

T&E COMMITTEE #1
April 16, 2012

Worksession

MEMORANDUM

April 12, 2012

TO: Transportation, Infrastructure, Energy & Environment Committee

FROM: *KL* Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Worksession: FY13 Washington Suburban Sanitary Commission (WSSC)
Operating Budget**

Council Staff Recommendations:

- Maintain current System Development Charge rates for FY13 at current approved levels but 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.
- Approve the FY13 Proposed WSSC Operating Budget with the following changes recommended by the County Executive:
 - Remove both COLA and merit increases for all WSSC employees (estimated savings = \$388,200).
 - Increase debt service in the FY13 WSSC Operating Budget by \$670,400 to accommodate revised DC Water costs for Blue Plains Wastewater Treatment Plant joint projects, consistent with the Council's preliminary actions on WSSC's FY13-18 Capital Improvements Program.
 - Utilize excess fund balance to address the budgetary impact (+\$282,200) of the above actions, in order to keep the proposed average water and sewer rate increase at 7.5 percent.

Attachments to this Memorandum

Excerpts from the Proposed FY13 WSSC Budget (©1-32)
County Executive's FY13 Recommended Budget Section for WSSC (©33-37)
Status of WSSC Information Technology System Implementation Plans (©38-39)
Summary Table of FY13 Additional and Reinstated Programs (©40)
Detail of FY13 Additional and Reinstated Programs (©41-49)

The following officials and staff are expected to attend this worksession:

WSSC

Commission Chair Roscoe Moore
Tom Traber, Chief Financial Officer
Sheila Cohen, Budget Group Leader
Letitia Carolina-Powell, Budget Unit Coordinator

County Government

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

Budget Highlights

Below are some major highlights of the WSSC's Proposed FY13 Budget:

- The combined total of the Capital and Operating Budget is \$1.2 billion, an increase of \$265.9 million (or 22.3 percent) from the Approved FY12 amount of \$1.2 billion.
- The total proposed Operating Budget is \$661.1 million, an increase of \$34.9 million (or 5.6 percent) from the Approved FY12 Operating Budget of \$626.1 million.
- 7.5% average rate increase – *During the spending control limits process last fall, the Montgomery County Council and the Prince George's County Council both recommended a maximum average rate increase of 8.5%. About 5 percent of the proposed 7.5 percent rate increase is to cover increases in debt service costs.*
- Continuation of the EAM/ERP initiative with \$8.3 million budgeted for FY13. *\$6.3 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 ©38-39.*
- Water production is projected at 170 million gallons per day (mgd), which is the same as was assumed in FY12 and the same as assumed for FY13 during the spending control limits process last fall. *Water production for FY11 spiked up to 175 mgd. However, FY12 production is running lower than original projections. WSSC's latest projection for FY12 is 167.5 mgd.*
- A net increase of 12 workyears across both the Operating Budget and CIP with a water/sewer rate impact of \$925,800. *(More discussion is provided later in this memorandum. Additional details are attached on ©40-46.)*
- Includes \$4.6 million for 12 miles of large diameter pre-cast concrete cylinder pipe (PCCP) water main inspection, 8.5 miles of acoustic fiber optic installation, and acoustic fiber optic monitoring of 68.5 miles of pipe. *During FY13, WSSC will complete the first inspection cycle of all PCCP water mains 48 inches in diameter and greater. This program is a high priority of the Council, and the FY13 proposed program spending represents a continued strong commitment to this effort.*

- Includes the inspection of 3.3 miles of 42 inch diameter PCCP mains with the use of new robotic technology.
- Funds 46 miles of water main reconstruction (up from 41 miles in FY12). *Consistent with prior FY13-18 CIP discussions.*
- Add \$1.0 million to the base budget for retiree health costs (the sixth 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, budget pressures over the past several years have caused other agencies to fall behind on their funding plans.*
- Includes larger than inflationary increases in a couple of major expenditure categories, including:
 - Bio-solids hauling - \$1,108,900, 7.2% increase
 - Gasoline & Diesel Oil - \$733,200 37.4% increase

Schedule

On March 1, WSSC transmitted its proposed FY13 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. Council review is tentatively scheduled for May 7. The Bi-County meeting to resolve any CIP and Operating Budget differences with Prince George's County is scheduled for May 10.

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 more than 5,400 miles of sewer mains. WSSC has about 443,000 customer accounts (see ©29 for more statistical information) 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, Chair
Gene Counihan
Adrienne Mandel

Prince George's County

Christopher Lawson, Vice Chair
Antonio Jones
Melanie Hartwig-Davis

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 organizational chart is attached on ©37. The Chair's budget transmittal letter and other excerpts from the Proposed FY13 budget are attached on ©1-32.

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 DCWater.¹ WSSC makes operating and capital payments each year to DCWater consistent with the Blue Plains Intermunicipal Agreement of 1985 (IMA).² Blue Plains-related costs are a major element of the sewer program and reflect a majority of overall CIP expenditures. The projected FY13 operating payment is \$51.3 million (about 7.7 percent of WSSC's Proposed Operating Budget).

County Executive Recommendations for the FY13 WSSC Budget

(See Operating Budget Excerpt on ©33-37)

In his March 15 transmittal, the County Executive recommended two changes to the WSSC's Proposed FY13 Operating Budget:

- Replace WSSC's proposed 2% COLA and merit increases with a one-time \$2,000 bonus for each full-time employee, with a pro-rated amount for part-time employees. This change is estimated to reduce WSSC's costs by \$389,530, of which \$388,200 involves water and sewer (rate-supported) operating expenses. This recommendation is consistent with the County Executive's compensation recommendations for County Government employees (represented and non-represented).
- Increase debt service in the FY13 WSSC Operating Budget by \$670,400 to accommodate revised DCWater costs for Blue Plains Wastewater Treatment Plant joint projects, consistent with the Council's preliminary actions on WSSC's FY13-18 Capital Improvements Program.

The fiscal impact of these two changes is to increase the FY13 WSSC Operating Budget by \$282,200. The County Executive recommends keeping the rate increase at the proposed level of 7.5% and reducing projected fund balance to accommodate the expenditure increase.

The FY13 Capital Budget (which is approved as part of the same resolution as the Operating Budget) would be revised to include the DCWater changes noted above and to include spending authorization for the developer-funded Mid-Pike Plaza Sewer Main, Phase I project, consistent with the CIP amendment approved by the Council on February 7, 2012.

Performance Measures

WSSC has included a number of performance measures in its FY13 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

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.

² A new IMA of 2012 is being finalized. The Montgomery County Council approved a resolution in support of the new IMA on February 14, 2012.

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 and other fiscal measures compare over time to other similarly sized water and sewer utilities.

System Development Charge (SDC) Fees and Exemptions

Table 1:
Proposed SDC Charges

Item	FY13 Charge	Max. Allowable Charge
Apartment		
- Water	\$896	\$1,212
- Sewer	\$1,140	\$1,544
1-2 toilets/residential		
- Water	\$1,344	\$1,819
- Sewer	\$1,710	\$2,312
3-4 toilets/residential		
- Water	\$2,240	\$3,032
- Sewer	\$2,850	\$3,856
5 toilets/residential		
- Water	\$3,135	\$4,242
- Sewer	\$3,991	\$5,402
6+ toilets/residential*		
- Water	\$88	\$119
- Sewer	\$115	\$156
Non-residential*		
- Water	\$88	\$119
- Sewer	\$115	\$156

*costs shown are per fixture unit

WSSC’s Proposed CIP and draft Operating Budget assumes no change in the SDC rate. However, WSSC supports increasing the maximum rate by a CPI adjustment for FY13 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 February 28, 2012 is \$74.6 million. FY13 growth-related revenue is assumed to be approximately \$20.7 million. However, FY13 growth-related expenditures (adjusted for completion) are estimated at \$103.6 million.

Last year, WSSC staff suggested that, as an alternative to an increase in the SDC charge, it would use debt (financed with SDC funds) to address any actual gaps that may occur in the next few years, and then use future SDC revenues to pay back the debt over time. Both Councils supported this proposed approach.

WSSC believes increasing the potential maximum rate is advisable, since the six-year projections show a deficit in growth funding versus growth expenditures. However, given there are no new major SDC funded projects coming up in the WSSC CIP and the bond-funding approach above should provide a short-term means to cover the annual projected gaps, WSSC does not recommend increasing the SDC rates at this time.

Council Staff is supportive of WSSC’s approach with the caveat that the issue of SDC 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. The Council will act on the SDC resolution 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 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 Counties 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 pipes 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 during FY13. WSSC is also beginning to expand this program to pipes smaller than 48 inch diameter as well, and will be inspecting 3.3 miles of 42 inch diameter PCCP mains in FY13 using new robotic technology.

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 FY13 budget includes approximately \$4.6 million for 12 miles of large diameter PCCP pipe inspection, installation of acoustic fiber optic (AFO) monitoring for 8.5 miles, and AFO monitoring of all 68.5 miles of large diameter PCCP pipe.

Water Reconstruction Program

WSSC has approximately 4,500 miles of small pipe (less than 16" in diameter) in its water distribution system. 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.

Beginning with the Approved FY10-15 CIP, budgeted and actual replacement miles began to increase steadily. The budget level for FY10 was 27 miles per year, but this has been increased each year and is 41 miles for FY12. For FY13, 46 miles of replacement are proposed. WSSC's long-term goal is to reach a steady state of approximately 55 miles of replacement per year (or about a 100-year replacement cycle).

The need for expanding this program was identified several years ago in the Asset Management Plan effort. Originally, this ramp-up was to be a major multi-year commitment predicated on a substantial increase in the Account Maintenance Fee (ready to serve) charge that was debated, but ultimately never requested, 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. As a result, this ramp-up is having an impact on rates of new debt and debt service costs in the Operating Budget. Fortunately, favorable interest rates have helped temper this impact. However, as shown during spending control limit discussions last fall, debt service is expected to climb from about 33.8% now to 42.5% in FY18, assuming no new infrastructure fee or major debt restructuring.

