

T&E COMMITTEE #2
April 12, 2011

Worksession

MEMORANDUM

April 8, 2011

TO: Transportation, Infrastructure, Energy and Environment Committee

FROM:  Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession: FY12 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
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 FY12 Budget. Unlike most, if not all, of the FY12 budgets the Council is reviewing this spring, the WSSC Proposed Budget assumes substantial growth.

- The combined total of the Capital and Operating Budget is \$1.2 billion, an increase of \$91.8 million (or 8.3 percent) from the Approved FY11 amount of \$1.1 billion.
- The total proposed Operating Budget is \$626.1 million, an increase of \$20.6 million (or 3.4 percent) from the Approved FY11 Operating Budget of \$605.6 million.
- 8.5% average rate increase – *During the spending control limits process last fall, the Montgomery County Council and Executive recommended a 9.9% average rate increase.*

(The Prince George's County Council recommended an 8.0% increase).

- Continuation of the EAM/ERP initiative with \$8.4 million budgeted for FY12. *\$6.0 million has been spent to date on this \$35 million multi-year effort. Completion is not expected before FY16. Update from WSSC is provided on ©38.*
- Water production is budgeted at 170 million gallons per day (mgd) which is the same as was assumed for FY10 and FY11 and the same as assumed during the spending control limits process last fall. *Water production for FY11 is running ahead of projections (176.3 mgd). However, the billing factor (which can change over time given WSSC's graduated rate structure) was lowered last fall based on recent experience so water production revenue is expected to be slightly below budgeted levels (-\$3.0 million).*
- A net increase of 49 workyears across both the Operating Budget and CIP with a water/sewer rate impact of \$2.1 million. *(More discussion is provided later in this memorandum. A summary of the positions and costs is attached on ©37.)*
- Includes \$9 million for 15.2 miles of large diameter PCCP water main inspection, acoustic fiber optic monitoring and urgent repairs. *This program is a high priority of the Council and the FY12 proposed program spending represents a continued strong commitment to this effort.*
- Funds 41 miles of water main reconstruction (up from 36 miles in FY11). *Consistent with prior FY12-17 CIP discussions (see ©28).*
- Add \$1.0 million to the base budget for retiree health costs (the fifth 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, the overall fiscal situation has caused other agencies to fall behind on their funding plans.*
- Restoration of the high bill adjustment program (\$1.0 million) cut in FY11. *This is the only FY11 program cut proposed for restoration in FY12.*
- Includes larger than inflationary increases in a number of key expenditure categories including:
 - Bio-solids hauling - \$673,000, 5% increase
 - Chemicals - \$726,000, 5% increase
 - Healthcare Programs - \$2.6M, 9.8% increase
 - Gasoline & Diesel Oil - \$179, 10.4% increase

Schedule

On March 1, WSSC transmitted its proposed FY12 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 12. 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 12.

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 Montgomery and Prince George's Counties. WSSC has 3 reservoirs and 2 water treatment plants (providing about 170 mgd of drinking water), and maintains 7 wastewater treatment plants (including the Blue Plains Plant in Washington DC). WSSC has more than 5,500 miles of water mains and nearly 5,400 miles of sewer mains. WSSC has about 443,000 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

Dr. Roscoe Moore, Vice Chair
Gene Counihan
Adrienne Mandel

Prince George's County

Antonio Jones, Chair
Prem Agarwal
Joyce Starks

General Manager, Jerry Johnson was hired in the fall of 2009 after a long tenure in a similar position with the District of Columbia Water and Sewer Authority (DCWater).

An organization chart is attached on ©35. The Chair's budget transmittal letter and other excerpts from the Proposed FY12 budget are attached on ©1-30.

About 66 percent of all WSSC sewage and over 80 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 DCWater¹ WSSC makes operating and capital payments each year to DCWater 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 FY12 operating payment is \$49.5 million (about 8 percent of WSSC's Proposed Operating Budget).

County Executive Recommendations for the FY12 WSSC Budget

(See Operating Budget Excerpt on ©31-35)

In his March 15 transmittal, the County Executive recommended elimination of the 2 percent cost of living adjustment (COLA) in WSSC's FY12 Proposed Budget for WSSC's represented employees (\$691,920 in total salary and wages and \$564,610 in rate supported salary and wage costs). Non-represented employees were not assumed to receive a COLA. The County Executive recommends keeping the rate increase at 8.5% as proposed and reallocating the COLA savings to the "All-Other" category for other unspecified WSSC priorities. FICA savings from this change (\$48,400 total and \$39,500 rate impact) are already located in the "All-Other" category.

¹ The Montgomery and Prince George's County Governments each have two representatives (with two alternates) on the eleven member DCWater Board of Directors. Fairfax County has one representative. The other six members represent the District of Columbia. The Montgomery, Prince George's and Fairfax County boardmembers only vote on "joint use" issues (i.e., issues affecting the suburban jurisdictions). These boardmembers do not vote on issues affecting only the District of Columbia.

The County Executive did not recommend any change in the substantially smaller cost item for proposed merit increases (\$80,655 in total salary and wages and \$5,641 in FICA).

Performance Measures

WSSC has included a number of performance measures in its FY12 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 the budget document, “WSSC has never exceeded a maximum allowable contaminant level (MCL) established by the US. Environmental Protection Agency (EPA) in accordance with the Safe Drinking Water Act.”

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	FY12 Charge	Max. Allowable Charge
Apartment		
- Water	\$896	\$1,170
- Sewer	\$1,140	\$1,490
1-2 toilets/residential		
- Water	\$1,344	\$1,756
- Sewer	\$1,710	\$2,232
3-4 toilets/residential		
- Water	\$2,240	\$2,927
- Sewer	\$2,850	\$3,722
5 toilets/residential		
- Water	\$3,135	\$4,095
- Sewer	\$3,991	\$5,214
6+ toilets/residential*		
- Water	\$88	\$115
- Sewer	\$115	\$151
Non-residential*		
- Water	\$88	\$115
- Sewer	\$115	\$151

WSSC’s Proposed CIP and draft Operating Budget assumes no change in the SDC rate. However, WSSC supports increasing the maximum rate for FY12 as permitted under State law. The proposed charge and the maximum allowable charge are presented in Table 1.

During discussion of the WSSC CIP, Council Staff noted that WSSC is projecting annual gaps in its SDC funding as a result of some large SDC funded projects (such as the Bi-County Tunnel project) being under construction. The SDC fund balance as of July 1, 2010 was \$99.2 million, but is expected to drop to 76 million by the end of FY11 and down to \$19.4 million by the end of FY12 and would go negative by the end of FY13.

*costs shown are per fixture unit

To address this issue, WSSC staff have suggested issuing SDC Fund supported debt in FY13 and FY14 (if the projections hold true) to offset the projected deficits in those years as the large SDC funded projects are completed (see ©39). Future SDC revenue will then be available to service this debt. This approach avoids the need to increase SDC rates during current economic difficulties.

Council Staff is supportive of WSSC's approach with the caveat that the issue of SDG rates is an annual decision. NOTE: Both the maximum rate and the adopted rate will be 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 WSSC CIP, last year WSSC added a new CIP project (Large Diameter Pipe Rehabilitation Program) to fund the replacement of transmission mains (pipes greater than 16 inches in diameter) in lengths of 100 feet or greater. For the FY12-17 CIP, WSSC increased the six-year level of expenditure from \$60 million to \$113.6 million. The FY12-17 CIP request includes actual costs for PCCP repairs, an additional year of ramp-up costs, and higher unit cost information based upon actual bid experience.

WSSC has approximately 960 miles of large diameter water main (mains ranging in size from 16 inches to 96 inches in diameter), of which 350 miles are pre-cast concrete cylinder pipe (PCCP). These are the highest priority for inspection, monitoring, repair, and replacement because (unlike pipes made out of iron or steel) PCCP pipe can fail in a more catastrophic manner. Both Montgomery and Prince George's County have experienced large diameter PCCP failures in recent years (most recently with a break in Prince George's County in January).

Of the PCCP inventory, there are 77 miles of 48 inches or greater, which has been WSSC's highest priority for inspection, repair, and acoustic fiber optic (AFO) monitoring over the past few years. WSSC expects to complete its initial inspections, urgent repairs, and AFO work on these 77 miles by the end of FY13. WSSC is also beginning to expand this program to pipes smaller than 48 inch diameter as well.

While the large section repairs are now being funded out of the CIP, the inspection, fiber optic monitoring and smaller repairs remain in the Operating Budget. The FY12 budget includes approximately \$9 million for 15.2 miles of large diameter PCCP pipe inspection and installation of acoustic fiber monitoring and emergency repair work.

Water Reconstruction Program

As the Council discussed last month during its discussion of infrastructure needs as part of its review of the WSSC CIP, over the past several years, WSSC has ramped up the annual number of miles of water main to be replaced.

As part of the Approved FY10-15 CIP, replacement miles were increased from 27 to 31 miles per year. A ramp up to 36 miles per year was done for FY11. For FY12, WSSC is assuming an increase up to 41 miles per year. Over the FY12-17 period, WSSC is assuming to continue the ramp up and replace 321 miles of pipe (an average of 53.5 miles per year). This work is bond-funded (although not technically considered part of the WSSC CIP based on the State definition for WSSC CIP projects).

The need for expanding this program was identified several years ago as part of WSSC's Utility Master Plan effort. The small diameter (distribution) lines are aging and WSSC continues to experience a large number of small diameter water main breaks (especially in cold weather months). Last December, WSSC experienced its highest ever monthly water main break/leak total (647).

Originally, the ramp-up in water main replacement 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 a new funding source, the ramp up must be accommodated within available dollars from annual water and sewer rate increases.

WSSC has approximately 4,500 miles of small pipe (less than 16" in diameter) in its water distribution system. The 5 mile increase up to 36 miles in FY11 resulted in a slightly reduced replacement cycle (from 146 to 126 years). The 5 mile ramp-up proposed for FY12 (up to 41 miles) would reduce this replacement cycle down to about 111 years. While still too long a replacement cycle, especially given the age of the system (and the need for WSSC to catch-up), this continued ramp up represents real progress. In fact, if WSSC is able to realize its 321 mile goal over the six-year period, the replacement cycle would be down to about 85 years.

Another positive aspect is that in FY10 (as in FY09) WSSC exceeded its mileage replacement goal. In FY10, WSSC completed 38.9 miles (7.9 miles over its goal of 31 miles). For FY11, WSSC estimates it will complete 39 miles (3 miles over its FY11 goal).

While 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. Beginning in FY11, WSSC has been reducing some 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.

For FY12, WSSC is assuming to add 6 workyears to help accomplish the water main replacement goals noted above.

Sewer Reconstruction Program

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.

As mentioned in last month's WSSC discussion, while all of the sewer reconstruction work has been bond-funded, WSSC developed a new capital project last year to deal specifically with trunk sewer reconstruction. The remaining work, sewer mains and house connections, while also bond-funded, is not considered a capital project based on the State definition of WSSC Capital projects.

As noted last month, for FY11, WSSC assumed to do 42 miles of sewer main reconstruction and 14 miles of sewer lining. For FY12, WSSC is proposing reduced goals for sewer main replacement (22 miles) and lateral sewer lining (5 miles). These lower goals are intended to be more realistic based on the increased costs and complexity experienced with these projects. WSSC still intends to increase its miles of sewer main reconstruction over the six-year period, once the current issues are resolved.

The funded pace of both the Water and Sewer main reconstruction efforts continues to be of major interest to Montgomery County. The Bi-County Infrastructure Funding Working Group is working with a consultant to identify and review various funding options to address long-term infrastructure replacement needs.

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.

FY12 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 a 12.0 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 County Executive and 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 FY12 budget.

Ultimately, the WSSC 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:
FY12 Spending Control Limits Approved by Each Council
versus the FY12 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC	CE
	MC	PG	Proposed	Rec
New Debt (in \$000s)	325.285	325.285	298.684	298.684
Water and Sewer Debt Service (in \$000s)	196.290	196.290	185.894	185.894
Water/Sewer Operating Expenses (in \$000s)*	582.806	573.845	574.985	574.985
Maximum Avg. Rate Increase	9.9%	8.0%	8.5%	8.5%

*The MC and PG recommended operating expense limits have been adjusted to show the Reconstruction Debt Service Offset (REDO) and SDC Debt service as revenue and operating expenditures. These numbers were previously shown as negative expenditures. There is no impact on rates from this presentation change.

The WSSC Budget complies with all four of the limits recommended by the Montgomery County Council. The new debt and debt service amounts are below the Montgomery County limits as a result of decreased expenditures assumed in the Blue Plains projects (based on the latest budget information from DCWater) which the Montgomery County Council preliminarily approved as part of its review of the FY12-17 WSSC CIP. The 8.5 percent rate request falls between the limits recommended by the Prince George's and Montgomery County Councils.

Fund Balance Status

Below is a current review of WSSC's fund balance status. WSSC's FY12 budget proposal does not assume any excess fund balance at the end of FY10 not already allocated for FY11 expenditures.

**Table 3:
Estimated FY11 Excess Fund Balance Calculation (in \$000s)**

FY10 Carryover	48,014
FY10 Reserve Requirement	26,500
Increase Reserve (for FY11)	1,500
FY11 EAM/ERP Funding	1,681
Unallocated Reserve (end of FY11)	18,333
Increase Reserve (for FY12)	3,400
Increase Reserve (FY13-14)	8,900
Estimated FY11 Excess Fund Balance	6,033

In past years, both Counties have considered utilizing excess fund balance to achieve rate relief in the upcoming budget year. Allocating excess fund balance has been a tool for achieving budget agreement between the two Councils. However, while helping achieve short-term budget agreements, this approach has also resulted in upward rate pressure in future years, since the rate relief achieved is one-time, while the impact on revenues is compounded in future years, since the water and sewer revenue base is lowered.

As a result, Council Staff has previously recommended that the best use for excess fund balance is one-time items and defined projects (such as EAM/ERP). However, given WSSC's flat water and sewer consumption (and uncertain revenue generation as a result of its graduated rate structure), the potential need to address various urgent infrastructure issues during FY12, and the relatively low excess fund balance available (in past years these numbers have been double or even triple what is assumed here), **Council Staff does not recommend allocating the excess fund balance at this time.**

FY12 WSSC Proposed Budget

Summary Charts

The following chart presents summary budget data for WSSC for the FY11 Approved and FY12 Proposed Budgets.

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

	Approved FY11	Proposed FY12	Change	
			\$	%
Capital				
Water Supply	181,815	198,844	17,029	9.4%
Sewage Disposal	276,524	332,424	55,900	20.2%
General Construction	36,361	34,654	(1,707)	-4.7%
Total Capital	494,700	565,922	71,222	14.4%
Operating				
Water Operating	243,455	251,595	8,140	3.3%
Sewer Operating	300,920	323,390	22,470	7.5%
Subtotal W&S Operating	544,375	574,985	30,610	5.6%
Interest and Sinking	61,175	51,160	(10,015)	-16.4%
Total Operating	605,550	626,145	20,595	3.4%
Grand Total	1,100,250	1,192,067	91,817	8.3%

The combined total of the Capital and Operating Budget is \$1.2 billion, an increase of \$91.8 million (or 8.3 percent) from the Approved FY11 amount of \$1.1 billion.

The total proposed Operating Budget is \$626.1 million, an increase of \$20.6 million (or 3.4 percent) from the Approved FY11 Operating Budget of \$605.6 million.

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

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

Expense Categories	Approved FY11	Proposed FY12	Change	
			\$	%
Salaries and Wages	95,120	98,418	3,298	3.5%
Heat, Light, and Power	27,819	25,275	(2,544)	-9.1%
Regional Sewage Disposal	47,713	49,478	1,765	3.7%
All Other	201,862	217,211	15,349	7.6%
Debt Service	233,036	235,763	2,727	1.2%
Total	605,550	626,145	20,595	3.4%

Debt service is the biggest category. This is not unexpected for WSSC, given its large capital program. For FY12, overall debt service costs are increasing slightly. Water and Sewer related debt (which funds non-growth related infrastructure) has been going up steadily in recent years as a result of upward trends in WSSC's CIP. However, 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.

