

Staff Working Group Final Report

# **WSSC Spending Affordability**

**FISCAL YEARS 2008 -- 2013**

November 21, 2006

## **INTRODUCTION**

The Montgomery and Prince George's County Councils have established a spending affordability process for the Washington Suburban Sanitary Commission (WSSC). The objective of this process is to control costs to provide cost-effective water and sewer service to all WSSC customers. Ways to achieve this objective are to limit the rate of increase in discretionary spending and to slow the rate at which WSSC incurs debt. A substantial portion of WSSC's operating expenses for water and sewer (approximately 35.9% for FY'07) is dedicated to paying debt service for capital expenditures. To accomplish this objective, the two County Councils annually establish spending control limits on the following:

- 1) New Water and Sewer Debt,
- 2) Water and Sewer Debt Service,
- 3) Combined Water and Sewer Operating Expenses, and
- 4) Water and Sewer Rate Increase.

The spending affordability process continues to be an effective method for focusing policy discussions on the need to determine the resources necessary to serve existing customers, meet environmental mandates, and provide the facilities needed for growth within the context of affordability considerations.

## **FISCAL YEAR 2008 SPENDING AFFORDABILITY PROCESS**

This is the thirteenth budget subject to the Spending Affordability Process that was reviewed by the Bi-County Staff Working Group on WSSC Spending Controls for the Fiscal Year 2008 Budget. It presents six-year WSSC Spending Affordability Forecasts for Fiscal Years 2008 through 2013. The staff-working group met four times on September 14<sup>th</sup>, September 27<sup>th</sup>, October 4<sup>th</sup> and on November 2<sup>nd</sup> but failed to come to an agreement on establishing spending control limits after discussing the following steps:

- 1) Determining baseline capital and operating costs;
- 2) Establishing assumptions which drive the forecast;
- 3) Setting a maximum allowable water and sewer rate increase; and
- 4) Evaluating alternatives for funding the expenditure requirements.

***Recording Capital and Operating Cost Data***

Capital Expenditures – WSSC’s Proposed Capital Improvements Program (CIP) for Fiscal Years 2008 through 2013, Public Hearing Document dated September 13 & 14, 2006, and the Proposed CIP Document, provided most of the data for capital expenditures included in the forecasts. The other expenditure data consists of Engineering Support, Energy Performance, and Reconstruction Programs.

Operating Expenses – WSSC’s Fiscal Year 2007 Approved Budget provided the primary operating cost data and was used as the baseline from which the forecasts for Fiscal Years 2008 through 2013 were calculated.

***Assumptions used to generate the Spending Affordability Forecast***

The following table presents interest and inflation rates, construction completion factors, and water production estimates:

WSSC's Multi-Year Financial Forecast  
Spending Affordability Base Case FY'08 - FY'13

	<u>FY 2008 Proposed</u>	<u>FY 2009 Estimate</u>	<u>FY 2010 Estimate</u>	<u>FY 2011 Estimate</u>	<u>FY 2012 Estimate</u>	<u>FY 2013 Estimate</u>
<b>BOND FUNDS</b>						
Bond Life for Water and Sewer Bonds (years)	19	19	19	19	19	19
Long-Term Bond Interest Rate	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Short-term Construction Note Rate	4.5%	4.5%	4.5%	6.5%	4.5%	4.5%
<b>CAPITAL EXPENDITURES RELATED PARAMETERS</b>						
Construction Inflation	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
Water Construction Completion Factors	80%	80%	80%	80%	80%	80%
Sewer Construction Completion Factors	80%	80%	80%	80%	80%	80%
Blue Plains Sewer Construction Completion Factors	80%	80%	80%	80%	80%	80%
ENR Construction Completion Factor	80%	80%	80%	80%	80%	80%
<b>OPERATING FUNDS</b>						
Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (including savings from Energy Performance Program)						
Water (\$ thousands)	12,665	13,086	13,738	14,285	16,156	16,982
Sewer (\$ thousands)	10,360	10,706	11,241	11,688	13,218	13,894
Blue Plains Rate of Increase	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
All Other- Annual Increase (Percent)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Water REDO (\$ thousands)	6,000	6,000	5,750	5,750	5,500	5,500
Sewer REDO (\$ thousands)	6,000	6,000	5,750	5,750	5,500	5,500
Annual Work Years Additional(Reduction)	38	0	0	0	0	0
Estimated Annual Average Water Production (MGD)	169	169.5	170	170.5	171	171.5
Customer Accounts	442,407	447,407	452,407	457,407	462,407	468,407