In FY12, WSSC added 6 workyears to help continue the ramp-up effort. No new positions are requested for FY13.

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. Expenditures have already ramped up in this program as a result. WSSC developed a new project in FY11 to deal specifically with trunk sewer reconstruction. Costs associated with that work were previously included in this project. The focus of this project is on sewer mains and house connections.

WSSC is planning a major ramp-up of work in FY13 as it works to meet an FY15 Consent Decree deadline to complete "Priority 1" work. Miles of sewer reconstruction will increase from 22 to 55 miles per year. Lateral sewer lining will increase by 100 percent, from 5 to 10 miles per year.

Once this initial wave of required work is completed, WSSC expects the rate of work to stabilize at about 30 miles of mains and 10 miles of laterals per year.

The water and reconstruction effort is a major area of concern to Montgomery County, given WSSC's rising debt requirements. The Bi-County Infrastructure Funding Working Group is working with a consultant to identify and review various strategies to address long-term infrastructure needs. An interim report will be presented to the Commission shortly.

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.

FY13 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 9.2 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 Montgomery and Prince George’s County Councils recommended spending control limits that included an 8.5 percent average rate increase ceiling.

Ultimately, the WSSC Commissioners agreed to a budget request that assumes a 7.5 percent rate increase. Table 2 below shows how WSSC’s Proposed FY13 Budget compares to the approved limits and to the County Executive’s FY13 budget recommendations.

**Table 2:
FY13 Spending Control Limits Approved by Each Council
versus the FY13 Proposed WSSC Budget and CE Recommendation**

Spending Control Limit Categories	Recommended Limits		WSSC	CE
	MC	PG	Proposed	Rec
New Debt (in \$000s)	481.8	481.8	481.8	491.6
Water and Sewer Debt Service (in \$000s)	212.7	212.7	211.3	212.0
Water/Sewer Operating Expenses (in \$000s)	629.0	629.0	619.6	619.9
Maximum Avg. Rate Increase	8.5%	8.5%	7.5%	7.5%

WSSC’s Proposed Budget complies with all four of the limits recommended by the two Councils. As mentioned earlier, the average water and sewer rate increase requested is 7.5 percent, well under the 8.5 percent maximum approved during the spending control limits process. The Executive’s recommended increase in new debt and debt service is a result of incorporating the latest DCWater capital budget numbers (discussed earlier).

Fund Balance Status

WSSC’s fund balance projections and potential uses for excess fund balance were previously discussed last fall during the Council’s spending control limits discussion for WSSC. Below is an updated chart showing WSSC’s estimated fund balance based on WSSC’s assumed FY12 and FY13 actions:

**Table 3:
Estimated FY12 Excess Fund Balance Calculation (in \$000s)**

FY11 Carryover	83,226
FY11 Reserve Requirement	(28,000)
Increase Reserve (for FY12)	(3,400)
Estimated Unallocated Reserve (end of FY12)	51,826
Increase Reserve (FY13)	(10,200)
Billing Factor Adjustment (FY13)	(7,658)
Billing Factor Adjustment (FY14)	(8,108)
Increase Reserve (FY14-16)	(19,000)
Estimated Unallocated Reserve (end of FY13)	6,860

The above chart includes the following components:

- An increase in the reserve requirement from \$28.0 million to \$31.4 million, consistent with assumptions from the FY12 and FY13 spending control limits processes. This new amount results in a fund balance ratio of about 5.4% of total revenues.

Several years ago, WSSC recommended allocating excess fund balance to increase the

designated reserve over time from 5 percent up to 10 percent of operating revenues. This goal is desired based on discussions with rating agencies and WSSC's interest in having sufficient working capital to overcome a potential short-time revenue shortfall. Two years ago, the Council agreed to a similar goal for its Tax-supported Fund Balance.

For FY12, the \$31.4 million reserve is about 6.2 percent of total revenues, about \$20 million short of WSSC's 10% goal (which would be about \$51 million). As expenditures increase each year (and rates increase to cover these increases) the 10 percent fund balance target keeps moving higher. WSSC will need to increase its annual bump ups in fund balance in order to gain ground on its 10 percent goal.

Since WSSC still has substantial reserves (about \$115 million) in its General Bond Debt Service (REDO) account (which it has been drawing down over many years, buffering rates), WSSC believes the 10% general reserve goal is not critical to achieve immediately. However, as the REDO dollars are drawn down, the general reserve should be brought up. At current draw downs, REDO will drop to zero by 2022.

- The resulting excess fund balance available for FY13 uses is estimated at \$51.8 million. The surplus is the result of several factors, including: lower than expected interest rates (reducing the cost to borrow money for the CIP) and delays in some program expenditures (such as EAM/ERP).
- In order to get closer to its 10 percent fund balance policy goal, WSSC recommends accelerating its increase in fund balance, with \$10.2 million added in FY13 and another \$19 million added in FYs14-16.
- WSSC recommends using \$15.8 million (\$7.7 million and \$8.1 million in excess fund balance in FY13 and FY14, respectively) to offset lower than previously assumed "billing factor" assumptions for WSSC's rate-related revenue.
- The remaining excess fund balance, after all of the above actions, is estimated to be approximately \$6.8 million. *As noted earlier, the County Executive recommends using a small portion of this excess fund balance (\$280,870) to offset some minor expenditure increases in order to keep the rate increase at the proposed 7.5 percent level.*

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 beyond, 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 believes the remaining excess balance, apart from the minor amount recommended for use by the County Executive, should be left unallocated at this time.**

FY13 WSSC Proposed Budget

Summary Charts

The following chart presents summary budget data for WSSC for the FY12 Approved and FY13 Proposed Budgets.

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

	Approved	Proposed	Change	
	FY12	FY13	\$	%
Capital				
Water Supply	198,844	240,107	41,263	20.8%
Sewage Disposal	332,424	536,771	204,347	61.5%
General Construction	34,654	19,984	(14,670)	-42.3%
Total Capital	565,922	796,862	230,940	40.8%
Operating				
Water Operating	251,595	269,337	17,742	7.1%
Sewer Operating	323,390	350,271	26,881	8.3%
Subtotal W&S Operating	574,985	619,608	44,623	7.8%
Interest and Sinking	51,160	41,455	(9,705)	-19.0%
Total Operating	626,145	661,063	34,918	5.6%
Grand Total	1,192,067	1,457,925	265,858	22.3%

The combined total of the FY13 Capital and Operating Budget is \$1.46 billion, an increase of \$265.9 million (or 22.3 percent) from the Approved FY12 amount of \$1.2 billion.

The total proposed FY13 Operating Budget is \$661.1 million, an increase of \$34.9 million (or 5.6 percent) from the Approved FY12 Operating Budget of \$626.1 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	Proposed	Change	
	FY12	FY13	\$	%
Salaries and Wages	98,418	101,233	2,815	2.9%
Heat, Light, and Power	25,275	24,223	(1,052)	-4.2%
Regional Sewage Disposal	49,478	51,309	1,831	3.7%
All Other	217,211	233,095	15,884	7.3%
Debt Service	235,763	251,203	15,440	6.5%
Total	626,145	661,063	34,918	5.6%

Debt service is the biggest category. This is not unexpected for WSSC, given its large capital program. For FY13, overall debt service costs are increasing about 6.5 percent. Water and Sewer related debt (which funds non-growth related infrastructure) has been going up steadily in recent years

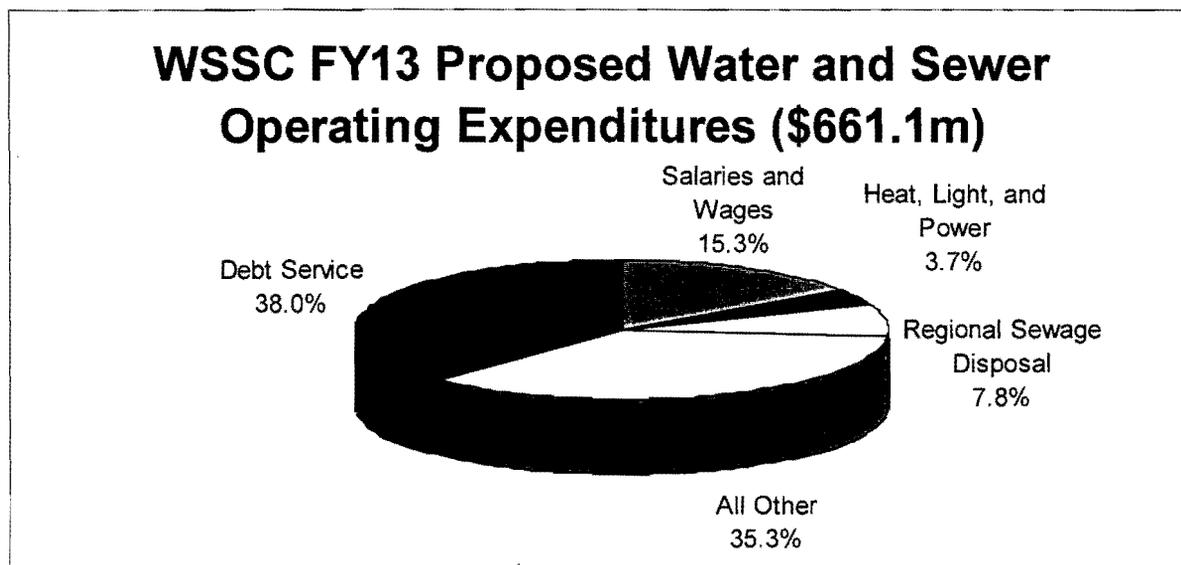
as a result of upward trends in WSSC's CIP. As discussed during the past several spending control limits discussions, increases in debt service are the biggest element of WSSC's rate increase needs.

The heat, light, and power category is down for FY13³ (by 4.2 percent), which follows an even larger decline in FY12 (9.1%) as a result of a projected reduction in the weighted average unit price of electricity expected in FY13 and also reductions in natural gas usage. Over the past 7 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 includes all operating costs not otherwise broken out above and also includes employee benefits (totaling about \$59 million for social security, retirement, healthcare programs, life insurance, and unemployment).

