T&E COMMITTEE #1
October 19, 2009

MEMORANDUM

October 15, 2009

TO: Transportation, Infrastructure, Energy, and Environment Committee

FROM: Keith Levchenko, Senior Legislative Analyst

SUBJECT: FY11 Washington Suburban Sanitary Commission Spending Control Limits

The following officials and staff are expected to attend this meeting.

WSSC
Commission Chair Gene Counihan (invited)
Jerry Johnson, General Manager/CEO
Thomas C. Traber, Chief Financial Officer
Sheila S. Cohen, Budget Group Leader

Executive Staff
John Greiner, Office of Management and Budget
David Lake, Department of Environmental Protection

Background

Council Staff has prepared presentation slides (see ©18-27) that summarizes the information in this memorandum.

In April 1994 the Council adopted Resolution No. 12-1558, which established an annual spending affordability process for the WSSC budget. Under this process, the Montgomery and Prince George's County Councils separately consider spending control limits for the upcoming WSSC budget with a goal of reaching agreement on the limits by November 1 each year. There are four spending control limits: Maximum Average Rate Increase, Debt Service, New Debt, and Total Water and Sewer Operating Expenses.

Councilmembers should keep in mind that the spending control limits only provide a ceiling regarding what the Councils direct WSSC to propose in its budget. The limits do not cap what the Councils can approve later during the budget process.

Schedule

As in past years, a bicounty staff working group has reviewed WSSC Staff's budget assumptions and base case scenario and considered alternative scenarios. This information is discussed later in this memorandum. The County Executive is expected to transmit his spending control limit recommendations shortly.

A public hearing on this issue was held on October 6. If the Transportation, Infrastructure, Energy and Environment (T&E) Committee review is completed on October 19, Council action will occur on October 20. The Prince George's County Council review is on a similar schedule.

The goal of the spending control limits process is to reconcile both Councils' actions (if necessary) by November 1 of each year so that WSSC can build the approved limits into its Operating Budget Public Hearing Draft, which is released by January 15 each year. WSSC must transmit an Operating Budget to both counties by March 1 of each year.

Spending Control Limits History

The development of spending control limits in each of the last 15 years has been based on a multi-year planning model, a strategy to stabilize annual rate increases over time, and holding customer fee-supported debt service below 40 percent of the operating budget.

The process has generally worked well. Even in the years where the two Councils have not agreed on limits up front, the spending control limits process itself has provided WSSC with guidance in building its budget proposal and has helped the Councils ultimately come to agreement on the WSSC budget.

Although all 4 limits are reviewed each year, debate typically centers on the average rate increase for the coming year and the rate implications for the outyears. The other limits are then adjusted to take into account the impacts of the rate decision.

Rate Increase History

The chart to the right presents the rate increase limits agreed upon by both Councils (unless otherwise noted) since

WSSC Annual Rate Increase History

	Rate Increase	
Fiscal Year	Approved* Limit	Actual
FY96	3.0%	3.0%
FY97	3.0%	3.0%
FY98	3.0%	2.9%
FY99	2.0%	0.0%
FY00	1.5%	0.0%
FY01	0.0%	0.0%
FY02*	2.0%	0.0%
FY03	0.0%	0.0%
FY04	0.0%	0.0%
FY05	3.0%	3.0%
FY06*	2.5%	2.5%
FY07	3.0%	3.0%
FY08	5.3%	6.5%
FY09*	9.7%	8.0%
FY10*	9.5%	9.0%

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

FY96 and the actual rate increase later approved for each fiscal year.

Although rate increases were assumed in the approved spending control limits for FY99 and FY00, the WSSC budget was approved in those years without rate increases. Until the FY05 rate increase, there had been no rate increase since FY98 (six straight years). During this time, WSSC was engaged in a Competitive Action Plan (CAP) effort which resulted in a reduction in approximately 1/3 of its workforce.

FY05 through FY07 saw rate increases in the range of 2.5% and 3.0%.

For FY08 through FY10, the Councils debated and ultimately approved rate increases at levels not seen since the early 1990s. These increases were needed to keep up with expenditure pressures in areas such as: chemical costs, heat, light, and power, regional sewage disposal, and benefits and compensation and to begin to ramp up WSSC's water and sewer main reconstruction efforts and its large diameter water main inspections, repairs, and monitoring program.

During the FY09 budget process, the issue of creating a dedicated fee to accelerate WSSC's water and sewer main reconstruction program was discussed but no fee was ultimately proposed by WSSC. A bi-County Staff Working Group was established to study the issue. The group met several times and considered a number of options related to the creation of a dedicated fee. However, for FY10 no fee was ultimately pursued by WSSC nor approved by either Council.

General Issues

Economic Indicators

Each year the Council considers the bi-county economic context in order to place the concept of affordability in clearer perspective. The Council's most recent update on the Finance Department's economic indicators was on September 29.

While the national economic recession may technically be over and financial markets have rebounded from their March lows, unemployment remains a serious problem. The national rate, currently 9.8 percent, is the highest in 26 years. The County rate, currently 5.3 percent, is well below the national or the State rate (7.2 percent), but it was just 2.5 percent in November 2007 and, until January 2009, had not reached even 4 percent at any time in at least 20 years. Resident employment in the County declined by 2.3 percent in the past year, while average weekly wages have remained flat.

Other County indicators show that total consumer spending was down 6.5 percent in FY09, the third consecutive down year. Total building construction for the first eight months of 2009 was down 39.8 percent from the same period in 2008. The office vacancy rate for Class A properties rose in this year's second quarter to 12.1 percent, marking a steady increase from the low of 5.7 percent in the second quarter of 2006. Sales of existing homes, which have fallen sharply for the past four years, are expected to rise nearly 10 percent this year, but for the third straight year average prices are expected to decline, this year by 14.2 percent. Foreclosures, which more than doubled from the second quarter of 2007 to the first quarter of 2008, have remained at a high level.

With regard to other pressures on the disposable income of County residents, energy costs remain a key factor. Gasoline prices, despite a recent decline, have risen sharply compared to recent years. Significantly higher costs for heating and electricity will also persist. Rising health insurance costs are another factor for many County residents.

In the context of the spending control limits discussion, it is important to keep in mind current economic conditions and their impact on WSSC ratepayers, especially in the context of potential water and sewer rate increases and the cumulative impact on ratepayers of these increases combined with possible increases in other County taxes and fees.

Multi-Year Context

While the spending control limits process is an annual process, the bi-county Working Group takes a multi-year look at trends. The outyear estimates help staff identify issues that could arise in future years. For instance, rate increases in the first year help improve WSSC's fiscal situation in future years by increasing WSSC's base revenues. Conversely, deferring rate increases to future years, or using one-time revenue to reduce a rate increase in the first year, increases fiscal challenges since the revenue base is lower in future years.

Providing high-quality, cost-effective water and sewer service within a framework of reasonable and stable rates (i.e., avoiding large rate fluctuations) is a major goal of the spending control limits process. Both counties became accustomed to zero percent average rate increases in the early part of this decade, thanks to a reduction in the WSSC workforce of 31% (657 positions) between FY96 and FY05 resulting from the Competitive Action Program (CAP) and WSSC's Retirement Incentive Program (RIP), and additional revenue from the System Development Charge, which the General Assembly expanded in 1998.

While the Councils approved modest rate increases in FY05 through FY07, Council Staff noted at the time that challenges lay ahead to address inflationary and other expenditure pressures for WSSC. The FY08 through FY10 rate increases (6.5%, 8%, and 9% respectively), while higher than in past years, were still several percentage points lower than the base case scenarios developed by WSSC for those years.

FY11 Base Case Summary

For the upcoming budget, WSSC staff prepared a base case scenario (see ©1-3) based on its latest projections of revenue and expenditures. The base case spending control limits are:

WSSC Staff "Base Case Scenario"	
New Debt:	**$273.279 million**
Debt Service:	**$175.803 million**
Total W/S Operating Expenses:	**$553.934 million**
Maximum Average Rate Increase:	**11.0 percent**[1]

This scenario would fund:

- WSSC's recently transmitted FY11-16 Capital Improvements Program
- Current programs within WSSC's Operating Budget
- Some increases in mandated costs (such as WSSC's SSO Consent decree and its regional sewage disposal costs), and
- Additional resources to expand specific mandated and high priority programs.

Building the Base Case Scenario

The first step the Working Group took in reviewing spending control limits and the base case scenario was to review the major revenue and expenditure assumptions for WSSC. Many of these items are the same as in past years. These assumptions involve various inflators assumed in categories such as salaries and wages, construction inflation, Blue Plains operating costs, and others.

While one could certainly debate particular budget assumptions, the Working Group was satisfied that the assumptions used are reasonable based on current information. It should also be noted that marginal changes in the assumptions are not likely to greatly affect the results of the different scenarios. As discussed later, potential expenditure reductions are identified.

These assumptions were used by WSSC staff to develop the "base case scenario" and are presented on ©1 and are discussed in more detail below.

Fund Balance and Rate Stabilization

Each year, WSSC carries over fund balance from the prior year. The FY09 carryover into FY10 is estimated to be $45.5 million. The following chart shows how WSSC is proposing to allocate these dollars.

[1] An 11.0% rate increase would add $6.17 to the average residential monthly bill (about $74 per year).

Estimated FY10 Excess Fund Balance Calculation (in $000s)	
FY09 Carryover	**45,544**
FY09 Reserve Requirement	25,000
Increase Reserve (for FY10)	1,500
FY10 use of fund balance for one-time rate reduction	4,000
FY10 SSO Operating Costs	910
FY10 EAM/ERP Funding	8,616
FY10 Blue Plains Debt Service Increase	1,337
FY10 Use for Additional PCCP Work	1,000
Unallocated Reserve (end of FY09)	**3,181**
Increase Reserve (FY11)	1,500
FY12 EAM/ERP Funding	1,681
Estimated FY09 Excess Fund Balance	-

The first claim on the reserve is for continuing the reserve into FY10 ($25 million plus an additional $1.5 million to increase the reserve to $26.5 million). Several years ago, WSSC recommended allocating excess fund balance to increase the designated reserve over time from 5 percent up to 10% of operating revenues. For FY11, the $26.5 million reserve would be approximately 5.4 percent of total revenues. Given the recent rate increases and likelihood of future rate increases, additional increments will be needed in the future to keep the reserve at 5 percent, much less increase it substantially above that level.

Excess fund balance is also allocated to specific WSSC programs in FY10 (as approved by both Councils last May) including: some SSO operating costs, EAM/ERP, Blue Plains debt service increases, and some additional PCCP work agreed upon by both Councils. Also, both counties agreed last year to use some fund balance to avoid the need to increase rates above 9 percent.