Assumption changes in this year's analysis caused a significant increase in the revenue/expense GAP, which added over 3.5% to the FY 2008 projected rate increase. Rapidly increasing construction costs, energy costs and fuel and chemical prices were some of the main reasons supporting the revised assumptions.

Planned capital expenditures for FY 2008 are in current year dollars. Expenditures for subsequent years are adjusted by inflation factors of 4.0% for FYs 2009 through 2010 and 3.0% for FYs 2011 through 2013 to convert capital expenditures dollars to present-year dollars for each subsequent year. A second adjustment was made to account for the fact that not all development, design, and/or construction activity is actually completed for each CIP project within the year planned. This adjustment is the construction completion factor. The water and sewer completion factors for all WSSC CIP projects and Blue Plains including Enhanced Nitrogen Removal (ENR) projects are 80%, and are based on historic trends. The water and sewer completion factor for both reconstruction programs is set at 100%.

Water and sewer rate revenues are forecasted by analyzing annual historical revenue generated and related factors including historical annual water production and annual billing factors.

Rates of growth for water and sewer operating expenses are applied to the FY 2007 Approved Budget baseline data to generate the expenses for subsequent years. The debt service level in this report is increased because of the debt required to finance an increase in expenditures for Capital Projects.

Cost of borrowing for notes and bonds (FY 2008) is:

Interest rate for long-term debt (bonds)	6.5%
Interest rate for short-term notes	4.5%

#### Financial policies

- Prior to FY 2004 WSSC's policy required maintaining an operating reserve of 5% of water and sewer rate revenues. Starting in FY 2004, WSSC increased the operating reserve target to 10% of water and sewer revenues to ensure adequate funding for stable operation during severe revenue failures or other emergency conditions. The operating

reserve will be gradually increased at the rate of \$1.5 million per year until the fund reaches its target of 10%. Any net revenue in excess of the operating reserve could be used in the following year to fund capital expenditures or for other, one-time expenditures.

- Monies derived from the System Development Charge (SDC) are used as PAYGO to fund capital costs of growth-related projects. In addition, SDC monies are used to offset debt service resulting from rate-supported debt issued during FYs 1995 through 1998 to fund the SDC gap for growth projects.

### ***Setting the Maximum Water and Sewer Rate Increase***

For the first year of the forecast period, FY 2008, the working group could not reach a consensus on the increase in water and sewer rates. If any reductions are made in the rate increase limits, reductions in operating expenses from the Water and Sewer Operating Funds or capital expenditures in the Water and Sewer Bond Funds would have to be made. The following summary describes the relationships between reductions in capital or operating expenditures, and reductions in rates.

<b>Reductions in Rates and Reductions in Operating and Capital Budgets</b>			
<b>Reducing Water/Sewer Rates by</b>	<b><u>Requires Reducing Either</u></b>		
	<b><u>the Operating Budget by</u></b>	<b>or</b>	<b><u>the Capital Budget by</u></b>
1%	\$3.53 million		\$ 46.5 million
2%	\$7.07 million		\$ 93.0 million
3%	\$10.60 million		\$139.5 million

### **FISCAL YEAR 2008 SPENDING AFFORDABILITY RECOMMENDATIONS**

The Bi-County Staff Working Group evaluated numerous scenarios but failed to come to any recommendations on setting WSSC Spending Control Limits for FY 2008.

The table below presents the approved spending affordability control limits for Fiscal Years 1996 through 2007.

