

T&E COMMITTEE #1
April 14, 2010

Worksession

MEMORANDUM

April 12, 2010

TO: Transportation, Infrastructure, Energy, and Environment Committee
FROM: *KL* Keith Levchenko, Senior Legislative Analyst
SUBJECT: **Worksession: FY11 Washington Suburban Sanitary Commission (WSSC)
Operating Budget**

The following officials and staff were invited and/or are expected to attend this worksession:

WSSC

Commission Chair Gene Counihan (Invited)
Commissioner Adrienne Mandel (invited)
Commissioner Roscoe Moore (invited)
Jerry Johnson, General Manager/CEO
Teresa Daniell, Deputy General Manager
Tom Traber, Chief Financial Officer

Sheila Cohen, Budget Group Leader
Letitia Carolina-Powell, Budget Unit Coordinator

County Government

Dave Lake, Department of Environmental
Protection
John Greiner, Office of Management and Budget

Budget Highlights

Below are some major highlights of the WSSC's Proposed FY11 Budget:

- 8.5% average rate increase - *The Montgomery County Council and Executive recommended a 8.9% average rate increase. The Prince George's County Council recommended an 8% increase).*
- Use \$1.681 million from fund balance to fund the third year of a 5 year \$35.7 million EAM/ERP initiative. *Fund balance is discussed later in this memorandum.*
- Water production is budgeted at 170 million gallons per day (mgd) which is the same as was assumed for FY10 and the same as assumed during the spending control limits process last fall. Water production for FY09 was 162.3 mgd. The forecast for FY10 (based on

information through the end of January) is now 166.0 mgd.¹ *These trends (which positively speak to the region's water conservation ethic) if they continue into FY11 could result in revenue below budget assumptions.*

- A net increase of 71 workyears across both the Operating Budget and CIP. 22 positions are primarily associated with operating functions (*more discussion is provided later in this memorandum and on ©30-35*).
- Includes \$5.3 million for 15 miles of large diameter PCCP water main inspection and acoustic fiber optic monitoring. *This program is a high priority of the Council and the FY11 proposed program spending represents a continued strong commitment to this effort.*
- Funds 34 miles of water main reconstruction (up from 31 miles in FY10). *Consistent with prior FY11-16 CIP discussions.*
- Add \$1.0 million to the base budget for retiree health costs (the fourth year of an 8 year schedule in response to GASB 45 reporting requirements) to increase funding ultimately up to \$19 million per year. The eight year schedule is consistent with other agencies' approved plans as of FY10. *However, for FY11, because of current fiscal difficulties, the Executive is not recommending any increase in the contribution level for County Government-related retiree health costs.*
- Implement a number of cost reductions (see ©3) to meet the proposed 8.5 percent increase. *Discussed in more detail later in this memorandum.*

Council Staff believes WSSC's Proposed Budget represents some major belt-tightening by WSSC while still maintaining (and enhancing in some cases) some key funding priorities for WSSC and the Council. Further efforts to reduce rates below 8.5 percent would likely require cuts in high priority areas, such as the water and sewer reconstruction and large diameter pipe inspections/acoustic fiber optic monitoring programs.

Schedule

On March 1, WSSC transmitted its proposed FY11 Operating Budget to the Montgomery and Prince George's County Executives and County Councils. On March 15, the County Executive transmitted his recommendations to the Council. The T&E Committee is scheduled to discuss the WSSC budget on April 14. Council review will be in early May. The Bi-County meeting to resolve any CIP and Operating Budget differences with Prince George's County is scheduled for May 13.

General Information about WSSC

The Washington Suburban Sanitary Commission (WSSC) provides public water and sewer services to over 1.7 million residents in a sanitary district covering nearly 1,000 square miles in

¹ Over the past 15 years (FY96 through FY10) water production has been fairly flat. During that same period, the population served has increased by 19.8%, thus average water usage per capita has declined.

Montgomery and Prince George's Counties. WSSC has about 434,000 customer accounts (see ©25 for more details) and is one of the ten largest water and wastewater utilities in the country.

WSSC's governing board consists of six commissioners, 3 from Montgomery County and three from Prince George's County, serving staggered 4 year terms. The positions of Chair and Vice Chair alternate annually between the counties. The six commissioners are:

Montgomery County

Gene Counihan, Chair
Adrienne Mandel
Dr. Roscoe Moore

Prince George's County

Joyce Starks, Vice Chair
Prem Agarwal
Antonio Jones

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

An organization chart is attached on ©29. The Chair's budget transmittal letter and other excerpts from the Proposed FY11 budget are attached on ©1-25.

WSSC maintains about 5,500 miles of water mains and over 5,400 miles of sewer mains. WSSC also maintains four reservoirs (two of which are shared with other jurisdictions), two water filtration plants, 13 water pumping stations, 48 wastewater pumping stations, and seven wastewater treatment plants (including the Blue Plains plant in the District of Columbia). WSSC produces and distributes about 170 million gallons of water per day.

Sixty-six percent of all WSSC sewage and 83 percent of Montgomery County's sewage (generated within the WSSC service area) is treated at the Blue Plains Wastewater Treatment Plant in the District of Columbia. This plant is managed by DCWASA.² WSSC makes operating and capital payments each year to DCWASA consistent with the Blue Plains Intermunicipal Agreement of 1985 (IMA). Blue Plains-related costs are a major element of the sewer program and reflect a majority of overall CIP expenditures. The projected FY11 operating payment is \$47.7 million (about 8 percent of the Proposed Operating Budget).

The Montgomery and Prince George's County Governments each have two representatives on the eleven member WASA Board of Directors. Fairfax County has one representative. The other six members represent the District of Columbia.

County Executive Recommendations for the FY11 WSSC Budget

(See Operating Budget Excerpt on ©26-29)

In his March 15 transmittal, the County Executive recommended approval of WSSC's proposed budget without any changes.

² The Montgomery and Prince George's County Governments each have two representatives (with two alternates) on the eleven member WASA Board of Directors. Fairfax County has one representative. The other six members represent the District of Columbia.

Performance Measures

WSSC has included a number of performance measures in its FY11 Proposed Budget. Most of these measures speak to water quality, quality of service, timeliness of service, and customer satisfaction. Council staff believes these measures highlight WSSC's success in delivering high-quality service.

As noted in past years, in general, Council Staff believes WSSC is doing an excellent job in measuring its drinking water quality, responses to customer concerns, and customer satisfaction. It would be helpful if WSSC published information on how these measures compare over time to other comparable water and sewer utilities and how WSSC's costs to perform various services compare as well.

System Development Charge (SDC) Fees and Exemptions

**Table 1:
Proposed SDC Charges**

Item	FY11 Charge	Max. Allowable Charge
Apartment		
- Water	\$896	\$1,152
- Sewer	\$1,140	\$1,467
1-2 toilets/residential		
- Water	\$1,344	\$1,728
- Sewer	\$1,710	\$2,197
3-4 toilets/residential		
- Water	\$2,240	\$2,881
- Sewer	\$2,850	\$3,663
5 toilets/residential		
- Water	\$3,135	\$4,031
- Sewer	\$3,991	\$5,132
6+ toilets/residential*		
- Water	\$88	\$113
- Sewer	\$115	\$149
Non-residential*		
- Water	\$88	\$113
- Sewer	\$115	\$149

*costs shown are per fixture unit

WSSC's Proposed CIP and draft Operating Budget assumes no change in the SDC rate. However, WSSC supports increasing the maximum rate for FY11 as permitted under State law. The proposed charge and the maximum allowable charge are presented in Table 1.

During discussion of the WSSC CIP, the T&E Committee concurred with WSSC's assumption to maintain current rates but to increase the maximum chargeable rate. NOTE: Both the maximum rate and the adopted rate are noted in the annual Council resolution approved in mid-May.

Water and Sewer Main Infrastructure

Large Diameter Water Pipe

As discussed last month in the Council's review of the FY11-16 CIP, a new project in the WSSC CIP (Large Diameter Pipe Rehabilitation Program, \$60 million over six years) will fund the replacement of transmission mains (pipes greater than 16 inches in diameter) in lengths of 100 feet or greater. WSSC has approximately 960 miles of large diameter water main (mains ranging in size from 16 inches to 96 inches in diameter) of which about 350 miles is pre-stressed concrete cylinder pipe (PCCP). Of these,

there are 59 miles of mains 54 inches in diameter or greater, another 18 miles of 48 inch mains, 30 miles of 42 inch mains, and 38 miles of 36 inch mains.

In the past, WSSC has dealt with replacement issues on a reactive basis with expenditures coming out of the Water Main Reconstruction “information only” project as needed. However, in the last couple of years, WSSC has ramped up its inspection program for its largest diameter mains (mostly 48 inch mains or greater with some smaller sections also included) and done immediate repairs where needed and begun to identify larger replacement projects to be done over time as pipes reach the end of their useful life. In addition to some unexpected large PCCP pipe failures in 2008, the transmission system (like the smaller water distribution lines) is aging and WSSC is moving to a more systematic inspection, repair, and replacement approach as a result.

While the large section repairs are to be done in the CIP, the inspection, fiber optic monitoring and smaller repairs will remain in the Operating Budget. The FY11 budget includes \$5.3 million for 15 miles of large diameter PCCP pipe inspection and installation of acoustic fiber monitoring.

Water and Sewer Main Reconstruction

As part of the Approved FY10-15 CIP, water main replacement miles were increased from 27 to 31 miles per year. A ramp up to 36 miles per year is proposed for FY11, as first discussed by the Council during its review of the FY11-16 CIP. The need for expanding this program was identified several years ago as part of a Utility Master Plan effort.

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

The 4 mile increase in FY10 resulted in a slightly reduced replacement cycle for WSSC’s 5,500 miles of water mains (from 204 to 177 years). The 5 mile ramp-up proposed for FY11, would reduce this replacement cycle down to about 153 years. While still too long a replacement cycle (the prior General Manager put forth a goal of a 100 year replacement cycle), this continued ramp up represents real progress. Another positive aspect is that in FY09 WSSC exceeded its 27 mile replacement goal and did 34 miles of replacement.

While 4 to 5 mile increases are small compared to the scale of work required, WSSC will need time to ramp up both its in-house efforts as well as its contractual work to keep increasing its work completed. For FY11, WSSC is considering reducing contract dollars in favor of more in-house staff. This cost-neutral approach is intended to provide some additional ramp-up capacity while also providing WSSC some extra personnel to react to water main breaks in cold weather months. These workyear changes are discussed in more detail later in this memorandum.

The funded pace of the Water and Sewer reconstruction effort continues to be an area of major concern to Montgomery County. The WSSC General Manager recently reconvened a Bi-

County Working Group to study long-term funding solutions for this issue. This group's first meeting was on April 9, 2010.

Sewer Reconstruction Program (PDF on ©20-21)

WSSC has approximately 5,400 miles of sewer pipe. As discussed in past years, this work is a major element of WSSC's SSO Consent Decree compliance efforts. Expenditures have already ramped up in this program as a result. As discussed during the FY11-16 WSSC CIP review, WSSC has developed a major new capital project to deal specifically with trunk sewer reconstruction (\$505 million over six years).

With regard to the sewer reconstruction work, for FY 11, WSSC is assuming to do 42 miles of sewer main lining.

Spending Control Limits

Background

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

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

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

FY11 Spending Control Limits

Last fall, the T&E Committee and the Council discussed WSSC's challenging fiscal situation and the major revenue and expenditure issues involved. WSSC developed a "base case" scenario (roughly a "same services" scenario with some enhancements) that included an 11.0 percent rate increase.

In an effort to strike a balance between WSSC's fiscal needs and the needs of WSSC ratepayers in the current economic climate, the Council recommended spending control limits that included a 9.9 percent average rate increase.

The Prince George's County Council recommended limits that included an 8.0 percent average rate increase.

The two Councils did not reconcile their differences regarding these limits. Therefore WSSC did not have a single set of limits to guide its development of its FY11 budget.

Ultimately, the Commissioners agreed to a budget request that assumes an 8.5 percent rate increase and the other limits as shown on the following chart:

**Table 2:
FY11 Spending Control Limits Approved by Each Council
versus the FY11 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC	CE
	MC	PG	Proposed	Rec
New Debt (in \$000s)	273.279	273.279	290.600	290.600
Water and Sewer Debt Service (in \$000s)	175.803	175.803	174.454	174.500
Water/Sewer Operating Expenses (in \$000s)	550.025	536.136	544.375	544.375
Maximum Avg. Rate Increase	9.9%	8.0%	8.5%	8.5%

The WSSC Budget complies with three of the limits recommended by the Montgomery County Council. New debt is higher than the limit as a result of increased expenditures in the Blue Plains projects which the Montgomery County Council preliminarily approved as part of its review of the FY11-16 WSSC CIP. The Commission proposed a number of cuts to bring the rate increase down to 8.5 percent.

Fund Balance Status

Below is a current review of WSSC’s fund balance status. WSSC’s FY11 budget proposal, does not assume any excess fund balance at the end of FY10 not already allocated for FY11 expenditures.

**Table 3:
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	-

WSSC is expecting a \$2.2 million refund from DCWASA related to prior Blue Plains regional sewage disposal payments. These dollars would positively affect fund balance. However, these dollars may be needed to offset other declining revenue areas, such as the uncertain state of WSSC’s revenue related to water production, or may be needed to offset the impact of an Energy Tax increase

recommended by the County Executive.³ **Given these uncertainties, Council Staff does not recommend any allocation of this potential excess fund balance at this time.**

FY11 WSSC Proposed Budget

Summary Charts

The following chart presents summary budget data for WSSC for the FY10 Approved and FY11 Proposed Budgets.