The excess fund balance available for FY11 uses is estimated at $3.2 million. This amount is far less than in past years and is reflective of both WSSC's reduced water production in FY09 causing a reduction in revenues and WSSC having to absorb some cost increases during FY09 in areas such as chemicals, fuel, street repairs, and biosolids. As a result, unlike in past years, the Councils do not have the flexibility of utilizing excess fund balance to achieve much if any rate relief for FY11.

The Working Group agreed that excess fund balance should be targeted toward one-time or non-recurring costs (rather than rate relief). As assumed last year, excess fund balance is currently assumed to partially cover EAM/ERP project costs. Information on the EAM/ERP project is attached on ©4-5.

Revenues

Overall, funds available are expected to be down from FY10 by approximately $16.6 million as shown on the following chart. This revenue drop is equivalent to approximately a 3.8 percent rate increase.[2]

[2] For FY11 each 1% increase in rates raises approximately $4.4 million in revenue.

WSSC Funds Available (FY09 through FY10)

Revenue	FY10	FY11	change	% change
Water and Sewer Rate Revenue	**440,301,000**	**440,307,000**	**6,000**	**0.0%**
Interest Income	**5,500,000**	**4,000,000**	**(1,500,000)**	**-27.3%**
Account Maintenance Fee	**22,850,000**	**22,850,000**	**-**	**0.0%**
Miscellaneous	**19,217,000**	**21,154,000**	**1,937,000**	**10.1%**
Adjustments	**34,201,000**	**17,098,000**	**(17,103,000)**	**-50.0%**
- SDC Debt Service Offset	2,498,000	2,398,000	(100,000)	-4.0%
- Reconstruction Debt Service Offset	11,500,000	11,500,000	-	0.0%
- Use of Fund Balance				
- One-Time Rate Reduction	6,337,000	-	(6,337,000)	-100.0%
- EAM/ERP	11,456,000	1,700,000	(9,756,000)	
- Planned Spending for SSO Compliance	910,000	-	(910,000)	
- Additional Operating Reserve Contribution	1,500,000	1,500,000	-	0.0%
Funds Available	**522,069,000**	**505,409,000**	**(16,660,000)**	**-3.2%**

The decline in revenue is the result of changes in various adjustments; mostly reductions in the assumed use of fund balance for FY11.

WSSC's most important revenue-related assumption is its estimated water production in millions of gallons per day (mgd). WSSC produces approximately 170 million gallons per day (62 billion gallons per year). This production (minus unbilled water), multiplied by a billing factor, determines water and sewer rate revenue. This revenue is approximately 90% of all WSSC revenue. On average, every 1 million gallons per day (mgd) produced provides approximately $2.6 million in annual revenue.

WSSC staff are assuming water production to be the same for FY11 (170 million gallons per day, mgd) as assumed in FY10. In fact, over the past 15 years, WSSC's water production growth has been nearly flat (increasing about 1.4% in total over that time).

In recent years, WSSC's customer base has gradually increased by approximately 5,000 new accounts per year with new development and with water hookups to existing properties, so the "base level" of water production is assumed to inch up as well.

However, water production is extremely sensitive to other factors, such as weather conditions and customer choices. WSSC's graduated rate structure (in which the more water one uses, the more one pays for all water used) provides a major conservation incentive and WSSC's flat water production, even as the number of customers has increased, may be reflective of successful water conservation efforts in the region.

For FY09, average daily water production averaged 162.3 mgd which was 7.2 mgd below original budget assumptions and the lowest water production level since FY97. The revenue impact of this reduced production is discussed later in this memorandum.

Complicating any projection of water production revenue is WSSC's graduated rate structure and the fact that in any given year, the average mix of customers at different rate levels may change. For FY09, the actual billing factor was $6.39 per thousand gallons. The FY09 budget assumed a factor of $6.51 per thousand gallons.

Overall, WSSC's revenue trends (putting aside the use of fund balance) continue to be flat. Combined with the adjustments to revenue, a rate increase of 3.8 percent is needed just to cover the drop in funds available between FY10 and FY11.

With regard to rate revenues, the WSSC customer base is increasing slightly but the billing factor appears to be falling slightly. Absent new revenue sources, future rate revenue is also likely to be modest or flat, given the minor increases in water production expected for the next six years. As a result, inflationary pressures alone result in additional rate increase pressure for FY11 and the foreseeable future.

Expenditure Assumptions

Expenditure assumptions include both debt-related assumptions (interest rates, construction inflation, completion factors) to meet WSSC's Proposed FY11-16 CIP and ongoing operating cost assumptions (Salary and Wage increases, energy, Blue Plains operating charges, "All Other," etc.). These assumptions are noted on ©1 and are similar to assumptions presented during last year's review and are either consistent with historical levels of increase in these areas or are based on locked-in rates (such as energy costs).

In past years, PAYGO has been allocated with excess fund balance and with some rate revenue in order to try to bring down the debt service ratio to budget. However, fiscal pressures and relatively low interest rates have made PAYGO a less appealing option in recent years. No PAYGO is assumed in the spending control limits forecast for FY10 or beyond.

The salary and wages rate of increase assumed for FY11 (2%) is lower than the 5% assumed in the FY10 spending control limits last year. However, the Approved FY10 WSSC budget (consistent with other agency budgets) did not include cost of living adjustments (COLAs) for employees. For FY11, WSSC is assuming no COLAs again. Given the difficult fiscal conditions assumed for FY11 across Montgomery County's agencies and in Prince George's County, a lower assumed rate of increase for salary and wages appears reasonable.

The salary and wages rate of increase assumption does include increments plus flexible worker and performance pay. Benefit costs are included in the "All Other" expense category. During the annual operating budget review, the MFP Committee reviews all of the County agency compensation and benefit assumptions with the intent of treating each agency equitably.

Energy costs are expected not to increase from FY10 to FY11. This is quite a change from last year, when energy costs were projected to increase substantially (approximately 13.6 percent) from FY09. These costs are based on actual energy contracts and expected energy usage. WSSC is experiencing an increase in its energy requirements as a result of the implementation of a UV process at its water filtration plants but these costs are expected to be offset by lower energy costs per KWh.

The Blue Plains regional sewage disposal costs are increasing sharply for FY11 (13%) based on actual billings experienced in recent months. This increase is expected to be a one-time budget correction in FY11 with more typical increases expected in future years.

The multi-year implementation of GASB 45 (on an 8 year phase-in) requires an additional $1.0 million added to the base budget in FY11 (with an additional $1.0 million to be added in FYs13-15).

With the exception of the cost increases noted above, "All-Other" costs are assumed to go up 5.0% per year. This is the same increase as assumed last year. Within this category are health care costs as well as employee benefits and regulatory compliance costs (including SSO compliance).

For comparison purposes, the CPI-U for the DC area was actually down slightly (almost 1%) from July 2008 to July 2009.

Overall, the expenditure assumptions noted above result in a rate increase requirement of about 4.3 percent. Combined with the rate impact of reduced funds available, the rate increase requirement to meet only the requirements noted above is 8.1%.

Finally, WSSC did an initial review of its needs for new and expanded programs. Many of these programs relate to mandates, such as the SSO consent decree, or are needed to expand efforts such as the acceleration of WSSC's water main reconstruction program. The total FY11 operating expense impact of these efforts is estimated at $13.1 million with a rate impact of nearly 3 percent. A summary is attached on ©6.

Combining the rate increase requirements to address the reduction in funds available for FY11, the expenditure inflators for FY11, plus the new and expanded programs, the total rate increase requirement is 11 percent.

FY11 Base Case Scenario Summary

Based on the assumptions described earlier, WSSC staff developed a "base" case scenario that includes the following:

- Fund the FY11-16 WSSC CIP as recently transmitted, including modest increases in the water and sewer main reconstruction programs.
- Fund a "Same Services" Budget including the next phase of funding for GASB 45 as well as the EAM/ERP IT project.
- Include known major cost increases in the budget (such as regional sewage disposal)
- Assume no COLAs for WSSC employees but include increments and performance pay.
- Assume a 5% increase in "all other" costs.

- Include some new and expanded programs totaling $13.1 million (in operating costs) and 29 new positions.[3]

The base case scenario results in a funding gap of approximately $48.5 million which translates to an 11 percent rate increase (a $6.17 increase per month to an average residential bill). Future year increases would also be substantial (12.5% in FY12, 10.4% in FY13, 7.9% in FY14, 6.2% in FY15, and 5.7% in FY16.

Alternative Scenarios
Next Steps

As in past years, the bicounty working group developed a number of scenarios based on varying rate increases in FY11.

The following chart summarizes the revenue/expenditure gaps (Column D) at different assumed rate increases (Column A), and the ratepayer impact (Column D). As shown on the chart, an 11% rate increase (the base case assumption) results in no gap. Any rate increase below 11% will result in a gap that must be addressed either through increased revenues or decreased expenditures.

For reference, each 1% added to the rate provides approximately $4.4 million in revenue to the budget. Alternatively, each 1% reduction in the rate removes $4.4 million in revenues for that year and future years. Each 1% rate increase results in about a 56 cent monthly impact to the average residential customer.

Impacts at Different Rate Increase Levels

A Scenario	B FY09 Rate Increase	C Revenue Generated	D Gap	E Ratepayer Impact*
	0.0%	-	48,524,000	
	1.0%	4,411,270	44,112,730	$0.56
Revenue Shortfall>>>	3.8%	16,762,840	31,761,160	$2.80
	6.0%	26,467,640	22,056,360	$3.93
	7.0%	30,878,910	17,645,090	$4.49
"Same Services">>>	8.1%	35,731,310	12,792,690	$5.05
	9.0%	39,701,450	8,822,550	$5.33
	9.5%	41,907,090	6,616,910	$5.61
Same Services plus Mandates>>>	10.1%	44,553,850	3,970,150	$5.89
Base Case (incl. new and expanded)>>>	11.0%	48,524,000	-	$6.17

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

[3] WSSC is also planning to move the equivalent of 36 new workyears from contracts to "in-house" in the Systems Enhancement Unit. WSSC has noted that this change is cost-neutral while providing WSSC more flexibility to ramp up the water main replacement program and/or address emergency situations.

Column A shows how the different rate levels relate to the revenue and expenditure assumptions discussed earlier. For example, a 3.8 percent rate increase is required to cover the estimated revenue shortfall between FY10 and FY11. The rate increase goes up to 8.1 percent to cover all of the inflators assumed for the budget plus other categories including regional sewage disposal, GASB increases and debt service to meet the FY11-16 CIP. The 10.1 percent rate increase is WSSC's estimate of the rate requirement needed to cover program expansions to meet mandates such as SSO compliance. The 11.0 percent rate increase includes WSSC's initial projections for new and expanded programs beyond mandates which it believes are justified to meet its mission.

