



THE PRINCE GEORGE'S COUNTY GOVERNMENT

(301) 952-3700

County Council

MEMORANDUM

October 11th, 2012

TO: Mary C. Lehman, Chair
Transportation, Housing and Environment Committee (THE)

FROM: Hawi Sanu, Director *HS*
Transportation, Housing and Environment Committee (THE)
Howard Stone *H.S.*
Office of Audits and Investigations

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

SUBJECT: WSSC FY 2014 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."

County Administration Building — Upper Marlboro, Maryland 20772

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 2014 Spending Affordability Group met on September 7th and 21st 2012. The base case scenario presented at the first meeting, assuming a same services level as FY 2013 yielded a 9.5% rate increase. This scenario represented a 2.0% rate increase above the FY 2013 adopted budget. The base scenario includes additional and reinstated programs. A base case with same level of service as FY 2013, without the additional and reinstated programs yielded a rate increase of 9.0%.

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, certain minimal 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. The spending affordability process was put in place to review four limits: Rates, Operating Budget, Debt Service Expense and New Debt; however the most reviewed has been the rate increase and the other three limits are then adjusted accordingly.

From FY 1999 through FY 2004, there were no rate increases; in FY 2005 to FY 2007, there were minimal increases. In FY 2008, there was a 6.5% rate increase, even though, the spending affordability recommended rate was 5.3%. In FY 2009 there was a rate increase of 8% with the use of \$5.6 million of fund balance; in FY 2010, there was a rate increase of 9% and in FY 2011 and FY 2012, there was an 8.5% rate increase. In FY 2013, the recommended rate increase through the spending affordability process was 8.5%, however WSSC submitted a budget with a 7.5% rate increase, 1% below the recommended rate increase.

WSSC FY 2014 SPENDING LIMITS SUMMARY

	<u>WSSC Base Case</u>	<u>Council Staff Recommendation</u>
New Debt:	\$560,417,000	\$506,417,000
Debt Service	\$226,629,000	\$226,629,000
Total Water & Sewer Expenses:	\$670,507,000	\$659,653,000
Projected Rate Increase:	9.50%	7.5%
Average Residential Monthly Impact	<u>\$6.65</u>	<u>\$5.23</u>

*** Unspecified Reductions - \$10.9 Million at 7.5% 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 conservative, WSSC proposed lowering the billing factor to be more reflective of the actual revenues to be earned. Both County Council staff concurred with this approach. All scenarios include the use \$9 million funding for the GASB 45 requirement which is an 8 year phase in, and a proposed contribution of \$11.7 million to the operating reserve in order to meet the 10% target that they were trying to attain. The Commission will be at 9.1% of estimated water and sewer revenues at the end of FY'14, (under the base case assumption). **(Attachment A)** details the Excess Fund Balance Calculations and Analysis.

In reviewing WSSC's projected revenues for FY'14 as compared to FY'13's Approved Budget, there is a reduction of \$8.7 Million, which translates into the equivalent of 1.64% in rate equivalent impact. This reduction can be attributed to the flat water consumption levels and 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 1.5% to the billing factor with additional and reinstated programs yielded a rate increase of 9.5%. This scenario assumes a 30 year debt repayment and wages and salary increase of 5%. A 9.5% rate increase adds approximately \$6.65 to an average monthly consumers' bill.

Scenario 1 = 9.5% rate increase. **(Attachment B)**

A further breakdown of the rate increase component between FY-2013 and FY2014 – based on same services is attached. **(Attachment C)**

Scenario 13 : is exactly as Scenario 1 restrained at an 7.5% rate increase, which yielded \$10.9 Million in unspecified reductions. This scenario adds \$5.23 a monthly to the average consumer's bill. **(Attachment D)**

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

Council Staff Recommendations

- *Council Staff recommends Scenario 13 which is the rate increase of 7.5% with \$10.9 Million in unspecified reductions.*
- *The Commission must consider reducing expenditures by a reviewing of merits and Colas, reduction in force and freezing of vacancies or one time lump bonus payments.*
- *Council Staff urges the Commission to move expeditiously on the Bi County Infrastructure resolution.*

Fund Balance Analysis

Total

FY'12 Year-end Unallocated Fund Balance		<u>\$ 80,487,000</u>
FY'13 Use of Fund Balance Billing Factor Reduction Offset		(7,658,000)
FY'13 Use of Fund Balance Debt Service Increase Offset (Blue Plains, Mid Pike Plaza)		(670,000)
FY'13 Operating Reserve Contribution		<u>(10,200,000)</u>
Unallocated Reserve (end of FY'13)		<u>61,959,000</u>
FY'14 Use of Fund Balance Billing Factor Reduction Offset		(8,108,000)
FY'14 Use of Fund Balance ERP		(2,500,000)
FY'14 Use of Fund Balance PAYGO		(5,000,000)
FY'14 Use of Fund Balance One Time Additional & Reinstated Programs		(673,000)
FY'14 Operating Reserve Contribution		(11,700,000)
FY'15-'17 Use of Fund Balance AMI/Billing System Replacement		(10,000,000)
FY'15-'17 Operating Reserve Requirement		<u>(21,600,000)</u>
Unallocated Reserve		<u>\$ 2,378,000</u>
Working Capital Reserve		
Working Capital Reserve 6/30/12 (6.2% of budgeted revenue)		31,400,000
FY'13 Operating Reserve Contribution		<u>10,200,000</u>
Working Capital Reserve 6/30/13 (7.7% of budgeted revenue)		41,600,000
FY'14 Operating Reserve Contribution		<u>11,700,000</u>
Working Capital Reserve 6/30/14 (9.0% of budgeted revenue)		<u>\$ 53,300,000</u>