**Table 4:
WSSC Expenditures by Fund (in \$000s)**

	Approved	Proposed	Change	
	FY10	FY11	\$	%
Capital				
Water Supply	147,484	181,815	34,331	23.3%
Sewage Disposal	191,008	276,524	85,516	44.8%
General Construction	32,660	36,361	3,701	11.3%
Total Capital	371,152	494,700	123,548	33.3%
Operating				
Water Operating	234,925	243,455	8,530	3.6%
Sewer Operating	285,807	300,920	15,113	5.3%
Subtotal W&S Operating	520,732	544,375	23,643	4.5%
Interest and Sinking	69,799	61,175	(8,624)	-12.4%
Total Operating	590,531	605,550	15,019	2.5%
Grand Total	961,683	1,100,250	138,567	14.4%

The combined total of the Capital and Operating Budget is \$1.1 billion, an increase of \$138.6 million (or 14.4 percent) from the Approved FY10 amount of \$961.7 million.

The total proposed Operating Budget is \$605.6 million, an increase of \$15 million (or 2.5 percent) from the Approved FY10 Operating Budget of \$590.5 million.

The following chart summarizes the proposed water and sewer operating expenditures by major expenditure category.

³ A 39.6% Energy Tax increase (the County Executive's March 15 recommendation) would have a \$629K impact on the FY11 WSSC budget while a 63.7% increase (the County Executive's March 25 recommendation) would have a \$1.0M impact. The FY10 impact of the March 25 recommendation would be approximately \$159,000.

**Table 5:
Water and Sewer Operating Expenditures by Category**

Expense Categories	Approved	Proposed	Change	
	FY10	FY11	\$	%
Salaries and Wages	91,536	95,120	3,584	3.9%
Heat, Light, and Power	28,422	27,819	(603)	-2.1%
Regional Sewage Disposal	42,224	47,713	5,489	13.0%
All Other	191,679	201,862	10,183	5.3%
Debt Service	236,670	233,036	(3,634)	-1.5%
Total	590,531	605,550	15,019	2.5%

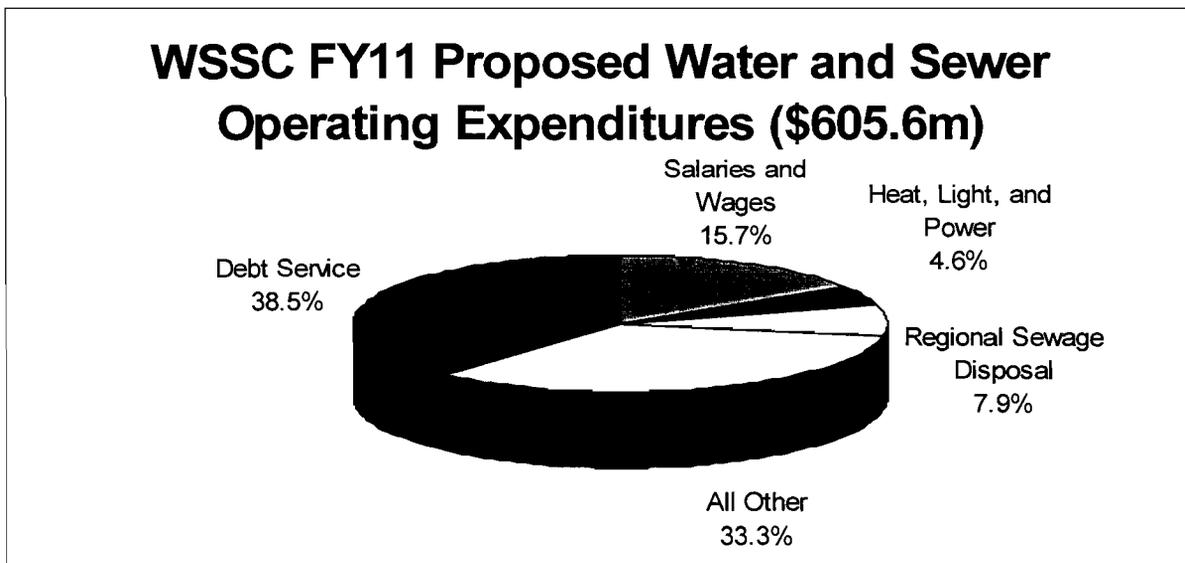
Debt service is the biggest category. This is not unexpected for WSSC, given its large capital program. For FY11, overall debt service costs are decreasing slightly. This is because general bond debt service which used to fund water and sewer infrastructure in new communities (through the late 1990s) continues to decline as developers now build and privately finance these lines. Water and Sewer related debt (which funds non-growth related infrastructure) has been going up in recent years as a result of upward trends in WSSC’s CIP.

The largest percentage increase is in regional sewage disposal and is based on estimates of future charges to WSSC by DCWASA for Blue Plains WWTP costs.

The “All Other” category accounts for most of the actual dollar increase. This category includes all operating costs not otherwise broken out above and also includes employee benefits.

Compensation

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



Even adding employee benefits (which are included in the “All Other” category) in order to look at personnel costs as a whole, personnel costs as of FY11 still make up less than 25 percent of

operating budget expenditures. This ratio contrasts sharply with ratios in County Government, where personnel costs are about 65 percent of all tax-supported expenditures in the FY11 Recommended Budget.

“Salaries and Wages”⁴ costs within the Operating Budget are estimated to increase by 3.9 percent. This is mostly due to a substantial increase in workyears assumed in the Proposed Operating Budget (discussed below).

For FY11, WSSC is allocating \$625,000 in compensation adjustments. As shown in the following chart, these adjustments are far smaller than the approved adjustments for FY10.

**Table 6:
Compensation Adjustments for FY10 Approved and FY11 (Proposed)**

Type	FY10	FY11	Eligibility
Salary Adjustments		-	No COLA approved for FY10 or proposed for FY11
Merit Increases	933,011	47,103	FY11: for 34 union employees not at top of grade. For FY10: 527 employees)
Incentive Pay*		-	No incentive pay assumed for FY10 or FY11 (444 employees eligible in FY09)
Flexible Worker (FW) Pay	572,118	578,192	124 employees (increases based on skill assessments)
IT Bonus (contract)	384,296		No IT bonuses assumed for FY11. For FY10, included 81 employees
Total	1,889,425	625,295	

*Note: Incentive pay is "one-time" and does not change the base salary.

The biggest changes in FY11 are the elimination of almost all merit pay (with the exception of merit pay required in union contracts). The COLA is removed again (for the second straight year) and incentive pay which had previously been in place for customer care and production team employees is also gone again for the second straight year. IT bonus pay is also xeroed out for FY11.

Council Staff is supportive of WSSC’s compensation assumptions for FY11. The elimination of the COLA, merits (for most employees), and incentive pay is consistent with what is being experienced in the other agencies. The other pay increase category (flexible worker pay) was put in place a number of years ago as part of WSSC’s CAP initiative and is unique to WSSC. This item provides increases to base pay for certain employees who achieve certain new skill certifications (thereby providing WSSC with more operations and maintenance flexibility).

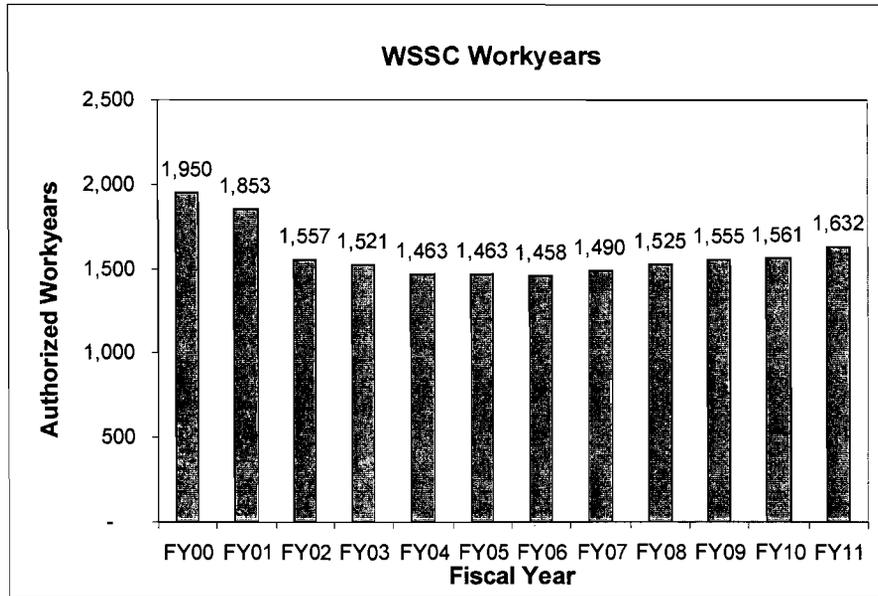
Unlike for Montgomery County Government where the County Executive is recommending 10 furlough days for non-public safety workers (equivalent to a 4 percent pay cut) and Prince George’s County (Where the County Executive is recommending 8 furlough days), the FY11 WSSC budget does not assume any employee furlough days. According to WSSC staff, each furlough day would save an estimated \$246,000 (assuming plant and union workers are excluded). WSSC staff is checking with its General Counsel to see if union workers could be furloughed. Council Staff has asked WSSC for cost savings information if the furloughs were broadened to include more WSSC employees.

The Management and Fiscal Policy Committee will meet on April 19 and April 22 to make recommendations on compensation issues to the Council. The Committee should also discuss whether furloughs should be recommended for WSSC workers. Note: Since the Bi-County meeting as on May 13, the Council will need to take action on WSSC’s budget (and its compensation assumptions) possibly in advance of its compensation decisions for the other agencies.

⁴ Benefit costs (such as Social Security, Group Insurance, and Retirement) are loaded in the “All Other“ expense category.

Workyear Trends

After about a 1/3 reduction in the workforce achieved as a result of a Competitive Action Program (CAP) and retirement incentive program, WSSC has been adding workyears since FY06. The chart to the right presents workyear trends over the past 10 years.



For FY11, 71 new positions are requested.

Detail on each position was provided by WSSC and is attached on ©30-35. While the number seems high, especially in light of workforce reductions and furloughs being considered in other agencies, a breakdown of these new positions reveals that most are tied to major initiatives supported by both Councils and/or result in little to no impact on rates for various reasons.

Table 7:
New WSSC Positions Proposed for FY11

Category	Positions	Rate Impact	Comment
Systems Enhancement Unit	38	None	movement of work/costs in-house for water reconstruction & to provide more staff when needed to address water main breaks
Capital Construction	11		
- Project Manager	1	100% Capital	sewer reconstruction program
- Civil Engineers	2	100% Capital	sewer reconstruction program
- Contract Managers	4	100% Capital	To support Proposed CIP
Plant Operations	5	Yes	Based on a review of CAP reduction assumptions and current needs
Potomac WFP	3		
Damascus/Hyattstown	2		
Utility Master Plan	3	Yes	Ramp-up of multi-year effort
Surveys	1	Partial	Mostly offset by reduction in use of outside services
Engineering Records	1	Partial	Partially offset by reduction in use of outside services
Corrosion Monitoring	1	Yes	Expanded program
Maintenance	1	Yes	Increased effort
IT	4	None	Fully offset by reduction in consultant costs
Cross Connection Program	5	Partial	Will eventually ramp up to 19 positions. Substantially offset by fee revenues
Ethics Officer (Part-Time)	1	Yes	To relieve the General Counsel and Internal Audit
Total	71		

As shown in the chart, only a handful of the positions would impact rates. The 38 system enhancement positions are expected to have no rate impact at all as they are basically a conversion of contractual support to in-house staff. The 4 new IT positions would be fully offset by a reduction in

outside consultant costs. The 11 capital positions would be funded out of the CIP and therefore would not directly affect rates either. The 5 initial cross connection program positions would be largely offset by fee increases. Several of the other positions would be offset by reductions in the need for outside consultant services.

Plant operations positions were greatly reduced as part of the Competitive Action Program (CAP) within the last decade. However, WSSC has reviewed the assumptions of the CAP program and identified some gaps that warrant attention now to be addressed by 5 new positions.

The utility master plan effort is moving into a phase involving the development of approximately 116 asset management plans. This work is intended to assist WSSC in making better and more efficient long-term decisions regarding infrastructure maintenance and replacement.

The one position that Council Staff believes should be deferred, given current fiscal conditions, is the Ethics Officer position. The General Counsel and Internal Audit departments currently fulfill the responsibilities assumed to be addressed by this position. Council Staff suggests that in the current fiscal environment, any positions not contributing directly to service delivery and public health and safety (and/or for which the costs are not substantially offset by fees or reductions in other costs) should be deferred at this time.

Customer Impact

With regard to the impact on the WSSC ratepayer, the following chart shows that each 1.0% rate increase adds about 54 cents per month to an average residential bill (\$1.62 to a quarterly bill and \$6.49 annually).