Compensation

Salary and wages remain a comparatively 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 FY13 are estimated to make up less than 25 percent of operating budget expenditures. This ratio contrasts sharply with ratios in County Government, where personnel costs are about 60 percent of all tax-supported expenditures in the FY13 Recommended Budget.

³ WSSC's FY13 budget for heat, light, and power assumes that Montgomery County's energy tax increase from two years ago DOES NOT sunset at the end of FY12. If the sunset were to occur in whole or in part, WSSC would achieve some additional budget savings in FY13.

“Salaries and Wages”⁴ costs within the Operating Budget are estimated to increase by 2.9 percent. This is mostly due to WSSC’s proposed 2 percent cost of living adjustments and merit pay increases (which range from 3 to 5 percent for employees not at the top of grade). WSSC is also requesting 12 new positions, discussed in more detail below.

Last year for FY12, WSSC proposed two percent cost of living adjustments (COLAs) and merit pay (also known as step increases or increments) for its represented employees only (about ¼ of its workforce).⁵ This was the first COLA in three years for any WSSC employees. No compensation increases were included for non-represented employees.

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 FY12 and requested for funding in FY13.

Table 6:
Compensation Adjustments for FY12 Approved and FY13 (Proposed)*

Type	FY12	FY13	Eligibility
Salary Adjustments	691,924	2,445,400	2% COLA in FY12 for represented employees only. 2% COLA for all employees (1,693) in FY13
Merit Increases	80,655	1,346,800	Merits for represented employees only not at top of grade for FY12. Merits for all employees not at top of grade (874) in FY13.
Incentive Pay**	-	-	No incentive pay in FY12 or FY13 (444 employees previously eligible)
Flexible Worker (FW) Pay	470,200	893,700	In FY12 105 employees eligible (increases based on skill assessments). 134 eligible in FY13 due to staffing increases
IT Bonus (contract)			No IT bonuses in FY12 or FY13.
Total	1,242,779	4,685,900	

*Costs shown are total costs (oper & capital) with salary & wages w/o FICA.

**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 not included for the fourth straight year. IT bonus pay is also zeroed out, as it was in FY11 and FY12.

For FY13, besides COLA and merit pay, the only other pay increase category funded is flexible worker pay. 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). In FY13, a number of additional employees will be eligible for flexible worker pay, as WSSC has increased staffing over the past couple of years.

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

⁵ The Montgomery County Council recommended no COLAs or merits for WSSC in FY12. However, the Prince George’s County Council did not oppose the COLAs and merits and, therefore, WSSC’s Proposed Budget for compensation was approved.

WSSC's personnel costs (and increases) are a small part of WSSC's budget. The ratepayer impact of the COLA and merit increases is less than 1.0% (out of the 7.5% 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.

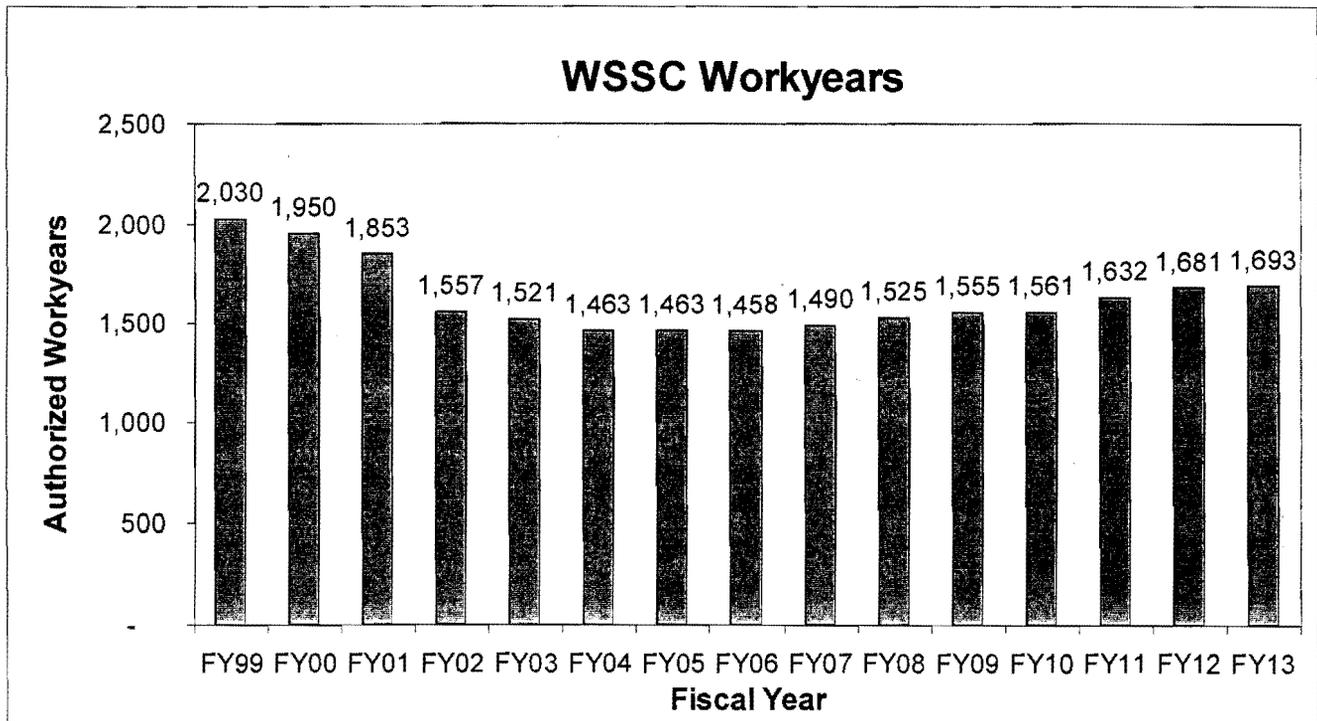
However, both the County Executive and the Council have expressed support for the concept of the equitable treatment of employees across agencies, especially in the context of annual pay increases.

The Council's Government Operations and Fiscal Policy (GO) Committee will be discussing compensation and benefit assumptions across agencies on May 1 and May 9, and final Council decisions on County Government (and other agencies) employee compensation and benefit changes will not be finalized until after the Bi-County meeting on May 10.

In the absence of any compensation and benefit direction from the GO Committee at this time, Council Staff supports the County Executive's approach this year (and the Council's approach in past years) of treating employees consistently across all agencies whenever possible. In this light, Council Staff believes the Executive's compensation recommendations for WSSC (i.e., the \$2,000 one-time bonus instead of COLAs and merits) should be recommended at this point to maintain consistency with what the County Executive has recommended for other County employee groups.

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 FY13, 12 new positions are requested, as summarized on ©40 and in Table 7 below. The total annual cost of these new positions is \$724,700, with \$708,800 in water and sewer rate-related costs.⁶ More information on each new position was provided by WSSC and is attached on ©41-46. This number is lower than position increases in recent years. As in past years, 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. Asset management continues to be a major focus of several new positions. Other increases are intended to address more longstanding issues experienced subsequent to the major workyear reductions experienced through FY04, or to deal with increases in regulatory workload (such as FOG inspections).

**Table 7:
New WSSC Positions Proposed for FY13**

Category	Positions	Comment
Plant Operations		
Potomac Plant (Water Plant) Operators	3	Operator Apprenticeship Program
Potomac Plant Planner/Scheduler	1	To manage Potomac Plant Asset Management Plan
Piscataway WWTP Planner/Scheduler	1	To manage Piscataway WWTP Asset Management Plan
Process Control - Network Security		
Process Control Security Specialist Unit Coordinator	1	To lead cybersecurity efforts and network and design maintenance.
Consent Decree - Fats, Oils, & Grease		
2 FOG Investigators	2	Increase from 6 to 8 investigators to handle inspection workload of approximately 4900 food service establishments
Property Management		
1 Asset Strategy Manager	1	To implement Buildings & Grounds Support Facilities network infrastructure assets plan.
Collections		
Collections Field Specialists	2	Multi-Year Effort: 2 approved in FY12. Potential fee support
Maintenance		
Unit Coordinator	1	Multi-Year Effort: 2nd of 4 positions in a four-year phase-in.
Total	12	

Council Staff recognizes that WSSC’s operating and capital workload is growing substantially and that much of the additional staffing approved over the past several years has been needed to support this work throughout WSSC. Staff from both Montgomery and Prince George’s County will continue to review WSSC’s workload issues in the context of specific workload issues and in the context of the annual spending control limits process each fall.

New and Expanded Programs

The chart on ©40 presents a list of additional and reinstated programs included in the FY13 Proposed Budget. Each of the items is described in more detail on ©41-49. These items total about \$5.9 million, with an operating budget impact of about \$4.3 million (including costs for new staffing detailed earlier). Several one-time items are included, such as the Patuxent Reservoirs Buffer Property Management & Use Study (which will likely result in future expenditure recommendations), Automated Fuel Dispensing and Accounting System, and consultant services to develop Continuity of Operations Plans. Overall, these items (including the new positions described earlier) result in a rate increase requirement of approximately 0.85%.

Customer Impact

With regard to the impact on the WSSC ratepayer, the following chart shows that each 1.0% rate increase adds about 65 cents per month to an average residential bill (\$1.94 to a quarterly bill and \$7.78 annually).

⁶ One of the 12 new positions is partially funded out of the CIP. Lapse of 3 months is assumed for each position.