ASSUMPTIONS
WSSC's Multi-Year Financial Forecast
 FY 2014 thru 2019 Forecast : Preliminary B - 30 yr Amortization (Base Case)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Proposed	Estimate	Estimate	Estimate	Estimate	Estimate

Yearly Growth Increment (MGD)	-	0.5	0.5	0.5	0.5	0.5
Estimated Annual Average Water Production (MGD)	170.0	170.5	171.0	171.5	172.0	172.5

OPERATING FUNDS

Salaries & Wages Rate of Increase	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
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Heat, Light & Power Annual Expenses
 (includes savings from Energy Performance Program)

Water (\$ thousands)	13,446	13,174	13,457	15,231	15,623	16,507
Sewer (\$ thousands)	11,002	10,778	11,011	12,462	12,783	13,505

Blue Plains (Regional Sewage Disposal) Rate of Increase

All Other - % Annual Increase	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
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GASB 045 Expense

Water REDO (\$ thousands)	9,000	10,000	10,000	10,000	10,000	10,000
Sewer REDO (\$ thousands)	5,300	5,300	5,000	5,000	5,000	5,000
	5,200	5,200	5,000	5,000	5,000	5,000

Work Years / FTE \$\$

Operating Program	-	-	-	-	-	-
Capital Programs	-	-	-	-	-	-

BOND FUNDS

Short-term Construction Note Rate

Long-Term Bond Interest Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Life for Non-SRF Water and Sewer Debt (years)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Life for SRF Water and Sewer Debt (years)	30	30	30	30	30	30
	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%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary
FY 2014 thru 2019 Forecast : SCENARIO 1 - Base Case + Additional & Reinstated - 9.5%
 Estimated Revenues and Expenditures (\$1,000)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1 Revenue							
2 Water & Sewer Rate Revenue	Approved	Proposed	Estimate	Estimate	Estimate	Estimate	Estimate
3 All Other Sources	\$540,561	\$532,453	\$584,956	\$653,944	\$707,611	\$762,551	\$813,920
4 Total Revenue	79,717	87,266	65,827	66,180	66,736	67,560	68,841
5 Expenses							
6 Maintenance & Operating	346,802	365,189	382,261	400,196	421,709	441,623	463,392
7 Regional Sewage Disposal	51,309	53,207	55,176	57,218	59,335	61,530	63,807
8 Debt Service	211,967	226,629	255,390	280,405	303,122	324,702	342,443
9 PAYGO	-	13,782	18,732	26,708	34,804	42,165	48,724
10 Additional Operating Reserve Contribution	10,200	11,700	6,300	7,200	8,100	9,100	10,200
11 Unspecified reductions	-	-	-	-	-	-	-
12 Unspecified reduction of future year's expenditure base	-	-	-	-	-	-	-
13 Total Expenses	620,278	670,507	717,859	771,728	827,070	879,121	928,566
14 Revenue Gap (Revenue - Expenses)	-	(50,788)	(67,076)	(51,603)	(52,723)	(49,010)	(45,805)
15 Water Production (MGD)	170.0	170.0	170.5	171.0	171.5	172.0	172.5
15 Debt Service Ratio (debt service / budget)	34.2%	33.8%	35.6%	36.3%	36.7%	36.9%	36.9%

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
17 Rate Increase	7.5%	9.5%	11.5%	7.9%	7.5%	6.4%	5.6%
18 Operating Budget	\$620,278	\$670,507	\$717,859	\$771,728	\$827,070	\$879,121	\$928,566
19 Debt Service Expense	211,967	226,629	255,390	280,405	303,122	324,702	342,443
20 New Debt	412,672	506,417	543,849	421,517	428,134	387,549	343,206

NOTE:
 Impact of Rate Increase on Average Residential Monthly Bill

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	\$4.86	\$6.65	\$8.75	\$6.71	\$6.83	\$6.33	\$5.90

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary
FY 2014 thru 2019 Forecast : SCENARIO 1 - Base Case + Additional & Reinstated - 9.5%
 Estimated Revenues and Expenditures (\$1,000)