**Table 8:
Impact of Rate Increases in FY11
on Avg. Residential Customer Bill**

% Increase	Impact			
	Monthly	Quarterly	Annual	
1.0%	\$0.54	\$1.62	\$6.49	Impact of 1% Change
8.0%	\$4.33	\$12.99	\$51.94	PG County FY11 SCL
8.5%	\$4.60	\$13.80	\$55.19	WSSC Proposed FY11
9.9%	\$5.14	\$15.42	\$61.68	MC Council FY11 SCL
Current Avg. Bill	\$56.04	\$168.12	\$672.49	

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

The effect of WSSC’s proposed 8.5% rate increase on the average quarterly residential bill is about \$4.60 per month (\$13.80 quarterly or \$55.19 annually). The impact at the Prince George’s Council and Montgomery Council recommended rates are also shown on the chart.

Closing the Gap

Each 1% of rate increase provides an estimated \$4.4 million in revenue. Therefore, a revenue gap of approximately \$11 million had to be closed to get from WSSC’s “base” case scenario of an 11% increase down to the 8.5% rate increase.

Given the spending affordability decisions by both Councils last fall, WSSC's internal budget process resulted in departmental submissions requiring approximately a 10.3% rate increase. Reduced debt service based on actual rates since September 2009 resulted in further savings down to about a 9.5% rate increase requirement.

The WSSC Transmittal letter on ©3 provides a list of reductions required to get from a 9.5% rate increase down to an 8.5% rate increase. While the highest priority items (such as large diameter pipe inspections and fiber optic monitoring and the continued ramp up of water and sewer reconstruction) were spared, there are some items with significant impact. Some Council Staff comments are provided below.

- **Elimination of High Bill Adjustment (-\$1.0 million):** This is a discretionary program that provides one-time relief to homeowners who experience large increases in water usage as a result of water leaks which may not be detected or repaired until after a substantial amount of water has been lost. Because WSSC does not have advanced meters in most homes that can be read remotely (by WSSC or the customer) on a daily basis, water leaks can go undetected between meter readings. **Council Staff believes that this program is meritorious and should be continued if funds are available. Since a rate increase beyond 8.5% is unlikely given the bi-County nature of the budget approval process, Council Staff suggests that if furloughs are approved for WSSC employees, that the savings be used to fund this program.**
- **Sale of Excess Renewable Energy Credits (RECs) (-\$474,000):** The current REC market is down and WSSC is not likely to achieve the savings suggested here at today's prices. However, the market may turnaround in the coming months, and the sale of excess RECs is a reasonable option (assuming WSSC continues to meet the agreed-upon clean energy purchase goal of 20 percent in FY11).
- **Elimination of Merit Increases for Employees (-\$926,000):** Given what is happening with other County Government budgets, this reduction appears reasonable.
- Several of the cuts involve reductions in existing programs (Miss Utility, pipe armoring, street repair, etc.). While some prioritization of efforts will be needed, WSSC staff believe these cuts are manageable assuming typical conditions in FY11.

Summary of Council Staff Recommendations

- **Council Staff concurs with WSSC's assumption to maintain current System Development Charge rates for FY11 at FY10 levels but to increase the maximum chargeable rate (the rate the charge could be increased in the future) by a CPI adjustment as allowed for under State law.**
- **Council Staff recommends approval of the FY11 WSSC budget with an assumed 8.5 percent rate increase as proposed by WSSC. However, Council Staff recommends the following changes within the Proposed Budget:**

- **Defer creation of a new Ethics Officer position.**
- **The issue of potential furloughs for WSSC employees should be discussed by the MFP Committee during its cross-agency review of compensation and benefits for FY11. WSSC estimates a savings of approximately \$246,000 per day (assuming plant and union workers are not furloughed). The savings could be higher if the furlough were broadened to more employees.**
- **Council Staff suggests that any cost reductions in the WSSC budget (such as furlough savings) should be used to offset other WSSC expenditure issues, such as retention of the high bill adjustment program and/or increases in the Energy Tax. Additional savings could also revert to fund balance to cover possible contingencies (such as revenue shortfalls or other future expenditure needs).**

Attachments

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Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5902
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

March 10, 2010

To The Honorable:

County Executives of Montgomery
and Prince George's Counties

President, Chair, and Members
of the County Councils of
Montgomery and Prince George's Counties

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2011 (FY'11) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). A preliminary FY'11 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 3, and Thursday, February 4, 2010. On March 1, 2010, the Commission voted on a Fiscal Year 2011 Proposed Budget, and an abridged budget document was forwarded to Montgomery and Prince George's Counties. This FY'11 complete Proposed WSSC Budget is now submitted to the County Executives and Councils of Montgomery and Prince George's Counties for hearings and other procedures as directed by Section 1-204, Article 29, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2010.

The Commission's commitment to our customers both now and in the future is incorporated in the programs, goals and objectives included in this budget. This proposed budget reflects our continued focus on providing safe and reliable water, returning clean water to the environment, and doing it in an ethically and financially responsible manner.

However, our fiscal challenges include funding for water and sewer infrastructure improvements, cost increases at regional sewage disposal facilities where WSSC has purchased capacity, increased costs of Sanitary Sewer Overflow Consent Decree compliance, and continued implementation of an Enterprise Resource Planning/Enterprise Asset Management System (this is a major

initiative that unifies and automates the Commission's financial and human resources, business and production processes and other information systems more effectively so that we can allocate and manage our assets to achieve our goals at the lowest cost). The Proposed FY'11 combined average 8.5% rate increase will add approximately \$4.60 per month to the average residential customer's bill. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table IV (page 11).

Water and Sewer Infrastructure

The state of the WSSC's infrastructure remains a significant concern. We continue to work with stakeholders in both counties to develop a long-term funding solution to meet the WSSC service area's infrastructure needs. In the interim, this budget includes additional rate-supported funding for both the water and sewer reconstruction programs, which focus on small diameter pipe and appurtenances, as well as two new capital projects for large diameter water and sewer pipe rehabilitation. It also continues to include funding for inspection and repair of critical water and sewer infrastructure, including the WSSC's award-winning large water main inspection program.

WSSC is likely to continue to experience high numbers of water main breaks, especially in the winter, until substantially more water main replacement work is accomplished. As part of our continuing effort to provide the highest quality service to our customers, we are proposing to shift six miles of water main replacement work from contractors to in-house crews, doubling the amount replaced by in-house crews at no additional cost. This shift to in-house staff will enable us to use our water main replacement crews for water main break repairs during periods when large numbers of water main breaks have an impact on our customers. This shift in approach toward water main replacement will allow us to maintain our momentum in this program while providing better overall service to our customers at the same cost or less.

FY'11 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'11 includes an 8.5% rate increase. Spending affordability limits adopted by the two County Councils specified a maximum 8.0% rate increase by the Prince George's County Council and a maximum 9.9% rate increase by the Montgomery County Council. WSSC's Preliminary Proposed Budget, which was published for public hearing purposes, included a 9.5% rate increase. We recognize that these are difficult economic times for many in the bi-county area, and this proposed budget is striving to balance the additional financial impact on our customers with the overall benefit to our customers of the planned operating and capital programs we believe are necessary to support water and sewer services.

Because of the significant expenditure reductions incorporated into the FY 2010 budget, expenditure reductions to attain a smaller rate increase are much more difficult this year. Last year's cuts, totaling \$67 million, are generally not available to cut again from the FY'11 budget because of their elimination from the expenditure base utilized in compiling this budget. To reduce the rate

increase from 9.5% to 8.5%, a number of difficult reductions had to be made. We will work to ensure that these reductions do not adversely affect services to our customers but they may result in slowing the pace of certain projects and repairs/improvements (trunk sewer inspections, sewer pipe armoring, and street repair.) High bill adjustments have been something that WSSC provided as a courtesy to certain qualifying customers who experience bills with usage at least 3 times their normal usage (oftentimes attributable to a plumbing leak). These courtesy adjustments will unfortunately be eliminated under the Proposed Budget for FY'11. We will also sell some of the Renewable Energy Credits from our wind power program which will not have a direct impact on our customers, but will result in a smaller overall environmental benefit.

To reduce the rate increase to the 8.5% level, the following adjustments were made (listed in order of magnitude on water and sewer rate impact):

	<u>Total</u>	<u>Water & Sewer Rate Impact</u>
Eliminate high bill adjustment program for customers	\$ 1,000,000	\$ 1,000,000
Eliminate merit increases for employees	926,000	\$ 727,300
Sell excess Renewable Energy Credits	474,000	474,000
Miscellaneous debt service adjustments *	390,000	390,000
Reduce Miss Utility budget	388,000	388,000
Reduce trunk sewer inspections	320,000	320,000
Eliminate funding for various Information Technology projects	370,000	303,400
Reduce sewer pipe armoring** expenses	314,200	293,000
Reduce street repair (paving) budget	218,400	218,400
Reduce miscellaneous staff office expenses	76,500	61,300
Reduce materials budget	100,000	43,000

* Resulting from timeline adjustments on some debt-funded capital projects.

** Pipe armoring is the protection (pipeline protection, streambank stabilization, etc.) of WSSC infrastructure that has become exposed along stream beds due to erosion or stormwater runoff.

Comparative Expenditures by Fund

	FY'10 Approved	FY'11 Proposed	FY'11 Over / (Under) FY'10	%
				Change
<u>Capital Funds</u>				
Water Supply	\$147,484,000	\$181,815,000	\$34,331,000	23.3%
Sewage Disposal	191,008,000	276,524,000	85,516,000	44.8%
General Construction	32,660,000	36,361,000	3,701,000	11.3%
Total Capital	371,152,000	494,700,000	123,548,000	33.3%
<u>Operating Funds</u>				
Water Operating	234,925,000	243,455,000	8,530,000	3.6%
Sewer Operating	285,807,000	300,920,000	15,113,000	5.3%
Interest & Sinking	69,799,000	61,175,000	(8,624,000)	(12.4%)
Total Operating	590,531,000	605,550,000	15,019,000	2.5%
GRAND TOTAL	\$961,683,000	\$1,100,250,000	\$138,567,000	14.4%

The FY'11 Proposed Capital Budget of \$494.7 million represents an increase of \$123.5 million (33.3%) from the FY'10 Approved Budget. The increase is primarily attributable to higher estimates for the new digester and Enhanced Nutrient Removal projects at DCWASA's Blue Plains Wastewater Treatment Plant, increases in the Water and Sewer Reconstruction Programs, and the addition of the new Trunk Sewer Reconstruction and Large Diameter Pipe Rehabilitation Programs.

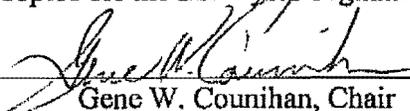
In summary, the FY'11 estimated expenditures for all operating and capital funds total \$1.100 billion or \$138.6 million (14.4%) more than the FY'10 Approved Budget. The FY'11 Proposed Operating Budget of \$605.6 million represents an increase of \$15.0 million (2.5%) from the FY'10 Approved Operating Budget. The increase in the Operating Funds is driven by many factors, including cost increases at regional sewage disposal facilities; Sanitary Sewer Overflow Consent Decree compliance; debt service costs; funding liabilities based on Governmental Accounting Standards Board recommendations for improvements in government accounting; and cost of the third year of a 5-year program to implement an enterprise-wide resource planning/asset management system. The proposed budget provides for:

- Funding the first year of the FYs 2011-2016 Capital Improvements Program as amended by mid-cycle update;
- Promptly paying \$233.1 million in debt service on \$1.7 billion in outstanding debt to WSSC bondholders;
- Meeting or surpassing all federal and state water and wastewater quality standards and permit requirements;
- Keeping maintenance service at a level consistent with the objective of arriving at the site of a customer's emergency maintenance situation within 2 hours of receiving the complaint and restoring service within 24 hours of a service interruption;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Operating and maintaining a system of 3 reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main 24 hours a day, 7 days a week;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Funding the third year of a 5-year program to implement an Enterprise Resource Planning/Enterprise Asset Management System;
- Completing a disparity study to determine whether or not and to what extent remedial programs for past racial and/or gender discrimination are appropriate and also developing a recommended Minority Business Enterprise policy and program based on the disparity study results;
- Funding the fourth year of an 8-year ramp-up to achieve full funding of liabilities for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45;
- Increased funding for the Water and Sewer Reconstruction Programs; and
- Complying with the Sanitary Sewer Overflow Consent Order.

In addition to reviewing expenses and revenues for water and sewer services, we have analyzed the cost and current fee levels for other WSSC services. Based upon these analyses, some new fees and adjustments to current fees are recommended in Table VII (page 14).