**Table 8:
Impact of Rate Increases in FY13
on Avg. Residential Customer Bill**

% Increase	Impact			
	Monthly	Quarterly	Annual	
1.0%	\$0.65	\$1.94	\$7.78	Impact of 1% Change
7.5%	\$4.86	\$14.58	\$58.32	WSSC FY13 Proposed
8.5%	\$5.51	\$16.52	\$66.10	FY13 Spending Control Limit
Current Avg. Bill	\$68.44	\$205.31	\$821.23	

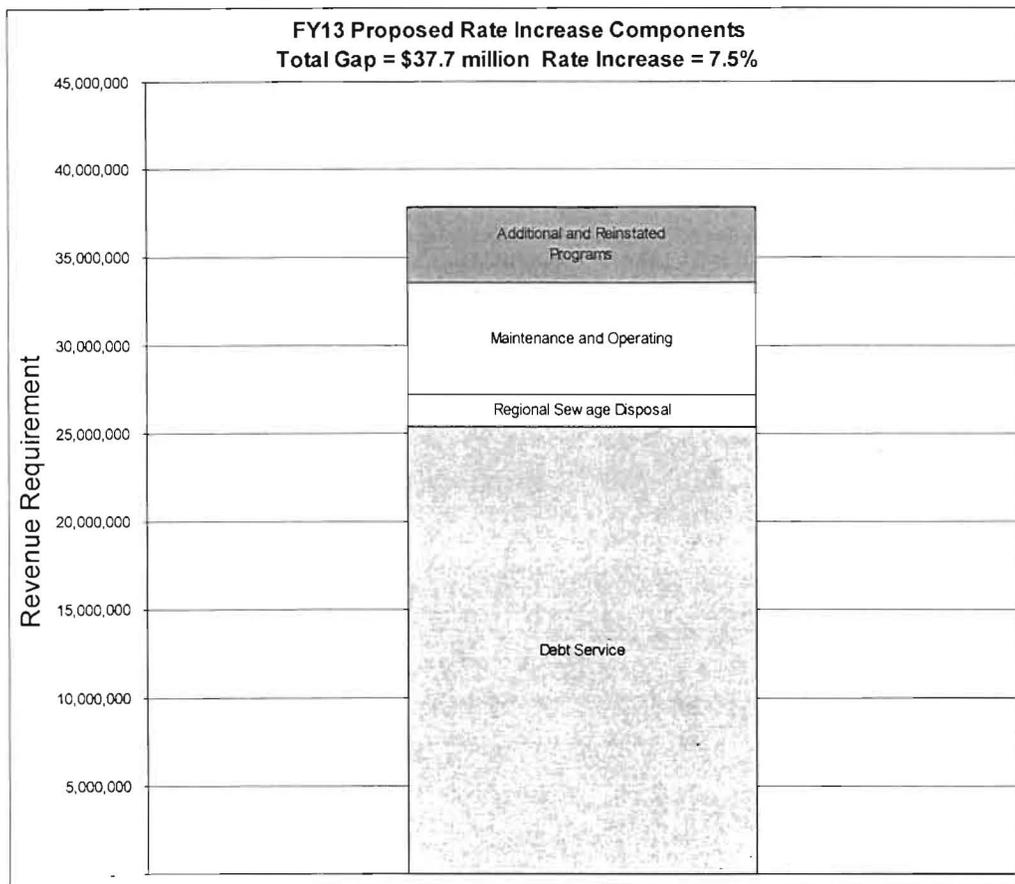
*based on avg. usage of 210 gallons per day and account maintenance fee of \$11 per quarter

The effect of WSSC’s proposed 7.5% rate increase on the average quarterly residential bill is about \$4.86 per month (\$14.58 quarterly and \$58.32 annually). The impact at the Prince George’s Council and Montgomery Council recommended rate ceiling from last fall’s spending control limits process is also shown on the chart. The current average residential bill amount is also shown.

Closing the Gap

Each 1% of rate increase provides an estimated \$5 million in revenue. A revenue gap of approximately \$8.5 million was estimated to get from WSSC’s “base” case forecast of last fall (9.2 percent rate increase) down to the 7.5% rate increase proposed now. WSSC was able to close this gap by budgeting less than the 4.0% increase in “all other” costs assumed in the spending control limits forecast and through lower than expected debt service costs. However, as noted earlier, debt service increases still make up the majority of the rate increase requirement.

The end result is a 7.5 percent rate increase proposal, 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 FY13 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. NOTE: The Council is tentatively scheduled to take action on the SDC charge on May 15.**
- **Council Staff recommends approval of the FY13 WSSC budget with an assumed 7.5 percent rate increase as proposed by WSSC. However, Council Staff recommends the following changes within the Proposed Budget:**
 - **Concur with the County Executive’s recommendations**
 - **Switch the proposed 2.0 percent COLA for WSSC’s employees to a one-time \$2,000 bonus for full-time employees (pro-rated for part-time employees), in order to provide consistent treatment of WSSC employee compensation with County government employees.**
 - **Remove the merit increases for WSSC employees for the same consistency reasons.**
 - **Make adjustments to debt service and to the Capital Budget consistent with the Council’s recent tentative actions on the FY13-18 WSSC CIP.**

- **Use excess fund balance to cover the net total rate-supported expenditure impact from the above actions (\$282,200) without increasing rates beyond the 7.5 percent proposed by WSSC.**

Attachments

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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, 2012

To The Honorable:

County Executives of Montgomery
and Prince George's Counties

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

Valued Customers and Interested Citizens:

We are hereby transmitting the Fiscal Year 2013 (FY'13) Proposed Capital and Operating Budget Document for the Washington Suburban Sanitary Commission (WSSC). In January, a preliminary FY'13 budget was published and distributed for review by interested customers, citizens, and officials. Public Hearings were held on Wednesday, February 1, and Thursday, February 2, 2012. The FY'13 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, 2012.

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'13 combined average 7.5% rate increase will add approximately \$4.86 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 14).

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 Infrastructure Funding Working Group has made considerable progress over the past year and should be making recommendations to the Commission by the end of the fiscal year. In the interim, this budget includes additional rate-supported funding for the water and sewer reconstruction programs, which focus on small diameter pipe and appurtenances, as well as increased funding for capital projects for large diameter water and large 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 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 FY'11, 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 annually from outside contractors to these crews. The in-house cost of water main replacement is about the same as with outside contractors, so this shift of responsibility could 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 the current fiscal year, 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'13 Proposed Capital and Operating Budgets

Our Proposed Budget for FY'13 includes a 7.5% rate increase. We recognize that these are difficult economic times for many in the bi-county area, and this proposed budget is striving to balance the additional financial impact on our customers with the overall benefit to our customers of the planned operating and capital programs we believe are necessary to support water and sewer services. It should be noted that, at this time, merit increases and a 2% cost-of-living adjustment (COLA) for all employees are included in this budget. For union-represented employees, these items are included in accordance with the terms of the negotiated collective bargaining agreement between WSSC and the union representing certain employees. These two items contribute 0.61% to the overall rate increase. As of the time of this letter, we do not have an indication from the Counties as to how they are approaching COLAs or merits for their employees. Therefore, we feel that it is incumbent upon us to identify the inclusion of these items in the budget, and to disclose their effect on the proposed rate increase.

	FY'12 Approved	FY'13 Proposed	FY'13 Over / (Under) FY'12	% Change
<u>Capital Funds</u>				
Water Supply	\$198,844,000	\$240,107,000	\$41,263,000	20.8 %
Sewage Disposal	332,424,000	536,771,000	204,347,000	61.5 %
General Construction	34,654,000	19,984,000	(14,670,000)	(42.3) %
Total Capital	565,922,000	796,862,000	230,940,000	40.8 %
<u>Operating Funds</u>				
Water Operating	251,595,000	269,337,000	17,742,000	7.1 %
Sewer Operating	323,390,000	350,271,000	26,881,000	8.3 %
General Bond Debt Service	51,160,000	41,455,000	(9,705,000)	(19.0) %
Total Operating	626,145,000	661,063,000	34,918,000	5.6 %
GRAND TOTAL	\$1,192,067,000	\$1,457,925,000	\$265,858,000	22.3 %

The FY'13 Proposed Capital Budget of \$796.9 million represents an increase of \$230.9 million (40.8%) from the FY'12 Approved Budget. The significant increase is attributable to several major projects scheduled to move forward or to ramp up construction work in FY'13 including both the Blue Plains Wastewater Treatment Plant Digester and Enhanced Nutrient Removal projects, the Broad Creek Wastewater Pumping Station Augmentation, the Patuxent Water Filtration Plant Expansion, the Large Diameter Water Pipe Rehabilitation Program and both the small diameter Sewer Reconstruction Program and large diameter Trunk Sewer Reconstruction Program.

In summary, the FY'13 estimated expenditures for all operating and capital funds total \$1.5 billion or \$265.9 million (22.3%) more than the FY'12 Approved Budget. The FY'13 Proposed Operating Budget of \$661.1 million represents an increase of \$34.9 million (5.6%) from the FY'12 Approved Operating Budget. The primary driver of this increase is debt service associated with the increased Capital Budget. Water and sewer operating debt service costs are expected to exceed FY'12 budgeted debt service by \$25.4 million. Other drivers include cost increases at regional sewage disposal facilities, Sanitary Sewer Overflow Consent Decree

compliance including expansion of the Sewer Lateral Inspection Program, an increase in the operating reserve, and 12 new workyears in direct support of operations and maintenance of the water and sewer systems.

Spending Affordability

The Commission, in cooperation with the Montgomery County and Prince George’s County governments, continues to participate in the spending affordability process. The spending affordability process focuses debate on balancing affordability considerations against providing the resources necessary to serve existing customers (including infrastructure replacement/rehabilitation), meet environmental mandates, and provide the facilities needed for growth. In October 2011, the Montgomery and Prince George’s County Councils approved resolutions establishing the following four limits on the WSSC’s FY’13 budget:

- New water and sewer debt will not exceed \$481.8 million;
- Total water and sewer debt service will not exceed \$212.7 million;
- Total water and sewer operating expenses will not exceed \$629.0 million; and
- Water and sewer rates are limited to an increase of 8.5%.

As indicated in the following table, the proposed FY’13 budget is in compliance with all of the spending affordability limits. The Commission is pleased to be able to put forth a budget that maintains service levels; increases funding for infrastructure replacement and rehabilitation; and that requires a water and sewer rate increase that is less than the spending affordability limit.