	FY 2013 <u>Approved</u>	FY 2014 <u>Proposed</u>	FY 2015 <u>Estimate</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>	FY 2019 <u>Estimate</u>
1 REVENUE							
2 Water / Sewer Use Charges	\$540,561	\$532,453	\$584,956	\$653,944	\$707,611	\$762,551	\$813,920
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,850	22,900	22,900	22,950	22,950	23,000
4 Interest Income	4,000	3,000	3,000	3,000	3,000	3,000	3,000
5 Plumbing/Inspection Fees	5,823	5,823	5,873	5,873	5,923	5,923	5,973
6 Rockville Sewer Use	2,404	2,444	2,477	2,509	2,536	2,567	2,598
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	12,920	13,240	13,610	13,970	14,020	14,020	14,070
9 Total Revenue	588,558	579,810	632,816	702,196	756,040	811,011	862,561
10 Adjustments to Revenue							
11 Use of Fund Balance	18,528	27,981	6,300	7,200	8,100	9,100	10,200
12 Less Rate Stabilization	2,192	1,428	1,167	728	207	0	0
13 SDC Debt Service Offset	11,000	10,500	10,500	10,000	10,000	10,000	10,000
14 Reconstruction Debt Service Offset	31,720	39,909	17,967	17,928	18,307	19,100	20,200
15 Adjustments to Total Revenue	620,278	619,719	650,783	720,124	774,347	830,111	882,761
16 FUNDS AVAILABLE							
17 EXPENDITURES							
18 Salaries and Wages	100,629	105,661	110,945	116,494	122,319	128,435	134,858
19 Salaries and Wages - Additional & Reinstated Programs	-	1,376	1,446	1,520	1,596	1,676	1,760
20 Heat, Light and Power	24,223	24,448	23,952	24,468	27,693	28,406	30,012
21 Regional Sewage Disposal	51,309	53,207	55,176	57,218	59,335	61,530	63,807
22 All Other	221,950	231,508	243,634	255,316	267,583	280,462	293,986
23 All Other - Additional & Reinstated Programs	-	2,196	2,284	2,398	2,518	2,644	2,776
24 Additional Operating Reserve Contribution	10,200	11,700	6,300	7,200	8,100	9,100	10,200
25 Unspecified reductions	-	-	-	-	-	-	-
26 Unspecified reduction of future years expenditure base	-	-	-	-	-	-	-
27 Total Operating Expenses	408,311	430,096	443,737	464,614	489,144	512,253	537,399
28 Debt Service	211,967	226,629	255,390	280,405	303,122	324,702	342,443
29 Debt Reduction (PAYGO)	-	13,782	18,732	26,708	34,804	42,165	48,724
30 Total Financial Expenses	211,967	240,411	274,122	307,113	337,926	366,867	391,167
31 TOTAL GROSS EXPENSES (Operating & Financial)	620,278	670,507	717,859	771,728	827,070	879,121	928,566
32 NET EXPENSES	620,278	670,507	717,859	771,728	827,070	879,121	928,566
33 Revenue - Expenditure Gap before rate increase	-	(50,788)	(67,076)	(51,603)	(52,723)	(49,010)	(45,805)
34 Rate Increase	7.5%	9.5%	11.5%	7.9%	7.5%	6.4%	5.6%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Capital and Bond Funds Summary
FY 2014 thru 2019 Forecast : SCENARIO 1 - Base Case + Additional & Reinstated - 9.5%
 Estimated Revenues and Expenditures (\$1,000)

	FY 2013 <u>Approved</u>	FY 2014 <u>Proposed</u>	FY 2015 <u>Estimate</u>	FY 2016 <u>Estimate</u>	FY 2017 <u>Estimate</u>	FY 2018 <u>Estimate</u>	FY 2019 <u>Estimate</u>
Capital Expenditures							
1 Water & Sewer CIP Projects							
2 Information Only Projects (@ < 100% completion)	\$ 564,127	\$ 642,274	\$ 537,007	\$ 297,037	\$ 254,576	\$ 184,095	\$ 144,015
3 Additional High Probability Future CIP Projects	22,488	24,989	35,040	46,212	82,107	75,840	55,236
4 SAG Adjustments (unspecified capital spending reductions)	-	-	-	-	-	-	-
5 Subtotal - Capital Expenditures less unspecified SAG capital spending reductions	586,615	667,263	572,047	343,249	336,683	259,935	199,251
6 Subtotal - Capital Expenditures w/ scaling, completion, & inflation index factors	\$ 489,293	\$ 533,811	\$ 471,369	\$ 291,324	\$ 294,323	\$ 234,048	\$ 184,791
7 Information Only Projects (@ 100% completion)							
8 Water Reconstruction	77,427	96,774	115,867	119,342	122,923	126,609	130,408
9 Sewer Reconstruction	136,412	49,902	103,753	102,850	105,933	109,113	112,386
10 EPP & Water Storage Facility Rehab	6,325	5,665	5,049	7,480	7,865	6,155	5,000
Total Capital Funding Required	689,457	686,152	696,038	520,996	531,044	475,925	432,585
Funding							
11 Debt Issues (includes SRF Water and Sewer Debt)	412,672	506,417	543,849	421,517	428,134	387,549	343,206
12 5% Debt Buydown of Short-term Construction Notes	21,720	24,276	27,922	22,185	22,533	20,397	18,053
13 System Development Charges (w/ scaling, completion & inflation index factors)	95,313	72,220	62,513	36,498	19,814	3,045	-
14 PAYGO	-	13,782	18,732	26,708	34,804	42,165	48,724
15 Grants - Federal & State (includes ENR Grants)	61,837	48,369	28,304	7,549	22,548	20,932	17,969
16 Developers and Government Contrib. (w/ scaling, completion & inflation index factors)	17,381	21,086	14,716	6,538	3,209	1,836	4,621
17 Previous Year's Funds Available after Construction	80,535	2	2	2	2	1	1
Total Funds Available	689,457	686,152	696,038	520,996	531,044	475,925	432,585
19 Funds Available after Construction							