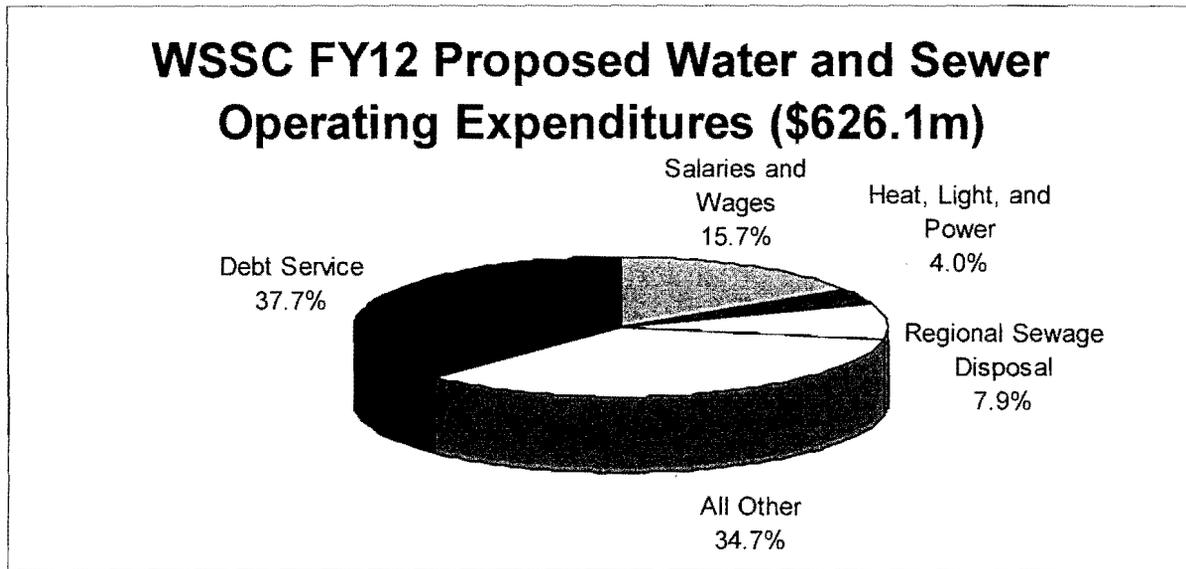
The heat, light, and power category is down substantially (9.1%) as a result of a projected reduction in the weighted average unit price of electricity expected in FY12 and also reductions in natural gas usage. Over the past 6 years, WSSC has also pursued a number of electricity retrofit initiatives funded mostly through a large performance contract with Constellation Energy that have helped offset operational changes that have increased WSSC's energy requirements (such as installation

of ultra-violet disinfection processes). WSSC also has made a major long-term investment in wind power through wholesale purchases from a wind farm in Pennsylvania. This purchase provides approximately 1/3 of WSSC's power needs at fixed kWh rates for the next 10 years.

The "All Other" category accounts for most of the increase. This category includes all operating costs not otherwise broken out above and also includes employee benefits (totaling about \$60 million for social security, retirement, healthcare programs, life insurance and unemployment).

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 FY12 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 62 percent of all tax-supported expenditures in the FY12 Recommended Budget.

"Salaries and Wages"² costs within the Operating Budget are estimated to increase by 3.5 percent. This is mostly due to a substantial increase in workyears assumed in the Proposed Operating Budget (discussed below).

For FY12, WSSC is allocating \$772,579 in cost of living adjustments (COLA) and merit pay (also known as step increases or increments) for its represented employees only (about ¼ of its workforce). This would be the first COLA in three years for any WSSC employees. For FY11, merit pay was cut for all non-represented employees and this approach is followed again for FY12.

² Benefit costs (such as Social Security, Group Insurance, and Retirement) are loaded in the "All Other" expense category. The COLA FICA amount is \$48,400 total. The merit increase FICA amount is \$5,642.

In recent years, WSSC has utilized COLAs, merits and other compensation strategies for various employee categories. The following chart presents these items and what has been funded in FY11 and requested for funding in FY12.

Table 6:
Compensation Adjustments for FY11 Approved and FY12 (Proposed)*

Type	FY11	FY12	Eligibility
Salary Adjustments	-	691,924	No COLA in FY11, 2% COLA for represented employees only (432) assumed for FY12
Merit Increases	47,103	80,655	Merits for represented employees only not at top of grade for FY11 and FY12 (58)
Incentive Pay**	-	-	No incentive pay in FY11 or assumed for FY12 (444 employees eligible in FY09)
Flexible Worker (FW) Pay	578,192	470,200	105 employees eligible (increases based on skill assessments)
IT Bonus (contract)	-	-	No IT bonuses in FY11 or FY12
Total	625,295	1,242,779	

*Costs shown are total costs (oper & capital) with salary & wages w/o FICA. The rate-supported COLA and Merit increase totals are \$564,610 and \$65,814 respectively.

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

Incentive pay which had previously been in place for customer care and production team employees is also gone again for the third straight year. IT bonus pay is also zeroed out, as it was in FY11.

For FY12, the only other pay increase category funded is flexible worker pay (which is actually down from FY11 by 19% or \$108,000). This item was put in place a number of years ago as part of WSSC's Competitive Action Program (CAP) initiative and is unique to WSSC. This item provides increases to base pay for certain employees who achieve specific new skill certifications (thereby providing WSSC with more operations and maintenance flexibility).

WSSC's personnel costs (and increases) are a small part of WSSC's budget. The ratepayer impact of the COLA and merit increases is .14% (out of the 8.4% proposed rate increase). Also, since WSSC's budget is funded by ratepayers rather than by tax dollars, WSSC's compensation increases do not directly compete for the same tax-supported funding that covers other County agency employees.

However, both the County Executive and the Council have expressed support for the concept of the equitable treatment of employees across agencies, especially in the context of annual pay increases. The County Executive has recommended no pay increases for County Government employees for FY12 and additionally has recommended revising the cost sharing formulas for employee health and retirement benefits that will result in significant reductions in employee pay.

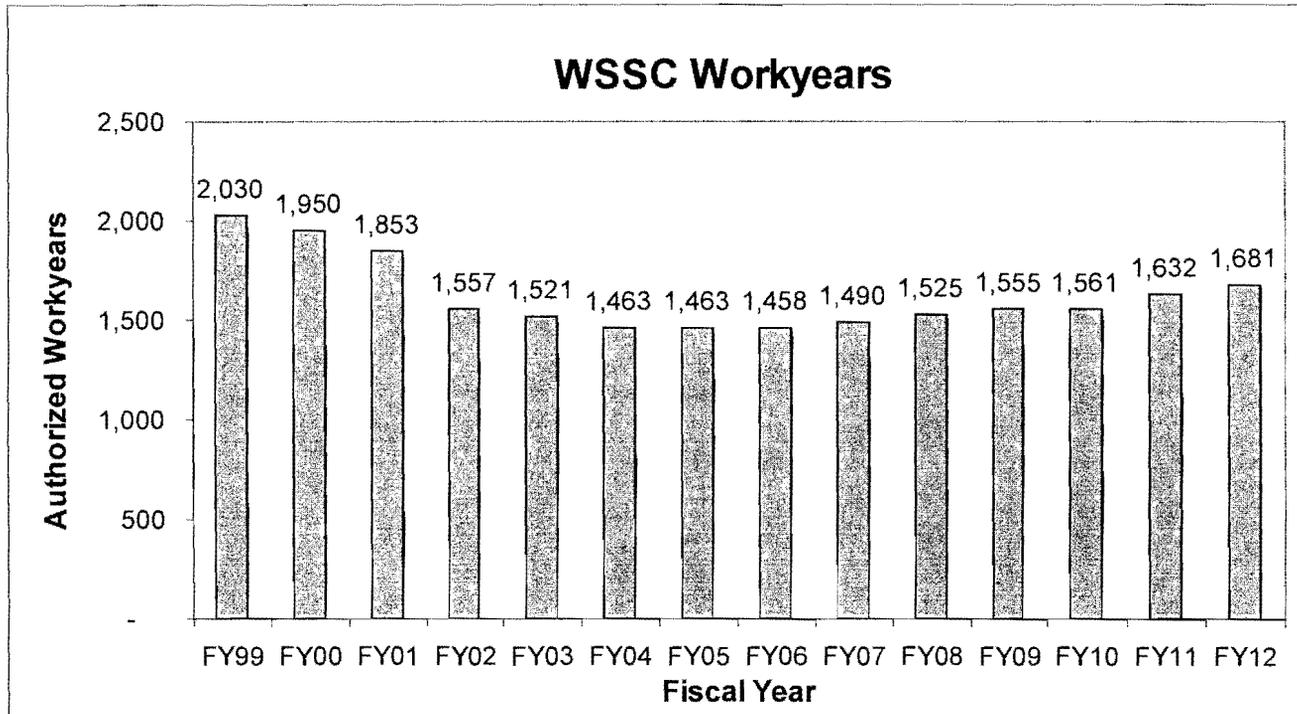
In this context, the County Executive has recommended the elimination of WSSC's proposed FY12 COLA for its represented employees, although no recommendation on the merit increases is presented.

The Council's Government Operations and Fiscal Policy Committee will compare compensation and benefits assumptions across agencies on April 25 and April 28, and final Council decisions on County Government (and other agencies) employee compensation and benefit changes may not be finalized until early May and perhaps even after the Bi-County meeting on May 12. However, it is clear that the fiscal situation is such that the scale of employee compensation and benefit reductions (rather than increases) is the focus of discussion this year.

Council Staff concurs with the County Executive's recommendation that the FY12 COLA be eliminated, and Council Staff also recommends that the FY12 proposed merit increases should also be eliminated. Council Staff concurs with the County Executive's recommendation to maintain the 8.5 percent rate increase and allow the compensation savings to be available for other WSSC spending needs within the "All-Other" 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 FY07. The chart below presents workyear trends since FY99.



For FY12, 49 new positions are requested, as summarized on ©37. The total annual cost of these new positions is about \$3.0 million, with \$2.1 million in water and sewer rate-related costs.³ Summary information for each new position was provided by WSSC and is attached on ©40-46. While the number seems high, especially in light of workforce reductions being considered in other agencies, many of the new positions reflect the increased workload on WSSC as it ramps up its CIP and Operating Budget to address its aging infrastructure. Others are more longstanding issues experienced subsequent to the major workyear reductions experienced through FY04.

³ Ten of the 49 proposed new positions are funded out of the CIP. Lapse of 3 months is assumed for each position.

**Table 7:
New WSSC Positions Proposed for FY12**

Category	Positions	Rate Impact	Comment
Plant Operations	5	Yes	
Patuxent Plant	2		plant expansion, addition of UV system, shift coverage
Operations Support	1		support for Energy Manager
Systems Control	1		Additional oversight and coordination
Industrial Assets Management	1		increased workload (testing, preventative maintenance)
PCCP & Transmission Main Inspection	5	Yes	program staged over 2 years (3 wys next year)
Utility Technicians	5		increased workload
Water Main BMPs/Small Valve Exercising and Repair	3	Yes	program staged over 4 years (3 wys per year)
Utility Technicians	3		new EPA focus on water quality in distribution systems
Leak Detection	2	Yes	program staged over 3 years (2 wys per year)
Utility Technicians	2		reduce time to survey entire water pipe system
Consent Decree - Sewer Design	7	No	CIP-funded program to address Consent Decree issues
Project Managers	7		
Water Main & Vault Meter Replacement	3	No	CIP-funded program.
Project Managers	3		increased workload
Asset Management Program	12	Yes	Ramp-up of multi-year planning and support effort
Technical Services	4		
Buried Systems Asset Management	8		
Permit Services	1		Needed to keep up with turnaround time goals
Collections	2	Yes	potential fee support
Site Utility Inspection	1	No	Fee-based, to take over from third party inspectors
Property and Rights of Way Acquisition	1	Yes	increased workload as infrastructure work accelerates
Maintenance	1	Yes	4 year phase in (1 wy per year)
Cross Connection Program	6	Yes	Will eventually ramp up to 19 positions. Potential for fee revenues but none assumed for FY12 based on FY11 experience.
Total	49		

As shown in the chart, there are 10 capital positions which would be funded out of the CIP and therefore would not directly affect rates (but would indirectly through debt service costs). The rest of the new positions are scattered throughout various operations with the most (12) being in the Asset Management Program. This 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.

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 and to be addressed by 5 new positions.

Council Staff recognizes that WSSC's operating and capital workload is growing substantially and that most of the additional staffing is needed to support this work throughout WSSC. However, Council Staff is concerned with the large upward trend in workyears, especially in areas previously reduced as a result of WSSC's CAP effort. Council Staff suggests that WSSC and Montgomery County and Prince George's County staffs discuss WSSC's workforce needs in more detail as part of the next spending control limits process this fall.

Customer Impact

With regard to the impact on the WSSC ratepayer, the following chart shows that each 1.0% rate increase adds about 59 cents per month to an average residential bill (\$1.78 to a quarterly bill and \$7.13 annually).

**Table 8:
Impact of Rate Increases in FY12
on Avg. Residential Customer Bill**

% Increase	Impact			
	Monthly	Quarterly	Annual	
1.0%	\$0.59	\$1.78	\$7.13	Impact of 1% Change
8.0%	\$4.75	\$14.26	\$57.04	PG County FY12 SCL
8.5%	\$5.05	\$15.15	\$60.60	WSSC Proposed FY12
9.9%	\$5.64	\$16.93	\$67.73	MC Council FY12 SCL
Current Avg. Bill	\$60.64	\$181.92	\$727.68	

*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 \$5.05 per month (\$15.15 quarterly and \$60.60 annually). The impact at the original Prince George's Council and Montgomery Council recommended rates from the spending control limits process last fall are also shown on the chart.

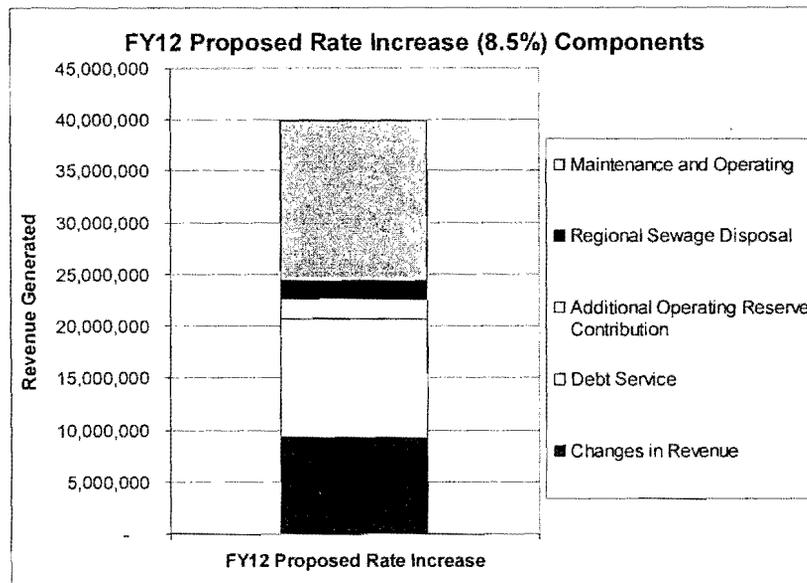
Closing the Gap

Each 1% of rate increase provides an estimated \$4.7 million in revenue. A revenue gap of approximately \$16.7 million had to be closed to get from WSSC's "base" case forecast of last fall (12.0 percent rate increase) down to the 8.5% rate increase proposed now.

WSSC's internal budget process resulted in departmental submissions in which most budget categories were at FY11 approved levels with the exception of uncontrollable costs (such as fuel, bio-solids hauling and chemicals). Funding these submissions would have required a 10.8% rate increase.

In getting to its proposed 8.5% rate increase, WSSC was fortunate in that the assumed Blue Plains capital expenditures went down and WSSC's September bond issue had better than expected rates. Compared to the assumptions last fall (under the 12% base case scenario), the debt service assumption went down by about \$10.4 million (equivalent to about 2.3 percent on water and sewer rates). This, combined with adding 3 months of lapse on all new positions, reduced overtime in the Customer Care group, and other miscellaneous costs brought the rate increase down to the Public Hearing Document level of 8.9%. To get from the 8.9% to 8.5%, three workyears were eliminated and COLAs for non-represented employees were eliminated. FICA was reduced for the eliminated COLA and workyears.

The end result is an 8.5 percent rate increase, with the following major rate increase components:



Summary of Council Staff Recommendations

- Council Staff concurs with WSSC’s assumption to maintain current System Development Charge rates for FY12 at current approved 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 believes using debt, financed with SDC fund balance and SDC revenues to cover short-term SDC deficits projected in FY13 and FY14, is worth considering (if needed) during next year’s budget review.
- 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:
 - Concur with the County Executive that the 2.0 percent COLA for represented employees not be approved, in order to provide more consistent treatment of employee compensation across all agencies.
 - Council Staff believes a similar argument for elimination exists for the represented employee merit increases.
 - The total savings from the above actions (\$826,621, which is both salary and wage and FICA savings) should be moved to the “All-Other category” and used to cover possible contingencies (such as revenue shortfalls or other future expenditure needs).