WSSC FY’13 Proposed Budget vs. Spending Affordability Limits
 (\$ in Millions)

	<u>FY’13 Proposed Budget</u>	<u>Spending Affordability Limit</u>	<u>Over/(Under) Limit</u>
New Water and Sewer Debt	\$481.8	\$481.8	-
Total Water and Sewer Debt Service	\$211.3	\$212.7	(\$1.4)
Total Water/Sewer Operating Expenses	\$619.6	\$629.0	(\$9.4)
Water/Sewer Bill Increase	7.5%	8.5%	(1.0%)

The proposed budget provides for:

- Funding the first year of the FYs 2013-2018 Capital Improvements Program;
- Increased funding for the Water and Sewer Reconstruction Programs;
- Complying with the Sanitary Sewer Overflow Consent Decree;
- Inspecting and monitoring our large diameter water main transmission system;
- Promptly paying \$251.3 million in debt service on \$2.0 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;
- Funding for merit increases and a 2% cost-of-living adjustment for all eligible 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 toward our goal of 10% of water and sewer rate revenues;
- Funding the implementation of an Enterprise Resource Planning/Enterprise Asset Management System; and
- Funding the sixth 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 17).

Budget Review Process

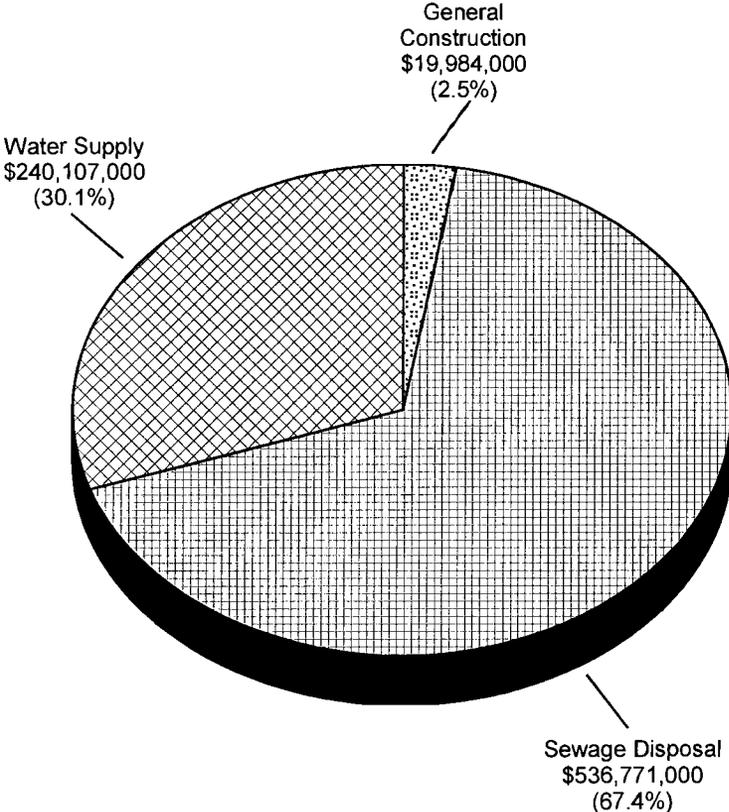
The Proposed Budget is subject to the Counties' hearings, procedures, and decisions, as provided under Section 17-202 of the Public Utilities Article, WSSD Laws, Annotated Code of Maryland, before the final budget is adopted for the fiscal year beginning July 1, 2012.



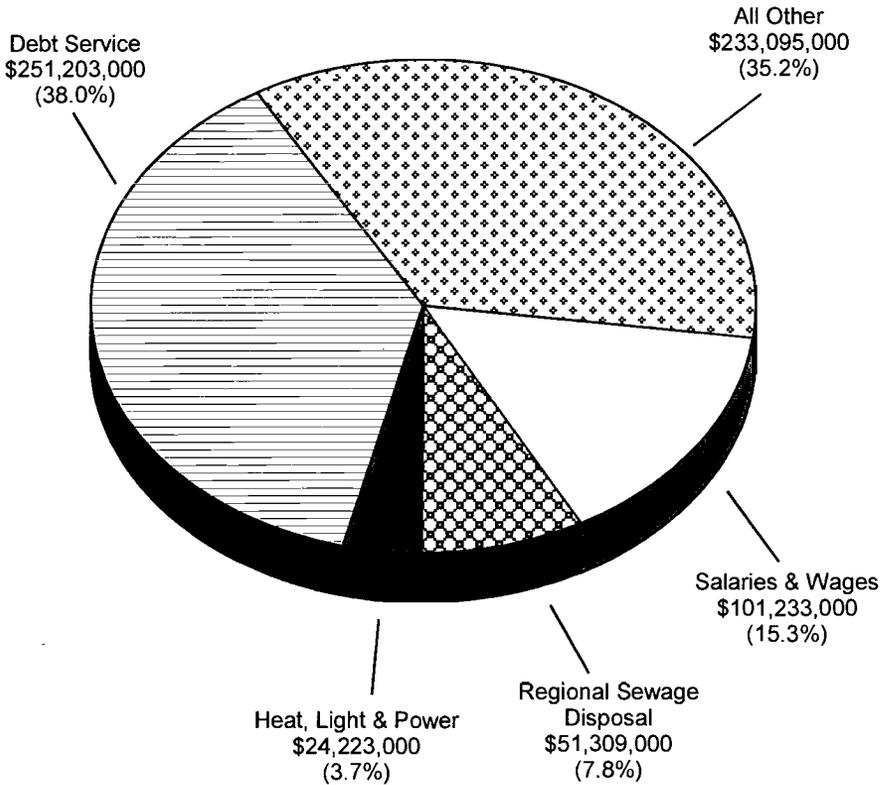
Dr. Roscoe M. Moore, Jr., Chair
Washington Suburban Sanitary Commission