## History of Spending Control Limits

(In Millions of Dollars)

	<u>New Debt</u>	<u>Debt Service Expense</u>	<u>Water &amp; Sewer Operating Expenses</u>	<u>Rate Increase</u>
FY 1996	26.5	136.7	358.2	3.0%
FY 1997	80.3	141.2	357.4	3.0%
FY 1998	64.5	141.7	366.3	3.0%
FY 1999	78.8	145.7	368.4	2.0%
FY 2000	44.3	146.0	366.4	1.5%
FY 2001	45.4	140.1	379.9	0.0%
FY 2002	<i>No Limits Approved</i>			
FY 2003	78.6	137.1	385.5	0.0%
FY 2004	121.6	137.1	385.5	0.0%
FY 2005	111.5	145.3	388.8	3.0%
FY 2006	<i>No Limits Approved</i>			
FY 2007	135.3	151.8	423.3	3.0%

### ***Working Group Comments***

The Bi-County Staff Working Group discussed different strategies to constrain rate increases during their four meetings and to minimize large future rate increases. The following are the various issues examined and discussed:

- The Working Group recognized the additional costs being absorbed within these forecasts. They include Sewer System Overflow (SSO) compliance costs, health care costs, increased energy costs, GASB 45 funding, ramping up the Water Reconstruction Program, upgrading Information Technology (IT), and overall inflationary increases especially in building materials (e.g., steel, concrete, etc.).
- WSSC's fund balance at the end of Fiscal Year 2006 was approximately \$55.4 million in the water and sewer-operating funds. Over the next six years, excess fund balance (over and above the operating reserve) is projected to decline to approximately \$2.9 million. This decrease reflects the use of \$9.0 million in fund balance for the SSO Consent Order; \$4.0 million for operating requirements; and \$6.0 million for FY'08 GASB 45 contribution.

- The Working Group discussed the various assumptions used in the forecasts, especially long-term and short-term interest rates, water production estimates, and construction inflation estimates.
- The Working Group had extensive discussions on GASB 45, Accounting for Post-Employment Benefits Other Than Retirement, recognized its effect on both Prince George's and Montgomery Counties, as well as its impact on these forecasts and WSSC's plans for implementation.
- There was extensive discussion of the ramp-up in the Water Main Reconstruction Program as well as discussions about overall infrastructure rehabilitation needs.
- The Working Group reviewed the policy of increasing the operating reserve by \$1.5 million per year until it reaches 10% of water and sewer rate revenues.
- There was also extensive discussion about the new, expanded and additionally regulated programs being proposed as well as new positions.
- The Working Group reviewed a projection of excess balances in the General Bond Debt Service Fund to determine if increases were possible in the Reconstruction Debt Service Offset (REDO).
- There was much discussion on rate increase requirements in all years of the forecast. Fiscal Years 2009 through 2013 forecast substantial rate increases and may not reflect all infrastructure needs. These needs will be defined further during the current fiscal year.

## ***APPENDIX A***

### **SPENDING AFFORDABILITY FORECASTS**

FISCALS YEARS 2008-2013



The Spending Affordability Working Committee examined several scenarios for analysis and insights. The three primary scenarios are described below.