Closing the Gap

As noted earlier, any rate increase below 11% will result in a gap that must be addressed either through increased revenues or decreased expenditures. Some options for closing the gap are summarized in the following list:

- Revenues
  - Increase water and sewer rates
  - Expand the Account Maintenance Fee (Ready to Serve Charge)
  - Revise revenue assumptions
    - Increase water production estimates and/or the billing factor
    - Increase miscellaneous revenue estimates
    - Increase Reconstruction Debt Service Offset (REDO)
  - NOTE: in past years, the Councils have utilized additional excess fund balance to reduce the rate requirement. This year the base case already assumes to utilize all estimated available excess fund balance to offset a portion of the EAM/ERP project.
- Expenditures
  - Assume unspecified reductions
  - Reduce new and expanded programs
  - Reduce specific expenditure line-items
  - Revise expenditure assumptions
    - Lower Bond and Construction Note Interest Rates
    - Lower Construction Inflation
    - Lower Salaries and Wages Rate of Increase
    - Lower Heat, Light, and Power Increase
    - Lower Blue Plains Rate of Increase
    - Lower "All Other" Rate of Increase

With the understanding that WSSC's budget process is in its early stages this year, the Bicounty working group asked WSSC for some expenditure information that would help decision makers weigh the potential impacts on the WSSC budget at different rate increase assumptions.

During last year's spending control limits discussion, WSSC estimated that approximately 70 percent of its budget involves costs that would be extremely difficult if not impossible to cut in the short-term. Three items alone, debt service, regional sewage disposal, and heat, light, and power, make up 45 percent of the FY11 base case budget.

Of particular interest was a scenario that was a "same services" plus mandates (i.e. any new and expanded programs not related to mandates were removed. This scenario is attached on ©7-9. As mentioned earlier, the FY11 rate increase under this scenario would be 10.1 percent. The mandated new and expanded programs are shown on ©9 and total approximately $9.0 million in operating costs. The mandates include the SSO Consent Decree (various studies and work) and the MBE program (disparity study). Also noted, is a new "cross connection" inspection program that would be self-supporting through fees. A rate increase below 10.1 percent would presumably require additional cuts within the base case scenario to accommodate the new funding needed in FY11 for these mandates.

WSSC staff developed a list of potential budget reductions from the original base case scenario totaling $21.9 million in operating expense cuts. The cuts are broken out into three general categories (A = important but least critical $860,000, B = the middle category $4.3 million, and C = Critical $16.7 million). The full list is attached on ©10-17.

For illustrative purposes, if all the category A and B cuts were made, a rate increase of about 9.8 percent would still be required.

The Category C cuts include some major priority items such as:

- Eliminate fluoridation of the water supply ($946,200)
- Eliminate orthophosphate addition (used to minimize pinhole leaks) to the water supply ($1,604,250)
- Reductions in the PCCP inspection, repair, and fiber optic monitoring program ($3.25 million)
- SSO Consent Decree Work ($5.06 million)
- Selling Renewable Energy Credits (RECs) (revenue of $474,000)
- Delayed implementation of W&S hydraulic Modeling Tools ($957,000)

Council Staff believes that the majority of cuts in the Category C area would result in unacceptable reductions in service levels in WSSC.

Council Staff Recommendations

Given WSSC's budget profile discussed earlier (i.e. its high level of fixed and/or mandated costs which are expected to increase substantially in FY11 and its flat revenue growth and lack of excess fund balance) plus the need to makeup for reduced funds available this year (3.8 percent rate increase equivalent by itself), Council Staff believes a rate increase in the 9 to 10 percent range is required to avoid unacceptable impacts on WSSC's mission and its ratepayers. Even at the 9 percent level, many of the cuts contemplated (as discussed earlier) are not likely to be acceptable to either county government or to WSSC's ratepayers and would, at best, require WSSC to defer or stretch out important initiatives into future years (thereby putting more rate pressure on FY12 and beyond).

However, it is also important to consider the fiscal context all County agencies are facing this year. County Government and the other agencies will likely need to make substantial cuts in programs for FY11. While it is too early to say what cuts WSSC will need to make, setting a rate ceiling that challenges WSSC to economize and prioritize seems reasonable given the fiscal situation.

Council Staff recommends the Council approve the following limits:

New Debt:	**$273.279 million**
Debt Service:	**$175.803 million**
Total W/S Operating Expenses:	**$550.025 million**
Maximum Average Rate Increase:	**10.1 percent**

This recommendation matches the "same services" plus mandates scenario described earlier. WSSC will still need to find nearly $4.0 million in savings from its base case scenario. The effect on the average residential customer will be $5.66 per month. A full display of this scenario is presented on ©7-9.

Council Staff also recommends continued study by WSSC of an infrastructure renewal fee or surcharge. WSSC's new General Manager has indicated his intention to re-engage the bicounty working group that was studying this issue last year. Without a distinct fee, it appears unlikely that major progress can be made to accelerate WSSC's water and sewer main reconstruction program.

Attachments
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ASSUMPTIONS
WSSC's Multi-Year Financial Forecast
FY 2011 thru 2016 Forecast : Basecase with New & Expanded Programs

	FY 2011 Proposed	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate
BOND FUNDS						
Bond Life for Water and Sewer Bonds (yrs)	19	19	19	19	19	19
Long-Term Bond Interest Rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Short-term Construction Note Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
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%
OPERATING FUNDS						
Salaries & Wages Rate of Increase	2.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Heat, Light & Power Annual Expenses (incl. savings from Energy Performance Program)						
Water ($ thousands)	15,221	15,268	15,394	16,193	17,032	17,916
Sewer ($ thousands)	13,353	13,201	13,154	13,837	14,555	15,312
Blue Plains Rate of Increase	13.0%	3.7%	3.7%	3.7%	3.7%	3.7%
All Other - % Annual Increase	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Water REDO ($ thousands)	5,800	5,500	5,500	5,300	5,300	5,000
Sewer REDO ($ thousands)	5,700	5,500	5,500	5,200	5,200	5,000
GASB 045 Expense	6,000	7,000	8,000	9,000	10,000	10,000
Work Years/FTE $s	6,246	-	-	-	-	-
Capital Programs	4,725	-	-	-	-	-
Operating Program	1,520	-	-	-	-	-
WATER PRODUCTION						
Yearly Growth Increment (MGD)	0	0.5	0.5	0.5	0.5	0.5
Estimated Annual Average Water Production (MGD)	170.0	170.5	171	171.5	172	172.5

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

FY 2011 thru 2016 Forecast : Basecase with New & Expanded Programs

Estimated Revenues and Expenditures ($1,000)

		FY 2010 Approved	FY 2011 Proposed	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate
	Revenue							
1	Water & Sewer Rate Revenue	$403,946	$440,307	$490,270	$553,005	$612,278	$662,455	$705,847
2	All Other Sources	81,768	65,102	62,065	62,487	61,936	61,669	61,001
3	Total Revenue	485,714	505,409	552,335	615,492	674,214	724,124	766,848
	Expenses							
4	Maintenance & Operating	308,518	328,918	354,403	379,186	398,805	419,363	439,907
5	Regional Sewage Disposal	42,224	47,713	49,479	51,309	53,208	55,176	57,218
6	Debt Service	169,827	175,803	208,071	240,984	268,952	289,431	308,455
7	PAYGO	-	-	-	-	-	-	-
8	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	1,500
9	Unspecified reductions	-	-	-	-	-	-	-
10	Total Expenses	$522,069	$553,934	$613,452	$672,979	$722,465	$765,470	$807,079
11	Revenue Gap (Revenue - Expenses)	(36,355)	(48,524)	(61,117)	(57,487)	(48,251)	(41,346)	(40,231)
	Water Production (MGD)	170.0	170.0	170.5	171.0	171.5	172.0	172.5
12	**Debt Service Ratio (debt service / budget)**	32.5%	31.7%	33.9%	35.8%	37.2%	37.8%	38.2%

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
13	Rate Increase	9.0%	11.0%	12.5%	10.4%	7.9%	6.2%	5.7%
14	Operating Budget	$522,069	$553,934	$613,452	$672,979	$722,465	$765,470	$807,079
15	Debt Service Expense	169,827	175,803	208,071	240,984	268,952	289,431	308,455
16	New Debt	156,409	273,279	382,480	368,586	307,317	262,973	226,284

NOTE:

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Impact of Rate Increase on Average Residential Monthly Bill	***$4.96***	***$6.17***	***$7.85***	***$7.36***	***$6.16***	***$5.26***	***$5.11***

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

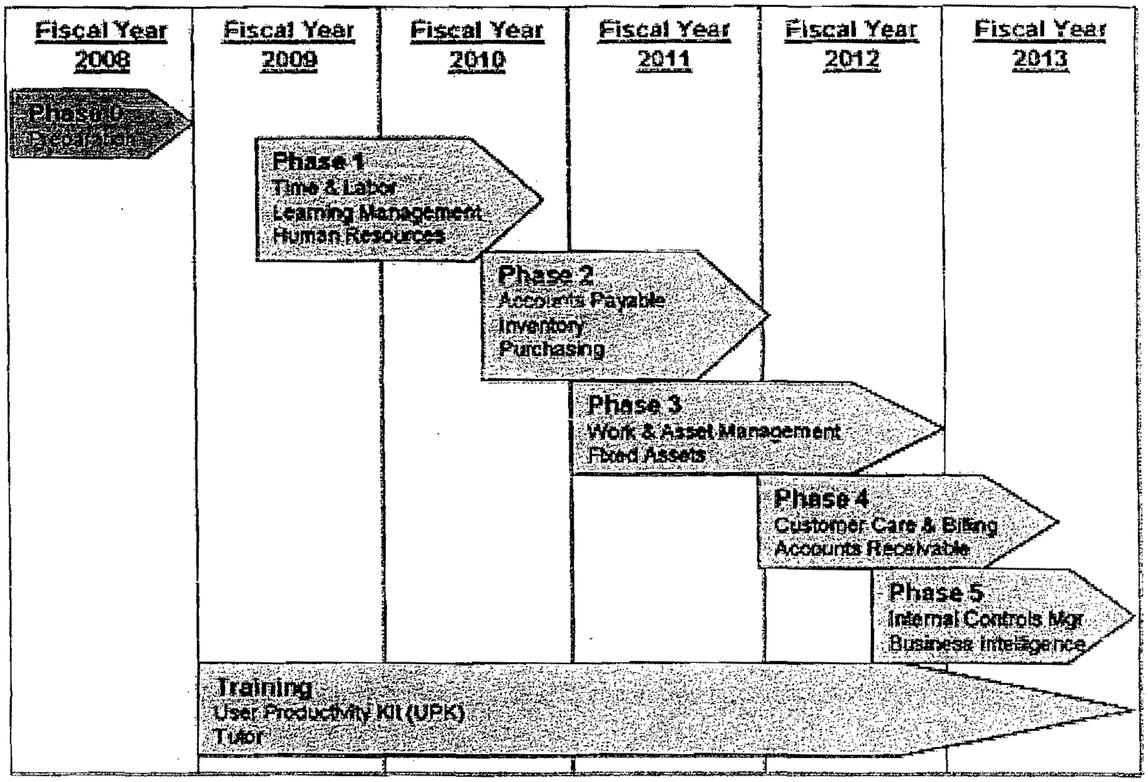
FY 2011 thru 2016 Forecast : Basecase with New & Expanded Programs