FY 2013 PROPOSED BUDGET

CAPITAL = \$796,862,000



OPERATING = \$661,063,000

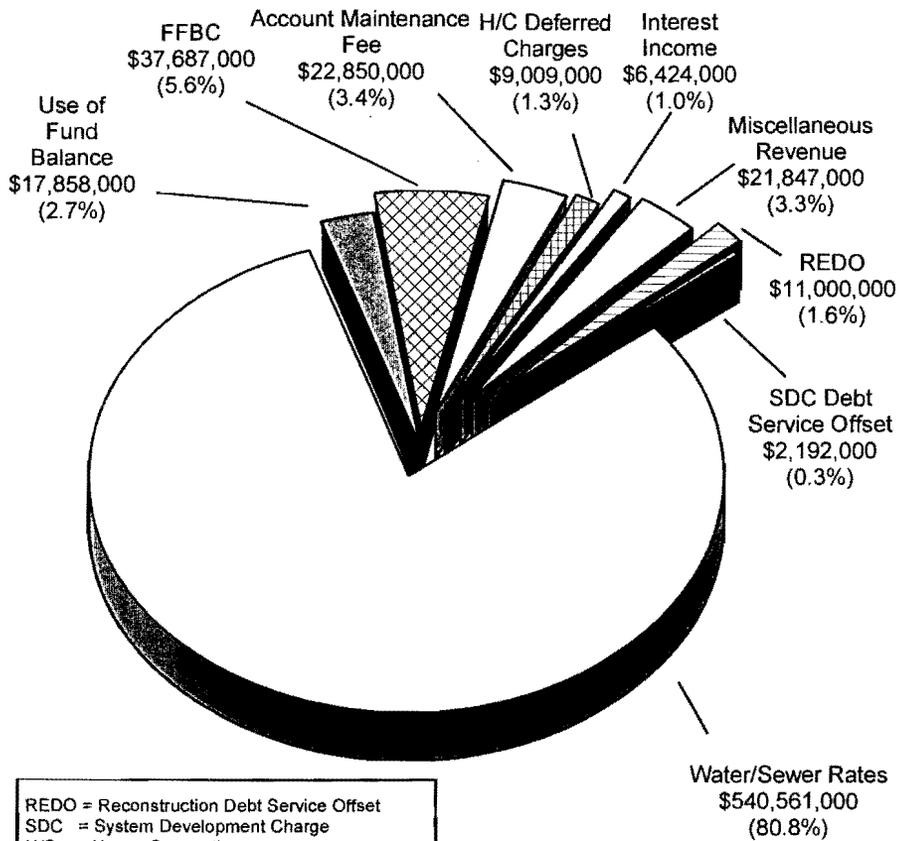


GRAND TOTAL = \$1,457,925,000

FY 2013 PROPOSED BUDGET

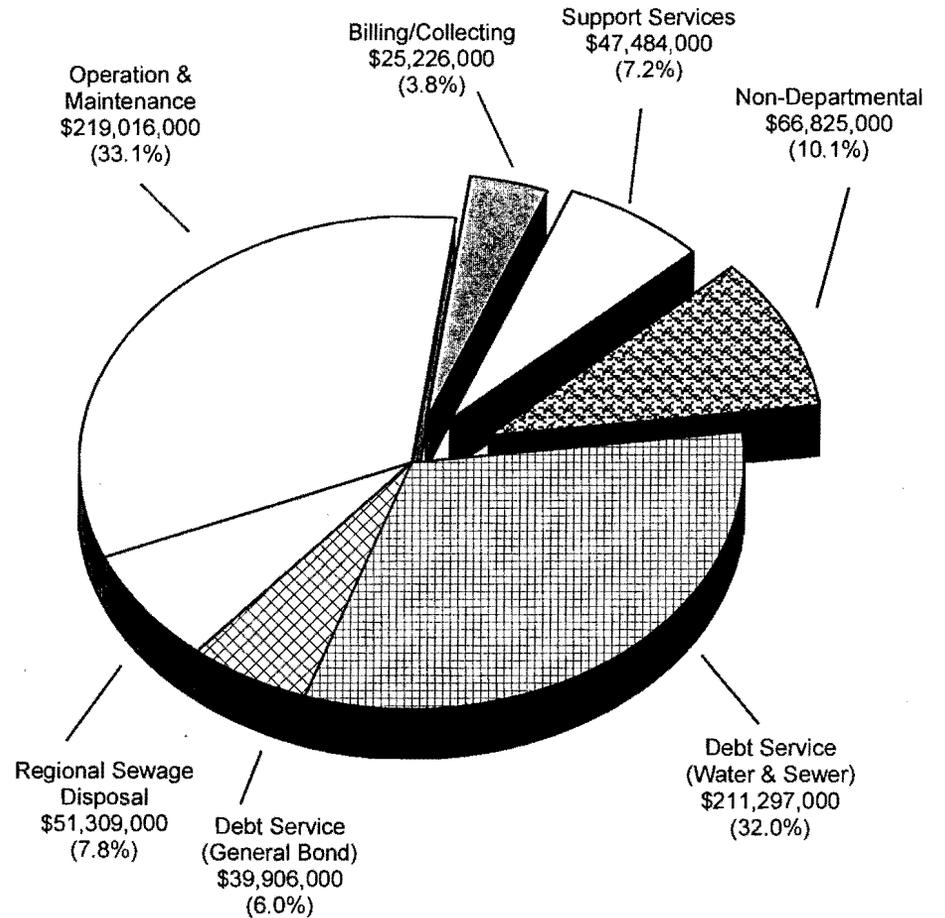
OPERATING

FUNDING SOURCES



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

FUNDING USES



TOTAL SOURCES = \$669,428,000

TOTAL USES = \$661,063,000

TABLE I

Comparative Expenditures by Fund

	<u>FY'10 Actual</u>	<u>FY'11 Actual</u>	<u>FY'12 Approved</u>	<u>FY'13 Proposed</u>	<u>FY'13 Over / (Under) FY'12</u>
Capital Funds					
Water Supply	\$ 111,158,000	\$ 104,278,000	\$ 198,844,000	\$ 240,107,000	\$ 41,263,000
Sewage Disposal	95,232,000	94,308,000	332,424,000	536,771,000	204,347,000
General Construction	34,092,000	41,664,000	34,654,000	19,984,000	(14,670,000)
Total Capital	<u>240,482,000</u>	<u>240,250,000</u>	<u>565,922,000</u>	<u>796,862,000</u>	<u>230,940,000</u>
Operating Funds					
Water Operating	209,761,000	220,332,000	251,595,000	269,337,000	17,742,000
Sewer Operating	259,063,000	264,355,000	323,390,000	350,271,000	26,881,000
General Bond Debt Service *	69,130,000	88,417,000	51,160,000	41,455,000	(9,705,000)
Total Operating	<u>537,954,000</u>	<u>573,104,000</u>	<u>626,145,000</u>	<u>661,063,000</u>	<u>34,918,000</u>
GRAND TOTAL	<u>\$ 778,436,000</u>	<u>\$ 813,354,000</u>	<u>\$ 1,192,067,000</u>	<u>\$ 1,457,925,000</u>	<u>\$ 265,858,000</u>

* The FY'10 Actual column includes Prince George's County Storm Water Drainage Debt Service obligations. The Interest & Sinking Fund is now the General Bond Debt Service Fund as the debt service on the Storm Water Drainage Bonds ended in FY'10.

TABLE II

Comparative Expenditures by Major Expense Category

(\$ in Thousands)

Expense Categories	FY'11 Actual			FY'12 Approved			FY'13 Proposed		
	Capital	Operating	Total	Capital	Operating	Total	Capital	Operating	Total
Salaries & Wages	\$ 20,693	\$ 89,978	\$ 110,671	\$ 23,953	\$ 98,418	\$ 122,371	\$ 23,651	\$ 101,233	\$ 124,884
Heat, Light & Power	-	28,599	28,599	-	25,275	25,275	-	24,223	24,223
Regional Sewage Disposal	-	46,208	46,208	-	49,478	49,478	-	51,309	51,309
Contract Work	98,243	-	98,243	270,039	-	270,039	396,446	-	396,446
Consulting Engineers	29,365	-	29,365	61,051	-	61,051	83,213	-	83,213
All Other	91,843	168,716	260,559	210,779	217,211	427,990	293,452	233,095	526,547
Debt Service	106	239,603	239,709	100	235,763	235,863	100	251,203	251,303
TOTAL	\$ 240,250	\$ 573,104	\$ 813,354	\$ 565,922	\$ 626,145	\$ 1,192,067	\$ 796,862	\$ 661,063	\$ 1,457,925

TABLE III

FY 2012 - FY 2013 Summary of Revenue & Expenses

(\$ in Thousands)

	Water Operating Fund		Sewer Operating Fund		General Bond Debt Service Fund		Capital Funds	
	2012	2013	2012	2013	2012	2013	2012	2013
	Approved	Proposed	Approved	Proposed	Approved	Proposed	Approved	Proposed
REVENUES								
Water Consumption Charges	\$ 237,146	\$ 240,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer Use Charges	-	-	273,360	300,241	-	-	-	-
Front Foot Benefit & House Connection Charges (Deferred)	-	-	-	-	54,126	46,696	-	-
Account Maintenance Fees	11,425	11,425	11,425	11,425	-	-	-	-
Interest Income	1,500	1,500	2,500	2,500	1,237	2,424	-	-
Miscellaneous	9,053	9,213	11,883	11,934	650	700	-	-
Use of Fund Balance								
Reserve Contribution	-	3,900	3,400	6,300	-	-	-	-
Reserve Requirement	(8,000)	-	8,000	-	-	-	-	-
Other	-	2,528	-	5,130	11,000	11,000	-	-
Reconstruction Debt Service Offset	-	-	11,000	11,000	(11,000)	(11,000)	-	-
SDC Debt Service Offset	471	451	1,822	1,741	-	-	-	-
Bonds & Notes	-	-	-	-	-	-	366,824	566,289
Anticipated Contributions:								
Federal & State Grants	-	-	-	-	-	-	88,240	97,198
System Development Charge	-	-	-	-	-	-	96,999	119,140
Other	-	-	-	-	-	-	13,859	14,235
TOTAL REVENUES	\$ 251,595	\$ 269,337	\$ 323,390	\$ 350,271	\$ 56,013	\$ 49,820	\$ 565,922	\$ 796,862
EXPENSES								
Salaries & Wages	\$ 49,572	\$ 52,157	\$ 48,349	\$ 48,472	\$ 497	\$ 604	\$ 23,953	\$ 23,651
Heat, Light & Power	13,516	12,875	11,759	11,348	-	-	-	-
Regional Sewage Disposal	-	-	49,478	51,309	-	-	-	-
Contract Work	-	-	-	-	-	-	270,039	396,446
Consulting Engineers	-	-	-	-	-	-	61,051	83,213
Contribution to Required Reserve	-	3,900	3,400	6,300	-	-	-	-
All Other	99,817	103,848	113,200	118,102	794	945	210,779	293,452
Debt Service	88,690	96,557	97,204	114,740	49,869	39,906	100	100
TOTAL EXPENSES	\$ 251,595	\$ 269,337	\$ 323,390	\$ 350,271	\$ 51,160	\$ 41,455	\$ 565,922	\$ 796,862
Net Increase (Decrease) in Fund Balance	-	-	-	-	4,853	8,365	-	-
Fund Balance - July 1	\$ 22,188	\$ 30,188	\$ 61,038	\$ 53,038	\$ 87,041	\$ 80,894	\$ 64,343	\$ -
Net Increase (Decrease) in Fund Balance	-	-	-	-	4,853	8,365	-	-
Use of Fund Balance	-	(2,528)	-	(5,130)	(11,000)	(11,000)	(64,343)	-
Reserve Requirement	8,000	-	(8,000)	-	-	-	-	-
Fund Balance - June 30	\$ 30,188	\$ 27,660	\$ 53,038	\$ 47,908	\$ 80,894	\$ 78,259	\$ -	\$ -

TABLE III
(continued)

Change in Ending Fund Balance
FY 2012 Approved Budget Compared to FY 2013 Proposed
(\$ In Thousands)

	FY 2012 Projected Ending Fund Balance	FY 2013 Proposed Ending Fund Balance	Change in Fund Balance	% Change
Water Operating Fund	\$ 30,188	\$ 27,660	\$ (2,528)	-8.4%
Sewer Operating Fund	53,038	47,908	(5,130)	-9.7%
General Bond Debt Service Fund	80,894	78,259	(2,635)	-3.3%
Capital Fund	-	-	-	-
	\$ 164,120	\$ 153,827	\$ (10,293)	-6.3%

Explanation of Changes in Fund Balance Greater Than 10%

There are no fund balance changes greater than 10%.

Water and Sewer Operating Funds – The FY 2013 proposed ending fund balances are significantly lower than the projected FY 2012 ending fund balances for the Water and Sewer Operating funds. The change is due to a planned use of fund balance to offset a reduction in our budgeted billing factor which is the amount of rate revenue received per 1,000 gallons of water production.

TABLE IV

Combined Water/Sewer Operating Funds - FY'13 Proposed Rate Impact

(\$ in Thousands)

(7.5% AVERAGE RATE INCREASE PROPOSED FOR FY'13)

<u>Funding Sources</u>	<u>FY'13 Proposed</u>
<u>Revenues at Current Rates</u>	
Consumption Charges at 170.0 MGD	\$ 502,848
Account Maintenance Fee	22,850
Interest Income	4,000
Miscellaneous Revenues	<u>21,147</u>
Sub-Total	550,845
Reconstruction Debt Service Offset	11,000
SDC Debt Service Offset	2,192
Use of Fund Balance	<u>17,858</u>
Total Funding Sources	<u>581,895</u>
<u>Requirements</u>	
Operating, Maintenance & Support Services Expenses	398,111
Debt Service	211,297
Operating Reserve Contribution	<u>10,200</u>
Total Requirements	<u>619,608</u>
Shortfall to be Covered by Rate Increase	<u>\$ (37,713)</u>
 PROPOSED AVERAGE WATER AND SEWER RATE INCREASE	 7.5%

TABLE V

Annual Customer Bills At Various Consumption Levels

Average Daily Consumption (ADC) Gallons Per Day	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
100 (36,500 GAL/YR) Residential Meter	\$ 270.67	\$ 290.74	\$ 310.82	\$ 333.45	\$ 354.98
210 (76,650 GAL/YR) Residential Meter	651.83	705.49	760.68	821.23	879.49
500 (182,500 GAL/YR) Residential Meter	1,925.58	2,093.48	2,263.20	2,451.18	2,631.85
1,000 (365,000 GAL/YR) 2" Meter	4,182.50	4,536.55	4,890.60	5,288.45	5,675.35
5,000 (1,825,000 GAL/YR) 3" Meter	20,716.75	22,523.50	24,348.50	26,392.50	28,363.50
10,000 (3,650,000 GAL/YR) 6" Meter	43,142.00	46,901.50	50,661.00	54,895.00	58,983.00

Annual customer bills include the Account Maintenance Fee shown on page 16.