- **Revised Case (Scenario #1):** This case is a scenario requested by the Working Group to limit spending control limits. This scenario minimizes the rate increase in FY 2008 to 4.6%. This scenario assumes the following. Delaying the proposed increases in Water Reconstruction Program by one year. Reducing the proposed GASB 45 funding contribution by \$2.0 million in FY 2008 from \$8.0 million (as assumed in the base case). Increasing the REDO level from \$10.0 million (as assumed in original the base case) to \$12.0 million in FY 2008 through FY 2009; but lowering the level to \$11.5 million in FY'10 through FY'11; and \$11.0 million in FY'12 through FY'13, respectively. Utilizing \$4.0 million of fund balance to fund operations. Adjusting the Capital funding for delays in the construction of the Egg-shaped digesters at Blue Plains. Continuing to allocate \$1.5 million of fund balance for operating reserve in FYs 2008 through 2012 but eliminate it in FY 2013. This scenario also assumes \$15.7 million in unspecified reductions, which WSSC staff emphasizes, is not achievable because of prior year reductions and several new, critically-needed initiatives outlined by the General Manager requiring funding resources in Fiscal Year 2008 and beyond.
- **Revised Case (Scenario #2):** This case is a scenario requested by the Working Group to limit spending control limits. This scenario minimizes the rate increase in FY 2008 to 6.0%. This scenario assumes the following. Delaying the proposed increases in Water Reconstruction Program by one year. Reducing the proposed GASB 45 funding contribution by \$2.0 million in FY 2008 from \$8.0 million (as assumed in the base case). Increasing the REDO level from \$10.0 million (as assumed in original the base case) to \$12.0 million in FY 2008 through FY 2009; but lowering the level to \$11.5 million in FY'10 through FY'11; and \$11.0 million in FY'12 through FY'13, respectively. Utilizing \$4.0 million of fund balance to fund operations. Adjusting Capital funding for delays in the construction of the Egg-shaped digesters at Blue Plains. Continuing to allocate \$1.5 million of fund balance for operating reserve in FYs 2008 through 2012 but eliminate it in FY 2013. This scenario assumes \$10.7 million in unspecified reductions, which WSSC staff emphasizes, is not achievable because of substantial prior year reductions and several new, critically-needed initiatives outlined by the General Manager requiring funding resources in FY 2008 and beyond.
- **Revised Unrestrained Base Case:** This is a revised scenario presented by WSSC. The outcome of this scenario identifies the natural rate increases needed to maintain current operations and provides the required funding resources to meet the critical initiatives outlined by the General Manager without imposing other controls. This revised scenario assumes: Use of an additional \$3.0 million of fund balance toward operating requirements. Increasing the REDO level from \$10.0 million (as assumed in the original base case) to \$12.0 million in FY 2008 through FY 2009; but lowering the level to \$11.5 million in FY'10 through FY'11; and \$11.0 million in FY'12 through FY'13, respectively. Adjusting Capital funding for delays in the construction of the Egg-shaped digesters at Blue Plains. Also, includes use of \$2.0 million of rate revenue and \$6.0 million use of fund balance toward the FY 2008 GASB 45 contribution. Overall, this revised scenario proposes a 9.6% rate increase for FY 2008.

## **Spending Affordability Revised Case (*Scenario #1*)**

**FY'08 – FY'13**

November 21, 2006

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

Spending Affordability - (Rev. Scenario #2: 4.6% (FY'08) Unrest FY'09-13) (w/ adj. BP Fund, REDO, Fund Bal, Water Reconst & GASB \$): FY 2008 thru 2013

Estimated Revenues and Expenditures (\$1,000)

		<u>FY 2007</u> <u>Approved</u>	<u>FY 2008</u> <u>Proposed</u>	<u>FY 2009</u> <u>Estimate</u>	<u>FY 2010</u> <u>Estimate</u>	<u>FY 2011</u> <u>Estimate</u>	<u>FY 2012</u> <u>Estimate</u>	<u>FY 2013</u> <u>Estimate</u>
Revenue								
1	Water & Sewer Rate Revenue	\$341,494	\$353,385	\$370,739	\$401,623	\$439,074	\$464,981	\$499,407
2	All Other Sources	72,224	71,451	68,240	63,238	62,568	62,303	61,041
3	Total Revenue	413,718	424,836	438,979	464,861	501,642	527,284	560,448
Expenses								
4	Maintenance & Operating	231,645	257,520	253,755	268,603	283,947	302,424	317,763
5	Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
6	Debt Service	151,833	159,080	173,636	189,937	198,528	212,850	225,631
7	PAYGO	1,482	-	-	-	-	-	-
8	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
9	Unspecified reductions	-	(15,635)	-	-	-	-	-
10	Total Expenses	\$423,962	\$441,092	\$468,676	\$501,019	\$526,184	\$560,249	\$588,173
11	Revenue Gap (Revenue - Expenses)	(10,244)	(16,256)	(29,697)	(36,158)	(24,542)	(32,965)	(27,725)
Water Production (MGD)								
		168.5	169.0	169.5	170.0	170.5	171.0	171.5
12	Debt Service Ratio (debt service / budget)	35.8%	36.1%	37.0%	37.9%	37.7%	38.0%	38.4%