NOTE: Council Staff suggests that WSSC and Montgomery County and Prince George’s County staffs discuss WSSC’s workforce needs in more detail as part of the next spending control limits process this fall.

Attachments

KML:f:\levchenko\wssc\wssc psp\fy12\t&e wssc 4 12 11.doc



Washington Suburban Sanitary Commission

14501 Sweitzer Lane Laurel, MD 20707-5901
(301) 206-8000 1(800) 828-6439 TTY: (301) 206-8345 www.wsscwater.com

March 1, 2011

To The Honorable:

County Executives of Prince George's
and Montgomery Counties

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

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2012 (FY'12) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'12 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 2, and Thursday, February 3, 2011. The FY'12 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 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before a final budget is adopted for the next fiscal year, beginning July 1, 2011.

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, we have many fiscal challenges directly related to our aging water and sewer infrastructure, Sanitary Sewer Overflow Consent Decree compliance, and cost increases at regional sewage disposal facilities where WSSC has purchased capacity. To meet these challenges an increase in our rates is required. The Proposed FY'12 combined average 8.5% rate increase will add approximately \$5.05 per month to the bill of a customer who uses 210 gallons of water per day. The impact on customers' annual water and sewer bills at various consumption levels is shown on Table V (page 13).

Water and Sewer Infrastructure

The state of the WSSC's infrastructure remains a significant concern now and in the future. Water main break rates continue to increase (December 2010 was a record high month with 647 breaks or leaks) and major failures may continue to occur unless we re-invest in this critical infrastructure. 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. The Bi-County Working Group has met several times and is evaluating all options, both short and long-term, for infrastructure funding. In the interim, this budget includes additional rate-supported funding for the water reconstruction program, which focuses on small diameter pipe and appurtenances, as well as continuing funding for capital projects for large diameter water and large and small diameter sewer pipe rehabilitation. It also continues to include funding for inspection and repair of critical water and sewer infrastructure, including the large water main inspection program. Making decisions about funding requirements for re-investment in our water and sewer infrastructure so that we continue providing established levels of service is being accomplished through the implementation of an Asset Management Program (formerly known as the Utility Master Plan) and 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) Simply put, these important initiatives will help WSSC ensure that we are doing the right projects at the right time and that infrastructure dollars are spent as wisely as possible.

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, in the FY'11 budget, we began the process of doubling the in-house water main replacement crews and shifting the associated responsibility for replacement of up to six miles of water main from outside contractors to these crews. The in-house cost of water main replacement is the same as with outside contractors, so this shift of responsibility can be accomplished at no additional cost. This shift to in-house staff will also 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, which will be fully implemented in FY'12, 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'12 Proposed Capital and Operating Budgets 9.5

Our Proposed Budget for FY'12 includes an ~~8.9%~~ 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. 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. It should be noted that, at this time, a 2% Cost of Living adjustment (COLA) and merit increases for represented employees are included in this budget. The union items are included in accordance with the terms of the negotiated collective bargaining agreement between WSSC and the union representing certain employees. The combination of these items has a 0.14% effect on the rate increase.

Comparative Expenditures by Fund

	FY'11 Approved	FY'12 Proposed	FY'12 Over / (Under) FY'11	% Change
<u>Capital Funds</u>				
Water Supply	\$181,815,000	\$198,844,000	\$17,029,000	9.4%
Sewage Disposal	276,524,000	332,424,000	55,900,000	20.2%
General Construction	36,361,000	34,654,000	(1,707,000)	(4.7%)
Total Capital	494,700,000	565,922,000	71,222,000	14.4%
<u>Operating Funds</u>				
Water Operating	243,455,000	251,595,000	8,140,000	3.3%
Sewer Operating	300,920,000	323,390,000	22,470,000	7.5%
Interest & Sinking	61,175,000	51,160,000	(10,015,000)	(16.4%)
Total Operating	605,550,000	626,145,000	20,595,000	3.4%
GRAND TOTAL	\$1,100,250,000	\$1,192,067,000	\$91,817,000	8.3%

The FY'12 Proposed Capital Budget of \$565.9 million represents an increase of \$71.2 million (14.4%) from the FY'11 Approved Budget. The increase is primarily attributable to the Blue Plains Wastewater Treatment Plant Digester and Enhanced Nutrient Removal projects ramping up construction work, the Broad Creek Wastewater Pumping Station Augmentation project moving into construction, and planned increases in the Large Diameter Water Pipe Rehabilitation Program project.

In summary, the FY'12 estimated expenditures for all operating and capital funds total \$1.2 billion or \$91.8 million (8.3%) more than the FY'11 Approved Budget. The FY'12 Proposed Operating Budget of \$626.1 million represents an increase of \$20.6 million (3.4%) from the FY'11 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 including increases in large diameter sewer main inspection and chemical root control; debt service costs; and increases in the water main corrosion monitoring program.

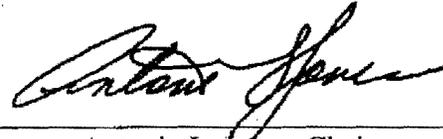
The proposed budget provides for:

- Funding the first year of the FYs 2012-2017 Capital Improvements Program as amended by mid-cycle update;
- Increased funding for the Water Reconstruction Program;
- Complying with the Sanitary Sewer Overflow Consent Order.
- Inspecting and monitoring our large diameter water main transmission system;
- Promptly paying \$235.9 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;
- Reinstatement of the unexplained high bill adjustment for those customers who experience an inexplicably high water and sewer bill;
- Funding for a 2% cost of living adjustment and merit increases for represented employees;
- 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 fourth year of the implementation of an Enterprise Resource Planning/Enterprise Asset Management System; and
- Funding the fifth year of an 8-year ramp-up to achieve full funding of the annual required contribution for non-retirement post-employment benefits based on Government Accounting Standards Board Statement No. 45;

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 VIII (page 16).

Budget Review Process

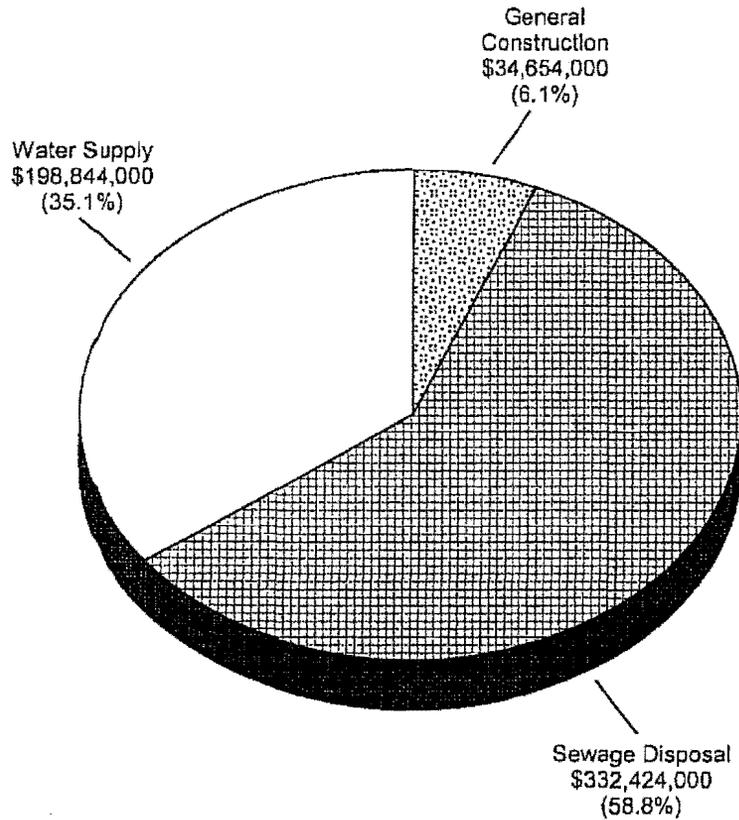
The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2011.



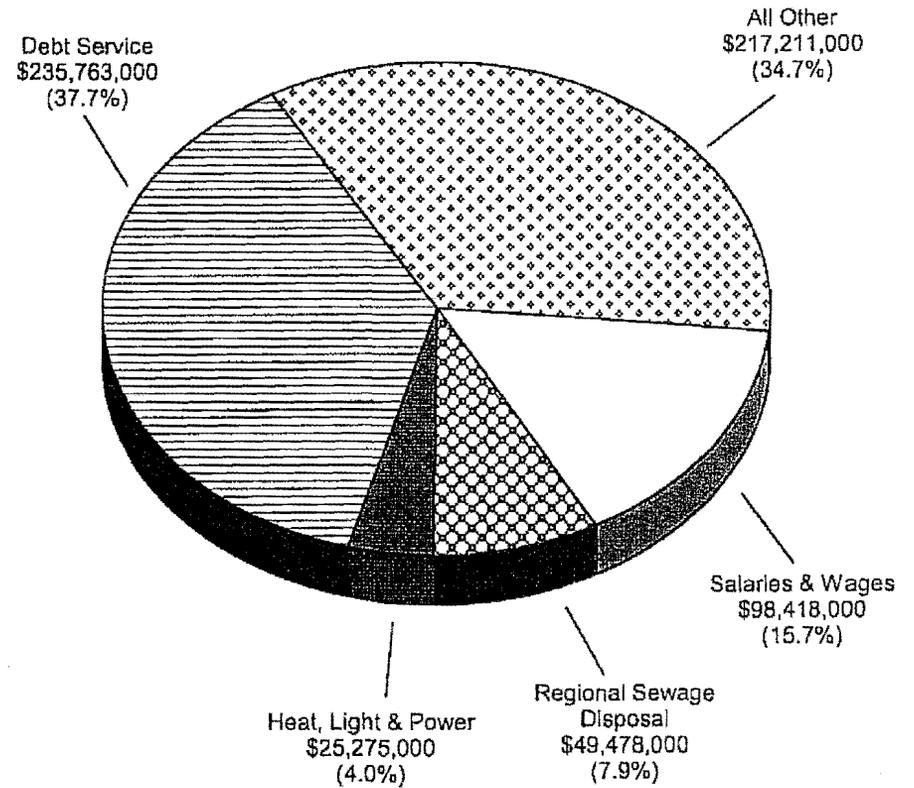
Antonio L. Jones, Chair
Washington Suburban Sanitary Commission

FY 2012 PROPOSED BUDGET

CAPITAL = \$565,922,000



OPERATING = \$626,145,000

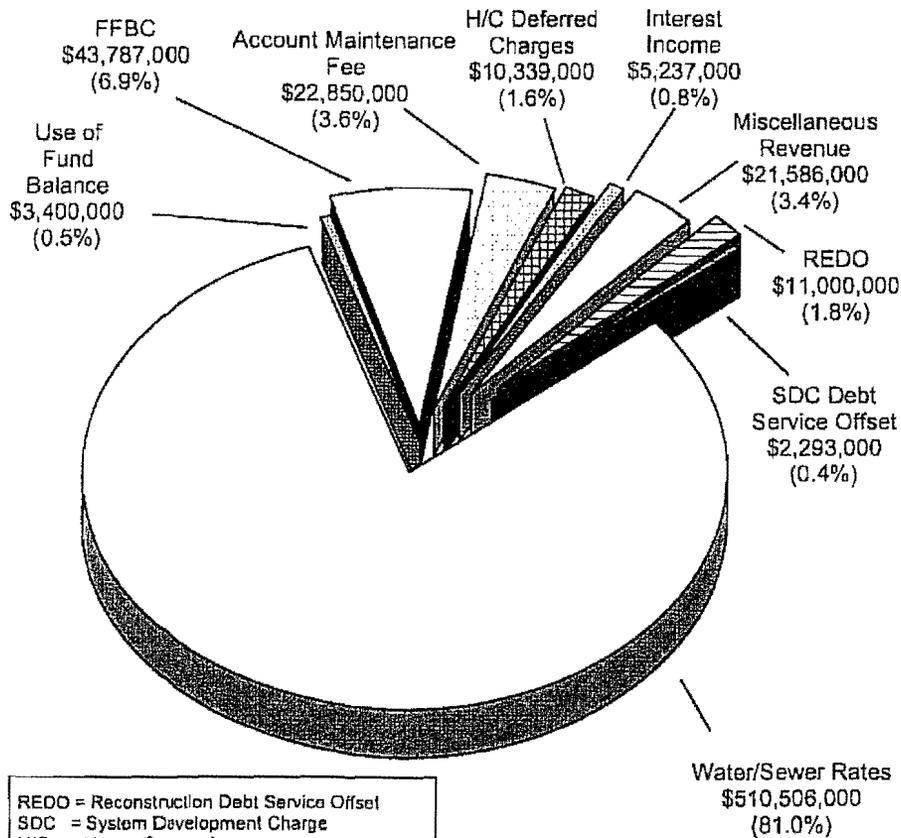


GRAND TOTAL = \$1,192,067,000

FY 2012 PROPOSED BUDGET

OPERATING

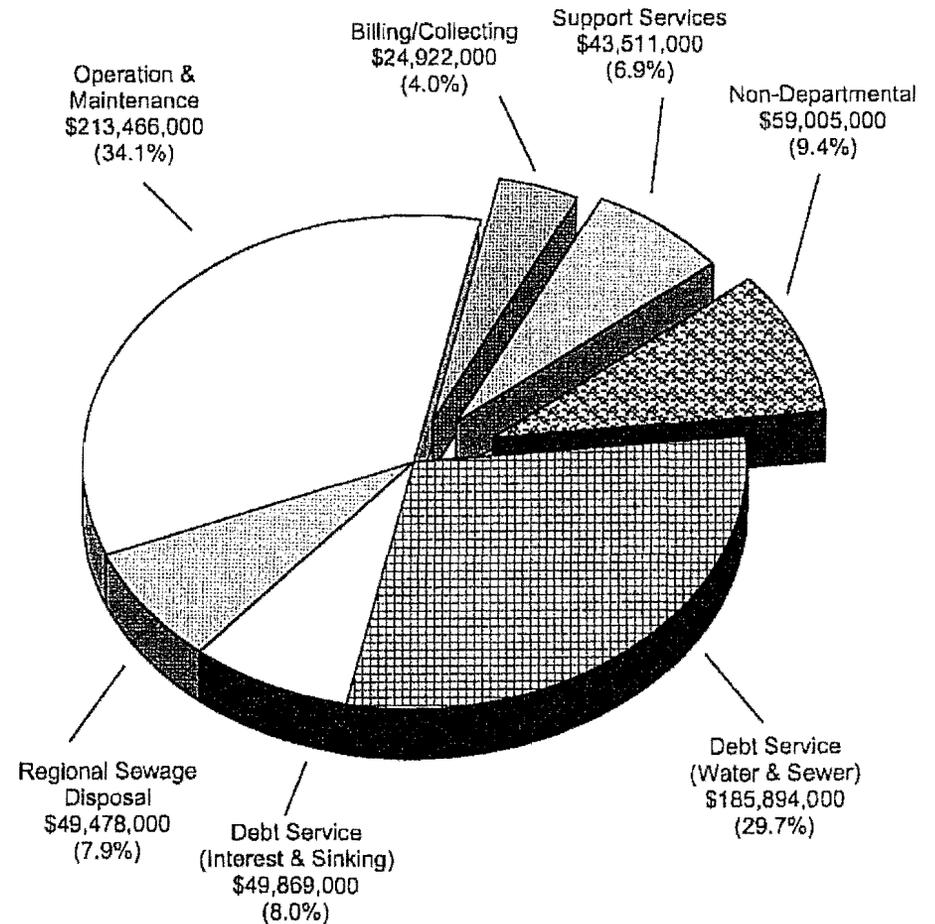
FUNDING SOURCES



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

TOTAL SOURCES = \$630,988,000

FUNDING USES



TOTAL USES = \$626,145,000

TABLE I

Comparative Expenditures by Fund

	FY'09 Actual	FY'10 Actual	FY'11 Approved	FY'12 Proposed	FY'12 Over / (Under) FY'11
Capital Funds					
Water Supply	\$ 106,490,000	\$ 111,158,000	\$ 181,815,000	\$ 198,844,000	\$ 17,029,000
Sewage Disposal	82,687,000	95,232,000	276,524,000	332,424,000	55,900,000
General Construction	24,271,000	34,092,000	36,361,000	34,654,000	(1,707,000)
Total Capital	<u>213,448,000</u>	<u>240,482,000</u>	<u>494,700,000</u>	<u>565,922,000</u>	<u>71,222,000</u>
Operating Funds					
Water Operating	202,411,000	209,761,000	243,455,000	251,595,000	8,140,000
Sewer Operating	254,852,000	259,063,000	300,920,000	323,390,000	22,470,000
Interest & Sinking	73,928,000	69,130,000	61,175,000	51,160,000	(10,015,000)
Total Operating	<u>531,191,000</u>	<u>537,954,000</u>	<u>605,550,000</u>	<u>626,145,000</u>	<u>20,595,000</u>
GRAND TOTAL	<u><u>\$ 744,639,000</u></u>	<u><u>\$ 778,436,000</u></u>	<u><u>\$ 1,100,250,000</u></u>	<u><u>\$ 1,192,067,000</u></u>	<u><u>\$ 91,817,000</u></u>