Budget Review Process

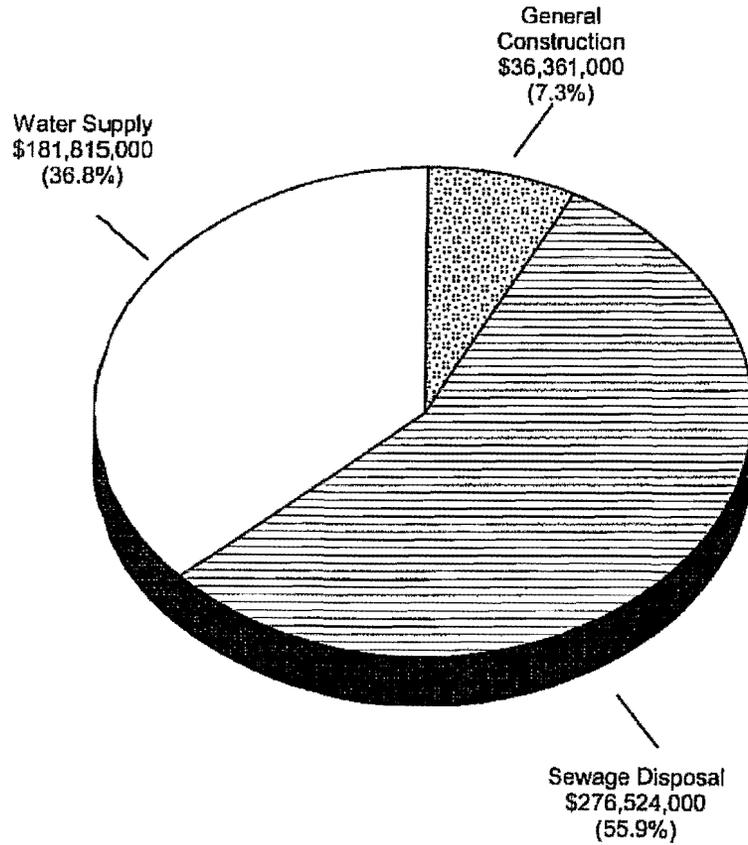
The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 1-204, Article 29, of the Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2010.



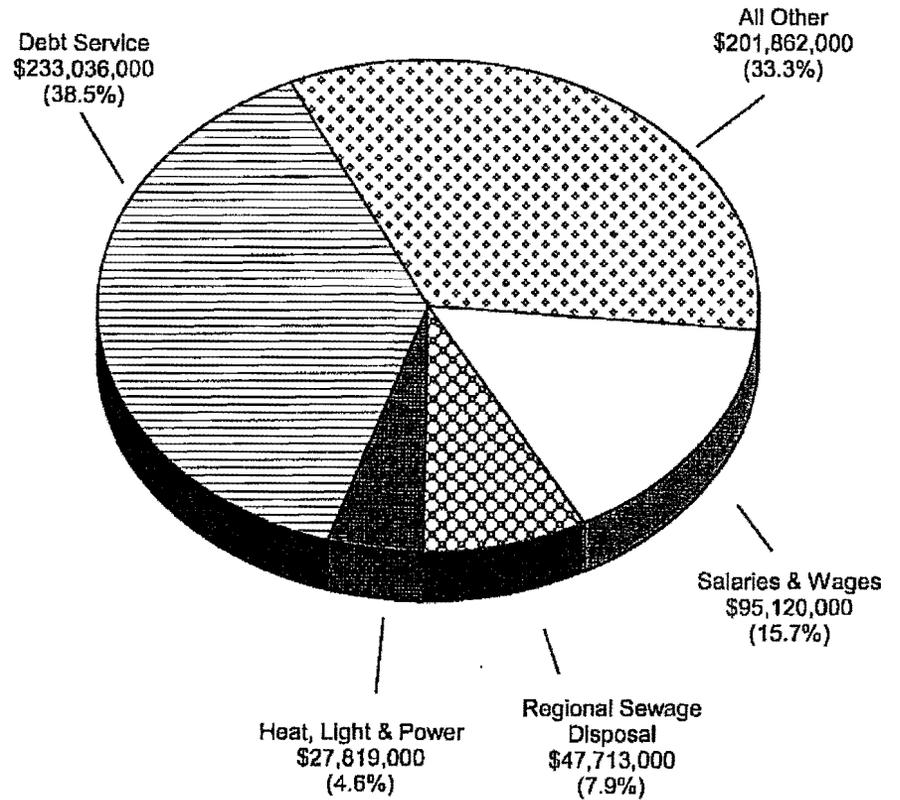
 Gene W. Counihan, Chair
 Washington Suburban Sanitary Commission

FY 2011 PROPOSED BUDGET

CAPITAL = \$494,700,000



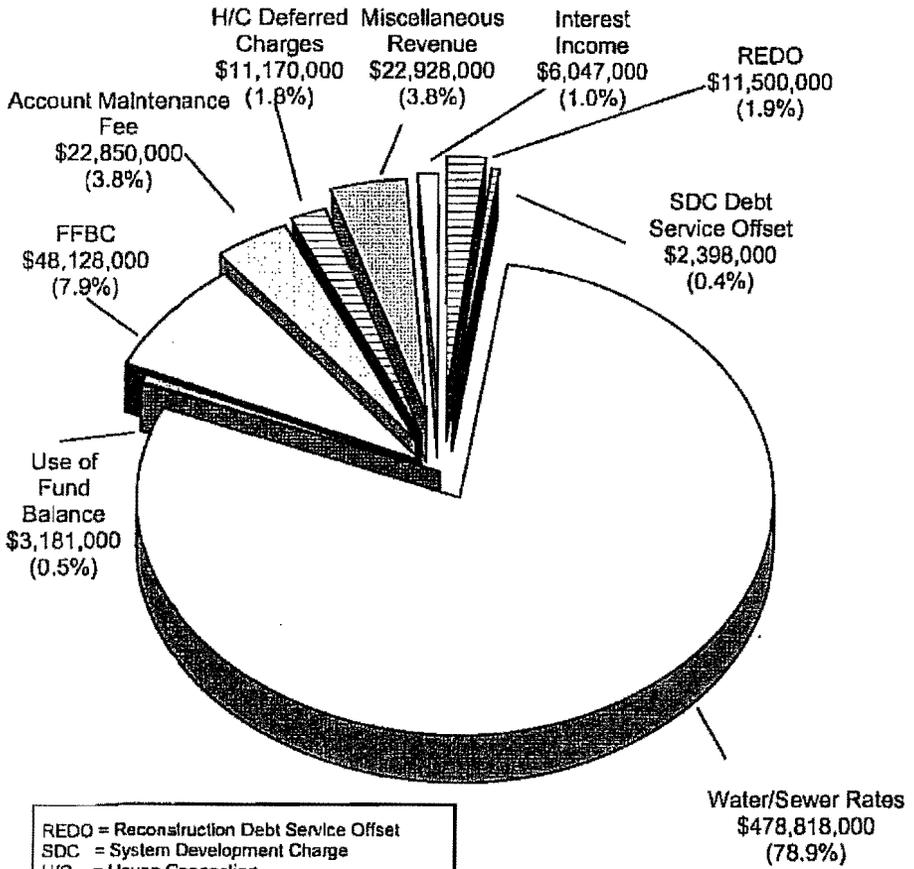
OPERATING = \$605,550,000



GRAND TOTAL = \$1,100,250,000

FY 2011 PROPOSED BUDGET OPERATING

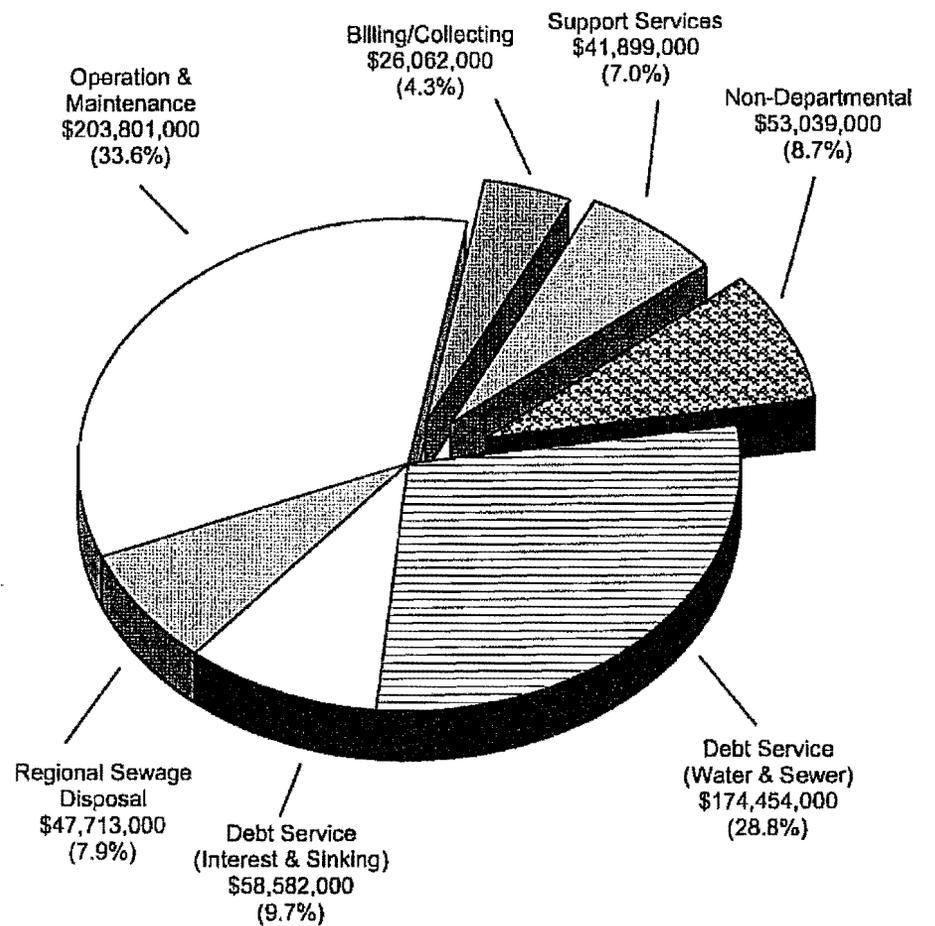
FUNDING SOURCES



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

TOTAL SOURCES = \$607,020,000

FUNDING USES



TOTAL USES = \$605,550,000

TABLE I

Comparative Expenditures by Fund

	FY'08 Actual	FY'09 Actual	FY'10 Approved	FY'11 Proposed	FY'11 Over / (Under) FY'10
Capital Funds					
Water Supply	\$ 88,908,000	\$ 106,490,000	\$ 147,484,000	\$ 181,815,000	\$ 34,331,000
Sewage Disposal	71,705,000	82,687,000	191,008,000	276,524,000	85,516,000
General Construction	22,668,000	24,271,000	32,660,000	36,361,000	3,701,000
Total Capital	183,281,000	213,448,000	371,152,000	494,700,000	123,548,000
Operating Funds					
Water Operating	191,756,000	202,411,000	234,925,000	243,455,000	8,530,000
Sewer Operating	239,386,000	254,852,000	285,807,000	300,920,000	15,113,000
Interest & Sinking	76,980,000	73,928,000	69,799,000	61,175,000	(8,624,000)
Total Operating	508,122,000	531,191,000	590,531,000	605,550,000	15,019,000
GRAND TOTAL	\$ 691,403,000	\$ 744,639,000	\$ 961,683,000	\$ 1,100,250,000	\$ 138,567,000

TABLE II

Comparative Expenditures by Major Expense Category

(\$ in Thousands)

Expense Categories	FY'09 Actual			FY'10 Approved			FY'11 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Salaries & Wages	\$ 19,245	\$ 87,879	\$ 107,124	\$ 21,507	\$ 91,536	\$ 113,043	\$ 21,705	\$ 95,120	\$ 116,825
Heat, Light & Power	-	26,315	26,315	-	28,422	28,422	-	27,819	27,819
Regional Sewage Disposal	-	44,767	44,767	-	42,224	42,224	-	47,713	47,713
Contract Work	88,197	-	88,197	191,561	-	191,561	262,884	-	262,884
Consulting Engineers	29,151	-	29,151	42,652	-	42,652	62,049	-	62,049
All Other	76,701	158,222	234,923	115,413	191,679	307,092	147,962	201,862	349,824
Debt Service	154	214,008	214,162	19	236,670	236,689	100	233,036	233,136
TOTAL	\$ 213,448	\$ 531,191	\$ 744,639	\$ 371,152	\$ 590,531	\$ 961,683	\$ 494,700	\$ 605,550	\$ 1,100,250

TABLE III

Combined Water/Sewer Operating Funds - FY'11 Proposed Rate Impact

(\$ in Thousands)

(8.5% AVERAGE RATE INCREASE PROPOSED FOR FY'11)

<u>Funding Sources</u>	FY'11 Proposed
<u>Revenues at Current Rates</u>	
Consumption Charges at 170.0 MGD	\$ 441,307
Account Maintenance Fee	22,850
Interest Income	4,000
Miscellaneous Revenues	<u>21,628</u>
Sub-Total	489,785
Reconstruction Debt Service Offset	11,500
SDC Debt Service Offset	2,398
Use of Fund Balance	<u>3,181</u>
Total Funding Sources	<u>506,864</u>
<u>Requirements</u>	
Operating, Maintenance & Support Services Expenses	368,421
Debt Service	174,454
Operating Reserve Contribution	<u>1,500</u>
Total Requirements	<u>544,375</u>
Shortfall to be Covered by Rate Increase	<u>\$ (37,511)</u>
 PROPOSED AVERAGE WATER AND SEWER RATE INCREASE	 8.5%



TABLE IV

Annual Customer Bills At Various Consumption Levels

Average Daily Consumption (ADC) Gallons Per Day	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
100 (36,500 GAL/YR) Residential Meter	\$ 241.10	\$ 253.88	\$ 270.67	\$ 290.74	\$ 310.82
210 (76,650 GAL/YR) Residential Meter	572.12	606.61	651.83	705.49	760.68
500 (182,500 GAL/YR) Residential Meter	1,681.03	1,786.88	1,925.58	2,093.48	2,263.20
1,000 (365,000 GAL/YR) 2" Meter	3,664.20	3,890.50	4,182.50	4,536.55	4,890.60
5,000 (1,825,000 GAL/YR) 3" Meter	18,070.50	19,220.25	20,716.75	22,523.50	24,348.50
10,000 (3,650,000 GAL/YR) 6" Meter	37,667.00	40,039.50	43,142.00	46,901.50	50,661.00

Annual customer bills include the Account Maintenance Fee shown on page 13.