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
13	Rate Increase	3.0%	4.6%	8.0%	9.0%	5.6%	7.1%	5.6%
14	Operating Budget	\$423,962	\$441,092	\$468,676	\$501,019	\$526,184	\$560,249	\$588,173
15	Debt Service Expense	151,833	159,080	173,636	189,937	198,528	212,850	225,631
16	New Debt	135,250	143,030	178,240	208,180	226,300	212,120	209,820

## NOTE:

Impact of Rate Increase on Average Residential Monthly Bill

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
	<b>\$1.28</b>	<b>\$1.99</b>	<b>\$3.62</b>	<b>\$4.39</b>	<b>\$2.97</b>	<b>\$3.98</b>	<b>\$3.34</b>

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

Spending Affordability - (Rev. Scenario #2: 4.6% (FY'08) Unrest FY'09-13) (w/ adj. BP Fund, REDO, Fund Bal, Water Reconst & GASB \$): FY 2008 thru 2013

Estimated Revenues and Expenditures (\$1,000)

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
		<u>Approved</u>	<u>Proposed</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
<b>Revenue</b>								
1	Water / Sewer Use Charges	\$341,494	\$353,385	\$370,739	\$401,623	\$439,074	\$464,981	\$499,407
2	Interest Income	3,500	5,500	5,500	5,500	5,500	5,500	5,500
3	Account Maintenance Fee (Service Charge)	22,400	22,650	22,850	23,050	23,250	23,450	23,650
4	Miscellaneous	23,103	18,000	18,140	18,280	18,420	18,560	18,700
5	Total Revenue	390,497	399,535	417,229	448,453	486,244	512,491	547,257
6	SDC Debt Service Offset	2,809	2,711	2,612	2,498	2,398	2,293	2,191
7	Reconstruction Debt Service Offset	10,000	12,000	12,000	11,500	11,500	11,000	11,000
8	Use of Prior Year Net Revenue	10,412	10,590	7,138	2,410	1,500	1,500	0
9	Less Rate Stabilization	-	-	-	-	-	-	-
10	Adjustments to Total Revenue	23,221	25,301	21,750	16,408	15,398	14,793	13,191
11	Funds Available	413,718	424,836	438,979	464,861	501,642	527,284	560,448
<b>Expenditures</b>								
12	Salaries and Wages	82,050	86,154	92,735	97,372	102,241	107,354	112,723
13	Salaries and Wages based on Workyear Adjustment		2,164	-	-	-	-	-
14	Heat, Light and Power	20,251	23,023	23,792	24,979	25,973	29,374	30,876
15	All Other	129,344	146,179	153,488	163,162	173,321	183,987	193,186
16	All Other based on New & Expanded Programs		-	-	-	-	-	-
17	Reconstruction	-	-	-	-	-	-	-
18	Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
19	Unspecified reductions	-	(15,635)	-	-	-	-	-
20	Unspecified reduction of future year's expenditure base		-	(16,260)	(16,911)	(17,587)	(18,291)	(19,022)
21	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
22	Total Operating Expenses	270,647	282,012	295,040	311,082	327,656	347,399	362,542
23	Debt Service	151,833	159,080	173,636	189,937	198,528	212,850	225,631
24	Debt Reduction (PAYGO)	1,482	-	-	-	-	-	-
25	Total Financial Expenses	153,315	159,080	173,636	189,937	198,528	212,850	225,631
26	Total Expenditures	423,962	441,092	468,676	501,019	526,184	560,249	588,173
27	Revenue - Expenditure Gap before rate increase	(10,244)	(16,256)	(29,697)	(36,158)	(24,542)	(32,965)	(27,725)
28	Rate Increase	3.0%	4.6%	8.0%	9.0%	5.6%	7.1%	5.6%

## **Spending Affordability Revised Case (*Scenario #2*)**

**FY'08 – FY'13**

November 21, 2006

**WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary**  
**Modified Spending Affordability - (Case Scenario #3: 6.0% (FY'08) Unrest FY'09-13) (w/ adj. Water Reconstr. & GASB \$): FY 2008 thru 2013**  
 Estimated Revenues and Expenditures (\$1,000)