Estimated Revenues and Expenditures ($1,000)

		FY 2010 Approved	FY 2011 Proposed	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate
	Revenue							
1	Water / Sewer Use Charges	$403,946	$440,307	$490,270	$553,005	$612,278	$662,455	$705,847
2	Interest Income	5,500	4,000	4,050	4,050	4,100	4,100	4,150
3	Account Maintenance Fee (Ready to Serve Charge)	22,850	22,850	22,900	22,900	22,950	22,950	23,000
4	Infrastructure Renewal Fee (Ready to Serve Charge)	-	-	-	-	-	-	-
5	Miscellaneous	19,217	21,154	21,822	22,345	22,958	22,952	23,123
6	Total Revenue	451,513	488,311	539,042	602,300	662,286	712,457	756,120
7	SDC Debt Service Offset	2,498	2,398	2,293	2,192	1,428	1,167	728
8	Reconstruction Debt Service Offset	11,500	11,500	11,000	11,000	10,500	10,500	10,000
9	Use of Fund Balance	20,203	3,200	0	0	0	-	-
10	Less Rate Stabilization	-	-	-	-	-	-	-
11	Adjustments to Total Revenue	34,201	17,098	13,293	13,192	11,928	11,667	10,728
12	Funds Available	485,714	505,409	552,335	615,492	674,214	724,124	766,848
	Expenditures							
13	Salaries and Wages	90,879	92,697	98,962	103,911	109,107	114,563	120,292
14	Salaries and Wages based on Workyear Adjustment		1,552	-	-	-	-	-
15	Heat, Light and Power	28,422	28,422	29,231	30,748	32,344	34,027	35,803
16	All Other	189,217	206,247	226,210	244,527	257,354	270,773	283,812
17	All Other based on New & Expanded Programs		-	-	-	-	-	-
18	Reconstruction	-	-	-	-	-	-	-
19	Regional Sewage Disposal	42,224	47,713	49,479	51,309	53,208	55,176	57,218
20	Unspecified reductions	-	-	-	-	-	-	-
21	Unspecified reduction of future year's expenditure base		-	-	-	-	-	-
22	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	1,500
23	Total Operating Expenses	352,242	378,131	405,381	431,996	453,513	476,039	498,624
24	Debt Service	169,827	175,803	208,071	240,984	268,952	289,431	308,455
25	Debt Reduction (PAYGO)	-	-	-	-	-	-	-
26	Total Financial Expenses	169,827	175,803	208,071	240,984	268,952	289,431	308,455
27	Total Expenditures	522,069	553,934	613,452	672,979	722,465	765,470	807,079
28	Revenue - Expenditure Gap before rate increase	(36,355)	(48,525)	(61,117)	(57,487)	(48,251)	(41,346)	(40,231)
29	Rate Increase	9.0%	11.0%	12.5%	10.4%	7.9%	6.2%	5.7%

EAM/ERP 5-Year
Implementation Plan

Phased implementation will take place over 5 years.



Annual Cost: $2.2M $8.6M $8.8M $7.7M $3.8M

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PHASE 0:

Phase 0 was the preparatory phase that established the necessary infrastructure (both systems and business) required for implementing ERP.

It included a technical upgrade, a mini-implementation/sandbox to familiarize ourselves with the tools and its capabilities, and a planning component to understand requirements for the next phases and verify the implementation schedule.

By the end of this phase, we had four (4) major outcomes:

1. An IT infrastructure that can fully accommodate the ERP system.
2. An assessment report and implementation plan on the above systems – how and when they will be transitioned during the project life.
3. Complete staffing of ERP Project Team ready for the implementation phases.
4. Project Team with knowledge on the proposed applications and implementation methodology and existing business processes.

PHASE 1:

- Training of Business Subject Matter Experts (SMEs) and Leads on Oracle's eBusiness Suite applications
- Implementation of Oracle Time and Labor (OTL) and Leaning Management (OLM) application and enhancement of Human Resources application
- Retirement of replaced legacy system: TAMS/O

PHASE 2:

- Implementation of Oracle eBusiness Purchasing, Inventory and Accounts Payable applications
- Retirement of replaced legacy system: MAPS

PHASE 3:

- Implementation of Oracle Utilities Work & Asset Management (WAM) and Fixed Assets applications
- Retirement of replaced legacy systems: COMPASS, MMIS and MEIS

PHASE 4:

- Implementation of Oracle Customer Care & Billing (CC&B) and Accounts Receivable applications
- Retirement of replaced legacy system: CSIS

TRAINING:

We recognize that a critical success factor for this project is end-user training. End-user training will be performed throughout the implementation process. To assist us in our training efforts and to provide end-user documentation, we will be using Oracle's Tutor and User Productivity Kit (UPK) as training tools.

This schedule may change as we progress through the implementation.

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Increased FY'11 Expenditure Assumptions Over and Above Inflation Factor

FY'11 New & Expanded Programs:

Systems Enhancement Unit Expansion

The Systems Enhancement Unit (SEU) Expansion calls for an additional 36 workyears as well as the purchase of several vehicles, heavy construction equipment and small equipment. The expansion will allow the SEU to double its goal of water main replacement from 6 miles to 12 miles per year. The staffing increase will also provide depots with the manpower to address peak workloads during winter months. Note that this expansion will have no impact on water & sewer rates as it will be funded via capital monies previously paid to contractors. The estimated cost of the expansion is $9.0 million.

New Workyears

1.0 E/M Technician
1.0 Wastewater Facility Asset Strategy Manager
1.0 Water Facility Asset Strategy Manager
1.0 Sr. Water Plant Operator
1.0 Water Plant Operator
1.0 Lead Instrumentation/Electronics Technician
1.0 Facility Technician
1.0 Asset Management Business Improvement Manager
1.0 Sr. Mechanic HVAC Engineer
2.0 Sr. Civil Engineers
3.0 Plumbing Inspectors
1.0 Sr. Corrosion Engineer
1.0 Surveys Party Chief
1.0 Administrative Assistant II
1.0 Facilities Inspector II
1.0 Engineering Assistant IV
0.0 Sr. Electrical Engineer
0.0 Sr. Facility Estimator
0.0 Principal Geotech Engineer
2.0 Inspection Support Aides
4.0 Contract Managers
3.0 Project Managers
1.0 Ethics Officer (part-time 50%)
29.0

	Cost	W/S Impact
New Workyears Impact	$ 1,998,400	1,451,516
Overhead and Equipment	651,322	487,257
Other New & Expanded Programs		
Disparity Study	650,000	526,500
Corrosion Monitoring Program	250,000	250,000
Water & Sewer Hydraulic Modeling Tool	1,164,000	1,164,000
Project coordination software for water reconstruction program	100,000	-
21 Contract Construction Inspectors & 2 Contract Restor Inspectors	2,304,000	-
Valve Exercising & Inspection	1,000,000	1,000,000
Meter Reading Handheld Upgrade	29,517	29,517
Design for ROW Clearing	3,600,000	3,060,000
Chemical Root Control	400,000	400,000
Pipe Armoring	3,400,000	2,720,000
Consent Decree Consultant Services	1,000,000	1,000,000
Design for Sewer Reconstruction Program	4,000,000	-
Sewer System Evaluation Survey	1,000,000	1,000,000
Total Other New & Expanded Programs	18,897,517	11,150,017
Total New & Expanded Programs	$ 21,547,239	$ 13,088,790

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

FY 2011 thru 2016 Forecast : Basecase with Mandatory New & Expanded Programs

Estimated Revenues and Expenditures ($1,000)

		FY 2010 Approved	FY 2011 Proposed	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate
	Revenue							
1	Water & Sewer Rate Revenue	$403,946	$440,307	$486,350	$548,890	$607,958	$657,919	$701,083
2	All Other Sources	81,768	65,102	62,065	62,487	61,936	61,669	61,001
3	Total Revenue	485,714	505,409	548,415	611,377	669,894	719,588	762,084
	Expenses							
4	Maintenance & Operating	308,518	325,009	350,299	374,878	394,281	414,612	434,919
5	Regional Sewage Disposal	42,224	47,713	49,479	51,309	53,208	55,176	57,218
6	Debt Service	169,827	175,803	208,071	240,984	268,952	289,431	308,455
7	PAYGO	-	-	-	-	-	-	-
8	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	1,500
9	Unspecified reductions	-	-	-	-	-	-	-
10	Total Expenses	$522,069	$550,025	$609,348	$668,671	$717,941	$760,719	$802,092
11	Revenue Gap (Revenue - Expenses)	(36,355)	(44,616)	(60,933)	(57,294)	(48,047)	(41,131)	(40,008)
	Water Production (MGD)	170.0	170.0	170.5	171.0	171.5	172.0	172.5
12	**Debt Service Ratio (debt service / budget)**	32.5%	32.0%	34.1%	36.0%	37.5%	38.0%	38.5%

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
13	Rate Increase	9.0%	10.1%	12.5%	10.4%	7.9%	6.3%	5.7%
14	Operating Budget	$522,069	$550,025	$609,348	$668,671	$717,941	$760,719	$802,092
15	Debt Service Expense	169,827	175,803	208,071	240,984	268,952	289,431	308,455
16	New Debt	156,409	273,279	382,480	368,586	307,317	262,973	226,284

NOTE:

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Impact of Rate Increase on Average Residential Monthly Bill	***$4.96***	***$5.66***	***$7.82***	***$7.33***	***$6.13***	***$5.23***	***$5.08***

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

FY 2011 thru 2016 Forecast : Basecase with Mandatory New & Expanded Programs

Estimated Revenues and Expenditures ($1,000)