TABLE VI

WSSC Water/Sewer Rate Schedules Effective July 1, 2011 & Proposed for Implementation July 1, 2012

(Rates per Thousand Gallons)

(7.5 % AVERAGE RATE INCREASE PROPOSED FOR FY'13)

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	\$ 2.82	\$ 2.90	\$ 3.27	\$ 3.64	\$ 6.09	\$ 6.54
50-99	3.16	3.24	3.81	4.25	6.97	7.49
100-149	3.46	3.55	4.47	4.97	7.93	8.52
150-199	3.89	3.99	5.15	5.73	9.04	9.72
200-249	4.53	4.65	5.61	6.25	10.14	10.90
250-299	4.91	5.04	6.07	6.76	10.98	11.80
300-349	5.19	5.33	6.48	7.22	11.67	12.55
350-399	5.42	5.57	6.79	7.56	12.21	13.13
400-449	5.63	5.78	6.94	7.73	12.57	13.51
450-499	5.77	5.93	7.17	7.98	12.94	13.91
500-749	5.88	6.04	7.31	8.14	13.19	14.18
750-999	6.03	6.19	7.47	8.32	13.50	14.51
1,000-3,999	6.14	6.31	7.79	8.68	13.93	14.99
4,000-6,999	6.29	6.46	7.97	8.88	14.26	15.34
7,000-8,999	6.36	6.53	8.09	9.01	14.45	15.54
9,000 & Greater	6.48	6.66	8.30	9.24	14.78	15.90

Current Flat Rate Sewer Charge - \$80.00 per quarter
 Proposed Flat Rate Sewer Charge - \$90.00 per quarter

TABLE VII

Account Maintenance Fees Proposed for Implementation July 1, 2012

<u>Meter Size</u>	<u>Current FY'12 Quarterly Charges</u>	<u>Proposed FY'13 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, 2012.

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2012</u>
1. Inspection Fees - Water/Sewer Connection Hookup, Well/Septic Hookup, Plumbing and Gasfitting Inspections		
New Single Family Detached Dwellings	\$500	** \$550
New Attached Dwellings (townhouse/multiplex excluding apartments)	500	** 550
All Other Residential:		
Water/Well Hookup	70	** 75
Meter Yoke Inspection (meter only installation)	70	** 75
Water Hookup Converting from Well (includes 2 inspections)	140	** 155
Sewer/Septic Hookup	70	** 75
First Plumbing Fixture	70	** 75
Each Additional Fixture	20	** 25
SDC Credit Fixture Inspection (per fixture)	15	** 20
Minimum Permit Fee	155	** 170
Permit Reprocessing Fee	45	** 50
All Non-Residential:		
Plan Review (without Permit Application)		
50 Fixtures or Less	325	** 360
51-200 Fixtures	1,110	** 1,220
Over 200 Fixtures	2,210	** 2,430
2 nd or 3 rd Review (with or without Permit Application)		
50 Fixtures or Less	130	** 145
51-200 Fixtures	250	** 275
Over 200 Fixtures	525	** 580
Water/Well Hookup	125	** 140
Meter Yoke Inspection (meter only installation)	125	** 140
Sewer/Septic Hookup	125	** 140
FOG Interceptor	125	** 140
First Plumbing Fixture	125	** 140
Each Additional Fixture	30	** 35
SDC Credit Fixture Inspection (per fixture)	15	** 20
Minimum Permit Fee	190	** 210
Permit Reprocessing Fee	45	** 50

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2012</u>
2. License Fees for the Regulated Trades		
Reciprocal Master Plumber, Gasfitter		
- Initial Registration per type	\$80/2 years	\$80/2 years
- Registration Renewal all types	80/2 years	80/2 years
- Late Registration Renewal	50	50
Examined		
- Master Plumber, Gasfitter		
- Initial Registration per type	105/4 years	105/4 years
- Registration Renewal all types	105/4 years	105/4 years
- Late Registration Renewal	50	50
- Cross Connection Technician Registration	25	25
- Sewer and Drain Cleaner Registration and Renewal	80/2 years	** 40/2 years
- Sewer and Drain Cleaner Late Registration Renewal	50	** 20
- Journeyman License Registration		
- Registration Renewal	30/2 years	30/2 years
- Late Registration Renewal	20	20
- License Transfer Fee	30	30
- License Replacement Fee	15	15
- Apprentice License Registration/Renewal	10	10
3. Fee for Sale of WSSC Plumbing and Fuel Gas Code (Plumbing Code) and Cross Connection Control Manual		
Sale of Plumbing Regulation (per book)	\$25/book	** \$30/book

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

ITEM	CURRENT CHARGE	PROPOSED CHARGE EFFECTIVE JULY 1, 2012
4. Septic Hauler Discharge Permit Sticker		
Category I		
<u>Residential & Septic Waste & Grease</u>		
1 - 49 gallons	\$154/vehicle	** \$170/vehicle
50 - 799 gallons	2,265/vehicle	** 2,490/vehicle
800 - 1,499 gallons	6,170/vehicle	** Delete
1,500 - gallons and up	14,641/vehicle	** Delete
800 - 2,999 gallons	-	* 7,096/vehicle
3,000 - gallons and up	-	* 16,840/vehicle
January through June	50% of fee	50% of fee
Transfer and/or Replacement Permit Sticker	55	55
Industrial/Special Waste Disposal Fee	220/1,000 gallons	220/1,000 gallons
Zero Discharge Permit Fee	55	55
Temporary Discharge Permit Fee	-	* 55 + Sewer Rate/1,000 gallons
Sewer Rate – Domestic Low Strength Wastewater	-	* 7.79/1,000 gallons of truck capacity
Sewer Rate – Domestic High Strength Wastewater	-	* 37.31/1,000 gallons of truck capacity
5. Sub-Meter Installation Fee		
One-time Sub-Meter Charge – Small	\$210	** \$225
One-time Sub-Meter Charge - Large	325	** 400
One-time Inspection Fee	50	50
Minimum Permit Inspection Fee	140	140
6. Tapper License Fee		
Permit Fee	\$250	** \$300
Duplicate Fee	20	** 25
7. Temporary Fire Hydrant Connection Fee		
3/4" Meter - Deposit		
2 Weeks or Less w/approved payment record	\$0	\$0
Over 2 Weeks/Less than 2 weeks w/unapproved payment record	300	** 330
3" Meter - Deposit	1,800	** 1,980
Service Charge		
2 Weeks or Less (3/4" meter)	30	** 35
2 Weeks or Less (3" meter)	120	** 130
Over 2 Weeks (3/4" and 3" meters)	120	** 130

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2012</u>
Water Consumption Charge - 3/4" Meter	Current approved rate for 1,000 gallons ADC; \$30 minimum	Current approved rate for 1,000 gallons ADC; \$30 minimum
Water Consumption Charge - 3" Meter	Current approved rate for 1,000 gallons ADC; \$180 minimum	Current approved rate for 1,000 gallons ADC; \$180 minimum
Late Fee for Return of Meter	\$6/day	** \$7/day
Fee on Unpaid Temporary Fire Hydrant Meter Billings (per month)	1½%	1½%
Loss/Destruction of Meter	Replacement Cost	Replacement Cost
Loss/Destruction of Wrench	35	** 40
8. Industrial Discharge Control Program Fees by Category		
Industrial users subject to Categorical Pretreatment Standards (less than 5,000 gpd) (single visit)	\$2,875	** \$3,020
Industrial users subject to Categorical Pretreatment Standards (greater than 5,000 gpd) (double visit)	4,400	** 4,620
Non-Discharging Categorical Industries (zero discharge)	775	** 815
Significant Industrial User (less than 25,000 gpd) (single visit - priority pollutant sampling)	2,875	** 3,020
Significant Industrial User (greater than 25,000 gpd) (double visit - priority pollutant sampling)	4,400	** 4,620
Penalty Charge for Late Fee Payment	5% of fee	5% of fee
9. Call Back Fee (large meters, plumbers)	\$85	** \$150
10. Patuxent Watershed Civil Citation Fee		
First Offense	\$35	** \$50
Each Additional Offense within Calendar Year	70	** 100
11. Fee for Sale of Procurement Manual	\$15	** Delete
12. Fee for Review and Inspection of Site Work Potentially Impacting WSSC Pipelines		
Simple Review	\$225	** \$300
Complex Review	1,500	1,500
Inspection	110/Inspection	** 150/Inspection

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2012</u>
13. Chlorination Confirmation Test Fee Re-Test or Additional Tests	\$150/First Test 150/Hour	** \$200/First Test 150/Hour
14. Hydraulic Planning Analysis and System Planning Forecast		
Water & Sewer Modeling	\$975	** \$1,045
Water or Sewer Only Modeling	550	** 590
Development Parts Over 3	425/part	** 455/part
Pressure Sewer Review Fee (per system)	225	** 240
15. Relocation Design Review Fee	\$6,500	\$6,500
Inspection for MOU Project	-	* 600 minimum charge up to 4 hours
16. Warehouse Restocking Fee	\$25	** \$30

* New Fee

** Changed Fee

TABLE VIII

Miscellaneous Fees and Charges – Proposed Changes

(Continued)

<u>ITEM</u>	<u>CURRENT CHARGE</u>	<u>PROPOSED CHARGE EFFECTIVE JULY 1, 2012</u>	<u>CURRENT MAXIMUM ALLOWABLE CHARGE</u>	<u>PROPOSED MAXIMUM ALLOWABLE CHARGE</u>
17. *** System Development Charge				
Apartment				
Water	\$896	\$896	\$1,170	1,212
Sewer	1,140	1,140	1,490	1,544
1-2 toilets/residential				
Water	1,344	1,344	1,756	1,819
Sewer	1,710	1,710	2,232	2,312
3-4 toilets/residential				
Water	2,240	2,240	2,927	3,032
Sewer	2,850	2,850	3,722	3,856
5 toilets/residential				
Water	3,135	3,135	4,095	4,242
Sewer	3,991	3,991	5,214	5,402
6+ toilets/residential (per fixture unit)				
Water	88	88	115	119
Sewer	115	115	151	156
Non-residential (per fixture unit)				
Water	88	88	115	119
Sewer	115	115	151	156

*** No increase is proposed for the System Development Charge for FY'13 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 3.6% 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 2010 to November 2011.