TABLE II

Comparative Expenditures by Major Expense Category

(\$ in Thousands)

Expense Categories	FY'10 Actual			FY'11 Approved			FY'12 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Salaries & Wages	\$ 19,247	\$ 89,380	\$ 108,627	\$ 21,705	\$ 95,120	\$ 116,825	\$ 23,953	\$ 98,418	\$ 122,371
Heat, Light & Power	-	28,187	28,187	-	27,819	27,819	-	25,275	25,275
Regional Sewage Disposal	-	47,013	47,013	-	47,713	47,713	-	49,478	49,478
Contract Work	96,384	-	96,384	262,884	-	262,884	270,039	-	270,039
Consulting Engineers	25,096	-	25,096	62,049	-	62,049	61,051	-	61,051
All Other	99,222	156,251	255,473	147,962	201,862	349,824	210,779	217,211	427,990
Debt Service	533	217,123	217,656	100	233,036	233,136	100	235,763	235,863
TOTAL	\$ 240,482	\$ 537,954	\$ 778,436	\$ 494,700	\$ 605,550	\$ 1,100,250	\$ 565,922	\$ 626,145	\$ 1,192,067

TABLE III

FY 2011 - FY 2012 Summary of Revenue & Expenses

(\$ in Thousands)

	Water Operating Fund		Sewer Operating Fund		Interest & Sinking Fund		Capital Funds	
	2011 Budget	2012 Proposed	2011 Budget	2012 Proposed	2011 Budget	2012 Proposed	2011 Budget	2012 Proposed
REVENUES								
Water Consumption Charges	\$216,086	\$237,146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Use Charges	-	-	262,732	273,360	-	-	-	-
Front Foot Benefit & House Connection Charges (Deferred)	-	-	-	-	59,298	54,126	-	-
Account Maintenance Fees	11,425	11,425	11,425	11,425	-	-	-	-
Interest Income	1,500	1,500	2,500	2,500	2,047	1,237	-	-
Miscellaneous	9,603	9,053	12,025	11,883	1,300	650	-	-
Use of Fund Balance								
Reserve Contribution	-	-	1,500	3,400	-	-	-	-
Reserve Requirement	(8,000)	(8,000)	8,000	8,000	-	-	-	-
Other	846	-	835	-	11,500	11,000	-	-
Reconstruction Debt Service Offset	11,500	-	-	11,000	(11,500)	(11,000)	-	-
SDC Debt Service Offset	495	471	1,903	1,822	-	-	-	-
Bonds & Notes	-	-	-	-	-	-	348,199	366,824
Anticipated Contributions:								
Federal & State Grants	-	-	-	-	-	-	60,919	88,240
System Development Charge	-	-	-	-	-	-	70,231	96,999
Other	-	-	-	-	-	-	15,351	13,859
TOTAL REVENUES	\$243,455	\$251,595	\$300,920	\$323,390	\$ 62,645	\$ 56,013	\$494,700	\$565,922
EXPENSES								
Salaries & Wages	\$ 48,185	\$ 49,572	\$ 45,298	\$ 48,349	\$ 1,637	\$ 497	\$ 21,705	\$ 23,953
Heat, Light & Power	15,134	13,516	12,685	11,759	-	-	-	-
Regional Sewage Disposal	-	-	47,713	49,478	-	-	-	-
Contract Work	-	-	-	-	-	-	262,884	270,039
Consulting Engineers	-	-	-	-	-	-	62,049	61,051
Contribution to Required Reserve	-	-	1,500	3,400	-	-	-	-
All Other	94,778	99,817	104,628	113,200	956	794	147,962	210,779
Debt Service	85,358	88,690	89,096	97,204	58,582	49,869	100	100
TOTAL EXPENSES	\$243,455	\$251,595	\$300,920	\$323,390	\$ 61,175	\$ 51,160	\$494,700	\$565,922
Net Increase (Decrease) in Fund Balance	-	-	-	-	1,470	4,853	-	-
Fund Balance - July 1	\$ (4,549)	\$ 2,605	\$ 52,624	\$ 43,789	\$126,516	\$116,486	\$ 14,557	\$ 14,557
Net Increase (Decrease) in Fund Balance	-	-	-	-	1,470	4,853	-	-
Use of Fund Balance	(846)	-	(835)	-	(11,500)	(11,000)	-	-
Reserve Requirement	8,000	8,000	(8,000)	(8,000)	-	-	-	-
Fund Balance - June 30	\$ 2,605	\$ 10,605	\$ 43,789	\$ 35,789	\$116,486	\$110,339	\$ 14,557	\$ 14,557

TABLE III
(continued)

Change in Ending Fund Balance
FY 2011 Approved Budget Compared to FY 2012 Proposed
(\$ In Thousands)

	FY 2011 Projected Ending Fund Balance	FY 2012 Proposed Ending Fund Balance	Change in Fund Balance	% Change
Water Operating Fund	\$ 2,605	\$ 10,605	\$ 8,000	307%
Sewer Operating Fund	43,789	35,789	(8,000)	-18%
Interest & Sinking Fund	116,486	110,339	(6,147)	-5%
Capital Funds	14,557	14,557	-	0%
	\$ 177,437	\$ 171,290	\$ (6,147)	-3%

Explanation of Changes in Fund Balance Greater Than 10%

Water Operating Fund - The FY 2012 proposed ending fund balance is \$8 million greater than the projected FY 2011 ending fund balance. One of the Commission's long-term fiscal policies is to maintain a reserve in water and sewer operating funds equal to at least 5 percent of water and sewer use charges. Recently, the water operating fund balance has been well below this level and the sewer operating fund balance well above this level. To move toward increasing water operating fund balance toward the required level, water rates have been increased to fund an additional \$8 million in fund balance.

Sewer Operating Fund - The FY 2012 proposed ending fund balance is \$8 million lower than the projected FY 2011 ending fund balance. Recently, the sewer operating fund has maintained a balance greater than 5% of sewer use charges. To reduce the sewer operating fund balance toward the required level, sewer rates have been decreased by the rate equivalent of \$8 million.



TABLE IV

Combined Water/Sewer Operating Funds - FY'12 Proposed Rate Impact

(\$ in Thousands)

(8.5% AVERAGE RATE INCREASE PROPOSED FOR FY'12)

Funding Sources	FY'12 Proposed
<u>Revenues at Current Rates</u>	
Consumption Charges at 170.0 MGD	\$ 470,636
Account Maintenance Fee	22,850
Interest Income	4,000
Miscellaneous Revenues	<u>20,936</u>
Sub-Total	518,422
Reconstruction Debt Service Offset	11,000
SDC Debt Service Offset	2,293
Use of Fund Balance	<u>3,400</u>
Total Funding Sources	<u>535,115</u>
<u>Requirements</u>	
Operating, Maintenance & Support Services Expenses	385,691
Debt Service	185,894
Operating Reserve Contribution	<u>3,400</u>
Total Requirements	<u>574,985</u>
Shortfall to be Covered by Rate Increase	<u>\$ (39,870)</u>
 PROPOSED AVERAGE WATER AND SEWER RATE INCREASE	 8.5%

TABLE V

Annual Customer Bills At Various Consumption Levels

Average Daily Consumption (ADC) Gallons Per Day	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
100 (36,500 GAL/YR) Residential Meter	\$ 253.88	\$ 270.67	\$ 290.74	\$ 310.82	\$ 333.45
210 (76,650 GAL/YR) Residential Meter	606.61	651.83	705.49	760.68	821.23
500 (182,500 GAL/YR) Residential Meter	1,786.88	1,925.58	2,093.48	2,263.20	2,451.18
1,000 (365,000 GAL/YR) 2" Meter	3,890.50	4,182.50	4,536.55	4,890.60	5,288.45
5,000 (1,825,000 GAL/YR) 3" Meter	19,220.25	20,716.75	22,523.50	24,348.50	26,392.50
10,000 (3,650,000 GAL/YR) 6" Meter	40,039.50	43,142.00	46,901.50	50,661.00	54,895.00

Annual customer bills include the Account Maintenance Fee shown on page 15.

TABLE VI

WSSC Water/Sewer Rate Schedules Effective July 1, 2010 & Proposed for Implementation July 1, 2011

(Rates per Thousand Gallons)

(8.5 % AVERAGE RATE INCREASE PROPOSED FOR FY'12)

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	\$ 2.52	\$ 2.82	\$ 3.09	\$ 3.27	\$ 5.61	\$ 6.09
50-99	2.83	3.16	3.59	3.81	6.42	6.97
100-149	3.09	3.46	4.22	4.47	7.31	7.93
150-199	3.47	3.89	4.86	5.15	8.33	9.04
200-249	4.05	4.53	5.30	5.61	9.35	10.14
250-299	4.39	4.91	5.73	6.07	10.12	10.98
300-349	4.64	5.19	6.12	6.48	10.76	11.67
350-399	4.85	5.42	6.40	6.79	11.25	12.21
400-449	5.04	5.63	6.55	6.94	11.59	12.57
450-499	5.16	5.77	6.77	7.17	11.93	12.94
500-749	5.26	5.88	6.90	7.31	12.16	13.19
750-999	5.39	6.03	7.05	7.47	12.44	13.50
1,000-3,999	5.49	6.14	7.35	7.79	12.84	13.93
4,000-6,999	5.62	6.29	7.52	7.97	13.14	14.26
7,000-8,999	5.69	6.36	7.63	8.09	13.32	14.45
9,000 & Greater	5.79	6.48	7.83	8.30	13.62	14.78

Current Flat Rate Sewer Charge - \$75.00 per quarter
 Proposed Flat Rate Sewer Charge - \$80.00 per quarter

TABLE VII

Account Maintenance Fees Proposed for Implementation July 1, 2011

<u>Meter Size</u>	<u>Current FY'11 Quarterly Charges</u>	<u>Proposed FY'12 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 VIII

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, 2011.

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2011</u>
1. Site Utility (On-Site) Review Fee		
Base Fee	\$2,700	** \$2,900
Additional Fee per 100 feet	220	** 230
Re-Review Fee (per review)	1,170	** 1,200
Minor (Waived) Site Utility (On-Site) Fee	525	** 600
Minor (Waived) Site Utility (On-Site) Re-Review Fee (per review)	260	** 275
2. Septic Hauler Discharge Permit Sticker		
<u>Category I</u>		
<u>Residential & Septic Waste & Grease</u>		
1 - 49 gallons	\$140/vehicle	** \$154/vehicle
50 - 799 gallons	2,060/vehicle	** 2,265/vehicle
800 - 1,499 gallons	5,610/vehicle	** 6,170/vehicle
1,500 - gallons and up	13,310/vehicle	** 14,641/vehicle
January through June	50% of fee	50% of fee
Transfer and/or Replacement Permit Sticker	50	** 55
Industrial/Special Waste Disposal Fee	200/1,000 gallons	** 220/1,000 gallons
Zero Discharge Permit Fee	50	** 55
3. Meter Replacement Fee (Damaged or Stolen Meter)		
5/8" Encoder (outside)	\$150	\$150
5/8" Encoder	150	150
3/4" Encoder (outside)	150	150
3/4" Encoder	150	150
1" Encoder (outside)	150	150
1" Encoder	150	150
1-1/2" Encoder	550	** 650
2" Standard	830	** 900
3" Compound	2,500	** 2,750
4" Compound	3,200	** 3,400
6" Compound	5,050	5,050
2" MVR	975	** 1,100
3" MVR	1,550	** 1,750

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

ITEM	CURRENT CHARGE	PROPOSED CHARGE EFFECTIVE JULY 1, 2011
4" MVR	2,225	** 2,500
6" MVR	3,475	** 3,900
2" Detector Check	1,200	** 1,200
4" Detector Check	3,000	** 3,100
6" Detector Check	3,300	** 3,600
8" Detector Check	4,000	** 4,800
10" Detector Check	5,300	** 6,500
12" Detector Check	7,800	** 9,000
4" FM w/2" MVR	6,550	** 7,000
6" FM w/3" MVR	7,350	** 8,500
8" FM w/4" MVR	9,950	9,950
10" FM w/6" MVR	14,225	14,225
12" FM	16,250	16,250
4. Construction Services Fee	12% of estimated construction costs less design review fee	12% of estimated construction costs less design review fee
Re-Test or Additional Tests or Inspector Overtime (previously called Re-Test or Additional Tests)	\$175/hour	\$175/hour
5. Discharge Fee – Food Service Establishment (FSE)	\$325	** -
Full Permit FSE	-	* 350
Best Management Practices Permit FSE	-	* 100
6. Site Utility Inspection Fee		
Base Fee	-	* \$1,000
Pipeline (per foot)	-	* 3
7. Watershed Use Permit Fees		
Annual Permit Fee	\$60	\$60
Daily Permit Fee	5	5
Annual Permit w/Boat Mooring Stake	135	135
Winter Mooring Fee	-	* 50
Bio-Brick Building Rental	-	* 125/day
Azalea Garden Rental	-	* 125/day

* New Fee

** Changed Fee

17

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2011</u>	<u>CURRENT MAXIMUM ALLOWABLE CHARGE</u>	<u>PROPOSED MAXIMUM ALLOWABLE CHARGE</u>
8. *** System Development Charge				
Apartment				
Water	\$896	\$896	\$1,152	\$1,170
Sewer	1,140	1,140	1,467	1,490
1-2 toilets/residential				
Water	1,344	1,344	1,728	1,756
Sewer	1,710	1,710	2,197	2,232
3-4 toilets/residential				
Water	2,240	2,240	2,881	2,927
Sewer	2,850	2,850	3,663	3,722
5 toilets/residential				
Water	3,135	3,135	4,031	4,095
Sewer	3,991	3,991	5,132	5,214
6+ toilets/residential (per fixture unit)				
Water	88	88	113	115
Sewer	115	115	149	151
Non-residential (per fixture unit)				
Water	88	88	113	115
Sewer	115	115	149	151

*** No increase is proposed for the System Development Charge for FY'12 in any category. The maximum allowable charge is being adjusted pursuant to Division II, Section 25-403(c) of the Public Utilities Article of the Annotated Code of Maryland, based on the 1.6% 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 2009 to November 2010.

EXPLANATION OF THE BUDGET

(Continued)

5. New Debt - The debt service estimates for FY'12 assume that \$122.2 million in water, \$176.5 million in sewer, and \$15.0 million in General Construction bonds will be issued in FY'12, 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 and cost of living adjustments for non-represented employees are not included in the FY'12 Proposed Budget. A 2% cost of living adjustment and merit increases for represented employees are included in the budget.