TABLE V

WSSC Water/Sewer Rate Schedules Effective July 1, 2009 & Proposed for Implementation July 1, 2010

(Rates per Thousand Gallons)

(8.5 % AVERAGE RATE INCREASE PROPOSED FOR FY'11)

Average Daily Consumption by Customer Unit During Billing Period (Gallons Per Day)	Water Rates		Sewer Rates		Combined Water & Sewer Rates	
	Current Water Consumption Rate	Proposed Water Consumption Rate	Current Sewer Consumption Rate	Proposed Sewer Consumption Rate	Current Combined Water & Sewer Rate	Proposed Combined Water & Sewer Rate
0-49	\$ 2.21	\$ 2.52	\$ 2.96	\$ 3.09	\$ 5.17	\$ 5.61
50-99	2.48	2.83	3.44	3.59	5.92	6.42
100-149	2.71	3.09	4.05	4.22	6.76	7.31
150-199	3.04	3.47	4.66	4.86	7.70	8.33
200-249	3.55	4.05	5.08	5.30	8.63	9.35
250-299	3.85	4.39	5.49	5.73	9.34	10.12
300-349	4.07	4.64	5.87	6.12	9.94	10.76
350-399	4.25	4.85	6.14	6.40	10.39	11.25
400-449	4.42	5.04	6.28	6.55	10.70	11.59
450-499	4.53	5.16	6.49	6.77	11.02	11.93
500-749	4.61	5.26	6.62	6.90	11.23	12.16
750-999	4.73	5.39	6.76	7.05	11.49	12.44
1,000-3,999	4.82	5.49	7.05	7.35	11.87	12.84
4,000-6,999	4.93	5.62	7.21	7.52	12.14	13.14
7,000-8,999	4.99	5.69	7.32	7.63	12.31	13.32
9,000 & Greater	5.08	5.79	7.51	7.83	12.59	13.62

Current Flat Rate Sewer Charge - \$71.00 per quarter
 Proposed Flat Rate Sewer Charge - \$75.00 per quarter

TABLE VI

Account Maintenance Fees Proposed for Implementation July 1, 2010

<u>Meter Size</u>	<u>Current FY'10 Quarterly Charges</u>	<u>Proposed FY'11 Quarterly Charges</u>
<u>Small Meters</u>		
5/8" to 1-1/2" (Residential)	\$ 11.00	\$ 11.00
<u>Large Meters</u>		
1-1/2" (Commercial)	31.00	31.00
2"	51.00	51.00
3"	92.00	92.00
4"	145.00	145.00
6"	237.00	237.00
8"	379.00	379.00
10" & 12"	458.00	458.00
<u>Detector Check Meters</u>		
2" to 4"	53.00	53.00
6"	73.00	73.00
8"	197.00	197.00
10"	256.00	256.00

TABLE VII

Miscellaneous Fees and Charges – Proposed Changes

The Commission provides a number of services for which separate fees or charges have been established. Recent review of the costs required to provide these services indicates a need to change the amounts charged for some of the services. The fee and charge changes listed below are proposed to be effective July 1, 2010.

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2010</u>
1. Short Form Permit Fee (up to 3 fixtures)	\$50	** \$55
2. Septic Hauler Discharge Permit Sticker		
<u>Category I</u>		
<u>Residential & Septic Waste & Grease</u>		
1 - 49 gallons	\$125/vehicle	** \$140/vehicle
50 - 799 gallons	1,870/vehicle	** 2,060/vehicle
800 - 1,499 gallons	5,100/vehicle	** 5,610/vehicle
1,500 - gallons and up	12,100/vehicle	** 13,310/vehicle
January through June	50% of fee	50% of fee
Transfer and/or Replacement Permit Sticker	50	50
Industrial/Special Waste Disposal Fee	200/1,000 gallons	200/1,000 gallons
Zero Discharge Permit Fee	50	50
3. Small Meter Replacement Fee (at Customer Request)	\$160	** \$170
4. Water Turn-Off, Turn-On Fee		
Small Meter Turn-Off	\$55	** \$60
Small Meter Turn-On	55	** 60
Large Meter Turn-Off	150	** 160
Large Meter Turn-On	150	** 160
5. Fire Hydrant Inspection Fee	\$90/hydrant	\$90/hydrant
Controlled Access Surcharge Fee	-	* 25
6. Charge for Photocopies of WSSC Documents (per copied page)		
Readily Available Source Material	\$.25/page (single side)	\$.25/page (single side)
Certified Copy of Readily Available Source Material	.50/page (single side)	.50/page (single side)
Scanning Documents	-	* .25/page (single side)
(A reasonable fee may be charged for time in excess of two hours expended by WSSC in searching for requested records or preparing such records for inspection and copying.)		

* New Fee
** Changed Fee

TABLE VII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2010</u>
7. Fire Hydrant Flow Test Fee		
No Current Test	\$525	** \$550
Current Test	75	75
8. Shut Down/Charge Water Main Fee	\$750	\$750
Shut Down/Complex Water Main Fee	-	* \$1,400
9. Right-of-Way Release Review Fee	\$725	** \$750
10. Fee for Review and Inspection of Site Work Potentially Impacting WSSC Pipelines		
Simple Review	\$225	\$225
Complex Review	1,400	** 1,500
Inspection	110	110
11. Fee for Approved Manufacturers and Materials Handbook	\$5	** Delete
12. Sewer Meter Maintenance Fee	\$7,880/year	** \$6,400/year
Quarterly Calibrations	2,435/year	** 1,880/year
13. Property Inspection Fee	\$60	** \$65
14. Government Referred Plan Review (previously called Preliminary Plan Review Fee)		
Major Development – Over 10 Units	\$1,100	\$1,100
Minor Development – 10 or Less Units	550	550
15. Warehouse Restocking Fee (previously called Restocking Fee)	\$25	\$25
16. Change Fee for Open Hydraulic Planning Analysis & Amendments (previously called Change Fee for Hydraulic Planning Analysis & Amendments)		
Basic (Both Water & Sewer)	\$300	\$300
Moderate (Both Water & Sewer)	1,000	1,000
Complex (Both Water & Sewer)	2,600	2,600
Basic (Water or Sewer Only)	150	150
Moderate (Water or Sewer Only)	500	500
Complex (Water or Sewer Only)	1,300	1,300
17. Cross Connection Fee	-	* \$10

* New Fee

** Changed Fee

TABLE VII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2010</u>	<u>CURRENT MAXIMUM ALLOWABLE CHARGE</u>	<u>PROPOSED MAXIMUM ALLOWABLE CHARGE</u>
18. *** System Development Charge				
Apartment				
Water	\$896	\$896	\$1,128	\$1,152
Sewer	1,140	1,140	1,437	1,467
1-2 toilets/residential				
Water	1,344	1,344	1,692	1,728
Sewer	1,710	1,710	2,152	2,197
3-4 toilets/residential				
Water	2,240	2,240	2,822	2,881
Sewer	2,850	2,850	3,588	3,663
5 toilets/residential				
Water	3,135	3,135	3,948	4,031
Sewer	3,991	3,991	5,026	5,132
6+ toilets/residential (per fixture unit)				
Water	88	88	111	113
Sewer	115	115	146	149
Non-residential (per fixture unit)				
Water	88	88	111	113
Sewer	115	115	146	149

*** No increase is proposed for the System Development Charge for FY'11 in any category. The maximum allowable charge is being adjusted pursuant to Article 29, Section 6-113(c)(1)(v) of the Annotated Code of Maryland, based on the 2.1% change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for all items in the Washington, D.C. metropolitan area from November 2008 to November 2009.

EXPLANATION OF THE BUDGET

(Continued)

5. New Debt - The debt service estimates for FY'11 assume that \$109.1 million in water, \$181.5 million in sewer, and \$20.0 million in General Construction bonds will be issued in FY'11, in addition to repayment of existing debt. The water and sewer issues will be 19-year bonds with an estimated 6.0 percent net interest rate. The General Construction bonds will be 23-year bonds with the first year's interest capitalized.

6. Salary and Wage Increase - Merit increases are not included in the FY'11 Proposed Budget. In addition, no cost of living adjustment is included in the budget.

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

WORKLOAD DATA	ACTUAL					ESTIMATED						
	FY'05	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16
Water to be supplied (MGD)	168.7	170.5	169.8	168.2	162.3	170.0	170.0	170.5	171.0	171.5	172.0	172.5
Sewage to be treated (MGD)	195.6	185.4	189.2	177.8	178.6	210.7	212.6	214.5	216.4	218.4	220.3	222.0
Water lines to be added by the WSSC (miles)	3	2	13.6**	.2	.5	5	5	5	5	5	5	5
Sewer lines to be added by the WSSC (miles)	3	4	11.4**	1	1.8	5	5	5	5	5	5	5
Water lines to be added – contributed (miles)*	42	38	51	38	23.3	45	45	45	45	45	45	45
Sewer lines to be added – contributed (miles)*	43	48	51	34	26.7	45	45	45	45	45	45	45
Population to be served (thousands)	1,612	1,678	1,692	1,706	1,720	1,734	1,745	1,756	1,768	1,779	1,790	1,801
House connections to be added												
Water	4,787	5,188	5,077	3,884	2,293	5,000	4,000	5,000	5,000	5,000	5,000	5,000
Sewer	4,507	4,723	4,620	3,463	2,006	5,000	4,000	5,000	5,000	5,000	5,000	5,000

* Contributed lines are built by developers and maintained by the WSSC.

** Includes the Marlboro Meadows System (Water 12.6 miles, Sewer 11.4 miles).

EXPLANATION OF THE BUDGET

(Continued)

VII. KEY PROVISIONS OF THE FY'11 BUDGET

The total proposed budget for all funds is \$1.1 billion—\$494.7 million in capital and \$605.6 million in operating. An 8.5 percent average increase in water and sewer rates is required to fund water and sewer operating expenses. The budget provides for:

- Implementing the first year of the FYs 2011-2016 Capital Improvements Program;
- Treating and delivering 170.0 MGD of water to over 442,000 customer accounts in a manner that meets or exceeds the Safe Drinking Water Act standards;
- Treating 212.6 MGD of wastewater and responsibly managing up to 1,000 tons of biosolids per day in a manner that meets or exceeds federal and state permit requirements and regulations;
- Operating and maintaining a system of 3 water reservoirs impounding 14 billion gallons of water, 2 water filtration plants, 7 wastewater treatment plants, 5,500 miles of water main, and 5,400 miles of sewer main, 24 hours a day, 7 days a week;
- Paying the WSSC's share of the cost of operating the District of Columbia Water and Sewer Authority's Blue Plains Wastewater Treatment Plant;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Paying debt service of \$233.1 million—\$174.4 million in the Water and Sewer Operating Funds;
- Increasing the Water and Sewer Reconstruction Programs;
- Funding the third year of a 5-year program to implement an Enterprise Resource Planning/Enterprise Asset Management System;
- Funding the fourth year of an 8-year ramp-up to achieve full funding of liabilities for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;
- Continuing to provide maintenance services at a level consistent with the objective of responding to the customer within 2 hours of receiving notification of a maintenance problem and restoring service to the customer within 24 hours from the time a service interruption occurs;
- Complying with the Sanitary Sewer Overflow Consent Order;
- Answering at least 95 percent of all customer billing calls received;

