITURES RELATED PARAMETERS						
Construction Inflation	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Construction Completion Factor	80%	80%	80%	80%	80%	80%
Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
Blue Plains Sewer Construction Completion Factor	80%	80%	80%	80%	80%	80%
ENR Construction Completion Factor	80%	80%	80%	80%	80%	80%
Reconstruction Completion Factor	100%	100%	100%	100%	100%	100%

Budget Group
Printed: 9/20/2013

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 8 - Base with Additional & Reinstated @ 6.0%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
1 REVENUE							
2 Water / Sewer Use Charges	\$571,055	\$555,872	\$589,223	\$654,992	\$712,436	\$772,905	\$842,941
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,900	22,900	22,900	22,900	22,900	22,900
4 Interest Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5 Plumbing/Inspection Fees	5,560	5,600	5,650	5,650	5,700	5,700	5,750
6 Rockville Sewer Use	2,444	2,747	2,827	2,858	2,893	2,910	2,943
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	16,100	15,761	15,853	15,954	16,065	16,188	16,325
9 Total Revenue	619,009	603,880	637,453	703,354	760,994	821,603	891,859
10 Adjustments to Revenue							
11 Use of Fund Balance	27,481	30,193	7,400	7,700	8,100	(166)	-
12 Less Rate Stabilization							
13 SDC Debt Service Offset	1,428	1,167	728	207	0	0	0
14 Reconstruction Debt Service Offset	10,500	10,000	10,000	10,000	10,000	10,000	10,000
15 Adjustments to Total Revenue	39,409	41,360	18,128	17,907	18,100	9,834	10,000
16 FUNDS AVAILABLE	658,418	645,240	655,581	721,261	779,094	831,437	901,859
17 EXPENDITURES							
18 Salaries and Wages	104,056	109,260	114,724	120,461	126,485	132,810	139,452
19 Salaries and Wages - Additional & Reinstated Programs	-	306	322	340	358	376	396
20 Heat, Light and Power	23,910	23,596	24,832	25,851	26,902	28,004	29,013
21 Regional Sewage Disposal	53,207	55,176	57,218	59,335	61,530	63,807	66,168
22 All Other	225,634	236,800	248,140	260,048	272,550	285,678	299,463
23 All Other - Additional & Reinstated Programs	-	15,052	2,942	3,089	3,243	3,405	3,576
24 Additional Operating Reserve Contribution	11,700	2,300	7,300	8,300	9,300	10,300	-
25 Unspecified reductions	-	(10,936)	-	-	-	-	-
26 Unspecified reduction of future year's expenditure base	-	-	(11,482)	(12,056)	(12,658)	(13,290)	(13,954)
27 Total Operating Expenses	418,507	431,553	443,995	465,367	487,711	511,090	524,113
28 Debt Service	226,129	227,042	250,013	267,835	282,596	292,612	301,014
29 Debt Reduction (PAYGO)	13,782	19,996	27,341	45,503	69,256	97,770	130,120
30 Total Financial Expenses	239,911	247,038	277,354	313,338	351,852	390,382	431,134
31 TOTAL GROSS EXPENSES (Operating & Financial)	658,418	678,591	721,350	778,705	839,563	901,473	955,247
NET EXPENSES							
32	658,418	678,591	721,350	778,705	839,563	901,473	955,247
33 Revenue - Expenditure Gap before rate increase	-	(33,351)	(65,768)	(57,445)	(60,469)	(70,036)	(53,388)
34 Rate Increase	7.25%	6.0%	11.2%	8.8%	8.5%	9.1%	6.3%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Capital and Bond Funds Summary

FY 2015 thru 2020 Forecast : SCENARIO 8 - Base with Additional & Reinstated @ 6.0%

Estimated Revenues and Expenditures (\$1,000)

	FY 2014 Approved	FY 2015 Proposed	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate	FY 2020 Estimate
Capital Expenditures							
1 Water & Sewer CIP Projects	\$ 629,300	\$ 472,036	\$ 371,864	\$ 296,473	\$ 230,144	\$ 158,770	\$ 91,524
2 Information Only Projects (@ < 100% completion)	24,989	27,672	33,653	41,447	40,026	31,384	15,139
3 Additional High Probability Future CIP Projects	-	-	-	-	-	-	-
4 SAG Adjustments (unspecified capital spending reductions)	-	-	-	-	-	-	-
5 Subtotal - Capital Expenditures less unspecified SAG capital spending reductions	654,289	499,708	405,517	337,920	270,170	190,154	106,663
6 Subtotal - Capital Expenditures w/ scaling, completion, & inflation index factors	\$ 523,608	\$ 399,976	\$ 334,361	\$ 286,800	\$ 236,178	\$ 171,217	\$ 98,922
Information Only Projects (@ 100% completion)							
7 Water Reconstruction	96,774	104,509	110,024	113,304	116,681	120,078	123,679
8 Sewer Reconstruction	49,902	16,419	54,574	62,116	78,736	81,097	83,531
9 EPP & Water Storage Facility Rehab	5,540	5,000	5,000	7,310	8,960	6,210	5,000
10 Total Capital Funding Required	675,824	525,904	503,959	469,530	440,555	378,602	311,132
Funding							
11 Debt Issues (includes SRF Water and Sewer Debt)	323,396	384,622	364,894	336,620	310,226	241,952	162,876
12 5% Debt Buydown of Short-term Construction Notes	13,199	18,986	18,994	17,664	16,328	12,734	8,572
13 System Development Charges (w/ scaling, completion & inflation index factors)	72,220	55,915	61,120	36,398	20,277	7,189	4,945
14 PAYGO	13,782	19,996	27,341	45,503	69,256	97,770	130,120
15 Grants - Federal & State (includes ENR Grants)	45,466	22,178	16,183	26,180	22,292	17,851	376
16 Developers and Government Contrib. (w/ scaling, completion & inflation index factors)	21,004	24,204	15,426	8,164	2,176	1,105	4,242
17 Previous Year's Funds Available after Construction	186,758	1	1	1	1	2	1
18 Total Funds Available	675,824	525,904	503,959	469,530	440,555	378,602	311,132
19 Funds Available after Construction	-	-	-	-	-	-	-

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.