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

WORKLOAD DATA	ACTUAL					ESTIMATED						
	FY'06	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17
Water to be supplied (MGD)	170.5	169.8	168.2	162.3	168.7	170.0	170.0	170.5	171.0	171.5	172.0	172.5
Sewage to be treated (MGD)	185.4	189.2	177.8	178.6	200.3	212.6	214.5	216.4	218.4	220.3	222.0	223.7
Water lines to be added by the WSSC (miles)	2	13.6**	.2	.5	1.5	5	5	5	5	5	5	5
Sewer lines to be added by the WSSC (miles)	4	11.4**	1	1.8	0	5	5	5	5	5	5	5
Water lines to be added - contributed (miles)*	38	51	38	23.3	9.9	45	45	45	45	45	45	45
Sewer lines to be added - contributed (miles)*	48	51	34	26.7	10.4	45	45	45	45	45	45	45
Population to be served (thousands)	1,678	1,692	1,706	1,720	1,734	1,745	1,756	1,768	1,779	1,790	1,801	1,812
House connections to be added												
Water	5,188	5,077	3,884	2,293	1,126	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer	4,723	4,620	3,463	2,006	909	4,000	4,000	4,000	4,000	4,000	4,000	4,000

* 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'12 BUDGET

The total proposed budget for all funds is \$1.2 billion—\$566.3 million in capital and \$628.2 million in operating. An 8.9 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 2012-2017 Capital Improvements Program;
- Increasing the Water Reconstruction Program;
- Complying with the Sanitary Sewer Overflow Consent Order;
- Inspecting and monitoring our large diameter water main transmission system;
- 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 214.5 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;
- Reinstating the unexplained high bill adjustment for those customers who experience an inexplicably high water and sewer bill;
- Funding for a 2% cost of living adjustment and merit increases for represented employees;
- Continuing to increase the operating reserve from 5% to 10% of water and sewer rate revenues;
- Paying debt service of \$235.9 million—\$185.9 million in the Water and Sewer Operating Funds;
- Funding the fourth year of a program to implement an Enterprise Resource Planning/Enterprise Asset Management System;
- Funding the fifth year of an 8-year ramp-up to achieve full funding of the annual required contribution for post-employment benefits other than retirement based on Government Accounting Standards Board Statement No. 45;

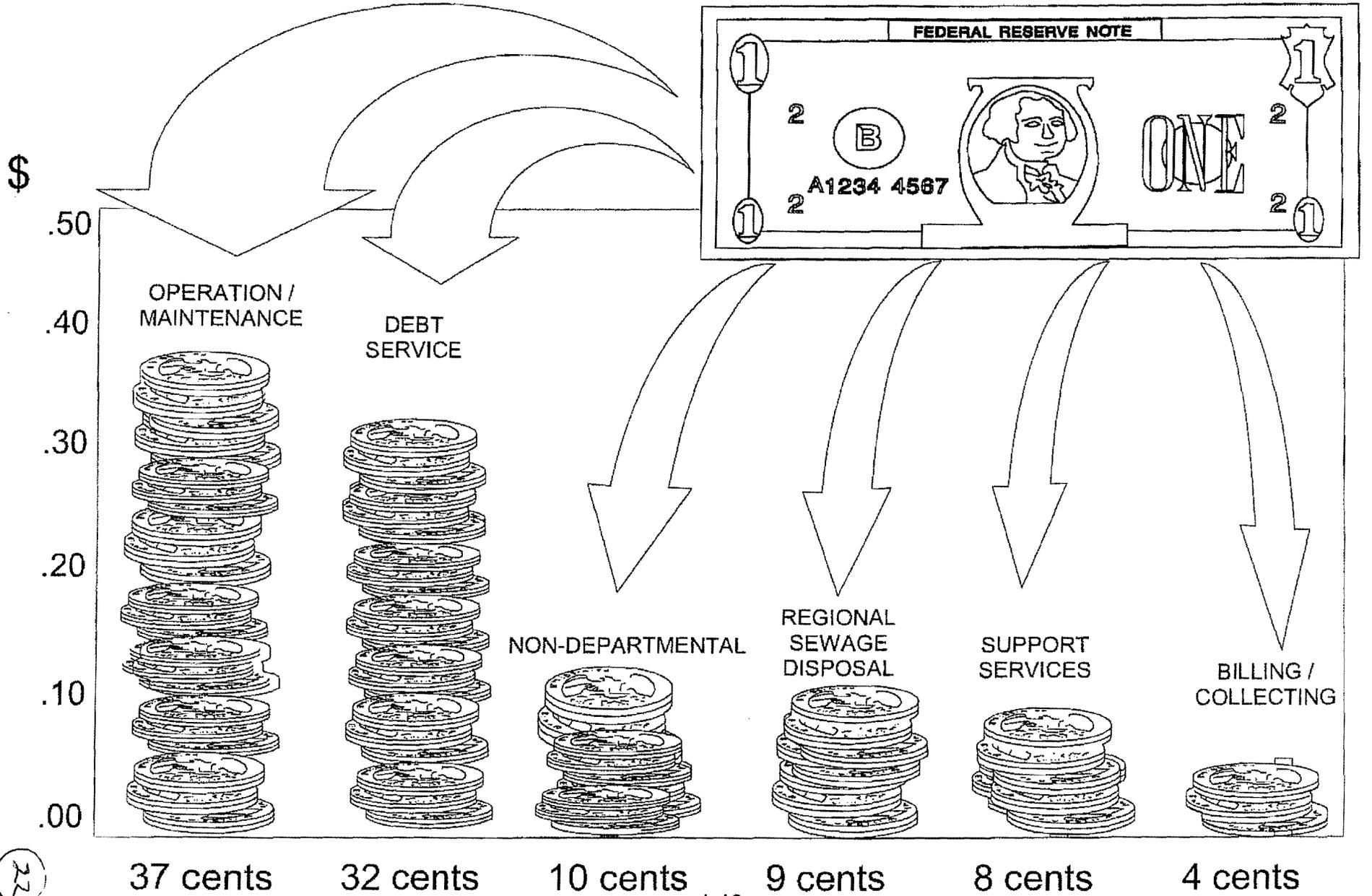
EXPLANATION OF THE BUDGET

(Continued)

- 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;
- Answering at least 95 percent of all customer billing calls received;
- Maintaining and fueling 930 vehicles, maintaining approximately 676 pieces of large field equipment, and operating 6 repair facilities;
- Replacing 22 and purchasing an additional 3 pieces of major equipment needed to support construction, operations, and maintenance activities; and
- Replacing 86 and purchasing an additional 23 vehicles needed to support construction, operations, and maintenance activities.

FY'12 PROPOSED BUDGET

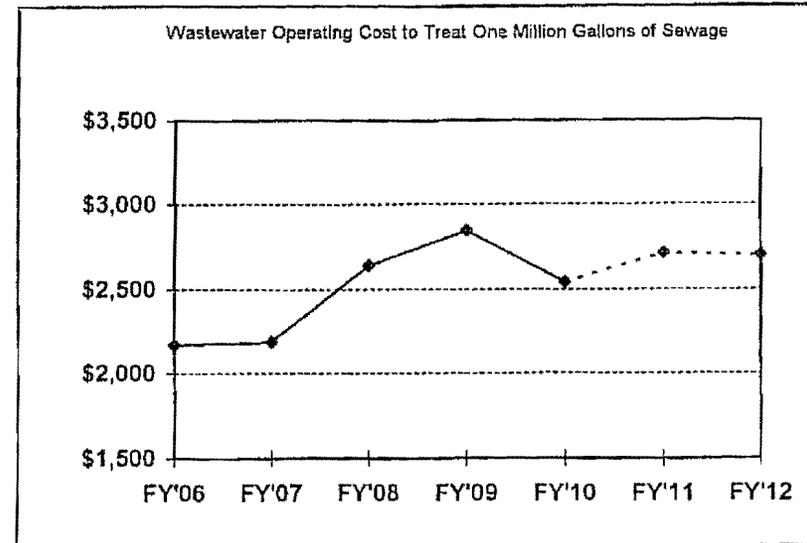
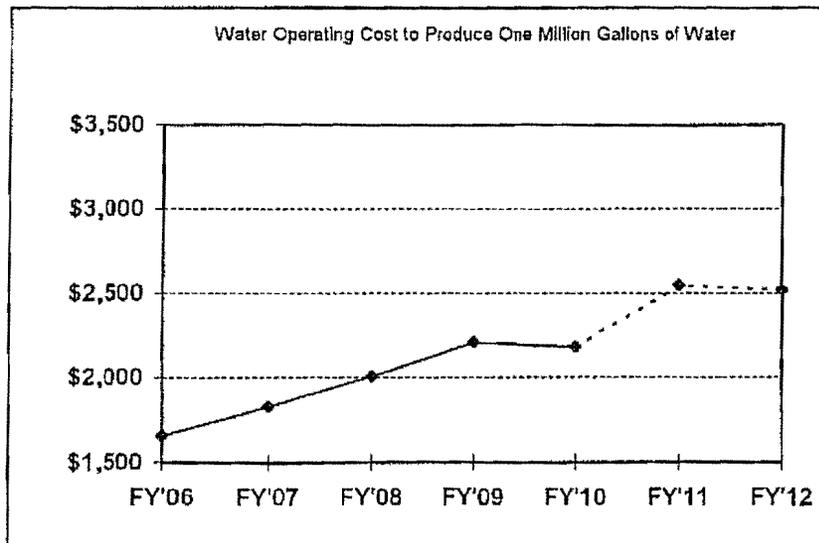
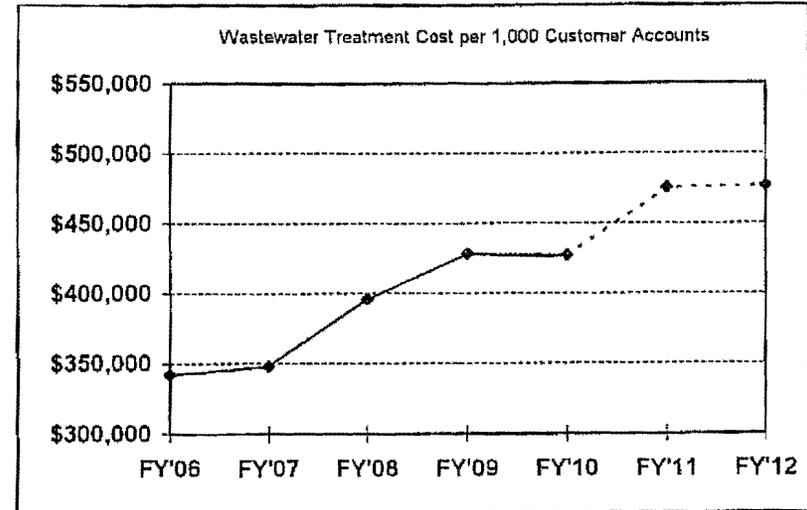
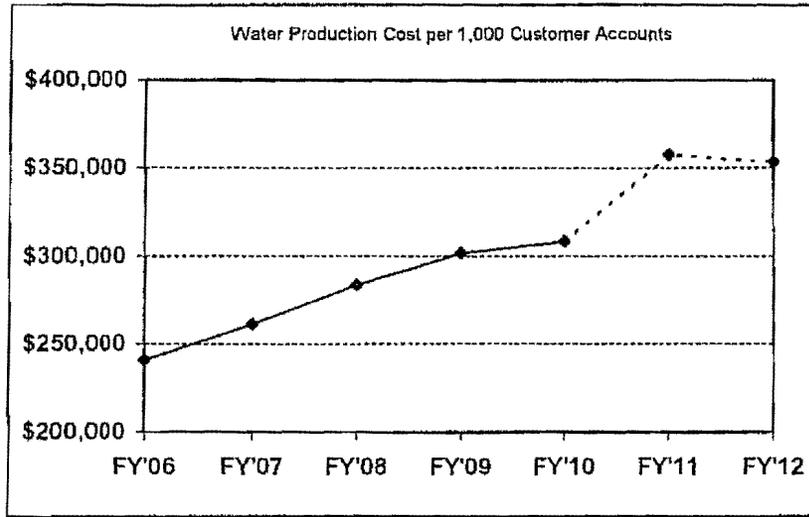
(How Each Dollar of a Water and Sewer Bill Is Spent)



22

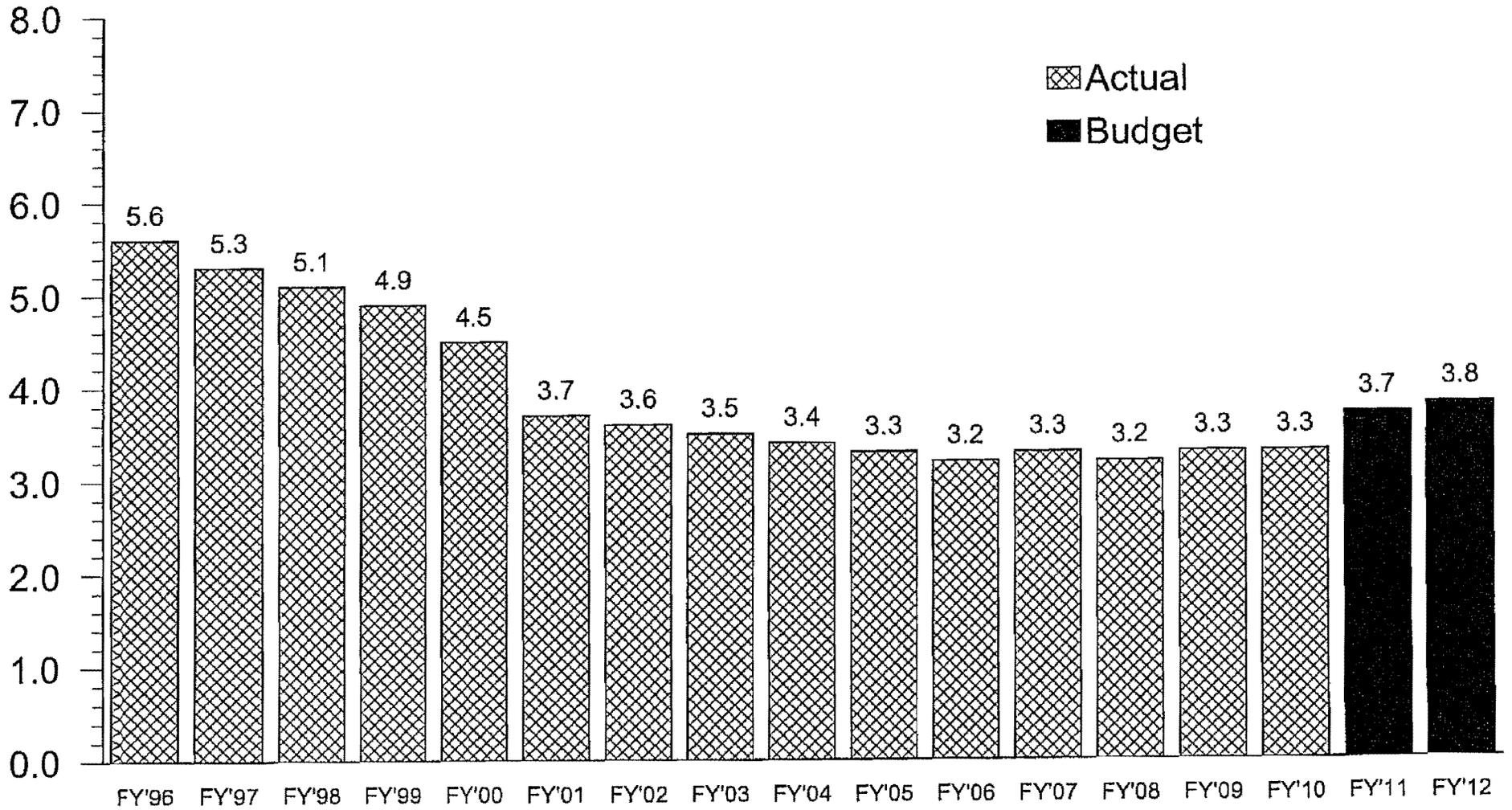
WSSC

OPERATING EFFICIENCY MEASURES



Note: FY'11 & FY'12 are budgeted, not actual.