		<u>FY 2007</u> <u>Approved</u>	<u>FY 2008</u> <u>Proposed</u>	<u>FY 2009</u> <u>Estimate</u>	<u>FY 2010</u> <u>Estimate</u>	<u>FY 2011</u> <u>Estimate</u>	<u>FY 2012</u> <u>Estimate</u>	<u>FY 2013</u> <u>Estimate</u>
<b>Revenue</b>								
1	Water & Sewer Rate Revenue	\$341,494	\$353,385	\$375,701	\$406,782	\$444,440	\$470,562	\$505,212
2	All Other Sources	72,224	71,451	68,240	63,238	62,568	62,303	61,041
3	<b>Total Revenue</b>	<b>413,718</b>	<b>424,836</b>	<b>443,941</b>	<b>470,020</b>	<b>507,008</b>	<b>532,865</b>	<b>566,253</b>
<b>Expenses</b>								
4	Maintenance & Operating	231,645	257,520	258,899	273,953	289,512	308,212	323,782
5	Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
6	Debt Service	151,833	159,080	173,636	189,937	198,528	212,850	225,631
7	PAYGO	1,482	-	-	-	-	-	-
8	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
9	Unspecified reductions	-	(10,688)	-	-	-	-	-
10	<b>Total Expenses</b>	<b>\$423,962</b>	<b>\$446,039</b>	<b>\$473,821</b>	<b>\$506,370</b>	<b>\$531,749</b>	<b>\$566,037</b>	<b>\$594,192</b>
11	<b>Revenue Gap (Revenue - Expenses)</b>	<b>(10,244)</b>	<b>(21,203)</b>	<b>(29,880)</b>	<b>(36,350)</b>	<b>(24,741)</b>	<b>(33,172)</b>	<b>(27,939)</b>
<b>Water Production (MGD)</b>								
		168.5	169.0	169.5	170.0	170.5	171.0	171.5
12	<b>Debt Service Ratio (debt service / budget)</b>	<b>35.8%</b>	<b>35.7%</b>	<b>36.6%</b>	<b>37.5%</b>	<b>37.3%</b>	<b>37.6%</b>	<b>38.0%</b>

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
13	Rate Increase	3.0%	6.0%	8.0%	8.9%	5.6%	7.0%	5.5%
14	Operating Budget	\$423,962	\$446,039	\$473,821	\$506,370	\$531,749	\$566,037	\$594,192
15	Debt Service Expense	151,833	159,080	173,636	189,937	198,528	212,850	225,631
16	New Debt	135,250	143,030	178,240	208,180	226,300	212,120	209,820

**NOTE:**

**Impact of Rate Increase on Average Residential Monthly Bill**

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
	<b>\$1.28</b>	<b>\$2.59</b>	<b>\$3.64</b>	<b>\$4.41</b>	<b>\$2.99</b>	<b>\$4.00</b>	<b>\$3.36</b>

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

Modified Spending Affordability - (Case Scenario #3: 6.0% (FY'08) Unrest FY'09-13) (w/ adj. Water Reconstr. & GASB \$): FY 2008 thru 201:

Estimated Revenues and Expenditures (\$1,000)