Rate Increase Components

	FY 2013	FY 2014	Dollar Change	Rate	Description
	Approved	Estimate		Impact	
Revenue					
Water & Sewer Revenue	540,561,000	532,453,000	(8,108,000)	1.52%	Decrease in billing factor.
Miscellaneous Revenue	21,147,000	21,507,000	360,000	-0.07%	Based on historical miscellaneous revenue
Interest Income	4,000,000	3,000,000	(1,000,000)	0.19%	
Use of Fund Balance	10,200,000	11,700,000	1,500,000	-0.28%	For operating reserve contribution
Use of Fund Balance	7,658,000	8,108,000	450,000	-0.08%	For billing factor reduction offset
Use of Fund Balance	-	2,500,000	2,500,000	-0.47%	ERP
Reconstruction Debt Service Offset	11,000,000	10,500,000	(500,000)	0.09%	PAYGO
SDC Debt Service Offset	2,192,000	1,428,000	(764,000)	0.14%	
Revenue Subtotal	596,758,000	596,196,000	(562,000)	0.11%	
Debt Service					
Debt Service (Existing Debt)	163,856,000	199,081,000	35,225,000	6.62%	
FY'13 New Debt	47,441,000	47,557,000	116,000	0.02%	Due to capital spending assumptions
Debt Service Subtotal	211,297,000	246,638,000	35,341,000	6.64%	
Expenses					
All Other	221,950,000	231,508,000	9,558,000	1.80%	
Salaries & Wages	100,629,476	105,661,000	5,031,524	0.94%	
Regional Sewage Disposal	51,309,000	53,207,000	1,898,000	0.36%	
Operating Reserve Contribution	10,200,000	11,700,000	1,500,000	0.28%	
PAYGO	-	5,000,000	5,000,000	0.94%	
Heat, Light & Power	24,223,000	24,448,000	225,000	0.04%	Based on projection from WSSC Energy Manager.
Expenses Subtotal	408,311,476	431,524,000	23,212,524	4.36%	
Total				11.10%	

WSSC's Multi-Year Financial Forecast : Combined Water/Sever Operating Funds Summary
FY 2014 thru 2019 Forecast : SCENARIO 13 - Base Case + Additional & Reinstated - 7.5%
 Estimated Revenues and Expenditures (\$1,000)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
1 Revenue							
2 Water & Sewer Rate Revenue	Approved	Proposed	Estimate	Estimate	Estimate	Estimate	Estimate
3 All Other Sources	\$540,561	\$532,453	\$574,071	\$642,515	\$695,610	\$749,950	\$800,689
4 Total Revenue	79,717	87,266	65,827	66,180	66,736	67,560	68,841
5 Expenses	620,278	619,719	639,898	708,695	762,346	817,510	869,530
6 Maintenance & Operating							
7 Regional Sewage Disposal	346,802	365,189	382,261	400,196	421,709	441,623	463,392
8 Debt Service	51,309	53,207	55,176	57,218	59,335	61,530	63,807
9 PAYGO	211,967	226,629	255,390	280,405	303,122	324,702	342,443
10 Additional Operating Reserve Contribution	-	13,782	18,732	26,708	34,804	42,165	48,724
11 Unspecified reductions	10,200	11,700	6,300	7,200	8,100	9,100	10,200
12 Unspecified reduction of future year's expenditure base	-	(10,854)	(11,396)	(11,966)	(12,564)	(13,192)	(13,852)
13 Total Expenses	620,278	659,653	706,463	759,762	814,506	865,929	914,714
14 Revenue Gap (Revenue - Expenses)	-	(39,934)	(66,565)	(51,067)	(52,160)	(48,418)	(45,184)
15 Water Production (MGD)	170.0	170.0	170.5	171.0	171.5	172.0	172.5
16 Debt Service Ratio (debt service / budget)	34.2%	34.4%	36.2%	36.9%	37.2%	37.5%	37.4%

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
17 Rate Increase							
18 Operating Budget	7.5%	7.5%	11.6%	7.9%	7.5%	6.5%	5.6%
19 Debt Service Expense	\$620,278	\$659,653	\$706,463	\$759,762	\$814,506	\$865,929	\$914,714
20 New Debt	211,967	226,629	255,390	280,405	303,122	324,702	342,443
	412,672	506,417	543,849	421,517	428,134	387,549	343,206

NOTE:
 Impact of Rate Increase on Average Residential Monthly Bill

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	\$4.86	\$5.23	\$8.68	\$6.64	\$6.76	\$6.26	\$5.82

WSSCG's Multi-Year Financial Forecast - Combined Water/Sewer Operating Funds Summary
 FY 2014 thru 2019 Forecast : SCENARIO 13 - Base Case + Additional & Reinstated - 7.5%

Estimated Revenues and Expenditures (\$1,000)