WORKYEARS PER 1,000 CUSTOMER ACCOUNTS



24

SELECTED STATISTICAL DATA

	<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>ACTUAL</u>	<u>FY'11</u> <u>APPROVED</u>	<u>FY'12</u> <u>PROPOSED</u>
Population Served	1,678,000	1,692,000	1,706,000	1,720,000	1,734,000	1,745,000	1,756,000
Customer Accounts	428,887	433,113	433,967	433,579	434,773	442,579	442,773
Water Produced (average MGD)	170.5	169.8	168.2	162.3	168.7	170.0	170.0
Water Produced (millions of gallons)	62,228	61,795	61,572	59,255	61,590	62,050	62,050
Water Mains Maintained (miles)	5,300	5,365	5,403	5,427	5,438	5,527	5,538
Water Mains Constructed (miles added by WSSC)	2	13.6*	0.2	0.5	1.5	5	5
Water Mains Constructed (miles added by developers)	38	51	38	23	10	45	45
Water House Connections Maintained	427,639	432,716	436,600	438,893	440,019	447,893	448,019
Water House Connections Installed	5,188	5,077	3,884	2,293	1,126	4,000	4,000
Water Meters Issued	29,730	13,916	16,457	13,458	8,769	15,622	15,622
Sewage Systems Total Flow (average MGD)	185.4	189.2	177.8	178.6	200.3	212.6	214.5
Sewage Systems Total Flow (millions of gallons)	67,682	69,071	65,068	65,201	73,089	77,599	78,293
Sewer Mains Maintained (miles)	5,188	5,250	5,285	5,314	5,324	5,414	5,424
Sewer Mains Constructed (miles added by WSSC)	4	11.4*	1	1.8	-	5	5
Sewer Mains Constructed (miles added by developers)	48	51	34	27	10	45	45
Sewer House Connections Maintained	406,303	410,923	414,386	416,392	417,301	425,392	425,301
Sewer House Connections Installed	4,723	4,620	3,463	2,006	909	4,000	4,000
Maintenance Work Orders (Emergency and Routine)	102,165	73,967	93,570	87,942	75,253	90,500	82,900
Vehicles in Fleet	824	846	853	865	883	907	930
Miles Traveled by Fleet	6,030,312	6,224,544	5,498,376	5,399,040	5,563,414	5,880,000	6,056,000
Water Meter Readings Completed	1,762,000	1,732,288	1,853,520	1,876,796	1,933,411	1,900,500	1,904,500
Authorized Positions	1,502	1,532	1,525	1,555	1,561	1,632	1,681
Authorized Workyears	1,458	1,490	1,525	1,555	1,561	1,632	1,681
Actual Employment Level - Beginning	1,383	1,377	1,428	1,434	1,455	1,468	
Actual Employment Level - Ending	1,377	1,428	1,434	1,455	1,468		
Actual Workyears	1,373	1,416	1,407	1,428	1,449		

* Reflects the acquisition of the Marlboro Meadows System

WATER & SEWER OPERATING FUNDS - COMBINED

(\$ In Thousands)

	<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>ACTUAL</u>	<u>FY'11</u> <u>APPROVED</u>	<u>FY'12</u> <u>PROPOSED</u>
<u>REVENUES</u>							
Water Consumption Charges	\$ 146,413	\$ 142,968	\$ 155,897	\$ 159,480	\$ 178,349	\$ 216,086	\$ 237,146
Sewer Use Charges	192,794	203,471	216,340	218,910	234,019	262,732	273,360
Interest Income	5,382	5,596	3,872	902	707	4,000	4,000
Miscellaneous	17,534	18,903	21,177	19,288	19,053	21,828	20,936
Account Maintenance Fee	21,955	21,957	21,888	21,789	22,886	22,650	22,850
Total Revenues	<u>384,078</u>	<u>392,895</u>	<u>419,174</u>	<u>420,369</u>	<u>455,014</u>	<u>527,296</u>	<u>558,292</u>
SDC Debt Service Offset	2,907	2,810	2,711	2,612	2,498	2,398	2,293
Reconstruction Debt Service Offset	8,000	10,000	12,000	12,000	11,500	11,500	11,000
Use of Fund Balance	27,146	10,412	10,890	16,284	11,995	3,181	3,400
Net Fund Balance Increase	(1,482)	-	-	-	-	-	-
Total Funds Available	<u>\$ 420,649</u>	<u>\$ 416,117</u>	<u>\$ 444,775</u>	<u>\$ 451,265</u>	<u>\$ 481,007</u>	<u>\$ 544,375</u>	<u>\$ 574,985</u>
<u>EXPENDITURES</u>							
Salaries & Wages	\$ 73,539	\$ 78,799	\$ 84,702	\$ 87,396	\$ 88,907	\$ 93,483	\$ 97,921
Heat, Light & Power	19,350	20,525	23,025	26,315	28,187	27,819	25,275
Regional Sewage Disposal	38,281	39,327	42,384	44,787	47,013	47,713	49,478
Debt Service	139,497						
Principal Payments		95,661	97,082	103,165	112,953	111,140	119,326
Interest Payments		45,758	39,405	37,931	36,260	63,314	66,568
Debt Reduction (PAYGO)	22,924	1,482	-	-	-	-	-
All Other	118,508	125,175	144,544	157,689	155,504	200,906	216,417
Total Expenditures	<u>\$ 412,099</u>	<u>\$ 406,727</u>	<u>\$ 431,142</u>	<u>\$ 457,263</u>	<u>\$ 468,824</u>	<u>\$ 544,375</u>	<u>\$ 574,985</u>
Water Production (average MGD)	170.5	169.8	168.2	162.3	168.7	170.0	170.0

CONSOLIDATED STATEMENT OF OPERATING FUNDS, REVENUES, AND EXPENDITURES

(\$ In Thousands)

	<u>FY'10 Actual</u>	<u>FY'11 Approved Budget</u>	<u>FY'12 Proposed Budget</u>
<u>REVENUES</u>			
Water Consumption Charges	\$178,349	\$216,086	\$237,146
Sewer Use Charges	234,019	262,732	273,360
Account Maintenance Fee	22,886	22,850	22,850
Front Foot Benefit & House Connection Charges (Deferred)	64,188	59,298	54,126
Debt Service Reimbursement	787	-	
Plumbing & Inspection Fees	4,024	5,823	5,823
Interest Income	1,155	6,047	5,237
Rockville Sewer Use	2,605	2,258	2,353
Use of Fund Balance	11,995	3,181	3,400
Miscellaneous	<u>13,179</u>	<u>14,847</u>	<u>13,410</u>
TOTAL REVENUES	<u>533,187</u>	<u>593,122</u>	<u>617,705</u>
<u>EXPENSES</u>			
Salaries & Wages	89,380	95,120	98,418
Heat, Light & Power	28,187	27,819	25,275
Regional Sewage Disposal	47,013	47,713	49,478
All Other	156,251	201,862	217,211
Debt Service			
Principal Payments	164,548	158,764	161,049
Interest Payments	<u>52,575</u>	<u>74,272</u>	<u>74,714</u>
GROSS EXPENSES	<u>537,954</u>	<u>605,550</u>	<u>626,145</u>
Less: Reconstruction Debt Service Offset	(11,500)	(11,500)	(11,000)
SDC Debt Service Offset	<u>(2,498)</u>	<u>(2,398)</u>	<u>(2,293)</u>
NET EXPENSES	<u>523,956</u>	<u>591,652</u>	<u>612,852</u>
NET REVENUE (LOSS) FOR YEAR	<u>\$ 9,231</u>	<u>\$ 1,470</u>	<u>\$ 4,853</u>

SYSTEMS RECONSTRUCTION PROGRAM

	<u>FY'10</u>	<u>FY'11</u>	<u>FY'12</u>
	<u>Actual</u>	<u>Approved</u>	<u>Proposed</u>
• <u>Systems Reconstruction Program</u>	\$93,342,451	\$133,930,000	\$115,420,000

This program provides for the systematic replacement or rehabilitation of the Commission's aging water and sewer systems. Through FY'10, the water and sewer systems had approximately 5,400 miles and 5,300 miles of main, respectively, along with 440,000 water house connections and 417,300 sewer house connections. Portions of the systems need to be replaced due to deterioration or complete failure, or because current customer demand is not adequately being met.

Both the water and sewer reconstruction programs provide for renewing house connections. The house connections (from the main to the property line) need to be renewed due to complete failure or because maintenance requirements have become so frequent that the Commission has determined that replacement is less costly than continuing maintenance efforts. House Connection renewals are funded with General Construction Bonds. During FY'12, the Commission plans on renewing 3,300 water and 400 sewer house connections.

The FY'12 proposed water reconstruction program is \$65.9 million. The program consolidates several water main improvement activities designed to enhance water quality, pressure and reliability under one initiative and strategically targets funding to upgrade and/or replace aging water mains in Prince George's and Montgomery Counties. The majority of funding is dedicated to replacing older water mains previously prone to breaks with new sections of cement lined ductile iron pipe. Projects also could include pipeline appurtenances such as large meter and fire meter vaults. During FY'10, almost 40 miles of water mains, 10 miles of associated house connection laterals, and 24 meter vaults were replaced. The FY'12 budget request provides for replacement of 41 miles of water main and associated house connection renewals and 30 large water service replacements.

The FY'12 proposed sewer reconstruction program is \$49.5 million. The program provides for correcting structural deficiencies of sewer mains. These structural deficiencies result from soil settlement, root penetration, and corrosion, and often contribute to sewage overflows and backups into homes. During FY'10, over 19 miles of sewer mains and 7 miles of house connection laterals were rehabilitated. The FY'12 budget request provides for rehabilitating 22 miles of main lines and 5 miles of lateral lines throughout the WSSD.

Comparative Expenditures by Organizational Unit

	FY'11 Approved		FY'12 Proposed	
	Workyears	Amount	Workyears	Amount
Commissioners Office/Corporate Secretary's Office	2.0	\$ 323,200	2.0	\$ 329,100
Internal Audit	9.0	1,045,200	9.0	1,029,800
General Manager	5.0	943,800	5.0	950,300
Intergovernmental Relations Office	5.0	581,500	5.0	575,000
Strategic Systems Management Office	7.0	844,800	7.0	846,800
General Counsel's Office	16.0	3,786,100	16.0	3,878,700
Communications & Community Relations Office	17.0	1,857,600	17.0	2,039,000
Human Resources Office	22.0	3,098,800	22.0	3,028,500
Small, Local and Minority Business Enterprise Office	8.0	1,085,400	8.0	1,092,300
Fair Practice Office	2.0	172,600	2.0	172,600
Acquisition Office	26.0	2,027,900	26.0	2,065,300
Corporate Asset Management Office	16.0	11,750,700	16.0	11,128,500
Engineering & Construction Team	317.0	466,950,600	340.0	542,497,000
Production Team	288.0	150,503,400	293.0	147,276,300
Logistics Office	177.0	26,008,900	177.0	26,417,700
Finance Office	62.0	5,403,200	62.0	5,416,700
Customer Care Team	570.0	95,200,100	591.0	104,089,200
Information Technology Team	83.0	18,691,100	83.0	19,185,500
Non-Departmental (Finance)	-	33,840,200	-	36,021,100
Non-Departmental (Human Resources)	-	29,652,200	-	32,388,600
Debt Service	-	233,136,000	-	235,863,000
Depreciation Expense	-	11,846,700	-	11,684,100
Operating Reserve Contribution	-	1,500,000	-	3,400,000
Salary Enhancement	-	-	-	691,900
SUMMARY-TOTAL	1,632.0	\$ 1,100,250,000	1,681.0	\$ 1,192,067,000

Comparative Personnel Complement by Organizational Unit

	<u>FY'10 Actual</u>		<u>FY'11 Approved</u>		<u>FY'12 Proposed</u>	
	<u>Authorized Positions</u>	<u>Workyears</u>	<u>Authorized Positions</u>	<u>Workyears</u>	<u>Authorized Positions</u>	<u>Workyears</u>
<u>Commissioners Office/Corporate Secretary's Office</u>	*8	2.0	*8	2.0	*8	2.0
Internal Audit	8	8.0	9	9.0	9	9.0
<u>General Manager</u>	4	4.4	5	5.0	5	5.0
Intergovernmental Relations Office	5	3.9	5	5.0	5	5.0
Strategic Systems Management Office	10	7.3	7	7.0	7	7.0
General Counsel's Office	16	15.6	16	16.0	16	16.0
Communications & Community Relations Office	16	15.7	17	17.0	17	17.0
Human Resources Office	22	19.7	22	22.0	22	22.0
Small, Local and Minority Business Enterprise Office	8	7.9	8	8.0	8	8.0
Fair Practice Office	2	2.0	2	2.0	2	2.0
Acquisition Office	21	15.6	26	26.0	26	26.0
Corporate Asset Management Office	15	11.8	16	16.0	16	16.0
Engineering & Construction Team	303	281.2	317	317.0	340	340.0
Production Team	280	266.2	288	288.0	293	293.0
Logistics Office	173	147.2	177	177.0	177	177.0
Finance Office	62	56.5	62	62.0	62	62.0
Customer Care Team	535	513.2	570	570.0	591	591.0
Information Technology Team	79	70.3	83	83.0	83	83.0
SUMMARY-TOTAL	<u>1,561</u>	<u>1,448.5</u>	<u>1,632</u>	<u>1,632.0</u>	<u>1,681</u>	<u>1,681.0</u>

* Commissioners (6) not included in total positions.

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 three reservoirs impounding 14 billion gallons of water, two major water filtration plants, seven wastewater treatment plants, 5,500 miles of water mains, and 5,400 miles of sewer mains 24 hours a day, seven days a week.*
- ❖ *Treat and deliver 170.0 million gallons of water per day to over 442,000 customer accounts, and treat 214.5 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 two 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 includes one new Montgomery County project as well as funding for six major projects at the Blue Plains Advanced Wastewater Treatment Plant in the District of Columbia, the new Bi-County Water Tunnel, rehabilitation of large water and sewer mains, and other important water and wastewater projects.*
- ❖ *Inspect, repair, and install acoustic fiber optic cable (an early warning system) for 15.2 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 FY12, the Commission will reconstruct 41 miles of small water mains (five more miles than in FY11) and rehabilitate 22 miles of sewers.*
- ❖ *Comply with the Sanitary Sewer Overflow Consent Order.*

- ❖ Fund the fourth year of implementing the Enterprise Resource Planning/Enterprise Asset Management system.
- ❖ Fund the fifth 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 Limits 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 FY12 spending control limits for WSSC. The following table shows the FY12 spending control limits adopted by each of the Councils, compared to the spending control results projected under WSSC's Proposed Budget and under the County Executive's Recommended Budget for WSSC. The Commission's Proposed Budget complies with all of the four spending control limits approved by Montgomery County.

FY12 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) ^a	\$325.3	\$325.3	\$298.7	\$298.7
Water and Sewer Debt Service (\$millions)	\$196.3	\$196.3	\$185.9	\$185.9
Total Water and Sewer Operating Expenses (\$millions)	\$582.8 ^b	\$573.8 ^b	\$575.0	\$575.0

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

^bThese limits have each been adjusted to reflect WSSC's decision to show the Reconstruction Debt Service Offset (REDO) and the SDC Debt Service Offset as operating expenditures rather than as revenues. The effect is to increase each limit by \$13.293 million. The increase in expenses is fully offset by the increase in revenue and does not affect the rate increase needed.

FY12 COUNTY EXECUTIVE RECOMMENDATIONS

Capital Budget

The County Executive recommends approval of WSSC's proposed FY12 capital budget of \$565.9 million, including the Commission's mid-cycle update to its proposed FY12-17 CIP. WSSC's budget incorporates the County Executive's January 15, 2011 recommendations on WSSC's FY12-17 CIP to adjust the estimated FY12 costs 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 FY10-19 CIP.

WSSC's Proposed FY12 Capital Budget provides funds for reconstruction of 41 miles of small water mains and the rehabilitation of 22 miles of small sewers. The County Executive supports these critical efforts to renew WSSC's aging underground infrastructure.

Operating Budget

The County Executive recommends elimination of the 2% cost of living increase provided to WSSC's represented employees in the Commission's proposed FY12 budget. This increase, which was not provided to the Commission's non-represented employees, would cost \$694,920 in salaries and wages, of which \$564,410 would represent water and sewer operating expenses. Elimination of the 2% cost of living increase for WSSC's represented employees is consistent with the Commission's decision not to provide such increases for its non-represented employees in FY12. (No cost of living increases will be provided to Montgomery County Government employees for FY12.)

The \$694,920 savings in salaries and wages from eliminating the cost of living increase should be used to reinstate critical programs that had to be eliminated or curtailed to achieve the 8.5% rate increase. It is therefore recommended that the total budget for "Salaries and Wages" be reduced by \$694,920 and that the same amount be added to the budget for "All Other" expenses. In addition, the

\$48,400 budgeted under "All Other" expenses for employee benefits (FICA) associated with the cost of living increase should be re-programmed for other uses. WSSC's total proposed operating budget (and the associated 8.5% rate increase) will therefore be unchanged by these recommendations.

The County Executive recommends approval of WSSC's total proposed FY12 operating budget of \$626.1 million with the changes described above. This budget assumes an 8.5% average increase in water and sewer rates. The budget provides for the inspection, repair, and fiber optic cabling of 15.2 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.

FY12 fiscal projections for all funds and budgets are shown below. Six-year projections for the Water and Sewer Operating Budget are shown on page 15-4.

Expenditures by Category - FY12 WSSC Proposed and Executive Recommended							
Expenditure Categories	(\$000s)						
	WSSC Total	WSSC Total	WSSC Total	CE Capital	CE Operating	CE Total	% Chg. (CE Rec. vs. WSSC Proposed)
	Actual FY10	Approved FY11	Proposed FY12	Recommended FY12	Recommended FY12	Recommended FY12	
Salaries and Wages	108,627	116,825	122,371	23,953	97,723	121,676	-0.6%
Heat, Light, & Power	28,187	27,819	25,275	--	25,275	25,275	0.0%
Regional Sewage Disposal	47,013	47,713	49,478	--	49,478	49,478	0.0%
Contract Work	96,384	262,884	270,039	270,039	--	270,039	0.0%
Consulting Engineers	25,096	62,049	61,051	61,051	--	61,051	0.0%
All Other	255,473	349,824	427,990	210,779	217,906	428,685	0.2%
Debt Service	217,656	233,136	235,863	100	235,763	235,863	0.0%
Total Budget	778,436	1,100,250	1,192,067	565,922	626,145	1,192,067	0.0%

Note: Expenditures include water and sewer operating funds, the 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.