		FY 2010 Approved	FY 2011 Proposed	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	FY 2016 Estimate
	Revenue							
1	Water / Sewer Use Charges	$403,946	$440,307	$486,350	$548,890	$607,958	$657,919	$701,083
2	Interest Income	5,500	4,000	4,050	4,050	4,100	4,100	4,150
3	Account Maintenance Fee (Ready to Serve Charge)	22,850	22,850	22,900	22,900	22,950	22,950	23,000
4	Infrastructure Renewal Fee (Ready to Serve Charge)	-	-	-	-	-	-	-
5	Miscellaneous	19,217	21,154	21,822	22,345	22,958	22,952	23,123
6	Total Revenue	451,513	488,311	535,122	598,185	657,966	707,921	751,356
7	SDC Debt Service Offset	2,498	2,398	2,293	2,192	1,428	1,167	728
8	Reconstruction Debt Service Offset	11,500	11,500	11,000	11,000	10,500	10,500	10,000
9	Use of Fund Balance	20,203	3,200	0	0	0	-	-
10	Less Rate Stabilization	-	-	-	-	-	-	-
11	Adjustments to Total Revenue	34,201	17,098	13,293	13,192	11,928	11,667	10,728
12	Funds Available	485,714	505,409	548,415	611,377	669,894	719,588	762,084
	Expenditures							
13	Salaries and Wages	90,879	92,697	97,627	102,509	107,635	113,017	118,669
14	Salaries and Wages based on Workyear Adjustment		280	-	-	-	-	-
15	Heat, Light and Power	28,422	28,422	29,231	30,748	32,344	34,027	35,803
16	All Other	189,217	203,610	223,441	241,621	254,302	267,568	280,447
17	All Other based on New & Expanded Programs		-	-	-	-	-	-
18	Reconstruction	-	-	-	-	-	-	-
19	Regional Sewage Disposal	42,224	47,713	49,479	51,309	53,208	55,176	57,218
20	Unspecified reductions	-	-	-	-	-	-	-
21	Unspecified reduction of future year's expenditure base		-	-	-	-	-	-
22	Additional Operating Reserve Contribution	1,500	1,500	1,500	1,500	1,500	1,500	1,500
23	Total Operating Expenses	352,242	374,223	401,278	427,687	448,989	471,289	493,637
24	Debt Service	169,827	175,803	208,071	240,984	268,952	289,431	308,455
25	Debt Reduction (PAYGO)	-	-	-	-	-	-	-
26	Total Financial Expenses	169,827	175,803	208,071	240,984	268,952	289,431	308,455
27	Total Expenditures	522,069	550,025	609,348	668,671	717,941	760,719	802,092
28	Revenue - Expenditure Gap before rate increase	(36,355)	(44,616)	(60,933)	(57,294)	(48,047)	(41,131)	(40,008)
29	Rate Increase	9.0%	10.1%	12.5%	10.4%	7.9%	6.3%	5.7%

Mandated New & Expanded Programs

Consent Decree

Sewer System Evaluation Survey ($1,000,000)
Consent Decree Consultant Services ($1,000,000)
Design for ROW Clearing ($3,600,000 - $3,060,000 W/S)
Chemical Root Control ($400,000)
Pipe Armoring ($3,400,000 - $2,720,000 W/S)

Cross Connection Program (self-supporting through fees)

3 Plumbing Inspectors ($235,300)
2 Inspection Support Aides ($104,650)

SLMBE

Disparity Study ($650,000 - $526,500 W/S)

In order to have an MBE program, we must have a factual predicate to base it on and this study will provide that.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
A	Staff Offices	Communications & Community Relations	8	$ 7,500	5,978	This is money for the Council of Governments "Water Use It Wisely" campaign. WSSC is by far the largest water/wastewater utility on this committee. In addition, this is an involvement that WSSC re-instituted 3 years ago as part of building relationships. Our staff has been instrumental in steering the "Use It Wisely" Campaign to focus more on infrastructure and "Can the Grease". COG is about to launch a major new campaign. It is conceivable that COG would take less than the $7,500. In either case this could affect our relationship with COG.
A	Staff Offices	Human Resources Office	82	50,000	39,850	Reduction in courses by offering fewer non-required (licensing, re-licensing, certifications) courses; streamlining current usage; move in-house courses, elimination of travel to attend non-required training
A	Staff Offices	Internal Audit	1	$ 72,410	56,652	N&E - Ethics Officer
A	Staff Offices	General Counsel's Office	17	$ 9,000	7,173	Limit appraisals of surplus property
A	Production	Operations Support Group	5	$ (474,000)	(474,000)	Sell 28,000 RECs
A	Production	Operations Support Group	4	$ 3,600	$ 3,600	10% reduction in material purchases
A	Production	Operations Support Group	8	$ 2,500	$ 2,500	25% reduction professional organizations support of industry initiatives of various organizations (e.g., WERF, AWWARF, AWWA, WEF, CWEA, CSAWWA, etc.).
A	Production	Industrial Assets Management Group	1	$ 268,320	$ 268,320	N&E 3WY: Asset Strategy Managers to support UMP
A	Production	Seneca/Damascus/Hyattstown Group	1	$ 65,520	$ 65,520	N&E - 1 WY to provide for the safe and adequate staffing level at Damascus/Hyattstown. This position was initially endorsed as part of the FY-10 N&E.
A	Logistics	Property Management	1	$ 109,070	$ 109,070	N&E - Sr. HVAC Engineer
A	Engineering and Construction	Environmental	41	$ 2,200	$ 2,142	This is needed to attend a critical meeting for the framework study associated with issues on emerging contaminants. Deletion would mean we could not influence the study as it relates to WSSC issues/case study.
A	Engineering and Construction	Environmental	43	$ 115,000	$ 112,700	This is our subscription to WRF. Its deletion would deprive us from access to this utility-supported knowledge center and its research products.
A	Engineering and Construction	Planning	8	$ 100,000	$ 100,000	Reduce budget for Council of Government (COG) Inter-municipal Agreement and Regional Water Fund (RWF) support from $1,000,000 to $900,000.
A	Engineering and Construction	Planning	15	$ 375,000	$ 375,000	N&E- Reduce funding for Expanded DSG Modeling Services and data manipulation from the original $750,000 to $375,000. This would retain 50% of funding for FY2011 and delay 50% of our request to FY2012. This reduction would delay the conceptual plans to upgrade the current DSG hydraulic water modeling data for DSG work. DSG will have to delay the implementation of at least one of the new hydraulic modeling tools and will not be able to maximize efficiency improvements possible from data that works within the ArcGIS based technologies. Delay of funding for these services could also negatively impact the plans for a cohesive modeling system that works within the proposed WSSC Oracle/GIS system.
A	Engineering and Construction	Process Control	7	$ 1,000	$ 1,000	Cuts rental equipment.
A	Engineering and Construction	Process Control	54	$ 1,000	$ 1,000	Cuts back on safety equipment until FY 12
A	Engineering and Construction	Regulatory Services	81	$ 3,000	$ 3,000	Participate in conferences and workshops to keep abreast of the most up-to-date federal and State pretreatment and FOG requirements.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
A	Engineering and Construction	Technical Services	1	$ 95,550	$ 95,550	N&E - Sr. Facility Estimator. Continue to use consultants for cost estimates, scheduling, claim analysis and assessment of construction efficiencies.
A	Customer Care	Customer Relations	3	$ 1,000	$ 1,000	Little to no impact is expected.
A	IT Team	Enterprise Technology Solutions Division	40	$ 50,000	$ 41,000	Document & Records Mgmt. Reduced scope of project.
A	IT Team	Enterprise Technology Solutions Division	40	$ 50,000	$ 41,000	wsscwater.com Enhancements. Reduced scope of project.
			Priority A Total	**$ 907,670**	**$ 858,055**	
B	Staff Offices	Communications & Community Relations	18	$ 1,000	$ 797	Increased usage of COMMS vehicles and WSSC pool cars for travel to and from community outreach events.
B	Staff Offices	General Counsel's Office	1	$ 32,600	25,982	Eliminate one Admin Assistant I
B	Staff Offices	General Counsel's Office	14	$ 7,500	5,978	Constrain basic GCO functions
B	Production	Industrial Assets Management Group	1	$ 65,520	$ 65,520	N&E 1WY: Lead Instrumentation Tech.
B	Production	Western Branch	02	$ 13,000	$ 13,000	Reducing overtime at Western Branch by 10% can be accomplished by maintaining our current shift work schedule as we commission our new Incinerators. OT in the Production Team means ensuring that the plants meet their respective State permits and for the wastewater plants it can also mean minimizing SSOs.
B	Production	Systems Control Group	4	$ 50,000	$ 50,000	Defer replacing piston PRVs with more reliable and more maintenance free diaphragm valves.
B	Production	Operations Support Group	8	$ 35,000	$ 35,000	25% reduction in Biosolids Research. This would harm the U of Maryland research program as well as the Biosolids community in forgoing researching solutions to new problems and also hurt our Public Relations potential.
B	Production	Operations Support Group	54	$ 1,500	$ 1,500	10% reduction in Safety supply purchases
B	Logistics	Fleet Services	8	$ 123,700	$ 106,753	15% reduction in services by others will result in some deferred maintenance
B	Logistics	Fleet Services	15321	$ 1,211,873	$ 75,742	Defer all replacement equipment for one year - will result in increased maintenance costs and will impact FY'12
B	Logistics	Fleet Services	15322	$ 4,742,777	$ 395,231	Defer all replacement vehicles for one year - will result in increased maintenance costs and will impact FY'12
B	Logistics	Materials & Services	85	$ 95,500	$ 77,355	Eliminate purchase of all non-depreciable furniture for one year - will result in increased maintenance costs and will impact FY'12
B	Logistics	Materials & Services	15323	$ 228,500	$ 13,441	Eliminate purchase of all depreciable furniture and equipment for one year - will result in increased maintenance costs and will impact FY'12
B	Logistics	Security & Safety Services	8	$ 500,000	$ 405,000	Reduce the annual security contract budget. This will result in less security coverage.
B	Logistics	Property Management	8	$ 250,000	$ 250,000	Defer non-critical facility painting for one year.
B	Engineering and Construction	Environmental	15	$ 60,000	$ 60,000	Reduction will limit our ability to address technical and regulatory issues that we may face, including the updating of our Pollution Prevention Plan required by MDE permit.
B	Engineering and Construction	Infrastructure - Systems	15	$ 250,000	$ 250,000	N&E - Corrosion Program - The program would remain at a grossly under funded level, and prevent more in-depth investigations into corrosive activities; We would not be able to maintain the existing monitoring test stations in the system; ability to perform early detection of problem areas would be lessened; and there would be an increased risk in DIP and Steel transmission main failures.
B	Engineering and Construction	Infrastructure - Systems	1	$ 89,440	$ 89,440	N&E - Sr. Corrosion Engineer