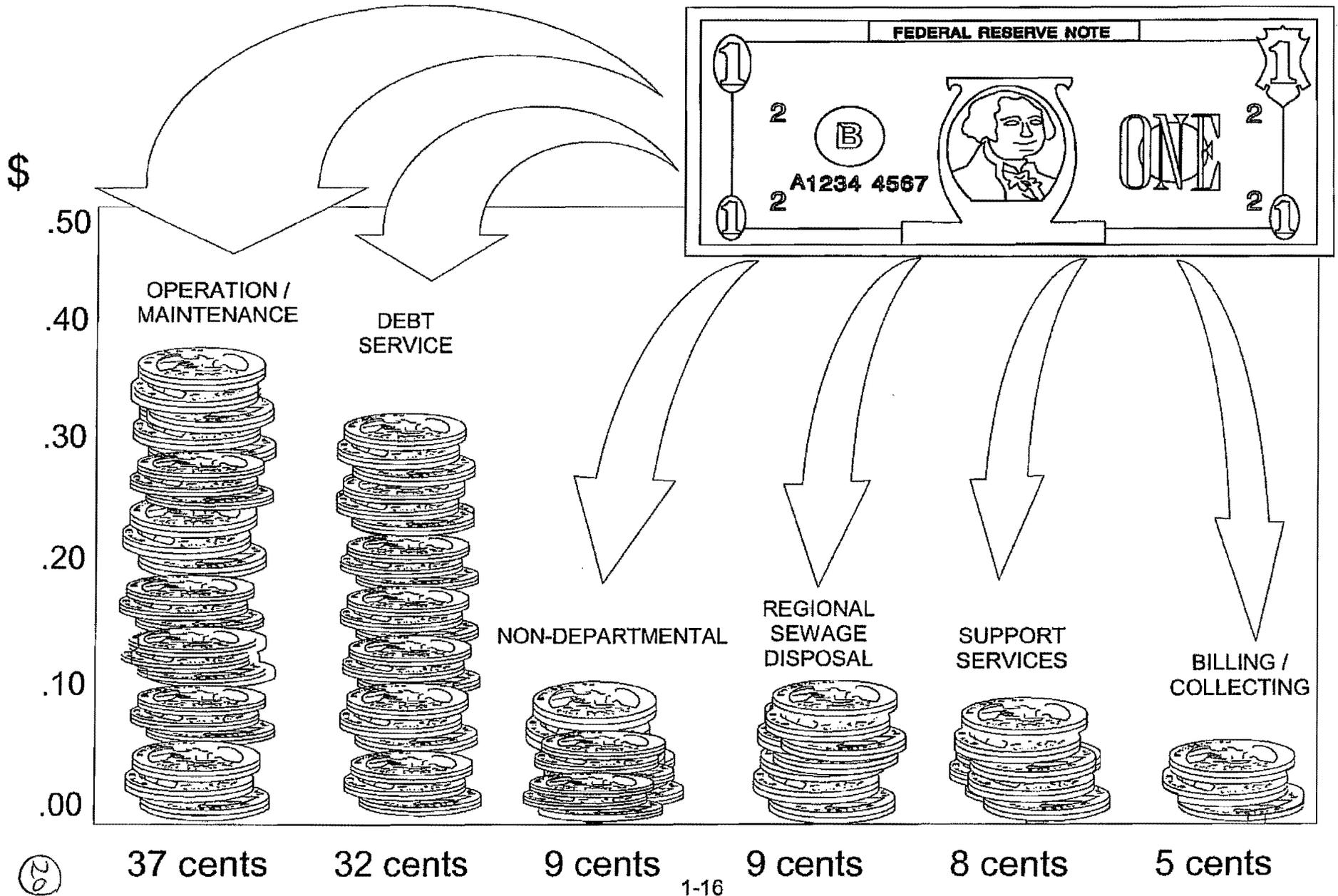
EXPLANATION OF THE BUDGET

(Continued)

- Maintaining and fueling 907 vehicles, maintaining approximately 673 pieces of large field equipment, and operating 6 repair facilities;
- Replacing 18 and purchasing an additional 30 pieces of major equipment which are needed to support construction, operations, and maintenance activities; and
- Replacing 59 and purchasing an additional 44 vehicles which are needed to support construction, operations, and maintenance activities.

FY'11 PROPOSED BUDGET

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



WSSC
COMPARATIVE STATISTICAL DATA

The following actual and budgeted data show the number of customer accounts increasing 2.2% and the population increasing 3.1% from FY'07 to FY'11, with the number of employee workyears increasing 15.3%. The overall size of the system, measured in miles of water and sewer pipe, will have expanded 3.1% from FY'07 to FY'11.

During the years 1997 through 2001, the WSSC significantly cut resources through a Competitive Action Plan. In 1997, actual workyears were 2,015, the number of accounts was 382,404, and the population was 1,466,000. From this perspective, the size of the system and number of accounts will have increased 19.0% and 15.7% respectively from FY'97 to FY'11 while workyears will have decreased 19.0% for the same period. The additional workyears in FY'11 will fill gaps in staffing; and provide WSSC with the means to improve customer service, meet increased regulatory requirements, and expand programs to address aging infrastructure issues.

	<u>FY'07</u>	<u>FY'08</u>	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>	<u>FY'07-FY'11</u> <u>PERCENT</u> <u>CHANGE</u>
Workyears	1,416	1,407	1,428	1,561	1,632	15.3%
Population	1,692,000	1,706,000	1,720,000	1,734,000	1,745,000	3.1%
Customer Accounts	433,113	433,967	433,579	443,967	442,579	2.2%
<u>Size of System</u>						
Miles to be Maintained						
Water	5,365	5,403	5,427	5,498	5,527	3.0%
Sewer	<u>5,250</u>	<u>5,285</u>	<u>5,314</u>	<u>5,385</u>	<u>5,414</u>	3.1%
TOTAL	10,615	10,688	10,741	10,883	10,941	3.1%
Water Production (average mgd)	169.8	168.2	162.3	170.0	170.0	0.1%
Sewage Flows (average mgd)	189.2	177.8	178.6	210.7	212.6	12.4%

SELECTED STATISTICAL DATA

	<u>FY'05</u> <u>ACTUAL</u>	<u>FY'06</u> <u>ACTUAL</u>	<u>FY'07</u> <u>ACTUAL</u>	<u>FY'08</u> <u>ACTUAL</u>	<u>FY'09</u> <u>ACTUAL</u>	<u>FY'10</u> <u>BUDGET</u>	<u>FY'11</u> <u>PROPOSED</u>
Population Served	1,612,000	1,678,000	1,692,000	1,706,000	1,720,000	1,734,000	1,745,000
Customer Accounts	425,407	428,887	433,113	433,967	433,579	443,967	442,579
Water Produced (average MGD)	168.7	170.5	169.8	168.2	162.3	170.0	170.0
Water Produced (millions of gallons)	61,566	62,228	61,795	61,572	59,255	62,050	62,050
Water Mains Maintained (miles)	5,260	5,300	5,365	5,403	5,427	5,498	5,527
Water Mains Constructed (miles added by WSSC)	3	2	13.6*	0.2	0.5	5	5
Water Mains Constructed (miles added by developers)	42	38	51	38	23	45	45
Water House Connections Maintained	422,451	427,639	432,716	436,600	438,893	446,600	447,893
Water House Connections Installed	4,787	5,188	5,077	3,884	2,293	5,000	4,000
Water Meters Issued	21,543	29,730	13,916	16,457	13,458	16,578	15,622
Sewage Systems Total Flow (average MGD)	195.6	185.4	189.2	177.8	178.6	209.9	212.6
Sewage Systems Total Flow (millions of gallons)	71,381	67,682	69,071	65,068	65,201	76,614	77,599
Sewer Mains Maintained (miles)	5,136	5,188	5,250	5,285	5,314	5,385	5,414
Sewer Mains Constructed (miles added by WSSC)	3	4	11.4*	1	1.8	5	5
Sewer Mains Constructed (miles added by developers)	43	48	51	34	27	45	45
Sewer House Connections Maintained	401,580	406,303	410,923	414,386	416,392	424,386	425,392
Sewer House Connections Installed	4,507	4,723	4,620	3,463	2,006	5,000	4,000
Maintenance Work Orders (Emergency and Routine)	95,149	102,165	73,967	93,570	87,942	90,000	90,500
Vehicles in Fleet	816	824	846	853	865	863	907
Miles Traveled by Fleet	6,171,875	6,030,312	6,224,544	5,498,376	5,399,040	6,000,000	5,880,000
Water Meter Readings Completed	1,761,736	1,762,000	1,732,288	1,853,520	1,876,796	1,902,900	1,900,500
Authorized Positions	1,525	1,502	1,532	1,525	1,555	1,561	1,632
Authorized Workyears	1,463	1,458	1,490	1,525	1,555	1,561	1,632
Actual Employment Level - Beginning	1,433	1,383	1,377	1,428	1,434	1,455	
Actual Employment Level - Ending	1,383	1,377	1,428	1,434	1,455		
Actual Workyears	1,405	1,373	1,416	1,407	1,428		

* Reflects the acquisition of the Marlboro Meadows System

Comparative Expenditures by Organizational Unit

	FY'10 Approved		FY'11 Proposed	
	Workyears	Amount	Workyears	Amount
Commissioners Office/Corporate Secretary's Office	2.0	\$ 309,100	3.0	\$ 382,600
Internal Audit	8.0	988,900	8.0	980,100
General Manager	4.0	603,300	4.0	614,600
Intergovernmental Relations Office	5.0	580,400	5.0	581,500
Strategic Systems Management Office	10.0	921,600	10.0	954,800
General Counsel's Office	16.0	3,853,200	16.0	3,806,500
Communications & Community Relations Office	16.0	1,567,800	16.0	1,617,500
Human Resources Office	22.0	3,155,900	22.0	3,114,800
Small, Local and Minority Business Enterprise Office	8.0	656,000	8.0	1,087,900
Fair Practice Office	2.0	172,100	2.0	172,600
Acquisition Office	21.0	1,816,000	21.0	1,752,800
Corporate Asset Management Office	15.0	13,097,200	15.0	11,672,100
Engineering & Construction Team	303.0	353,816,100	319.0	467,566,100
Production Team	280.0	144,956,000	288.0	150,663,100
Logistics Office	173.0	26,731,500	177.0	25,933,900
Finance Office	62.0	5,377,700	62.0	5,400,800
Customer Care Team	535.0	77,471,400	573.0	95,210,400
Information Technology Team	79.0	19,502,600	83.0	18,817,800
Non-Departmental (Finance)	-	31,930,300	-	33,840,200
Non-Departmental (Human Resources)	-	25,910,800	-	29,652,200
Debt Service	-	236,688,500	-	233,136,000
Depreciation Expense	-	10,078,600	-	11,791,700
Operating Reserve Contribution	-	1,500,000	-	1,500,000
SUMMARY-TOTAL	1,561.0	\$ 961,683,000	1,632.0	\$ 1,100,250,000

Comparative Personnel Complement by Organizational Unit

	<u>FY'09 Actual</u>		<u>FY'10 Approved</u>		<u>FY'11 Proposed</u>	
	<u>Positions</u>	<u>Workyears</u>	<u>Positions</u>	<u>Workyears</u>	<u>Positions</u>	<u>Workyears</u>
<u>Commissioners Office/Corporate Secretary's Office</u>	*8	2.0	*8	2.0	*9	3.0
Internal Audit	8	7.2	8	8.0	8	8.0
<u>General Manager</u>	4	3.0	4	4.0	4	4.0
Intergovernmental Relations Office	5	4.1	5	5.0	5	5.0
Strategic Systems Management Office	10	7.7	10	10.0	10	10.0
General Counsel's Office	16	14.7	16	16.0	16	16.0
Communications & Community Relations Office	16	15.0	16	16.0	16	16.0
Human Resources Office	22	23.4	22	22.0	22	22.0
Small, Local and Minority Business Enterprise Office	8	6.7	8	8.0	8	8.0
Fair Practice Office	2	2.0	2	2.0	2	2.0
Acquisition Office	21	15.7	21	21.0	21	21.0
Corporate Asset Management Office	15	7.3	15	15.0	15	15.0
Engineering & Construction Team	302	272.2	303	303.0	319	319.0
Production Team	278	266.8	280	280.0	288	288.0
Logistics Office	173	146.1	173	173.0	177	177.0
Finance Office	62	56.8	62	62.0	62	62.0
Customer Care Team	532	504.3	535	535.0	573	573.0
Information Technology Team	79	73.1	79	79.0	83	83.0
SUMMARY-TOTAL	<u>1,555</u>	<u>1,428.1</u>	<u>1,561</u>	<u>1,561.0</u>	<u>1,632</u>	<u>1,632.0</u>

* Commissioners (6) not included in total positions.

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Customer Characteristics

As of December 2009, the Commission had 434,263 active customer accounts. The vast majority of these—94.8%—are residential users, another 4.7% are commercial and industrial customers, and 0.5% involve government facilities. Three quarters (74.6%) of the Commission’s customer accounts consist of single-family residences, with townhouses, garden apartments, high-rise and other apartments, and commercial properties comprising most of the remainder.

WSSC Active Customer Accounts
(As of December 2009)

	<u>Number of Customer Accounts</u>	<u>Percentage of Accounts</u>
Total Customer Accounts	434,263	100.0%
By Type of Customer		
Residential	411,622	94.8%
Commercial and Industrial	20,521	4.7%
Government	2,120	0.5%
By Type of Property		
Single-Family Residence	324,052	74.6%
Townhouse	79,775	18.4%
General Commercial	20,521	4.7%
Garden Apartment	4,085	1.0%
Multi-Unit (Individually metered)	3,133	0.7%
High-Rise Apartment	470	0.1%
Other	2,227	0.5%

Washington Suburban Sanitary Commission

MISSION STATEMENT

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

WSSC'S PROPOSED BUDGET

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

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

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

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

ACCOMPLISHMENTS AND INITIATIVES

- ❖ *Operate and maintain a system of 3 reservoirs impounding 14 billion gallons of water, 2 major water filtration plants, 7 wastewater treatment plants, 5,500 miles of water mains, and 5,400 miles of sewer mains 24 hours a day, 7 days a week.*
- ❖ *Treat and deliver 170.0 million gallons of water per day to over 442,000 customer accounts, and treat 212.6 million gallons of wastewater per day in a manner that meets or surpasses all Federal and State water and wastewater quality standards and permit requirements.*
- ❖ *Continue to provide maintenance services at a level consistent with the objective of responding to the customer within 2 hours of receiving notice of a major problem and restoring service to the customer within 24 hours from the time a service interruption occurs.*
- ❖ *Undertake a six-year Capital Improvement Plan that incorporates 7 new Montgomery County and Bi-County projects, including major new projects for reconstruction of trunk sewers and for rehabilitation of large diameter water mains.*
- ❖ *Inspect, repair, and install acoustic fiber optic cable (an early warning system) for 15 miles of large diameter pre-stressed concrete cylinder pipe (PCCP) water mains. This program is especially important in view of the recent catastrophic failures of two large PCCP water mains in Montgomery County.*
- ❖ *Continue to renew WSSC's underground infrastructure through the Water and Sewer Reconstruction Programs. In FY11, the Commission will reconstruct 36 miles of small water mains (5 more miles than in FY10) and rehabilitate 42 miles of sewers.*
- ❖ *Comply with the Sanitary Sewer Overflow Consent Order.*

- ❖ **Fund the third year of the five-year program to implement an Enterprise Resource Planning/Enterprise Asset Management system.**
- ❖ **Fund the fourth year of the eight-year phase-in to achieve full funding for liabilities related to post-employment benefits other than retirement, based on Governmental Accounting Standards Board Statement No. 45, and continue to increase the operating reserve from 5% to 10% of water and sewer rate revenues.**
- ❖ **Fund the above activities and initiatives in conjunction with an 8.5% rate increase, consistent with the Spending Control Limit recommended by the County Executive and approved by the County Council.**

Spending Control Limits

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

The Montgomery and Prince George's County Councils adopted different FY11 spending control limits for WSSC. The following table shows the FY11 spending control limits adopted by each of the Councils, compared to the spending control results projected under WSSC's Proposed Budget and the County Executive's Recommended Budget for WSSC. The Commission's Proposed Budget complies with three of the four spending control limits approved by Montgomery County but exceeds the limit on new water and sewer debt because of the need to incorporate increased expenditures for the six Blue Plains projects included in WSSC's January, 2010 mid-cycle update of its FY11-16 Capital Improvements Program.