	FY 2013 Approved	FY 2014 Proposed	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate
1 REVENUE							
2 Water / Sewer Use Charges	\$540,561	\$532,453	\$574,071	\$642,515	\$695,610	\$749,950	\$800,689
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,850	22,900	22,900	22,950	22,950	23,000
4 Interest Income	4,000	3,000	3,000	3,000	3,000	3,000	3,000
5 Plumbing/Inspection Fees	5,823	5,823	5,873	5,873	5,923	5,923	5,973
6 Rockville Sewer Use	2,404	2,444	2,477	2,509	2,536	2,567	2,598
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	-	-	-	-	-	-	-
9 Total Revenue	12,920	13,240	13,610	13,970	14,020	14,020	14,070
10 Adjustments to Revenue	588,558	579,810	621,931	690,767	744,039	798,410	849,330
11 Use of Fund Balance	18,528	27,981	6,300	7,200	8,100	9,100	10,200
12 Less Rate Stabilization	2,192	1,428	1,167	728	207	0	0
13 SDC Debt Service Offset	11,000	10,500	10,500	10,000	10,000	10,000	10,000
14 Reconstruction Debt Service Offset	31,720	39,909	17,967	17,928	18,307	19,100	20,200
15 Adjustments to Total Revenue	620,278	619,719	639,898	708,695	762,346	817,510	869,530
16 FUNDS AVAILABLE							
17 EXPENDITURES							
18 Salaries and Wages	100,629	105,661	110,945	116,494	122,319	128,435	134,858
19 Salaries and Wages - Additional & Reinstated Programs	-	1,376	1,446	1,520	1,596	1,676	1,760
20 Heat, Light and Power	24,223	24,448	23,952	24,468	27,693	28,406	30,012
21 Regional Sewage Disposal	51,309	53,207	55,176	57,218	59,335	61,530	63,807
22 All Other	221,950	231,508	243,634	255,316	267,583	280,462	293,986
23 All Other - Additional & Reinstated Programs	-	2,196	2,284	2,398	2,518	2,644	2,776
24 Additional Operating Reserve Contribution	10,200	11,700	6,300	7,200	8,100	9,100	10,200
25 Unspecified reductions	-	-	-	-	-	-	-
26 Unspecified reduction of future year's expenditure base	-	(10,854)	-	-	-	-	-
27 Total Operating Expenses	408,311	419,242	432,341	452,648	476,580	499,061	523,547
28 Debt Service	211,967	226,629	255,390	280,405	303,122	324,702	342,443
29 Debt Reduction (PAYGO)	-	13,782	18,732	26,708	34,804	42,165	48,724
30 Total Financial Expenses	211,967	240,411	274,122	307,113	337,926	366,867	391,167
31 TOTAL GROSS EXPENSES (Operating & Financial)	620,278	659,653	706,463	759,762	814,506	865,929	914,714
32 NET EXPENSES	620,278	659,653	706,463	759,762	814,506	865,929	914,714
33 Revenue - Expenditure Gap before rate increase	-	(39,934)	(66,565)	(51,067)	(52,160)	(48,418)	(45,184)
34 Rate Increase	7.5%	7.5%	11.6%	7.9%	7.5%	6.5%	5.6%

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary
 FY 2014 thru 2019 Forecast : SCENARIO 13 - Base Case + Additional & Reinstated - 7.5%
 Estimated Revenues and Expenditures (\$'1,000)

	FY 2013 Approved	FY 2014 Proposed	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate	FY 2018 Estimate	FY 2019 Estimate
1 Revenue							
2 Water & Sewer Rate Revenue	\$540,561	\$532,453	\$574,071	\$642,515	\$695,610	\$749,950	\$800,689
3 All Other Sources	79,717	87,266	65,827	66,180	66,736	67,560	68,841
4 Total Revenue	620,278	619,719	639,898	708,695	762,346	817,510	869,530
5 Expenses							
6 Maintenance & Operating	346,802	365,189	382,261	400,196	421,709	441,623	463,392
7 Regional Sewage Disposal	51,309	53,207	55,176	57,218	59,335	61,530	63,807
8 Debt Service	211,967	226,629	255,390	280,405	303,122	324,702	342,443
9 PAYGO	-	13,782	18,732	26,708	34,804	42,185	48,724
10 Additional Operating Reserve Contribution	10,200	11,700	6,300	7,200	8,100	9,100	10,200
11 Unspecified reductions	-	(10,854)	-	-	-	-	-
12 Unspecified reduction of future year's expenditure base	-	-	(11,396)	(11,966)	(12,564)	(13,192)	(13,852)
13 Total Expenses	620,278	659,653	706,463	759,762	814,506	865,929	914,714
14 Revenue Gap (Revenue - Expenses)	-	(39,934)	(66,565)	(51,067)	(52,160)	(48,418)	(45,184)
15 Water Production (MGD)	170.0	170.0	170.5	171.0	171.5	172.0	172.5
16 Debt Service Ratio (debt service / budget)	34.2%	34.4%	36.2%	36.9%	37.2%	37.5%	37.4%

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
17 Rate Increase	7.5%	7.5%	11.6%	7.9%	7.5%	6.5%	5.6%
18 Operating Budget	\$620,278	\$659,653	\$706,463	\$759,762	\$814,506	\$865,929	\$914,714
19 Debt Service Expense	211,967	226,629	255,390	280,405	303,122	324,702	342,443
20 New Debt	412,672	506,417	543,849	421,517	428,134	387,549	343,206

NOTE:
 Impact of Rate Increase on Average Residential Monthly Bill

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	\$4.86	\$5.23	\$8.68	\$6.64	\$6.76	\$6.26	\$5.82

WSSC's Multi-Year Financial Forecast : Combined Water/Sewer Operating Funds Summary
 FY 2014 thru 2019 Forecast : SCENARIO 13 - Base Case + Additional & Reinstated - 7.5%