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
B	Engineering and Construction	Planning	8	$ 30,000	$ 30,000	Further reduce budget for Council of Government (COG) Inter-municipal Agreement and Regional Water Fund (RWF) support from $900,000 to $870,000. A budget reallocation would be required if COG budgets come in over this. We have some control over EPRC budget, but very little over RWF budget. Although I expect COG to be under pressure from all jurisdictions to keep costs down.
B	Engineering and Construction	Planning	15	$ 100,000	$ 100,000	Reduce funding for Water Planning BOA from $500,000 to $400,000. Further reductions could severely compromise our ability to provide the modeling support necessary to support operational requirements such as the PCCP inspection program.
B	Engineering and Construction	Planning	15	$ 500,000	$ 36,000	Reduce funding for Sewer Basin Planning Program (S-170.06)/Sewer Planning BOA from $1,282,000 to $782,000. This would retain funding for some sewer planning work, but would limit/delay what we can take on in FY2011. True impact will not be known until we complete our system wide evaluations later in FY2010.
B	Engineering and Construction	Planning	15	$ 207,000	$ 207,000	N&E- Reduce funding for New DSG Modeling Tools, licenses, and training from the original $414,000 to $207,000. This would retain 50% of funding for FY2011 and delay 50% of our request to FY2012. This reduction would delay the conceptual plans to upgrade the current DSG hydraulic modeling technology. DSG will have to delay the implementation of new hydraulic modeling tools because licenses for work stations for all DSG Planning employees would not be able to be purchased at the same time resulting in a delay for DSG to be able to maximize efficiency improvements possible from the new tools. We currently use a water system modeling tool which is actually a proprietary tool from a former WSSC colleague who is now retired. Hence, we cannot maintain and upgrade this modeling tool. For sewer system modeling, we currently perform analysis using self devised programs in Excel spreadsheet format which leads to inconsistencies and are easily questioned from applicants who have the modern tools.
B	Engineering and Construction	Process Control	87	$ 5,000	$ 5,000	Cuts back on the amount of small-cost computer equipment until FY 12
B	Engineering and Construction	Project Delivery	1	$ 339,690	$ -	N&E for FY 2011 - Omit 2 Project Manager, 1 Facilities Inspector II, and 1 Administrative Assistant II positions from the FT 2011 budget. This would impact project work load that can be carried by the Group rendering currently unassigned projects to remain unassigned and not move forward. Also some degradation of quality design and construction contract management and construction inspection of CIP/ESP projects would be sacrificed. Efficiency and consistency of administrative functions (each manager would have to perform all of their own administrative functions), project schedule tracking, budget tracking, contractor and consultant evaluation documentation would also suffer. **This reduction will require the elimination of projects. The water/sewer impact depends on which projects are eliminated.**
B	Engineering and Construction	Regulatory Services	81	$ 5,000	$ 3,985	Travel for Conferences – Regulatory Services' ISU is committed to attend and actively participate in Code Development at the ICC level in lieu reacting to ICC changes and administering change on the local level only. Funding is needed to participate in Code Development Hearings. Without active participation, WSSC will not be able to influence the Code Development Process.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
B	Engineering and Construction	Systems Infrastructure	8	$ 100,000	$ -	N&E - Project coordination software. If this funding is cut, the Commission would lose the ability to partner with the other agencies and utilities such as both Counties and the Washington Gas on pipeline projects. This partnering enables us to share access to each agency's project-planning efforts, so that we can coordinate and save money by sharing in the paving costs. Paving costs are approximately 25% over and above the costs for our routine water main pipe replacement project.
B	Engineering and Construction	Systems Inspection	1	$ 357,630	$ -	N&E - 4 contract managers for expanded water and sewer rehabilitation programs. If mileage goal is not reduced to FY'10 levels, contract management will be compromised.
B	Engineering and Construction	Systems Inspection	15	$ 2,304,000	$ -	N&E - 23 Contract Inspectors for expanded water and sewer rehabilitation programs. If mileage goal is not reduced to FY'10 levels, inspection services will be compromised.
B	Engineering and Construction	Systems Inspection	20	$ 2,000,000	$ 1,176,471	1,000,000 from capital funds and 1,000,000 from operating funds. A reduction may slow down street repairs.
B	Engineering and Construction	Technical Services	1	$ 95,550	$ 95,550	N&E - Sr. Electrical Engineer. Deeper triage of facility design & construction plan review process; delays in review & approval of major electrical and electromechanical components & equipment of WSSC contracts; reduced continuity in revision upgrades and approval of related engineering standards. The only incumbent is overloaded.
B	Engineering and Construction	Technical Services	1	$ 102,180	$ 102,180	N&E - Principal Geotechnical Engineer. Continue to perform geotechnical reviews for major engineering projects using highly tasked unit coordinator who manages water main reconstruction and PCCP Inspection Programs. No development/refinement of geotechnical standards & practices.
B	Engineering and Construction	Technical Services	1	$ 69,290	$ -	N&E - Surveys Party Chief. Lack of continuity of survey services; Continued inaccuracy of GIS data on assets; Continued or increased use of survey consultants. **Funds dedicated to consulting will be reduced by $70,000 because added personnel will diminish expenditures on outside services.**
B	Engineering and Construction	Technical Services	1	$ 69,290	$ 29,290	N&E - Engineering Assistant IV. Lack of continuity of document scanning & indexing services; Engineering drawings not available in Webmap. **Funds dedicated to consulting will be reduced by $40,000 because added personnel will diminish expenditures on outside services.**
B	Finance	Retirement Group	40	$ 60,000	$ 47,820	Actuarial valuation can be eliminated for FY 11, but will need to be restored in FY 12.
B	Customer Care	Customer Care Team Office	8	$ 100,000	$ 100,000	Fire Hydrant Painting – Public perception of an unsightly FH is a non-functioning FH.
B	Customer Care	Customer Care Team Office	10	$ 100,000	$ 100,000	Leak Detection – This is part of determining the current state of our infrastructure.
B	Customer Care	Customer Care Depots & Support Services	4	$ 163,000	$ 162,647	Eliminate funds for uniforms. Negatively impacts employee morale because they will have to use their own money to purchase clothing.
B	Customer Care	Customer Care Depots	81	$ 5,100	$ 5,100	Completely eliminate travel and conferences. This stifle employee development and succession preparedness at a time when WSSC is facing a high retirement rate.
B	Customer Care	CC Support Services	8	$ 60,000	$ 60,000	Eliminate funds for Meter Reading route re-sequencing. Use limited in-house staff to correct the worst routes. Will have an effect on overall meter reading efficiency.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
B	Customer Care	Wastewater Collection	8	$ 88,700		Attenuator Hauling - A reduction in this item would have a negative impact on timely completion of work. Staff and vehicle not performing core function. This is supported by a one year contract with five option years.
B	IT Team	Enterprise Technology Solutions Division	40	$ 50,000	$ 41,000	FIT Tool. Reduced scope of project.
B	IT Team	Enterprise Technology Solutions Division	40	$ 20,000	$ 16,400	Data Scrubbing of Legacy Systems. Reduced scope of project.
B	IT Team	Systems Support & Operations Division	8	$ 10,000	$ 8,200	Technology Refresh Phase 2. Reduced scope of project.
B	IT Team	Systems Support & Operations Division	8	$ 50,000	$ 41,000	Revenue Remittance System Replacement. No work would be performed on this project.
B	IT Team	Systems Support & Operations Division	8	$ 15,000	$ 12,300	Mainframe / OEM Release and Hardware Update. Reduced scope of project.
			Priority B Total	**$ 14,764,340**	**$ 4,300,682**	
C	Staff Offices	General Counsel's Office	87	$ 14,000	$ 11,158	Limit access to software required for planned GCO productivity improvements-- e.g., document management
C	Staff Offices	SLMBE	40	$ 650,000	$ 526,500	N&E - Disparity Study
C	Finance	Finance Office	8	$ 6,000	$ 4,782	Consultant for Insurance - Without consultant, we will have to go out and pay an hourly rate for insurance expertise, which could cost more than current budgeted amount.
C	Finance	Revenue Group	8	$ 11,000	$ 8,767	Reduce armored courier services by half, but will require trips to bank to be escorted by Security Patrol Officers.
C	Production	Potomac Group	1	$ 184,340	$ 184,340	N&E - 3 workyears to support the operation and maintenance of new processes and equipment provided under the Potomac Improvements Project; O&M of the Solids Handling Facilities that was supposed to be contracted out under the Competitive Action Program (CAP); support of water quality programs such as Enhanced Coagulation. Our ability to reliably maintain these processes and programs will be affected if these workyears are eliminated.
C	Production	Patuxent/Potomac	21	$ 946,200	$ 946,200	Eliminate fluoridation of the water supply
C	Production	Patuxent/Potomac	21	$ 1,604,250	$ 1,604,250	Eliminate Orthophosphate application which helps to prevent pin hole leaks.
C	Engineering and Construction	Planning Group	15	$ 582,000	$ 582,000	N&E - Water & Sewer Hydraulic Modeling Tool - DSG will have to delay the implementation of new hydraulic modeling tools because licenses for work stations for all DSG Planning employees would not be able to be purchased at the same time resulting in a delay for DSG to be able to maximize efficiency improvements possible from the new tools. We currently use a water system modeling tool which is actually a proprietary tool from a former WSSC colleague who is now retired. Hence, we cannot maintain and upgrade this modeling tool. For sewer system modeling, we currently perform analysis using self devised programs in Excel spreadsheet format which leads to inconsistencies and are easily questioned from applicants who have the modern tools.
C	Engineering and Construction	Project Delivery	1	$ 323,470	$ -	Current Vacancies in 2010 - 1 Lead Project Manager, 1 Project Manager, 1 Project Scheduler and 1 Facilities Inspector II vacancies. This would impact project work load that can be carried by the Group rendering currently unassigned projects to remain unassigned and not move forward. Also of quality of design and construction contract management and construction inspection of CIP/ESP projects would be sacrificed as a result of less time being dedicated to each project. **This reduction will require the elimination of projects. The water/sewer impact depends on which projects are eliminated.**
C	Engineering and Construction	Project Delivery	2	$ 27,900	$ -	We would spend less time inspecting CIP/ESP projects, work would be performed without WSSC inspection/oversight or if we forced contractors to meet our schedule, contracts would take longer to complete due to no overtime allowed.