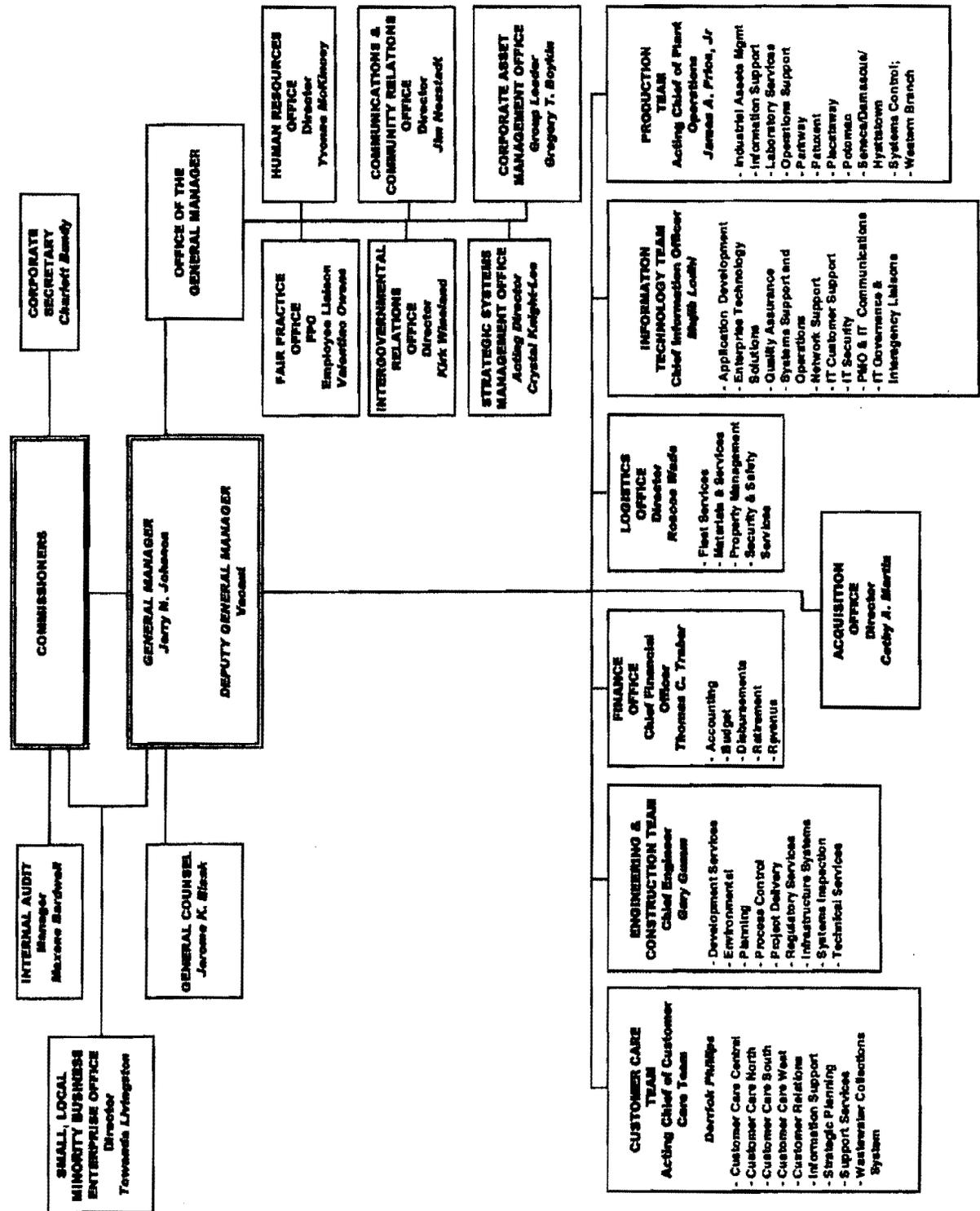
WSSC PROPOSED: FORECAST FOR WATER AND SEWER OPERATING FUNDS

FISCAL PROJECTIONS	FY11 ESTIMATED	FY12 PROPOSED	FY12 RECOMMENDED	FY13 PROJECTION	FY14 PROJECTION	FY15 PROJECTION	FY16 PROJECTION	FY17 PROJECTION
SPENDING AFFORDABILITY ASSUMPTIONS/RESULTS								
New Water and Sewer Debt (\$millions)	\$249.4	\$298.7	\$298.7	\$389.2	\$348.6	\$292.3	\$316.6	\$322.4
Total Water and Sewer Operating Expenses (\$millions)	\$544.4	\$575.0	\$575.0	\$635.4	\$683.1	\$725.8	\$773.4	\$822.1
Debt Service (\$millions)	\$174.5	\$185.9	\$185.9	\$228.0	\$261.3	\$286.2	\$312.8	\$339.3
Average Water and Sewer Rate Increase	8.5%	8.5%	8.5%	11.3%	8.7%	6.5%	7.0%	6.6%
BEGINNING FUND BALANCE (\$000)	48,075	46,394	46,394	46,394	46,394	46,394	46,394	46,394
REVENUES (\$000)								
Water and Sewer Rate Revenue	469,818	510,506	510,506	569,947	621,149	663,513	711,964	760,892
Interest Income	1,500	4,000	4,000	4,050	4,050	4,100	4,100	4,150
Account Maintenance Fee	22,850	22,850	22,850	22,900	22,900	22,950	22,950	23,000
Miscellaneous	21,628	20,936	20,936	21,247	21,607	22,061	22,182	22,309
Total Revenues	515,796	558,292	558,292	618,144	669,706	712,624	761,196	810,351
SDC Debt Service Offset	2,398	2,293	2,293	2,192	1,428	1,167	728	207
Reconstruction Debt Service Offset (REDO)	11,500	11,000	11,000	11,000	10,500	10,500	10,000	10,000
Use of Prior Year Net Revenue	3,181	3,400	3,400	4,100	1,500	1,500	1,500	1,500
TOTAL FUNDS AVAILABLE	532,875	574,985	574,985	635,436	683,134	725,791	773,424	822,058
EXPENDITURES (\$000)								
Salaries and Wages	93,483	97,922	97,357	102,819	107,961	113,361	119,031	124,984
Heat, Light, and Power	27,819	25,275	25,275	26,297	27,917	29,643	31,473	33,471
Regional Sewage Disposal	47,713	49,478	49,478	51,309	53,207	55,176	57,218	59,335
Debt Service	165,454	185,894	185,894	227,951	261,257	286,225	312,821	339,316
All Other	196,906	213,016	213,581	222,960	231,292	239,886	251,381	263,452
Reserve Contribution	1,500	3,400	3,400	4,100	1,500	1,500	1,500	1,500
TOTAL USE OF RESOURCES	532,875	574,985	574,985	635,436	683,134	725,791	773,424	822,058
REVENUE/EXPENDITURE SURPLUS/(GAP)	0	0	0	0	0	0	0	0
YEAR END FUND BALANCE w/o additional \$1.5 m reserve	44,894	42,994	42,994	42,294	44,894	44,894	44,894	44,894
Additional Reserve Contribution	1,500	3,400	3,400	4,100	1,500	1,500	1,500	1,500
TOTAL YEAR END FUND BALANCE	46,394	46,394	46,394	46,394	46,394	46,394	46,394	46,394
Debt Service as a Percentage of Budget	31.0%	32.3%	32.3%	35.9%	38.2%	39.4%	40.4%	41.3%
Estimated Water Production (MGD)	170.0	170.0	170.0	170.5	171.0	171.5	172.0	172.5
Accumulated Add'l Reserve since FY04	12,000	15,400	15,400	19,500	21,000	22,500	24,000	25,500
Total Operating Reserve	28,000	31,400	31,400	35,500	37,000	38,500	40,000	41,500
Total Operating Reserve as a Percentage of Water and Sewer Revenue	6.0%	6.2%	6.2%	6.2%	6.0%	5.8%	5.6%	5.5%
Total Workyears (all funds)	1,476	1,681	1,681	--	--	--	--	--

Assumptions:

1. The County Executive's operating budget recommendation is for FY12 only and incorporates the Executive's revenue and expenditure assumptions for that budget.
2. The FY13-17 projections reflect WSSC's multi-year forecast and assumptions, which are not adjusted to conform to the County Executive's Recommended budget for WSSC. The projected expenditures, revenues, and fund balances for these years may be based on changes to rates, fees, usage, inflation, future labor agreements, and other factors not assumed in the County Executive's Recommended FY12 water and sewer operating budget for WSSC.
3. The FY11 adopted and FY11 estimated spending affordability assumptions are the limits for FY11 implied by the budget jointly approved by Montgomery and Prince George's counties. The FY12 Proposed spending affordability figures are the spending affordability assumptions associated with WSSC's proposed FY12 budget. The FY12 recommended spending affordability assumptions are the spending affordability parameters associated with the County Executive's recommended WSSC budget for FY12. The FY13 - FY17 spending affordability figures correspond to the actual results for the various spending affordability parameters based on the revenue and expenditure forecasts shown for the given year.
4. The total FY11 estimated workyears shown correspond to the actual workyears as of December, 2010.

WSSC ORGANIZATION CHART



FY'12 Proposed COLA and Merit

	Total	W/S Effect	Rate Impact	Workyears
Represented - 2% COLA	\$ 691,924	\$ 564,610	0.1%	432
Non-Represented	-	-	0.0%	1,249
Total	\$ 691,924	\$ 564,610	0.1%	<u>1,681</u>
<i>FICA</i>	<i>48,400</i>	<i>39,500</i>		
Merit - Represented Eligible	80,655	65,814	0.0%	58
Merit - Represented Not Eligible	<i>FICA</i> 5,641	<i>4,604</i>	0.0%	374
Merit - Non-Represented	-	-	0.0%	1,249
<u>Rate Impact of COLA and Merit</u>	<u>\$ 772,579</u>	<u>\$ 630,424</u>	<u>0.1%</u>	<u>1,681</u>

FY'12 Additional & Reinstated Workyears

<i>New Workyears</i>	Cost	W/S Impact
<i>Plant Operations</i>		
1 Sr. Water Plant Operator	\$ 53,400	\$ 53,400
1 Sr. Mechanical Engineer	73,500	73,500
1 Electrical Mechanical Supervisor	78,500	78,500
1 Facility Technician I	50,500	50,500
1 Electrical Mechanical Technician	53,400	53,400
<i>PCCP & Transmission Main Inspection</i>		
5 Utility Technician	225,500	225,500
<i>Water Main Best Practice / Small Valve Exercising & Repair</i>		
3 Utility Technician	135,300	135,300
<i>Leak Detection</i>		
2 Utility Technician	90,200	90,200
<i>Consent Decree - Sewer Design Program - no additional w/s impact - already in CIP</i>		
4 Project Manager I*	241,200	-
3 Project Manager II*	206,400	-
<i>Water Main & Vault Meter Replacement - no additional w/s impact - already in CIP</i>		
2 Project Manager I	120,600	-
1 Project Manager II	68,800	-
<i>Asset Management Program (formerly known as the Utility Master Plan)</i>		
1 Capital Cost Benefit Manager	68,800	34,400
1 Maintenance Electrical Mechanical Engineering Unit Coordinator	89,700	44,850
1 Principal Materials Engineer	78,500	39,250
1 Sr. Civil Engineer - Pipelines	68,800	34,400
2 Buried Asset Strategy Manager	167,800	167,800
1 Maintenance Optimization Manager	68,800	68,800
1 Asset Management Business Improvement Manager	83,900	83,900
1 Buried Systems Manager	102,500	102,500
1 Water Analysis Unit Coordinator	83,900	83,900
1 Principal Civil Engineer	78,500	78,500
1 Engineering Assistant IV	53,300	53,300
<i>Permit Services</i>		
1 Permit Agent	53,300	53,300
<i>Collections</i>		
2 Collection Field Specialist	90,200	90,200
<i>Site Utility Inspection - fee based</i>		
1 Contract Manager	68,800	-
<i>Property & Right of Way Acquisition</i>		
1 Property Acquisition Agent	60,300	15,075
<i>Maintenance</i>		
1 Customer Care (Maintenance) Unit Coordinator	78,500	78,500
<i>Cross Connection</i>		
1 Sr. Plumbing Inspector	68,800	68,800
4 Plumbing Inspector	241,200	241,200
1 Inspection Service Agent	42,600	42,600
49 Total Workyears		
 <i>New Workyears Impact</i>	 \$ 3,045,500	 \$ 2,141,575

* Consent Decree required.

Enterprise Resource Planning Update – March 29, 2011

The Enterprise Resource Planning (ERP) Project is a five-year organization-wide initiative to implement the Commission-wide Enterprise Resource Planning / Enterprise Asset Management / Customer Relations Management technology solution. The total value of the Oracle contract is \$17.6 million, out of a total cost of \$35 million for the entire Enterprise Resource Planning implementation. The Oracle award is structured in five (5) Phases, with each Phase having specific modules to be installed at WSSC. Phase one was approved for award by the Commissioners on April 15, 2009. Each of the remaining four (4) Phases are designed to be approved by the Commissioners as an option.

ERP Phase 1 Overall Status

- WSSC's plan was to implement 5 modules in Phase 1 at a cost not to exceed \$1.7 million dollars. These 5 modules are:
 - Oracle Time & Labor payroll system (OTL) 100% Complete
 - Absence Management Option 100% Complete
 - Oracle Standard Benefits (OSB), 85% Complete
 - Oracle Advanced Benefits (FY12 Initiative) 0% Complete – Replaces OSB
 - Oracle Learning Management (OLM), 90% Complete
 - Employee Self Service (ESS), 75% Complete, and
 - Manager Self Service (MSS) 60% Complete.

The \$1.7 million award for phase 1 was amended by 10% (\$170,000) in order to complete OLM, ESS, and MSS. This brings the total award of the original phase 1 contract to Oracle to \$1,870,000. WSSC is still within the total budget of \$17.6 M for the Oracle contract. To ensure completion of the Release 12 Upgrade to Oracle Financials, OTL, and Absence Management applications without time and material basis cost escalation, WSSC instituted a separate firm fixed price addendum contract, in the amount of \$224,040.

- OTL
The Release 12 Upgrade to Oracle Financials and the OTL application including absence management capability “went live” on March 16, 2011. This system provides for employees to electronically enter their weekly time and attendance, and have their supervisors electronically approve their submitted time. The system then produces paychecks for all employees.
- ERP - FY12
As the overall implementation proceeds, the General Manager/CEO is undertaking a comprehensive review of ERP prior to beginning Phase 2. Phase 2 is estimated at approximately \$4.8 million. This effort will ensure comprehensive internal alignment and emphasis that fully supports Phase 2; prior to beginning Phase 2 in FY12. Phase 2 provides for the replacement of the Materials, Acquisitions and Payments System that supports the Acquisitions, the Small, Local, Minority Business Enterprise, and the Accounts Payable organizations; and will be spread out over FY12 and FY13. Finally, Oracle Learning Management (OLM) which supports employee training, succession management and employee development will be the application of emphasis at the beginning of FY12.

SDC Scenario Summary

Recovering Economy, No SDC Increase, New Debt

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
Funding Sources		13.3	13.4	18.8	31.3	31.0	31.7	32.4
Growth Costs		36.5	70.0	70.0	36.5	29.4	22.4	22.4
Surplus (Deficit)		(23.2)	(56.6)	(51.2)	(5.2)	1.6	9.3	10.0
Balance	99.2	76.0	19.4	(31.8)	(5.2)	1.6	10.9	20.9
New Debt				31.8	5.2			
New Balance (if debt issued)				-	-	1.6	10.9	20.9

⊗

39

WSSC
FY 2012 NEW POSITION JUSTIFICATIONS

PLANT OPERATIONS

Patuxent Plant

1 Sr. Water Plant Operator, 1 Facility Technician

There are a total of 13 operators/facility technicians in the Patuxent Group. Given that it requires two staff members to cover each shift, often times the dayshift is sparsely covered, thus causing supervisors to perform operational and/or maintenance functions. Currently, 5 Sr. Water Plant operators and one Facility Technician are charged with covering plant operations between the hours of 3:00 pm and 6:30 am, as well as weekends and holidays. The current Sr. Operator is responsible for covering these "off-hour" shifts, often by working overtime. Fatigue is becoming a factor within the Sr. Operator ranks. In a self-perpetuating cycle, many of them work the necessary double shifts then need to take off in order to recuperate, requiring someone else to work a double shift in their place.