Estimated Revenues and Expenditures (\$1,000)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Approved	Proposed	Estimate	Estimate	Estimate	Estimate	Estimate
1 REVENUE							
2 Water / Sewer Use Charges	\$540,561	\$532,453	\$574,071	\$642,515	\$695,610	\$749,950	\$800,689
3 Account Maintenance Fee (Ready to Serve Charge)	22,850	22,850	22,900	22,900	22,950	22,950	23,000
4 Interest Income	4,000	3,000	3,000	3,000	3,000	3,000	3,000
5 Plumbing/Inspection Fees	5,823	5,823	5,873	5,873	5,923	5,923	5,973
6 Rockville Sewer Use	2,404	2,444	2,477	2,509	2,536	2,567	2,598
7 Products & Technology	-	-	-	-	-	-	-
8 Miscellaneous	12,920	13,240	13,610	13,970	14,020	14,020	14,070
9 Total Revenue	588,558	579,810	621,931	690,767	744,039	798,410	849,330
10 Adjustments to Revenue							
11 Use of Fund Balance	18,528	27,981	6,300	7,200	8,100	9,100	10,200
12 Less Rate Stabilization	2,192	1,428	1,167	728	207	0	0
13 SDC Debt Service Offset	11,000	10,500	10,500	10,000	10,000	10,000	10,000
14 Reconstruction Debt Service Offset	31,720	39,909	17,967	17,928	18,307	19,100	20,200
15 Adjustments to Total Revenue	620,278	619,719	639,898	708,695	762,346	817,510	869,530
16 FUNDS AVAILABLE							
17 EXPENDITURES							
18 Salaries and Wages	100,629	105,661	110,945	116,494	122,319	128,435	134,858
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30 Total Financial Expenses	211,967	240,411	274,122	307,113	337,926	366,867	391,167
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34 Rate Increase	7.5%	7.5%	11.6%	7.9%	7.5%	6.5%	5.6%

WSSC
FY 2014 ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

Program: PLANT OPERATIONS

Brighton Dam

Request: 2 Equipment Operators

Cost including benefits: \$109,200, Water/Sewer Impact: \$109,200

Justification:

WSSC staffing levels were reduced significantly between 1996 and 2006. The current staffing pattern does not provide any depth to cover for absences, training or to adequately address the needs of the watershed. The workyears that were eliminated from the watershed unit decreased the work force to a level that is unsafe. In December 2011, a Patuxent Watershed employee drowned while working alone in a boat. This incident exposed the vulnerability of employees who work on the water or in secluded areas alone.

The additional workyears will provide more flexibility to manage the watershed assets and provide adequate worker safety. It will also allow for more opportunities to take care of the trails, access roads, recreational areas, prevent stream erosion and remove sediment from the incoming tributaries.

Systems Control

Request: 1 Facility Technician

Cost including benefits: \$81,600, Water/Sewer Impact: \$81,600

Justification:

The number of water distribution operating pressure zones has increased. This is a result of better directing of customer complaints, supervisory control and data acquisition (SCADA) analysis and maintenance management information systems (MMIS) data analysis. The improved water system hydraulic model highlights issues with open division valves and closed systems valves. These valve issues make an extensive demand on Systems Control resources and adversely impact the distribution systems control maintenance program.

An additional Facility Technician position would provide more timely responses to customer complaints, more timely reduction to pressure problems, decrease the number of water main breaks, improve water quality and decrease energy consumption.

Program: MAINTENANCE

Request: 1 Maintenance Unit Coordinator

Cost including benefits: \$104,100, Water/Sewer Impact: \$104,000

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 reinstated. The Transmission Main Inspection/Large Valve Exercising and Water Main Break Best Management Practices, including an expanded Leak Detection Program obtained additional staff in FY'12. FY14 requests again include additional staff for the Leak Detection Program. The potential addition of more Utility Technicians will compound the Unit Coordinator overload.

Note that four (4) Unit Coordinator positions were requested for FY12. Our recommendation was to stage in the positions over 4 years. One (1) was approved in FY12 and one (1) was approved for FY13. If approved, this would be the 3rd position.

Program: GEOGRAPHIC INFORMATION SYSTEMS (GIS)

Request: 2 GIS Technicians, 1 GIS Specialist

Cost including benefits: \$224,900, Water/Sewer Impact: \$224,900

Justification:

The role of GIS and the WSSC GIS Unit is rapidly evolving and expanding. The Unit's primary role has been to update GIS data in order to depict an accurate graphical representation of our distribution and collection system and to maintain synchronicity with other databases such as FileNet and MMIS. Three additional workyears are requested to support the expansion in use of GIS throughout the Commission and to support the Engineering Records function, the Asset Management Plan (AMP) and the developing water hydraulic model.

This is the third year for this request. This item was cut prior to Spending Affordability in FY12 and FY13.

Program: ENGINEERING RECORDS

Technical Services

Request: 1 Records Specialist

Cost including benefits: \$80,000, Water/Sewer Impact: \$40,000

Justification:

The as-built engineering records process is being re-engineered based partly on Project 18 from the Asset Management Program (AMP). This includes new processes and a new platform to store electronic and hard copy records. The function is currently staffed with only a Support Aide. A second position is needed to manage the Engineering Records function as the transition to a new and improved GIS based process for all pipelines and facilities records drawings is completed.

Industrial Assets

Request: 1 Engineering Assistant IV

Cost including benefits: \$70,700, Water/Sewer Impact: \$70,700

Justification:

AMP Project 18 recommendations do not include the responsibility for capturing field modifications and changes made to drawings outside of the engineering projects or contracts. Facility drawings must be kept current to support operations and maintenance needs. An additional workyear is requested to capture the field modifications to all WSSC facilities.

Program: LEAK DETECTION

Request: 2 Utility Technicians

Cost including benefits: \$121,940, Water/Sewer Impact: \$121,940

Justification:

WSSC's current Leak Detection Program consists of two 2-person leak detection crews and coverage is limited. They each survey approximately 100 miles a year. The entire water system has over 5,500 miles of pipe. It would take 27 ½ years to survey the entire system at this rate. WSSC is in the process of preparing a Water Conservation Plan as a condition of the Maryland Water Appropriations Permit. The Plan includes several steps, one of which is to identify and select potential water conservation measures. Maryland Department of Environment (MDE) recommends employing a leak detection program to reduce water loss.