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
C	Engineering and Construction	Project Delivery	8	$ 60,000	$ 4,320	Delete all Account 00008 funds - would eliminate funding for background checks for all consultant and contractor personnel for all security sensitive projects (facilities and large pipeline work). Background check requirements would have to be eliminated if projects were to move forward, else all design and construction contracting would cease.
C	Engineering and Construction	Project Delivery	40	$ 1,000,000	$ -	Delete Professional Services for Project Management & inspection staff augmentation for capital projects. This would impact project work load that can be carried by the Group rendering currently unassigned projects to remain unassigned and not move forward. Also of quality of design and construction contract management and construction inspection of CIP/ESP projects would be sacrificed if we tried to manage full work load. **This reduction will require the elimination of projects. The water/sewer impact depends on which projects are eliminated.**
C	Engineering and Construction	Project Delivery	40	$ 200,000	$ 14,400	Delete or delay implementation of PM manual and PM training development from Staff Augmentation BOA. This will prolong resolution of issues we have with lack of documentation of processes which will lead to more and more inconsistency and inefficiency organization wide. The longer it goes without being done, the worse the inconsistencies and inefficiencies will get.
C	Engineering and Construction	Regulatory Services	8	$ 50,000	$ 50,000	This funding is needed to meet the regulatory requirements of the program for conducting laboratory analyses, and repairing sampling equipment. In addition this funding will provide additional support, if necessary related to regulatory compliance in support of the Industrial Discharge Control program. Depending on the status of regulatory compliance and potential chemical discharge challenges, there will be a need for conducting further testing and analysis of the regulated industries. In some situations, sampling of the commercial facilities may also become necessary in order to determine if new chemical discharge guidelines should be established.
C	Engineering and Construction	Regulatory Services	8	$ 40,000	$ 40,000	Temporary staffing remains a priority in support of the Plans Review office. This is the position we have been attempting to convert to a permanent position for many years. This position is essential as it is the only administrative position within the Plans Review Office. This position also serves as a back-up for Inspection Support Aides who answer calls related to scheduling plumbing inspections.
C	Engineering and Construction	Regulatory Services	40	$ 61,300	$ 61,300	Professional Services - This funding is needed for technical support related to both the continuing education requirements mandated by the International Code Council (ICC), plumbing certifications and possible technical support for addressing outstanding FOG related challenges. In addition, some technical support may be needed for the Cross Connection Program. If this funding is cut, the following impacts may be realized: · An inability to maintain the International Code Council certification requirements for the plumbing inspection staff. · An inability to retain potential outside experts to help with addressing technical challenges (e.g., optimum design of grease interceptors) associated with the FOG (fats, oil and grease) program. · An inability to assign a small task to an outside professional for providing assistance with the Cross Connection Program.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
C	Engineering and Construction	Regulatory Services	1	$ 339,950	$ 339,950	New and Expanded Programs - Cross Connection Control Program. If funds are not provided for the growth of this critical program, the commission's ability to develop a systematic program to provide protection against high hazard sites will be compromised.
C	Engineering and Construction	Infrastructure - Systems	15	$ 1,500,000	$ 1,500,000	Reduction of PCCP Program inspection and installation of acoustical fiber optic monitoring mileage request from approx.12 miles back down to 6 miles; further increasing the risk of PCCP transmission main failures and early detection of problem areas.
C	Customer Care	Customer Care Team Office	10	$ 1,750,000	$ 1,750,000	PCCP Repair - – The state of our PCCP is one of the most important infrastructure issues. Ruptures such as the one on River Road has great implication to our ability to provide water to the 1.8M customers we serve; additionally, this is a public safety issue.
C	Customer Care	Customer Care Team Office	8	$ 50,000	$ 50,000	Payments to Miss Utility - Keeps funding at FY 09 level. The use of MISS U is largely driven by external users, such as homeowners, other utility companies, etc. The level of funding needed is to match current usages.
C	Customer Care	Customer Relations	8	$ 15,000	$ 15,000	Approved new and expanded program to pay Salvation Army due to anticipated increase in water fund contributions and thus administrative fee due to bill "round-up" initiative.
C	Customer Care	Customer Care North	2	$ 100,000	$ 100,000	Eliminate overtime support of PCCP inspection work. Contractors would have support only during normal business hours. Inspections are in the northern zone for this year.
C	Customer Care	Customer Care North	4	$ 100,000	$ 100,000	Eliminate all but the most critical PCCP pipe repairs found during PCCP inspections. Only repair pipe with 80 or more broken wires. Inspections are in the northern zone for this year.
C	Customer Care	Customer Care North	10	$ 500,000	$ 500,000	Eliminate all but the most critical PCCP pipe repairs found during PCCP inspections. Only repair pipe with 80 or more broken wires. Inspections are in the northern zone for this year.
C	Customer Care	Customer Care Central	54	$ 15,000	$ 15,000	Purchase no new safety equipment this year and make do with what is in stock. This could be a serious problem is some existing equipment becomes unusable due to wear and tear or regulatory obsolescence.
C	Customer Care	CC Support Services	15327	$ 177,100	$ 29,517	Approved new and expanded program for FY 2011 for Meter Reading Handheld upgrade. This will now occur in FY 2010.
C	Customer Care	Wastewater Collection	10	$ 400,000	$ 400,000	N&E - Chemical Root Control - Approved New/Expanded Budget = 1.5 million. A budget cut results in negative impact on reduction of SSOs caused by root intrusion. The increasing chemical root control backlog will continue to grow; and this cut will negatively affect the re-application of the chemical root control for pipes already treated. The chemical root control backlog has a list of pipe sections affected by roots; while on backlog these sections may lead to future SSOs. The program could yield faster SSO reduction results.
C	Customer Care	Wastewater Collection	15	$ 4,000,000	$ -	N&E - Design for sewer reconstruction - Reduction would delay needed repairs.
C	Customer Care	Wastewater Collection	8	$ 1,000,000	$ 1,000,000	N&E - Consent Decree Consultant Services - Reduction could lead to Consent Decree delay and associated fines.
C	Customer Care	Wastewater Collection	8	$ 1,000,000	$ 1,000,000	N&E - Sewer System Evaluation Survey - Reduction could lead to Consent Decree delay and associated fines.
C	Customer Care	Wastewater Collection	15	$ 3,600,000	$ 3,060,000	N&E Design for ROW Clearing - Reduction could lead to Consent Decree delay and associated fines.

FY'11 Potential Budget Reductions

Priority	Team	Organization	Account	Proposed Reduction	Water/Sewer Impact	Discussion
C	Customer Care	Wastewater Collection	10	$ 3,400,000	$ 2,720,000	N&E - Pipe Armoring - Approved New/Expanded Budget = 5 million. The impact would be less pipe armoring & road clearing for emergency repairs. The Zones would have to do more clearing and armoring to address emergencies. Clearing for emergencies under emergency contract would cost much more than the tasks under the Pipe Armoring contract.
C	Customer Care	Wastewater Collection	1	$ 95,550	$ -	N&E - WW Collection System Project Manager. This position is needed to support the sewer reconstruction program.
C	Customer Care	Wastewater Collection	1	$ 178,750	$ -	N&E - 2 Sr. Civil Engineers. These positions are needed to support the sewer reconstruction program.
C	IT Team	Systems Support & Operations Division	40	$ 10,000	$ 8,200	N&E - Proactive Systems Monitoring, Phase 3. Reduced scope of project.
C	IT Team	Network Support & Operations Division	15330	$ 20,000	$ 16,400	N&E - 2-Way Radio (LMR) Upgrade. Reduced scope of project (reduced scope of equipment upgrades)
C	IT Team	Network Support & Operations Division	8	$ 10,000	$ 8,200	N&E - Dictaphone Replacement. Reduced scope of project.
C	IT Team	Network Support & Operations Division	8	$ 10,000	$ 8,200	N&E - Security Network - Cabling. Reduced scope of project.
C	IT Team	Network Support & Operations Division	8	$ 10,000	$ 8,200	N&E - Security Network - Components. Reduced scope of project.
C	IT Team	Network Support & Operations Division	8	$ 100,000	$ 82,000	N&E - Telecom Expense Management. This could would result in increased spendings in Acct 42 - Commission-wide Telecom & Communications expenses.
			Priority C Total	**$ 24,141,810**	**$ 16,748,684**	
			TOTAL:	**$ 39,813,820**	**$ 21,907,421**	

FY11 WSSC Spending Control Limits

T&E Discussion

October 19, 2009

Review Schedule

- Bi-County Working Group Meetings
  - September 11, and September 25
- MC Council Public Hearing: October 6
- T&E Committee Discussion: October 19
- MC Council Action: October 20 (tentative)
- Reconciliation with PG Council Action: TBD

Goal of Spending Control Limits Process/Ten Year Fiscal Plan

- Ensure high-quality, cost-effective water and sewer service within a framework of reasonable and stable rates through approval of annual spending control limits.

Spending Control Limits Background

- Established in April 1994 via resolution by both Councils.
- 4 limits
  - Maximum Average Rate Increase
  - Debt Service
  - New Debt
  - Total Water and Sewer Operating Expenses
- Limits provide direction to WSSC as to what to request, but do not limit what the Councils may approve later.
- MC/PG/WSSC Staff Working Group reviews a 6-year planning model and considers limits to recommend to the Councils.
- Process has generally worked well over the past 15 years although Councils did not agree on limits in FY02, FY06, and FY09 and FY10.

Rate Increase Limits

- Focus tends to be on rate increase assumptions for the upcoming year and the implications for future years.
- Six straight years of no rate increase (FY99-FY04)
  - Including some years where rate increases were assumed in the limits (FYs 99,00, and 02)
- Until FY08, approved rate increases have been 3.0% or less.

	Rate Increase	
Fiscal Year	Approved* Limit	Actual
FY96	3.0%	3.0%
FY97	3.0%	3.0%
FY98	3.0%	2.9%
FY99	2.0%	0.0%
FY00	1.5%	0.0%
FY01	0.0%	0.0%
FY02*	2.0%	0.0%
FY03	0.0%	0.0%
FY04	0.0%	0.0%
FY05	3.0%	3.0%
FY06*	2.5%	2.5%
FY07	3.0%	3.0%
FY08	5.3%	6.5%
FY09*	9.7%	8.0%
FY10*	9.5%	9.0%

Economic Indicators

- National economic recession may technically be over but serious problems continue
  - financial markets have rebounded from their March lows
  - unemployment remains a serious problem.
    - national rate, currently 9.8 percent, is the highest in 26 years.
    - The County rate, currently 5.3 percent, is well below the national or the State rate (7.2 percent), but it was just 2.5 percent in November 2007 and is at a historically high level.
    - Resident employment in the County declined by 2.3 percent in the past year, while average weekly wages have remained flat.
- Other County indicators
  - total consumer spending was down 6.5 percent in FY09, the third consecutive down year.
  - Total building construction for the first eight months of 2009 was down 39.8 percent from the same period in 2008.
  - The office vacancy rate for Class A properties rose in this year's second quarter to 12.1 percent, marking a steady increase from the low of 5.7 percent in the second quarter of 2006.
  - Sales of existing homes, which have fallen sharply for the past four years, are expected to rise nearly 10 percent this year,
    - but for the third straight year average prices are expected to decline, this year by 14.2 percent.
    - Foreclosures, which more than doubled from the second quarter of 2007 to the first quarter of 2008, have remained at a high level.
  - Energy costs remain a key factor.
    - Gasoline prices, despite a recent decline, have risen sharply compared to recent years.
    - Significantly higher costs for heating and electricity will also persist.
  - Rising health insurance costs are another factor for many County residents.