FY11 Spending Control Limits Comparison				
SPENDING CONTROL LIMITS	Approved Spending Control Limits		Projected Levels Under:	
	Montgomery County	Prince George's County	WSSC Proposed Budget	County Executive Recommended Budget
Maximum Average Water/Sewer Rate Increase	9.9%	8.0%	8.5%	8.5%
New Debt (\$millions)*	\$273.3	\$273.3	\$290.6	\$290.6
Water and Sewer Debt Service (\$millions)	\$175.8	\$175.8	\$174.5	\$174.5
Total Water and Sewer Operating Expenses (\$millions)	\$549.2	\$536.1	\$544.4	\$544.4

*New debt includes a system completion factor of 80%, except for reconstruction bonds, where the completion factor is 100%.

FY11 COUNTY EXECUTIVE RECOMMENDATIONS

Capital Budget

The County Executive recommends approval of WSSC's proposed FY11 capital budget of \$494.7 million, including the Commission's mid-cycle update to its proposed FY11-16 CIP. WSSC's budget incorporates the County Executive's January 15, 2010 recommendation on WSSC's FY11-16 CIP for a \$35.65 million increase in the total estimated FY11 cost of the six Blue Plains Advanced Wastewater Treatment Plant projects to align them with the updated amounts shown in the District of Columbia Water and Sewer Authority's Proposed FY09-18 CIP.

WSSC's Proposed FY11 Capital Budget provides funds for reconstruction of 36 miles of small water mains and the rehabilitation of 42 miles of small sewers. The County Executive supports these critical efforts to renew WSSC's aging underground infrastructure.

Operating Budget

The County Executive recommends approval of WSSC's proposed FY11 operating budget of \$605.6 million, which reflects an 8.5% average increase in water and sewer rates. The budget provides for the inspection, repair, and fiber optic cabling of 15 miles of large diameter pre-stressed concrete cylinder pipe (PCCP) water mains, a key priority in view of the recent catastrophic failures of such pipes in Montgomery County.

FY11 fiscal projections for all funds and budgets are shown on the next page. Six-year projections for the Water and Sewer Operating Budget are not available at this time from WSSC.

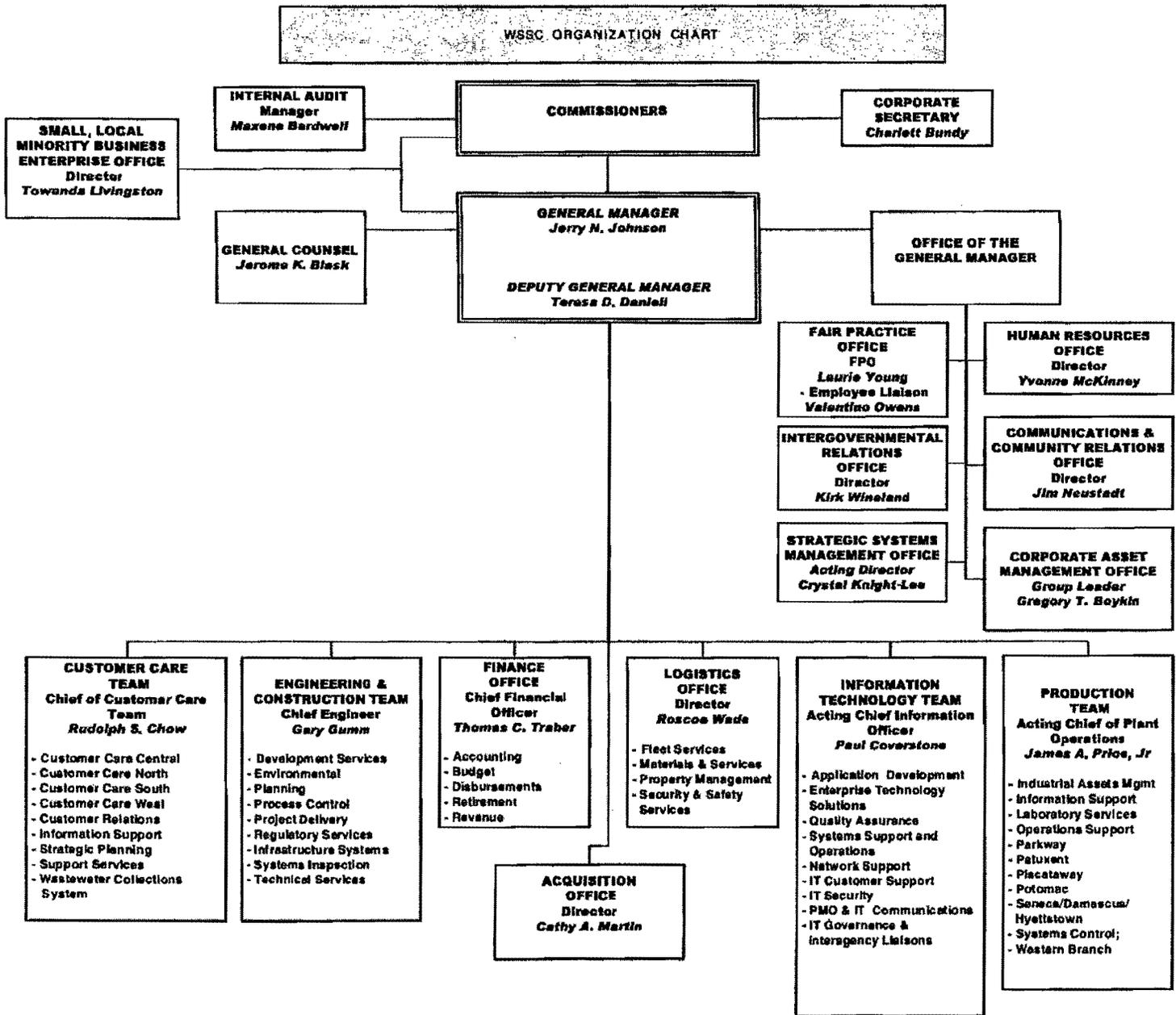
Expenditures by Category - FY11 WSSC Proposed and Executive Recommended							
(\$000s)							
Expenditure Categories	WSSC Total	WSSC Total	WSSC Total	CE Capital	CE Operating	CE Total	% Chg. (CE Rec. vs. WSSC Proposed)
	Actual FY09	Approved FY10	Proposed FY11	Rec. FY11	Rec. FY11	Rec. FY1	
Salaries and Wages	107,124	113,043	116,825	21,705	95,120	116,825	0.0%
Heat, Light, & Power	26,315	28,422	27,819	--	27,819	27,819	0.0%
Regional Sewage Disposal	44,767	42,224	47,713	--	47,713	47,713	0.0%
Contract Work	88,197	191,561	262,884	262,884	--	262,884	0.0%
Consulting Engineers	29,151	42,652	62,049	62,049	--	62,049	0.0%
All Other	234,923	307,092	349,824	147,962	201,862	349,824	0.0%
Debt Service	<u>214,162</u>	<u>236,689</u>	<u>233,136</u>	100	<u>233,036</u>	<u>233,136</u>	0.0%
Total Budget	744,639	961,683	1,100,250	494,700	605,550	1,100,250	0.0%

Note: Expenditures include water and sewer operating funds, interest and sinking fund, and the three capital funds.

PROGRAM CONTACTS

Contact Sheila Cohen of the Washington Suburban Sanitary Commission at 301.206.8167 or John Greiner of the Office of Management and Budget at 240.777.2765 for more information regarding this agency's capital and operating budgets.

WSSC ORGANIZATION CHART



**WSSC
FY 2011 NEW POSITION JUSTIFICATIONS**

ETHICS

1 Ethics Officer (Part-Time)

A part-time Ethics Officer is requested to help the Commission achieve mission-critical objectives in an ethically responsible manner. Presently, the duties of a part-time Ethics Officer are shared by Internal Audit and The General Counsel's Office. The resources used by Internal Audit to support the Board of Ethics have a negative impact on the number of planned audit engagements that can be performed within a fiscal year. For every hour used to provide this support, an equivalent number of hours are taken away from the annual risk-based audit plan. These hours could have been used to complete operational, financial, and/or compliance audits and contribute to the mitigation of risk for the numerous auditable operational areas of the Commission.

PLANT OPERATIONS

Potomac Plant Operations

3 Workyears – 1 Sr. Water Plant Operator, 1 Electrical & Mechanical Technician, 1 Water Plant Operator

As a result of the Competitive Action Program (CAP) Initiative, the Potomac Plant Staffing level was reduced by 47% between 1996 and 2006. In 1996, the Plant had 45 positions. The current level is 26 authorized positions. A review of the assumptions used in the CAP Initiative to reduce staffing levels at the Plant reveals significant gaps, some of which are listed in the table below.

Assumption	Reality
Operations and maintenance of the Solids Handling Building would be contracted out	The Solids Handling Building is manned daily by a Facility Technician and Maintenance Worker
No need to conduct basin maintenance including hosing out basins	Basin maintenance is done daily
Production levels and flow patterns will remain the same	The Derceto Energy Management System is heavily reliant on staff participation. Operators must continuously monitor the system and start and stop water pumps, altering plant flow pattern, a significant number of times daily to capture energy savings.
Only current (1996) EPA/ OSHA/ etc. rules and regulations are accounted for	Since 1996, The Interim Enhanced Surface Water Treatment Rule became effective in 2001 and the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long Term 2 Enhanced Surface Water Treatment Rule were promulgated. All of these initiatives have had or will have a significant impact on manpower requirements.

In addition to gaps in CAP assumptions, training requirements and security considerations after the events of September 11, 2001 have also adversely impacted manpower requirements. It is worth noting that new ultraviolet disinfection facility implementations at the plant are required for regulatory compliance and are not geared to replace staffing. In fact, this new technology increases the hours related to operational and maintenance duties by approximately 2.67 workyears.

Damascus/Hyattstown Operations

1 Facility Technician I

The Damascus and Hyattstown workforce is authorized for 4 positions. The Damascus plant is staffed 10 hours per day, 7 days per week, while the Hyattstown plant is visited 7 days per week. It is requested that an additional Facility Technician be added to this crew in order to meet the operational and maintenance needs of the two plants.

In the early 1980's, when the plant was staffed 24 hours per day, the Damascus staffing strength was between 8 and 11 positions. In 1993, the plant implemented the first unstaffed operations for a large plant in the Commission, from 1 AM to 5 AM, reducing the staff to 7 positions. In 1998, after the startup of the new Damascus plant, and the commissioning of the Hyattstown plant, staffed operation was reduced to 12 hours per day, and authorized positions were dropped to 5 positions. In an effort to further reduce costs, the authorized staffing level was reduced from 5 to 4 in 2003. This reduction was too severe as it does not allow for coverage when vacations are scheduled and/or lengthy medical leave is needed, without necessitating major disruptions to the work schedule and/or authorization of overtime.

1 Lead Instrumentation/Electronics Technician

The Lead Instrumentation/Electronics Technician position is requested to combat the increasing workload being placed on the Instrumentation Unit as WSSC's plants and facilities increase their reliance on industrial automation systems. Additionally, this position will develop and maintain standards for field instruments and control systems used throughout WSSC as well as provide instrumentation guidance and direction for all WSSC construction projects that includes instrumentation equipment.

UTILITY MASTER PLAN

3 Workyears: 1 Water Facilities Asset Strategy Manager, 1 Wastewater Facilities Asset Strategy Manager, 1 Asset Management Business Improvement Manager

Three positions are being requested to support Phase 2 of the Utility Master Plan. Phase 2 includes the delivery of 18 projects: development of 5 Asset Management Plans (Piscataway WWTP, Broad Creek WWPS, Broad Creek Basin, Distribution System and Transmission System) and development and implementation of 13 asset management related processes to improve how we manage our assets. The requested positions are as follows:

- Two (2) Facilities Asset Strategy Managers – These positions will lead the development of approximately 116 Asset Management Plans. They will also determine replacement and renewal strategies for wastewater or water facilities, update and refine renewal costs databases and monitor asset lifecycle costs for WSSC's wastewater or water facilities.
- One (1) Asset Management Business Improvement Manager – This position will lead and manage the asset management recommendations for improvement on managing all facilities' assets.