The AMP also recommends having a leak detection program. It would provide valuable information to the Commission that would likely assist in prioritizing major capital work such as pipeline replacement projects.

For FY12, six workyears (as Utility Technicians) were requested to ramp up the leak detection program. This would result in placing a 2-person leak detection crew in each of the remaining depots. Keeping with the goal of 100 miles surveyed per 2 person crew per year, the addition of one crew per zone would reduce the water main distribution

survey cycle to an estimated 14 years. We recommended staging this expansion over 3 years, thereby adding 2 workyears per year. Two (2) workyears were added in FY12 and none were added in FY13. We recommend adding 2 workyears for FY14.

Program: CONSENT DECREE – ENHANCED PREVENTIVE MAINTENANCE

Request: 6 Collection Technicians, 2 Jet Trucks, 1 CCTV Truck
Cost including benefits: \$1,491,400, Water/Sewer Impact: \$569,320
Justification:

Based on Consent Decree inspection results, increased preventative maintenance is required for future years. It is also likely that the Asset Management Program will require additional preventative maintenance efforts. Due to existing resources needed for Sanitary Sewer Overflows (SSOs) emergency response and increased Consent Decree and Asset Management preventative maintenance efforts, current resources will not be able to maintain or improve level of service. Existing crews only complete an average of 60% of existing preventative maintenance work orders per month. This is due to the increased rate of new preventative maintenance work orders being added to the existing backlog as well as limited staffing and resources, and fleet downtime.

Additional workyears and resources would significantly reduce the preventative maintenance backlog. They would also enable us to continue to respond to SSOs quickly, help address additional preventative maintenance identified by Sewer Basin Repair, Replacement, and Rehabilitation (SR3) Plans, and possibly help address additional preventative maintenance identified by the AMP. Increased maintenance will help to continue a low recurrence rate (1%) of SSOs, complete routine maintenance in a timely manner, and improve SSO emergency response.

Twelve (12) Collections Technicians were requested for this program along with additional specialty trucks. The number of workyears and vehicles was reduced for affordability.

Program: ASSET MANAGEMENT

Request: 1 Principal Meter Specialist
Cost including benefits: \$104,130, Water/Sewer Impact: \$104,130
Justification:

The original vision of the “Center of Excellence” in Technical Services was to establish centralized engineering and technical expertise to support our planning, operational, maintenance and asset management needs. A very important discipline that was left out was a meter specialist. This position will be directly supported by other technical staff to integrate updated design guidelines and specifications and new and emerging technologies as well as support meter asset management.

Program: PCCP Management Program

Request: \$500,000 for Inspections, \$150,000 for repairs
Cost: \$650,000, Water/Sewer Impact: \$500,000
Justification:

The PCCP Program expanded in FY'13 to begin routine robotic inspections and install acoustic fiber optic (AFO) monitoring on 36 and 42-inch PCCP mains as well as continued inspection of mains 48-inch and larger based on the 5 year PCCP Plan. In order to get the 36 and 42-inch mains on an acceptable inspection interval as well as maintain the inspections on 48-inch and larger, the program goal is to achieve an average of 18 miles per year combined for manned and robotic inspections. The PCCP program began a ramp up from 12 miles towards 18 miles+ beginning in FY'12. Also, each year the AFO monitoring mileage increases as the systems are installed which is an added cost.

This expansion will allow for the full execution of the plan for the PCCP Management Program. The PCCP Management Program supports PCCP inspections and condition assessment to inspect, repair and provide permanent monitoring of large diameter PCCP water transmission mains. The condition assessment performed as

part of the program provides invaluable information to determine if major capital improvements projects are needed for these major water assets.

Program: ENVIRONMENTAL STEWARDSHIP

Request: Patuxent Watershed Study

Cost: \$120,000, Water/Sewer Impact: \$120,000

Justification:

The Patuxent reservoirs provide source water for the Patuxent Water Treatment Plant (WTP). The reservoirs are determined by the Maryland Department of Environment (MDE) and Environmental Protection Agency (EPA) to be impaired for their use as a water supply source. To remedy this situation, MDE-EPA has established a Total Maximum Daily Loads (TMDL) which requires significant reduction in phosphorus and sediment loading of the reservoirs. WSSC needs to work with and support its partners to develop a plan for how the required load reduction can be met.

Program: CORROSION MANAGEMENT

Request: \$500,000 increase in BOA, \$200,000 for repairs

Cost: \$700,000, Water/Sewer Impact: \$450,000

Justification:

Under the Corrosion Management Program, corrosion/cathodic protection with test stations are typically installed on major metal water transmission mains, and are read periodically to determine the effectiveness of existing corrosion protection systems. If an existing system is found to need repairs, the repairs could be minor or require a more significant engineering corrosion design. The readings have shown that there is a need to perform numerous corrosion designs and anode replacements to make repairs or upgrade the existing corrosion protection systems.

Program: PROCESS CONTROL

Request: Process Control equipment and hardware and software support

Cost: \$150,000, Water/Sewer Impact: \$150,000

Justification:

WSSC's Process Control System utilizes technology to operate portions of its water and wastewater facilities. The Process Control Group relies on vendor support to maintain and enhance the process control equipment and systems located at WSSC's Production facilities. Over time, the need for more industrial automation equipment has increased as more and more CIP facilities are built and commissioned. However, the funding for the vendor support and the maintenance of the equipment has not increased.