Building the "Base Case" Scenario

Major Fiscal Policy Assumptions

- Apply to all scenarios, except where noted.
- Include general policies
  - maintain AAA Bond rating
  - set user charges at levels sufficient to cover expenses
  - Maintain a reserve equal to at least 5 percent of water and sewer use charges. Increase this reserve to 10 percent over time.
- Specific Expenditure and Revenue Assumptions
  - Assume modest increases in water production over the Ten-year period.
  - Implement an eight-year phase-in (FY11 is the 4th year) to fully fund GASB 45 requirements.
  - Assume inflationary and/or specific cost increases to WSSC's major operating expense categories.
  - Fund the Proposed CIP (i.e. debt service)

Fund Balance Status

Estimated FY10 Excess Fund Balance Calculation (in $000s)

FY09 Carryover	**45,544**
FY09 Reserve Requirement	25,000
Increase Reserve (for FY10)	1,500
FY10 use of fund balance for one-time rate reduction	4,000
FY10 SSO Operating Costs	910
FY10 EAM/ERP Funding	8,616
FY10 Blue Plains Debt Service Increase	1,337
FY10 Use for Additional PCCP Work	1,000
Unallocated Reserve (end of FY09)	**3,181**
Increase Reserve (FY11)	1,500
FY11 EAM/ERP Funding	1,681
Estimated FY10 Excess Fund Balance	**-**

Conclusion: Only $3.2 million available for FY10. Recommended to be used to offset a portion of EAM/ERP project costs.

WSSC Funds Available

Revenue	FY10	FY11	change	% change
Water and Sewer Rate Revenue	**440,301,000**	**440,307,000**	**6,000**	**0.0%**
Interest Income	**5,500,000**	**4,000,000**	**(1,500,000)**	**-27.3%**
Account Maintenance Fee	**22,850,000**	**22,850,000**	**-**	**0.0%**
Miscellaneous	**19,217,000**	**21,154,000**	**1,937,000**	**10.1%**
Adjustments	**34,201,000**	**17,098,000**	**(17,103,000)**	**-50.0%**
- SDC Debt Service Offset	2,498,000	2,398,000	(100,000)	-4.0%
- Reconstruction Debt Service Offset	11,500,000	11,500,000	-	0.0%
- Use of Fund Balance				
- One-Time Rate Reduction	6,337,000	-	(6,337,000)	-100.0%
- EAM/ERP	11,456,000	1,700,000	(9,756,000)	
- Planned Spending for SSO Compliance	910,000	-	(910,000)	
- Additional Operating Reserve Contribution	1,500,000	1,500,000	-	0.0%
Funds Available	**522,069,000**	**505,409,000**	**(16,660,000)**	**-3.2%**
	equivalent rate increase:		3.78%	

Revenue Trends

- Water and sewer rate revenue represents 84% of all of WSSC's revenue. Rate revenue growth is projected to be very low ($1.3 million increase or .3%).
  - Water production is flat and only slight increases are predicted in the future. On average every 1 mgd produced provides approximately $2.6 million in revenue.
  - The billing factor is going down slightly (as customer water usage moves within WSSC's graduated rate structure)
- Some increases in miscellaneous revenue.
- Adjustments in use of fund balance and other areas result in a drop in funds available for FY11.

Conclusion: Revenue growth is projected to be flat for FY11 and beyond. For FY11, a rate increase of 3.8 percent is needed just to cover reduced revenues.

Expenditure Assumptions

- "Same Services"
  - 2% Inflator for salaries and wages (no COLAs assumed)
  - Substantial increase in Regional Sewage Disposal
  - Heat, light and power costs assumed to be the same as in FY10 (KWh down but usage up due to UV at filtration plants)
  - GASB 45 8 year phase-in continued (additional $1.0 million in FY11).
  - $34.7M EAM/ERP Project continues in FY11 ($8.8 million)
  - "All Other" up 5%
- Debt Service to cover Proposed CIP
- "New and Expanded" programs ($13.09 million) include:
  - 29 new positions (both in capital and operating areas) ($1.94 million in operating costs)
  - Disparity Study ($526,500)
  - SSO Consent Decree Work ($8.1 million)
  - Hydraulic Modeling Tool ($1.16 million)
  - Valve exercising and inspection ($1.0 million)
  - Corrosion Monitoring Program ($250,000)

"Base Case" Results

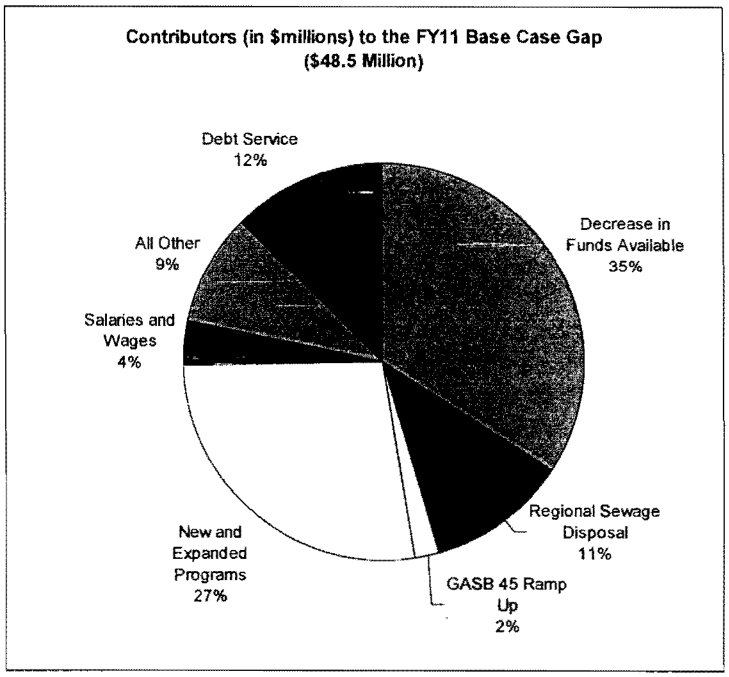
- Based on the revenue and expenditure assumptions described, a gap of $48.5 million for FY11 is projected.
- The "Base Case" assumes the following spending control limits:

New Debt: $273.279 million

Debt Service: $175.803 million

Total W/S Operating Expenses: $553.934 million

Maximum Average Rate Increase: **11.0 percent**



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Impacts at Different Rate Increases

A Scenario	B FY09 Rate Increase	C Revenue Generated	D Base Case Gap	E Ratepayer Impact*
	0.0%	-	48,524,000	
	1.0%	4,411,270	44,112,730	$0.56
Revenue Shortfall>>>	3.8%	16,762,840	31,761,160	$2.80
	6.0%	26,467,640	22,056,360	$3.93
	7.0%	30,878,910	17,645,090	$4.49
"Same Services">>>	8.1%	35,731,310	12,792,690	$5.05
	9.0%	39,701,450	8,822,550	$5.33
	9.5%	41,907,090	6,616,910	$5.61
Same Services plus Mandates>>>	10.1%	44,553,850	3,970,150	$5.89
Base Case (incl. new and expanded)>>>	11.0%	48,524,000	-	$6.17

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

- Each 1% increase adds approximately $4.4 million in revenue and 56 cents to a customer's monthly costs (56 cents to each customers monthly costs).
- A 3.8% rate increase is needed to cover reduced revenue available in FY11
- An 8.1% rate increase is needed to cover "same services"
- A 10.% rate increase is needed to cover "same services" plus mandates
- An 11.0% increase is needed to cover the "Base Case" gap.

Options for Closing the Gap - Revenues

- Increase water and sewer rates (11.0% base case)
- Increase the Account Maintenance Fee (Ready to Serve Charge) (considered two years ago)
- Revise revenue assumptions
  - Increase water production estimates
  - Increase miscellaneous revenue estimates
  - Increase Reconstruction Debt Service Offset (REDO)
    - One-time increase from $11.5m to $12.0m approved in FY09
  - Utilize excess fund balance (one-time impact only). (Base case already assumes to use all available fund balance.)

Staff Working Group Review

- The staff working group considered alternative rate increase scenarios ranging from 8.1% to 10.1 percent.
- Options discussed to reduce the base case rate increase in FY11 focused on expenditure reductions.

WSSC Expenditure Reductions Context

- Much of WSSC's budget is fixed in the short-term. Examples include:
  - Debt Service (31.1%)
  - Regional Sewage Disposal (8.6%)
  - Heat, light, and power (5.1%)
- A number of other items are either mandated (such as SSO Consent Decree costs), or are needed to meet regulatory or emergency requirements.
- Overall, WSSC estimates that approximately 70 percent of its budget involves costs that would be extremely difficult if not impossible to cut in the short-term.

Potential WSSC Expenditure Reductions

WSSC staff developed a list of potential budget reductions from the original base case scenario totaling $21.9 million in operating expense cuts. The cuts are broken out into three general categories:

- A = important but least critical $860,000
- B = the middle category $4.3 million
- C = Critical $16.7 million).

(If all of the category A and B cuts were made, a rate increase of about 9.8 percent would still be required.)

- The Category C cuts include some major policy and technology issues such as:

- Eliminate fluoridation of the water supply ($946,200)
- Eliminate orthophosphate addition (used to minimize pinhole leaks) to the water supply ($1,604,250)
- Reductions in the PCCP inspection, repair, and fiber optic monitoring program ($3.25m)
- SSO Consent Decree Work ($5.06 million)
- Selling Renewable Energy Credits (RECs) (revenue of $474,000)
- Delayed implementation of W&S hydraulic Modeling Tools ($957,000)

Council Staff Recommendations

- **Council Staff recommends the following spending control limits:**

New Debt:	**$273.279 million**
Debt Service:	**$175.803 million**
Total W/S Operating Expenses:	**$550.025 million**
Maximum Average Rate Increase:	**10.1 percent**

- **Council Staff believes a 10.1 percent rate increase strikes a reasonable balance between providing for WSSC's unique and critical needs while still requiring WSSC to find some unspecified reductions in light of the difficult fiscal situation all agencies are facing for FY11.**
- **Council Staff also recommends continued study by a bicounty working group of an infrastructure renewal fee or surcharge.**