The Patuxent Plant's Phase II expansion and the addition of the new UV system will test the already stretched Plant workforce. Relief is necessitated in the form of at least one Sr. Water Plant Operator and one Facility Technician I. Without the addition of these new positions, overtime costs will continue to rise. The Plant may also begin to experience subtle slips in productivity as staff attempts to work a growing number of elongated hours.

Operations Support

1 Sr. Mechanical Engineer

The Energy Manager has been working independently for many years, due to staffing levels. This has exposed the Commission to a serious succession management problem should the Energy Manager unexpectedly leave the Commission. In addition, the duties have expanded due to the increasing number of energy saving programs. The Energy Manager's responsibilities include investigating and administering bulk power procurements with other consortium members, monitoring and reporting to management proposed and actual changes in state power regulations, investigating and pursuing federal, state, and local utility grants for energy conservation, projecting WSSC's power requirements and preparing associated cost estimates, designing and maintaining the Commission's renewable energy portfolio plans and researching and participating in the implementation of energy saving projects, including wind, solar, and anaerobic digestion/combined heat and power.

In light of the increasing duties and the associated succession risk exposure, a new Sr. Mechanical Engineer position is requested. This position would also assist in supporting the Production Team's Internal Security Task Force as its workload increases.

Systems Control

1 Electrical/Mechanical Supervisor

The Chief Water Distribution Operator has 15 direct reports. He is also responsible for overseeing day to day operations, work assignments, the coordination of new facilities going on line, verifying rehabilitation contracts are ready to return to service, and covers emergency duty for water operations. In addition, administrative workload has increased significantly during the last five years. An Electrical/Mechanical Supervisor would provide better oversight and coordination of employees' electrical work and the electrical skill sets being developed for succession planning. The workyear would also allow for the review and development of better preventive maintenance work requirements and would be available to implement the Asset Management Program.

Industrial Assets Management

1 Electrical/Mechanical Technician

The addition of an Electrical/Mechanical Technician is requested due to an increased workload within the Electrical/Mechanical Unit. The increased workload, including bank testing and total discharging of all microwave battery sites and additional load banking of new generator sites along with the increasing number of Preventive and Predictive Maintenance tasks cannot be accomplished with the existing Electrical/Mechanical staff. This position was requested as an expanded activity for FY10 and was approved for inclusion in the budget request. However, the position was subsequently not funded due to budget reductions that year.

PCCP AND TRANSMISSION MAIN INSPECTION

5 Utility Technicians

PCCP inspection

With the increased mileage of planned Prestressed Concrete Cylinder Pipe (PCCP) inspection and the ever increasing water main break rate the Customer Care Team cannot support the level of service needed for both programs with present staff. WSSC used to have a large transmission water main inspection program. This program did not go to the extent of dewatering and internal inspection that the PCCP program is required to do.

It is expected to have at least 12 -16 miles of the PCCP inspection per winter season, specifically between October and June. To complete a typical 12-mile project with devoted crews, it can be expected about 15,000 hours needed for 9 months long. In practice, the inspection crews need to work more than 8-hour shift due to arriving and preparing job site prior to the inspection team. The overtime work (more than 8-hour shift) is unavoidable to accommodate the inspection staffs as well as meeting the in-service date before the high demand in summer season. Based on the scenario above, there would be 8-person crews that would be needed to support a typical 12-mile inspection and there would be approximately 3,000 hours of overtime.

Non-PCCP transmission main inspection

The large transmission main inspection program was intended to make sure all surface structures on the main were visible and in proper operation condition. This program forces WSSC employees to gain knowledge of the location and operation of all the large water mains in their geographical area. This knowledge put WSSC in the position to be able to rapidly and expertly respond to any situation involving those critical mains. With the reorganization and down sizing that occurred about 10 years ago the staffing needed to handle the transmission main inspection effort was cut. There are about 350 miles of 20 inch and larger transmission size mains in the systems that are not PCCP. The vast majority of these mains are made of cast iron followed by ductile iron and some steel.

Note that 8 Utility Technicians were requested. Our recommendation is to stage in the positions over 2 years; 5 in FY'12, and the balance in FY'13.

WATER MAIN BEST PRACTICE / SMALL VALVE EXERCISING & REPAIR

3 Utility Technicians

The potential for system contamination from water main leaks and repair practices and depressurization events came to the forefront as the US EPA was developing new regulations associated with the Total Coliform Rule. Thus, began the increasing regulatory and research focus on distribution systems and water quality, especially during pipe breaks. In 2009, WSSC retained the services of a consulting firm to develop a practical, cost effective, risk-based public health protection program to address WSSC distribution system depressurization events, with an emphasis on repairing broken water mains, especially mains less than 16 inches in diameter.

The study found that WSSC incorporates many best practices as a matter of routine operations and maintenance and there is no evidence of acute problems or imminent public health concerns associated with ongoing repair practices. However, the study found that there are reasonable measures that can be taken to enhance the existing program. The study identified many preventive measures and monitoring procedures that could significantly strengthen the program from a sanitary standpoint. Several best management practices (BMP's) were identified in the report that directly affects the maintenance crew's repair time and level of service. They are:

- Implement and maintain a valve inspection and maintenance program;
- Cleaning repair tools;
- Chlorine swabbing/spraying fittings, valves, pipe prior to installation;
- Documentation of conditions, repair methods, chlorine residuals, valve tagging; and
- Chlorine residual testing and flushing.

Twelve (12) Utility Technicians were requested to support this effort. We recommend staging in this program over 4 years. Three workyears are requested for FY'12.

LEAK DETECTION

2 Utility Technicians

WSSC's current Leak Detection Program consists of a 2-person leak detection crew and coverage is limited. They survey approximately 100 miles a year. The entire water system has over 5,500 miles of pipe. It would take 55 years to survey the entire system at this rate. WSSC is in the process of preparing a Water Conservation Plan as a condition of the Maryland Water Appropriations Permit. The Plan includes several steps, one of which is to identify and select potential water conservation measures. MDE recommends employing a leak detection program to reduce water loss.

The Asset Management Program (formerly known as the Utility Master Plan) also recommends having a leak detection program. It would provide valuable information to the Commission that would likely assist in prioritizing major capital work such as pipeline replacement projects.

Six (6) workyears (as Utility Technicians) were requested to ramp up the leak detection program. This will result in placing a 2-person leak detection crew in each of the remaining depots. Keeping with the goal of 100 miles surveyed per 2 person crew per year, the addition of these three crews would increase the surveyed miles to 400 per year. The whole water main distribution would be surveyed in an estimated 14 years. We recommend staging this expansion over 3 years, thereby adding 2 workyears per year.

CONSENT DECREE – SEWER DESIGN

7 Project Managers

These positions are needed for the Sewer Design Program to support the **Consent Decree**. This function is transferring from Customer Care. However, based on the required workload, the unit being transferred is severely understaffed and there are no existing workyears within Engineering & Construction to support this function. These positions have been documented in the Asset Management Program workyear needs assessment.

WATER MAIN & VAULT METER REPLACEMENT

3 Project Managers

The organization that is currently responsible for designing main replacement is also responsible for the Meter/Pressure Reducing Valve Rehabilitation Program. Prior to the addition of this program, the group was required to design 40 miles of main for FY'11. This program adds a significant workload as it requires a feasibility study, acquisition of rights of way for each vault, and the design of 30 vaults. Also, the Water Main Replacement Program will continue to expand from 40 miles in FY'11 to 61 miles in FY'15.

ASSET MANAGEMENT PROGRAM (formerly known as the UTILITY MASTER PLAN)

In accordance with the results of Project 6 (Organizational Structure) of the Asset Management Plan, the following workyears were identified as requirements beginning in FY'12:

Technical Services

4 Workyears (see below)

This request provides for the establishment of the engineering and technical support structure needed to sustain asset management at WSSC under the Asset Management Program. Project 6 of the Asset Management Program calls for an organizational structure that includes an entity entitled the Center of Excellence. This engineering support and technical team will provide input to various WSSC asset management personnel. The Group will stay current on best practices, engineering and technology advances, and will provide support to the planning, operation and maintenance teams for their asset management functions. The requested positions are as follows:

- **One (1) Capital Cost Benefit Advisor** – This position will incorporate engineering economics into the decision making for capital investment projects prioritized by the asset management plans.

- **One (1) Maintenance (Electrical/Mechanical) Engineering Unit Coordinator** – This position will provide oversight and supervision for the soon to be formed Electrical and Mechanical Engineering Unit. Prior to FY'10, WSSC had only one Electrical and one Mechanical Engineer to support all capital, maintenance and operational needs and they reported directly to the Group Leader. There are now two positions for both functions, all four of which will report to this requested position.
- **One (1) Principal Materials Engineer** – Currently WSSC has no resource with the knowledge base dedicated to evaluating the suitability of existing and new materials for WSSC pipelines and facilities. This position will play an active role in developing project material specifications and will support asset management with material selections and material condition assessment techniques.
- **One (1) Sr. Civil Engineer (Pipelines)** – The growth in the number of Project Managers for pipeline reconstruction projects has significantly out numbered the technical civil pipeline design support needed to assure that the best design practices are being consistently followed. In addition, with the planned expansion of the Systems Enhancement Unit, a significant increase in the requests for civil pipeline design support is expected.

Buried Systems Asset Management
8 Workyears (see below)

The following positions have also been identified as requirements for the Asset Management Program:

- **Two (2) Buried Asset Strategy Managers** – These positions will determine the replacement/renewal strategies for water buried infrastructure. They will also develop Systems/Sub-Systems Asset Management Plans, update and refine renewal costs database, and monitor asset lifecycle costs for buried infrastructure.
- **One (1) Maintenance Optimization Manager** – Determines replacement/renewal for wastewater buried infrastructure
- **One (1) Asset Management Business Improvement Manager** – Manages Buried Infrastructure Asset Management Improvement Plan
- **One (1) Buried Systems Asset Manager** – Determines and manages maintenance strategy, standards and procedures for buried infrastructure (including within facilities). Monitors and manages maintenance performance for buried infrastructure.
- **One (1) Water Analysis Unit Coordinator, One (1) Principal Civil Engineer, One (1) Engineering Assistant IV** – These positions are needed for the condition assessment of pipes function.

GEOGRAPHICAL INFORMATION SYSTEM

1 GIS Program Analyst

This request includes additional resources to support an expanding and improved GIS Program and the newly formed GIS Unit. The Unit's primary role has been to update GIS data in order to depict an accurate graphical representation of our distribution and collection system and to maintain synchronicity with other databases. With the increase in the use of GIS throughout WSSC and an effort to support the Engineering Records effort, the role of the Unit is rapidly expanding. New responsibilities include:

- Leading GIS development and application support for all Commission GIS users;
- Coordinating data sharing with both counties and MNCPPC and providing WSSC consultants with GIS data to support their work for the Commission;
- Future data layers will include water and sewer house connections and water meters. The new data layers require additional resources to develop and maintain;
- With the continual increase in water and sewer pipeline reconstruction and the mapping requirements of our SSO Consent Decree, the Unit's workload demand has increased to input and maintain GIS data.

~~A GIS Program Analyst would undertake the higher level work beyond the data maintenance being done by current staff. This higher level function would include application support, data preparation for consultants, application deployment, training and support, new data development and integration of GIS data with other systems.~~

PERMIT SERVICES

1 Permit Agent

In anticipation of launching a fully automated permitting system, four positions in the Permit Services Unit were eliminated. In May of 2005, implementation of the application was cancelled. In 2006, only Phase I (Short Form Permits) of the automated system was implemented. The more labor intensive Long Form Permits process was never automated. Under current economic conditions, new construction permits have decreased and Systems Extension projects are 59% below 2007 levels. However, issuance of redevelopment/remodeling permits is higher and Onsite Plan submittals are 76% above 2007 levels. The addition of a Permit Agent is critical to the Unit's ability to maintain reasonable levels of service given the workload and reducing current review/turnaround times (ranging up to 120 days for complex reviews).

COLLECTIONS

2 Collections Field Specialists

WSSC collections averaged about \$10 million in FY 2010, with about \$3 million in a "static turned off" state. This request provides for an internal collections effort, with 2 Collections Field solely devoted to collections work. Additionally, we recommend eliminating "same day turn-on" in order to allow greater scheduling flexibility for turn-offs; with the possibility of an additional charge for a "same-day turn-on." 16 positions were requested, 4 for each depot. Our recommendation is to stage this expansion over multiple years after determining the effectiveness of this collection effort.

SITE UTILITY INSPECTION

1 Contract Manager

Third party inspections are often not occurring (no proof provided) until work has progressed beyond a point that any correction can be done. As a result, WSSC is taking over the inspection of site utility jobs. The work involves the installation of water and sewer systems on property from the property line to 5 feet off of the building. WSSC would be responsible for inspecting the work of the property owner's contractor. This request is cost neutral as a fee for the inspection would be charged to the property owner to recoup all of the WSSC costs for the management and inspection of this work. Based on the amount of site utility work anticipated in FY'12, there is a need to hire 5 additional consultant inspectors and 1 Contract Manager.

PROPERTY AND RIGHT OF WAY ACQUISITION

1 Property Acquisition Agent

This request provides for additional support to the Land Unit in the area of property and right of way acquisitions. Services provided by this Unit include land surveying, property and right of way acquisition, and engineering records. The aging infrastructure and resulting increase in water and sewer reconstruction efforts and the requirements from the SSO Consent Decree, have increased the demand for the property and right of way acquisition services which are currently provided by only one agent. In addition, the Unit will also be assisting in the acquiring of rights of way and/or right of entry agreements that are required to meet their sewer reconstruction and rehabilitation requirements as set forth in the Consent Decree. An additional Property Acquisition Agent is needed to maintain acceptable delivery and quality of service.

MAINTENANCE

1 Maintenance Unit Coordinator

An assessment of the Flexible Worker Program was completed in March 2010. The report indicated the Unit Coordinators are overwhelmed by their workload. Their responsibilities have increased by more participation at the management level of the Commission, training of staff, and oversight of geographically larger field operations. Two of the recommendations from the study are to add one Unit Coordinator and 3 Flexible Workers to each zone group. The additional crew members are to assist with coverage for team members when scheduled for training and to proactively manage the preventive maintenance tasks not getting done in a timely manner.

Additionally, the large diameter PCCP inspection program, which involves direct Unit Coordinator oversight, is being reinstated. The Transmission Main Inspection/Large Valve Exercising and Water Main Break BMP's, including an expanded Leak Detection Program will require additional staff if these programs are to be implemented successfully. The potential addition of 26 Utility Technicians will compound the Unit Coordinator overload.

Note that 4 Unit Coordinator positions were requested. Our recommendation is to stage in the positions over 4 years.

INFORMATION TECHNOLOGY

Network Support

1 Data Network Engineer

The WSSC Security Network is the largest network at the Commission and currently has no dedicated network support or built-in redundancy. The number of additional devices requiring network support include: 20 INET radios and associated antenna systems; 47 moxa devices; 60 dial-up modems; 2 VDSL modems; 15 telephones (SOC); 23 routers; and 24 switches.

In FY'11 and FY'12, Security Network upgrades are planned to clean up physical cabling; replace router and switches with current, supported CISCO devices, and perform other communication-related repairs as needed. The requested Data Network Engineer will be required for ongoing support, maintenance, and enhancement of the communication functions of the Security Network.

Application Development

1 Sr. Financial Information Systems (FIS) Support Developer

The 5-year staged plan to add over 11 Oracle modules places demand on application support efforts. This request provides for a Sr. FIS Support Developer to fill some upcoming gaps in the expanding Oracle footprint at WSSC. Technical target will primarily be the FIS HR environment, expanded to include Learning Management and Benefit data stores. As additional interconnected modules are added to the core application, the scope will be expanded.

CROSS CONNECTION

6 Workyears

This request is for an expedited expansion of the FY'11 approved Cross Connection Control Program. Cross connections are any permanent or temporary connecting arrangements to any part of a potable water system through which it is possible for contaminants to enter into the potable water supply system. The previously approved program with slow growth over a 5 year period would result in an estimated compliance of 20 years. If the requested staffing is obtained in FY'12, it is estimated that WSSC can achieve compliance in 16 years instead of 20 years. The following positions are requested for FY'12:

- One (1) Sr. Plumbing Inspector
- Four (4) Plumbing Inspectors
- One (1) Inspection Service Agents

It should be noted that last years' revenue estimates for fee collection are not currently being realized. Revised estimates indicate that, in the short term, fees will not cover all costs. Therefore, cost estimates above do not include fee offsets.