This request is for funding to pay for vendor support and for additional equipment maintenance and replacement. Over the past six years the cost of vendor support has increase substantially due to additional licenses. Also contributing \$59,000 to the cost increase is inflation. Maintenance costs will be increasing due to the recent surge in facility CIP projects at our Water and Wastewater Plants.

Program: PERMITTING

Request: Staff Augmentation

Cost: \$200,000, Water/Sewer Impact: \$200,000

Justification:

The timing of planning and design submittals from private developers cannot be controlled. Yet, the demands for fast turn-around times are constant and can substantially affect the private developer decisions on what locality to invest. One primary method of managing the peaks and valleys in workloads is by using outside contracted services

to fill in the voids as needed. This request is for funds to pay for contract services to perform Development Services functions during workload peaks and other as needed outside services to assure consistent customer service levels. This is the second year of this request.

Program: ELECTRONIC PERMITTING SYSTEM

Request: Staff Augmentation

Cost: \$100,000, Water/Sewer Impact: \$100,000

Justification:

Funding of this request would provide staff augmentation and consulting services for e-Permitting development/implementation and development of new Internal Business Processes and Regulations. As a result of the development and implementation of the new e-Permitting system, many of WSSC's internal business processes and regulations will need to be re written. This funding is necessary to assure customer service levels are maintained and cycle times do not increase causing complaints and project delays for Applicants.

Program: CUSTOMER RELATIONS

Request: Call-Back System

Cost: \$150,000, Water/Sewer Impact: \$150,000

Justification:

WSSC wait times are long and customers have no choice but to wait if they wish to speak to an agent. A "Call-Back" System would give customers the option to avoid long wait times by having the Interactive Voice Response call the customer when their place in queue is reached.

Program: FACILITIES SUPPORT

Request: Basic Ordering Agreement (BOA) for Facilities Architect & Engineering (A/E) Services

Cost: \$200,000, Water/Sewer Impact: \$161,000

Justification:

New regulations (NFPA 70E – Standard for Electrical Safety in the Workplace) requiring engineering analysis after certain repairs that impact arch flash rated equipment currently exceed WSSC internal engineering capacities. Information Technology infrastructure growth has resulted in serious concerns about the facilities' ability to support new equipment requirements safely.

This request is for and A/E BOA to provide general consultant and equipment analysis support as well as specialized structural engineering consultant service that can record and deliver service with documented analysis using industry standards like Autodesk Revit software.

These services would be used to: determine RGII's structure ability to support the loads of heavier/hotter equipment needed by IT and records storage; assist with elevator replacement specification development and construction management; evaluate condition and develop correct specifications for specialized construction material and equipment.

Program: WSSC CODE OF REGULATIONS

Request: Consultant Publisher

Cost: \$100,000, Water/Sewer Impact: \$80,800

Justification:

WSSC has culled its current Regulations and Standard Procedures for the FileNet database but these Regulations and/or Standard Procedures will all need to be reformatted to meet codification and consistency standards. This may require significant changes to the existing language and will need to be coordinated with owners of the various

regulations or standard procedures. WSSC will not know the extent of required changes until the codification process begins but anticipated that it may extend into FY14 or possibly beyond.

This project covers all regulations and standard procedures issued by the Commission. On-line access will also be provided, to both internal and external users.

Program: RATE STUDY

Request: Rate Consultant Services

Cost: \$125,000, Water/Sewer Impact: \$101,100

Justification:

The consultant report to the Bi-County Infrastructure Funding Working Group, which was accepted by the Group, recommended a cost of service and rate development study be conducted in conjunction with the Commission's reconstruction efforts. Commission accepted the Group's report and recommendations on June 20, 2012.

This project will analyze the cost of providing water/sewer services to customers and will develop recommendations as to equitable rate structures to recover the costs. It will also involve analysis of the customer billing systems for data support, accounting data for cost of service information, and budgeting for revenue projection purposes.

Program: CIVIL ENGINEERING SUPPORT

Request: 2 Design Technicians, 1 AutoCAD Technician

Cost including benefits: \$241,930, Water/Sewer Impact: \$0

Justification:

It should be noted that these positions will not impact water and sewer rates as the funding for this work is incorporated as part of the CIP. In addition, these workyears will replace outside consultants as a need for greater in-house design capacity has been identified. The Civil Engineering Support Unit often receives requests to perform designs to support Production, Customer Care and Engineering and Construction but lacks adequate resources to effectively meet the increasing demand. The advantages of an in-house design capability include measurable savings in costs and response time versus consultant prepared designs.

In-House Civil Design will also create a much needed learning center to advise and develop both engineering and project management staff on the fundamentals of water and sewer design, which is a most basic skill in our industry, and is necessary to effectively manage and review water and sewer projects. Ideally, this function could be used to establish a starting point for an engineering intern program.

The increased capacity to perform in-house civil designs will be available to support the varied needs throughout the WSSC such as the expansion of the Systems Enhancement Unit; designs for emergency and miscellaneous pipeline and facility maintenance repairs and designs, design support for the PCCP Inspection Program and both the Water Main Replacement and Sewer Rehabilitation Programs as well other miscellaneous designs as needed.

Program: WATER & SEWER REHABILITATION

Request: 2 Project Managers, 1 Contract Manager

Cost including benefits: \$286,260, Water/Sewer Impact: \$0

Justification:

These positions support water and sewer rehabilitation program and will not impact water and sewer rates as they are part of the CIP. These positions will replace contract positions with permanent employees.