UMP will result in the implementation of a new asset management framework to improve how we manage our assets. These positions have been identified as needed to help in this effort. One of our gaps is insufficient consolidation of needs and recommendations at the organizational level to help make decisions on resources and investment. These positions will help bridge that gap by gathering recommendations and leading discussions on priorities and investment requirements within the Production Team.

SURVEYS

1 Surveys Party Chief

Field survey services range from various surveys, location of missing manholes, locating valves and miscellaneous structures for maintenance, and establishment of horizontal and vertical control. In two years, the number of new detail and as-built surveys completed by our single crew has nearly doubled. In FY'07, we performed 24 Detail (Topographic) Surveys and 73 As-built Surveys. In FY'09, we completed 55 Detail Surveys and 124 As-Built Surveys. In addition, we located and tied down over 200 structures, completed well over 100 additional miscellaneous survey projects, and performed deformation studies on all WSSC dams.

Projects that require flagging or precision leveling necessitate a three person minimum crew size. For the last three years the crew has consisted of two surveyors, therefore, office personnel is often pulled for their regular assignments to assist the existing two person crew. The understaffing of Land Unit operations is causing increased backlog which is resulting in project delays. Supplementing the field personnel will allow the crew to locate at least 50% more assets annually.

Offsetting Costs: Funds dedicated to consulting will be reduced by \$70,000 because added personnel will diminish expenditures on outside services.

ENGINEERING RECORDS

1 Engineering Assistant IV

Organizational changes, staff reductions and inconsistent use of newer technologies have severely interrupted the capture, storing and disseminating of the WSSC's engineering records. The maintenance of these types of engineering records is a necessary function that provides Commission wide support. Engineering and Construction, Customer Care and Production Teams, as well as external consultants and agencies, regularly access our Webmap system to view existing drawings. The information on the plans is used as a reference for new design work, asset

management and repairs. There is no permanent staff dedicated to the maintenance of engineering records functions. Temporary employees have been performing this task but they don't provide needed consistency.

Offsetting Costs: Funds dedicated to consulting will be reduced by \$40,000 because added personnel will diminish expenditures on outside services.

CORROSION MONITORING

1 Senior Corrosion Engineer

This position will manage the expanded Corrosion Monitoring program. Approval of the expansion would move the current Corrosion Monitoring Program to the intended level of complete routine monitoring and repair of approximately 1,300 corrosion monitoring test stations. The test stations monitor how well the existing corrosion protection is functioning and provide an opportunity for remedial measures if necessary to assure the intended useful life of the pipeline is realized. This expansion also provides for planning for a capital program to enhance existing ductile/cast iron mains with cathodic protection to extend their useful life rather than replacing the mains.

1 Sr. Mechanical HVAC Engineer

This position is requested to manage HVAC use and life-cycle cost management; sustain design standards, achieve energy management goals through equipment selection, operations, and maintenance; perform condition assessments of critical HVAC equipment; analyze reliability and implement resultant capital maintenance and operations changes; and ensure equipment performance fulfills all environmental safety codes and standards.

IT

1 Desktop Support Technician, 1 Inventory Specialist, 1 Help Desk Technician, 1 Sr. Help Desk Technician

Five fulltime consultants are used to support a workload that is projected to continue to increase over the coming years. Salary costs for the 4 workyears will be fully offset by the elimination of consultant costs.

CROSS CONNECTION

5 workyears in FY'11: 3 Plumbing Inspectors, 2 Inspection Support Aides

Cross-connections are any permanent or temporary connecting arrangements to any part of a potable water system through which it is possible for contaminants to backflow into the potable water supply. Backflow from a private plumbing system can be caused by an abnormal event in the public system or in the private plumbing system. The U.S. Environmental Protection Agency and other agencies have documented numerous incidents nationally of cross-connection contamination of public water supplies.

As a supplier of public water, WSSC must implement an effective Cross Connection Program (CCP) to protect public safety. The Regulatory Services Group (RSG) intends to bring high hazard facilities into compliance within the first 2 years; the moderate hazard facilities in 5 years and the low hazard facilities in 20 years. After the initial field visit verification of compliance status, WSSC will only conduct office tracking of test reports on an annual basis. The property owners will remain responsible to test and maintain their backflow preventers and submit their records to WSSC for verification of compliance. WSSC's field follow-up inspections will be limited to once in a 5, 10 and 20 year cycle for the high, moderate and low risk facilities respectively.

In summary, a minimum of nineteen (19) positions will be required for full implementation of the CCP, at an estimated total cost of approximately \$3.4 million. WSSC will phase-in a modest sustainable program that will be in full compliance in a 20 year time frame (See Table 1 for proposed staffing, cost and revenue phase-in). Full implementation staffing for the CCP includes:

1. One (1) Inspection Services Unit Coordinator
2. One (1) Senior Cross Connection Inspector plus one (1) existing Sr. Inspector
3. Eleven (11) Cross Connection Inspectors
4. Five (5) Records Management Agents



The CCP will become a fully self-funded program. Based on WSSC's fee estimation (considering fully loaded labor costs) and other practical considerations, it is proposed to establish a new cross connection fee of \$10/test report to provide the necessary funding for this program. The long term revenue from this program is estimated to be \$3,000,000 per year. This is based on \$10 per each test report multiplied by an average of five (5) backflow prevention assemblies per facility and a total of 60,000 facilities. It is estimated that if the inspection program is combined with an active "self-survey program" it may take about 8-10 years for WSSC to benefit from this full revenue, and to incur the full cost of the program.

Practicality and cost effectiveness have been the key factors in developing all aspects of the CCP strategy. One important consideration is the current capabilities of the RSG to conduct cross-connection inspections. Due to the recent downturn in the economy, the plumbing inspectors have had the ability to assist with this program. The forward thinking work force optimization approach used by the management of the inspection services unit has allowed the Commission to benefit from a flexible inspection work force that is fully competent and capable of conducting both plumbing and cross-connection inspections. Since the beginning of FY'09, all WSSC facilities (52 buildings) as well as all Significant Industrial Users currently regulated by the Commission, have been brought into compliance with the cross-connection requirements. We intend to continue on the same path and start from the highest hazard facilities on the list of 60,000 non-residential customers. Although we are uncertain about the total number of daily plumbing inspections that will be required as we move forward, we are committed to fully utilizing the current staff to conduct the maximum feasible number of cross connection inspections. It is important to note that at all times the first priority of the plumbing inspectors will be to conduct plumbing inspections. Considering the uncertainties, we are proposing a step-wise process for hiring new dedicated cross connection inspectors.

Table 1 – Proposed Phase-In of Staffing, Costs and Revenue

Year	FY'10	FY'11	FY'12	FY'13	FY'14	Long-term
New Dedicated Cross Connection Records Management Agents	0	2	1	1	1	5
New Dedicated Cross Connection Inspectors	0	3	3	3	2	11
New Dedicated Sr. Cross Connection Inspector	0	0	1	0	0	1 plus one (1) existing
New Inspection Services Unit Coordinator	0.25*	0	0	0	0	½ work year**
Total fully Loaded Costs	\$365,719	\$1,232,172	\$2,191,965	\$2,924,434	\$3,457,407	\$3,457,407
Incremental Direct Cost of New Employees	\$26,602	\$349,839	\$392,292	\$300,432	\$216,757	N/A
Cumulative Incremental Direct Cost	\$26,602	\$376,441	\$768,733	\$1,069,165	\$1,285,922	\$1,285,922
Revenue ***	0	\$573,000	\$1,146,000	\$1,719,000	\$2,292,000	\$3,000,000

*Assume that the new Unit Coordinator will start on January 1, 2010 so only 50% of their time is charged to this program, thus 0.25% of the salary is estimated for FY'10

** The Unit coordinator will be responsible for cross connection plus plans review and inspection support, thus only ½ work year is charged to the fully loaded cross connection cost.

*** Includes Revenues collected from inspections and also assumes that 2,000 additional facilities will start making annual fee payment as a result of the self survey program. With this assumption, the full revenue will be observed in 2016. As the program proceeds, the fee may need to be adjusted to make the program fully self funded.

CAPITAL CONSTRUCTION

1 Project Manager, 2 Sr. Civil Engineers

These three additional workyears are needed to support the Sewer Reconstruction Program design effort and the associated sewer improvements required by the Consent Decree. With the increased need for consultant support illustrated in the FY'11 CIP projections, more staff will be needed to manage additional consultants. The Unit also has a regular need for individuals to assist with field inspections performed by consultants and verifications to support all the contracts in the Contracts Unit. The additional staff will address this shortfall and assist these individuals already carrying a tremendous workload, thus giving everyone sufficient capacity to effectively manage

all contracts and resolve sewer rehabilitation issues. **These costs 100% capital and are needed to support the sewer reconstruction program.**

4 Contract Managers

The ideal ratio of Contract Manager to Inspectors is 4-5 to 1. The current ratio is 6 to 1. With the addition of 23 Contract and Restoration Inspectors, the Contract Manager's ability to adequately manage contract and supervise inspectors will be impossible. The addition of 4 Contract Managers will maintain a manageable Contract Manager to Inspector ratio of 6 to 1. **These costs are 100% capital and are needed to support the level of effort identified in the proposed CIP.**

2 Project Manager, 1 Facilities Construction Inspector II, 1 Administrative Assistant

The request positions are needed to meet the critical need to execute studies, as well as design and construction of large pipelines, major facilities contained in the WSSC's proposed 2011 Capital Improvements Program (CIP), including the Energy Performance Program and Engineering Support Programs which are listed as Information Only in the WSSC's CIP and continue support of the Utility Master Plan project.

- Two (2) Project Managers are requested to accommodate the FY2011 workload projections and avoid project delays.
- One (1) Facilities Inspector is requested. At most, a Facility Inspector can provide adequate inspection coverage for 1 to 2 projects at a time, depending on the complexity. There are 9 construction projects that will require site inspection by Project Delivery staff. At the current staffing level of 4 authorized, work quality will suffer or projects will be delayed. 5 Facilities Inspectors are required to oversee the construction of all PDG construction projects slated for FY2011.
- One (1) Administrative Assistant is requested to effectively oversee the increased project load, continue to move forward with improvements in process documentation, and to allow Project Managers to more effectively manage their projects by assigning administrative functions to the Administrative Assistant.

Systems Enhancement Expansion

38 Workyears: See below for detail of positions.

Given WSSC's aging infrastructure, water main breaks are expected to continue to increase for the foreseeable future, until substantial inroads have been made into the replacement program. Currently Customer Care's Systems Enhancement Unit (SEU) staff is used to supplement maintenance forces during peak water main break demand periods. At current staffing levels, WSSC's current maintenance forces (including SEU) may not be able to handle peak repair demand in a timely manner. Ideally, the best solution would be to have more staff available to handle peak repair demand without incurring ongoing operating costs. This solution can be achieved by expanding the Systems Enhancement Unit using capital funds previously used to outsource water main replacement projects. The benefits of expanding the SEU process are listed below:

- The in-house SEU process has proven to be more cost-effective when compared to outsourcing water main replacement projects. Over the last several years, the in-house water main construction program has consistently proven to be more efficient and less expensive because the SEU staff is able to mobilize on a project without the exhaustive design, bid and award process involved in outsourcing.
- Increasing the current SEU staffing complement would provide additional staff during these peak demand periods. For the majority of the year, the increased SEU staff would perform water main replacement work in lieu of outside contractors on a cost-neutral basis.
- WSSC's current budget for water main replacement is for 31 miles in FY'10 and 36 miles in FY'11. SEU is currently budgeted to replace 6 miles annually. Increasing SEU staffing by doubling its current complement will not increase the overall number of miles to be replaced under the water reconstruction program but it will shift 6 miles, on a cost-neutral basis, from contractors to in-house staff.
- The expansion will have no impact on water and sewer rates as it will be funded via capital monies previously paid to contractors.
- With the augmentation of water main break work by the additional SEU staff, overtime costs by the regular maintenance crews may be reduced.

SEU Expansion staffing positions include:

- Thirty (30) Pipe Technicians
- One (1) Systems Enhancement Unit Coordinator
- One (1) Systems Enhancement Unit Specialist
- Two (2) Engineering Assistant IVs
- One (1) Equipment Fleet Technician
- One (1) Fleet Technician
- One (1) Safety Analyst
- One (1) Learning & Development Specialist

Comparison of Cost Per Mile for Water Main Replacement

	FY'07	FY'08	FY'09
Contractors			
Total Cost	\$ 18,115,903	\$ 27,602,763	\$ 42,647,889
Total Miles	10.5	18.9	27.7
Cost Per Mile	\$ 1,725,324	\$ 1,460,464	\$ 1,539,635
SEU In-House			
Total Cost	\$ 7,943,635	\$ 10,298,656	\$ 10,087,355
Total Miles	5.1	7.1	6.8
Cost Per Mile	\$ 1,557,575	\$ 1,450,515	\$ 1,483,435

These costs are 100% capital and are needed to support the level of effort identified in the proposed CIP.