	FY 2007 <u>Approved</u>	FY 2008 <u>Proposed</u>	FY 2009 <u>Estimate</u>	FY 2010 <u>Estimate</u>	FY 2011 <u>Estimate</u>	FY 2012 <u>Estimate</u>	FY 2013 <u>Estimate</u>
<b>Revenue</b>							
1 Water / Sewer Use Charges	\$341,494	\$353,385	\$375,701	\$406,782	\$444,440	\$470,562	\$505,212
2 Interest Income	3,500	5,500	5,500	5,500	5,500	5,500	5,500
3 Account Maintenance Fee (Service Charge)	22,400	22,650	22,850	23,050	23,250	23,450	23,650
4 Miscellaneous	23,103	18,000	18,140	18,280	18,420	18,560	18,700
5 Total Revenue	390,497	399,535	422,191	453,612	491,610	518,072	553,062
6 SDC Debt Service Offset	2,809	2,711	2,612	2,498	2,398	2,293	2,191
7 Reconstruction Debt Service Offset	10,000	12,000	12,000	11,500	11,500	11,000	11,000
8 Use of Prior Year Net Revenue	10,412	10,590	7,138	2,410	1,500	1,500	0
9 Less Rate Stabilization	-	-	-	-	-	-	-
10 Adjustments to Total Revenue	23,221	25,301	21,750	16,408	15,398	14,793	13,191
11 Funds Available	413,718	424,836	443,941	470,020	507,008	532,865	566,253
<b>Expenditures</b>							
12 Salaries and Wages	82,050	86,154	92,735	97,372	102,241	107,354	112,723
13 Salaries and Wages based on Workyear Adjustment		2,164	-	-	-	-	-
14 Heat, Light and Power	20,251	23,023	23,792	24,979	25,973	29,374	30,876
15 All Other	129,344	146,179	153,488	163,162	173,321	183,987	193,186
16 All Other based on New & Expanded Programs		-	-	-	-	-	-
17 Reconstruction	-	-	-	-	-	-	-
18 Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
19 Unspecified reductions	-	(10,688)	-	-	-	-	-
20 Unspecified reduction of future year's expenditure base		-	(11,116)	(11,560)	(12,023)	(12,503)	(13,004)
21 Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
22 Total Operating Expenses	270,647	286,959	300,185	316,433	333,221	353,187	368,561
23 Debt Service	151,833	159,080	173,636	189,937	198,528	212,850	225,631
24 Debt Reduction (PAYGO)	1,482	-	-	-	-	-	-
25 Total Financial Expenses	153,315	159,080	173,636	189,937	198,528	212,850	225,631
26 Total Expenditures	423,962	446,039	473,821	506,370	531,749	566,037	594,192
27 Revenue - Expenditure Gap before rate increase	(10,244)	(21,203)	(29,880)	(36,350)	(24,741)	(33,172)	(27,939)
28 Rate Increase	3.0%	6.0%	8.0%	8.9%	5.6%	7.0%	5.5%

# **Spending Affordability Unrestrained Base Case** *(Revised)*

**FY'08 – FY'13**

November 21, 2006



**WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary**  
**Modified Spending Affordability - (Revised Unrestrained Base Case - Adj. BP Funding, REDO & Fund Balance \$): FY 2008 thru 2013**  
 Estimated Revenues and Expenditures (\$1,000)

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
		<u>Approved</u>	<u>Proposed</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
<b>Revenue</b>								
1	Water & Sewer Rate Revenue	\$341,494	\$353,385	\$388,525	\$421,754	\$458,168	\$484,861	\$520,113
2	All Other Sources	72,224	73,451	66,240	63,238	62,568	62,303	61,041
3	<b>Total Revenue</b>	<b>413,718</b>	<b>426,836</b>	<b>454,765</b>	<b>484,992</b>	<b>520,736</b>	<b>547,164</b>	<b>581,154</b>
<b>Expenses</b>								
4	Maintenance & Operating	231,645	259,520	268,115	283,518	299,440	318,516	334,478
5	Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
6	Debt Service	151,833	161,178	177,349	194,059	202,857	217,403	230,568
7	PAYGO	1,482	-	-	-	-	-	-
8	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
9	Unspecified reductions	-	-	-	-	-	-	-
10	<b>Total Expenses</b>	<b>\$423,962</b>	<b>\$460,825</b>	<b>\$486,750</b>	<b>\$520,057</b>	<b>\$546,006</b>	<b>\$580,894</b>	<b>\$609,825</b>
11	<b>Revenue Gap (Revenue - Expenses)</b>	<b>(10,244)</b>	<b>(33,989)</b>	<b>(31,985)</b>	<b>(35,065)</b>	<b>(25,270)</b>	<b>(33,730)</b>	<b>(28,671)</b>
<b>Water Production (MGD)</b>								
		168.5	169.0	169.5	170.0	170.5	171.0	171.5
12	<b>Debt Service Ratio (debt service / budget)</b>	<b>35.8%</b>	<b>35.0%</b>	<b>36.4%</b>	<b>37.3%</b>	<b>37.2%</b>	<b>37.4%</b>	<b>37.8%</b>

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
13	Rate Increase	3.0%	9.6%	8.2%	8.3%	5.5%	7.0%	5.5%
14	Operating Budget	\$423,962	\$460,825	\$486,750	\$520,057	\$546,006	\$580,894	\$609,825
15	Debt Service Expense	151,833	161,178	177,349	194,059	202,857	217,403	230,568
16	New Debt	135,250	164,010	190,700	210,790	229,050	215,100	212,860

**NOTE:**

Impact of Rate Increase on Average Residential Monthly Bill

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
	<b>\$1.28</b>	<b>\$4.15</b>	<b>\$3.89</b>	<b>\$4.26</b>	<b>\$3.06</b>	<b>\$4.07</b>	<b>\$3.45</b>

**WSSC's Multi-Year Financial Forecast : Combined Water/Sewer - Operating Funds**  
**Modified Spending Affordability - (Revised Unrestrained Base Case - Adj. BP Funding, REDO & Fund Balance \$): FY 2008 thru 2013**  
 Estimated Revenues and Expenditures (\$1,000)

		<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
		<u>Approved</u>	<u>Proposed</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
<b>Revenue</b>								
1	Water / Sewer Use Charges	\$341,494	\$353,385	\$388,525	\$421,754	\$458,168	\$484,861	\$520,113
2	Interest Income	3,500	5,500	5,500	5,500	5,500	5,500	5,500
3	Account Maintenance Fee (Service Charge)	22,400	22,650	22,850	23,050	23,250	23,450	23,650
4	Miscellaneous	23,103	18,000	18,140	18,280	18,420	18,560	18,700
5	Total Revenue	390,497	399,535	435,015	468,584	505,338	532,371	567,963
6	SDC Debt Service Offset	2,809	2,711	2,612	2,498	2,398	2,293	2,191
7	Reconstruction Debt Service Offset	10,000	12,000	12,000	11,500	11,500	11,000	11,000
8	Use of Prior Year Net Revenue	10,412	12,590	5,138	2,410	1,500	1,500	0
9	Less Rate Stabilization	-	-	-	-	-	-	-
10	Adjustments to Total Revenue	23,221	27,301	19,750	16,408	15,398	14,793	13,191
11	Funds Available	413,718	426,836	454,765	484,992	520,736	547,164	581,154
<b>Expenditures</b>								
12	Salaries and Wages	82,050	86,154	92,735	97,372	102,241	107,354	112,723
13	Salaries and Wages based on Workyear Adjustment		2,164	-	-	-	-	-
14	Heat, Light and Power	20,251	23,023	23,792	24,979	25,973	29,374	30,876
15	All Other	129,344	148,179	151,588	161,167	171,226	181,788	190,879
16	All Other based on New & Expanded Programs		-	-	-	-	-	-
17	Reconstruction	-	-	-	-	-	-	-
18	Regional Sewage Disposal	37,502	38,627	39,786	40,979	42,209	43,475	44,779
19	Unspecified reductions	-	-	-	-	-	-	-
20	Unspecified reduction of future year's expenditure base		-	-	-	-	-	-
21	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	-
22	Total Operating Expenses	270,647	299,647	309,401	325,998	343,149	363,491	379,257
23	Debt Service	151,833	161,178	177,349	194,059	202,857	217,403	230,568
24	Debt Reduction (PAYGO)	1,482	-	-	-	-	-	-
25	Total Financial Expenses	153,315	161,178	177,349	194,059	202,857	217,403	230,568
26	Total Expenditures	423,962	460,825	486,750	520,057	546,006	580,894	609,825
27	Revenue - Expenditure Gap before rate increase	(10,244)	(33,989)	(31,985)	(35,065)	(25,270)	(33,730)	(28,671)
28	Rate Increase	3.0%	9.6%	8.2%	8.3%	5.5%	7.0%	5.5%