EXPLANATION OF THE BUDGET

(Continued)

5. New Debt - The debt service estimates for FY'13 assume that \$154.1 million in water, \$327.7 million in sewer, and \$20.0 million in General Construction bonds will be issued in FY'13, in addition to repayment of existing debt. The water and sewer issues will be 19-year bonds with an estimated 5.5 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 – A 2% cost-of-living adjustment and merit increases for all eligible employees are included in the budget. This is consistent with the negotiated collective bargaining agreement between WSSC and the union representing certain employees.

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

WORKLOAD DATA	ACTUAL					ESTIMATED						
	FY'07	FY'08	FY'09	FY'10	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17	FY'18
Water to be supplied (MGD)	169.8	168.2	162.3	168.7	175.0	170.0	170.0	170.5	171.0	171.5	172.0	172.5
Sewage to be treated (MGD)	189.2	177.8	178.6	200.3	182.4	214.5	214.5	216.4	218.4	220.3	222.0	223.7
Water lines to be added by the WSSC (miles)	13.6**	.2	.5	1.5	0	5	5	5	5	5	5	5
Sewer lines to be added by the WSSC (miles)	11.4**	1	1.8	0	0	5	5	5	5	5	5	5
Water lines to be added – contributed (miles)*	51	38	23.3	9.9	12.5	45	45	45	45	45	45	45
Sewer lines to be added – contributed (miles)*	51	34	26.7	10.4	19.7	45	45	45	45	45	45	45
Population to be served (thousands)	1,692	1,706	1,720	1,734	1,748	1,756	1,768	1,779	1,790	1,801	1,812	1,823
House connections to be added												
Water	5,077	3,884	2,293	1,126	1,574	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Sewer	4,620	3,463	2,006	909	1,417	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).

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EXPLANATION OF THE BUDGET

(Continued)

VII. KEY PROVISIONS OF THE FY'13 BUDGET

The total proposed budget for all funds is \$1.5 billion—\$796.9 million in capital and \$661.1 million in operating. A 7.5 percent average increase in water and sewer rates is required to fund water and sewer operating expenses. The budget provides for:

- Implementing the first year of the FYs 2013-2018 Capital Improvements Program;
- Treating and delivering 170.0 MGD of water to over 446,000 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;
- Continuing to increase the operating reserve to 10% of water and sewer rate revenues;
- Paying debt service of \$251.3 million—\$211.3 million in the Water and Sewer Operating Funds;
- Increasing the Water and Sewer Reconstruction Programs;
- Implementing an Enterprise Resource Planning/Enterprise Asset Management System;
- Funding the sixth 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;
- Continuing to provide maintenance services at a level consistent with the objective of responding to the customer within 2 hours of receiving notification of a maintenance problem and restoring service to the customer within 24 hours from the time a service interruption occurs;
- Complying with the Sanitary Sewer Overflow Consent Order;
- Answering at least 95 percent of all customer billing calls received;
- Maintaining and fueling 937 vehicles, maintaining approximately 676 pieces of large field equipment, and operating 6 repair facilities;

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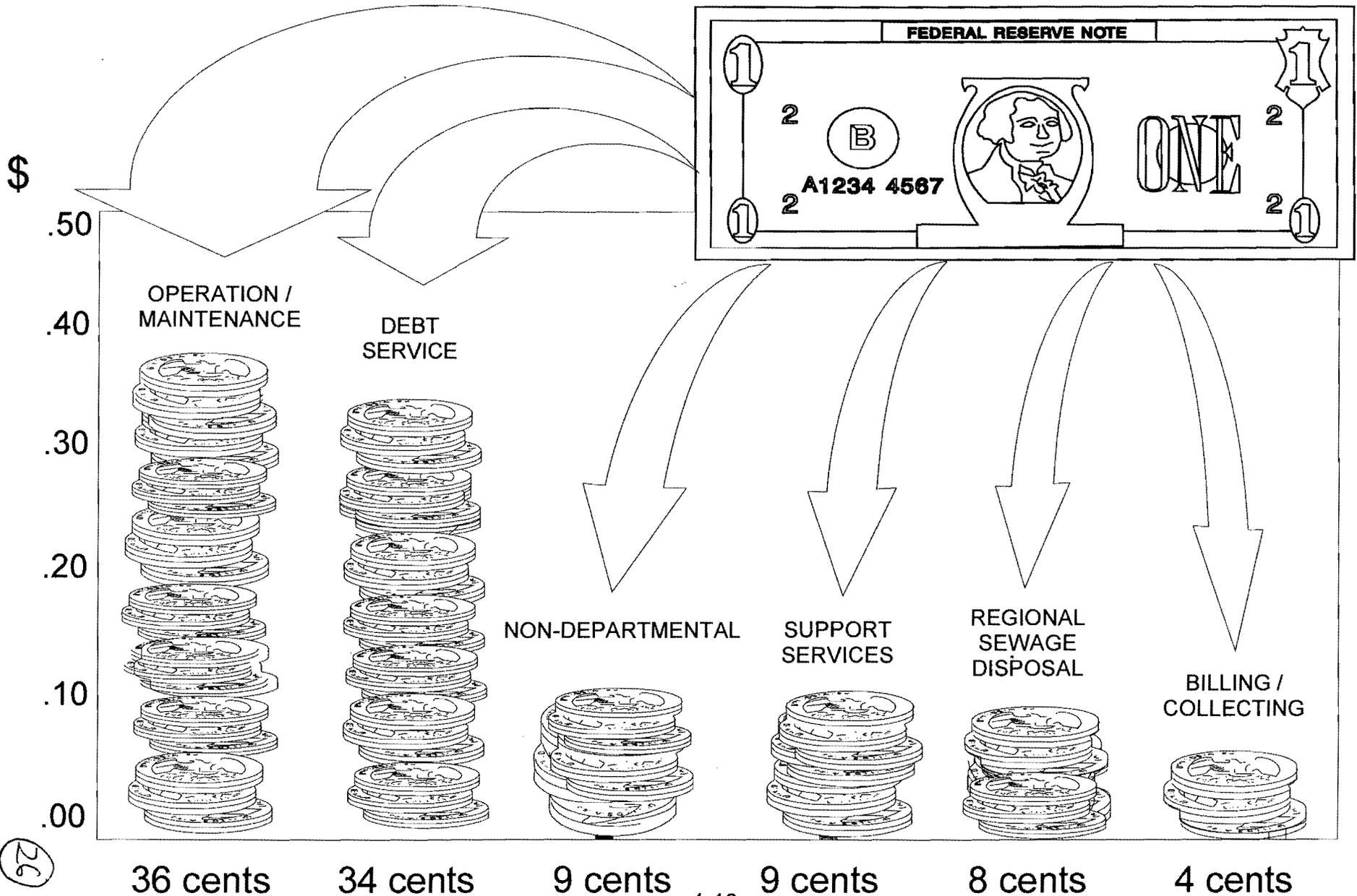
EXPLANATION OF THE BUDGET

(Continued)

- Replacing 27 pieces of major equipment which are needed to support construction, operations, and maintenance activities;
- Replacing 125 and purchasing an additional 7 vehicles which are needed to support construction, operations, and maintenance activities; and
- Funding employee cost-of-living adjustments, funding merit increases, and continuing other benefits.

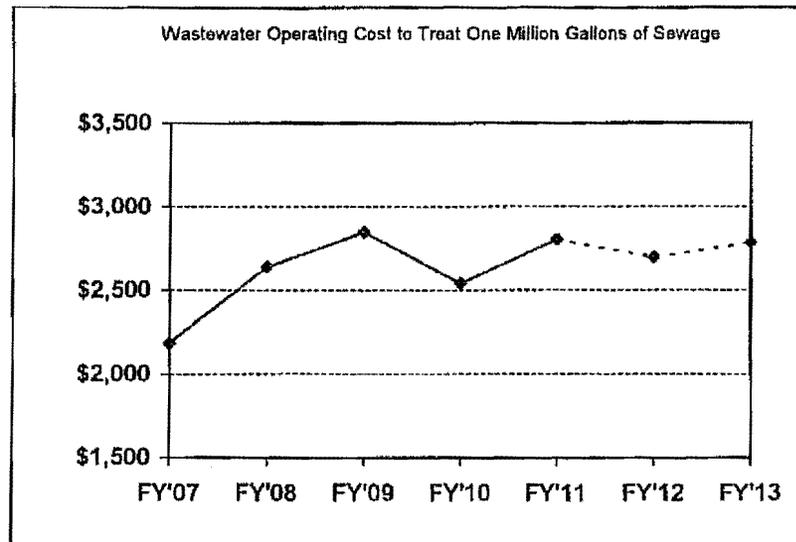
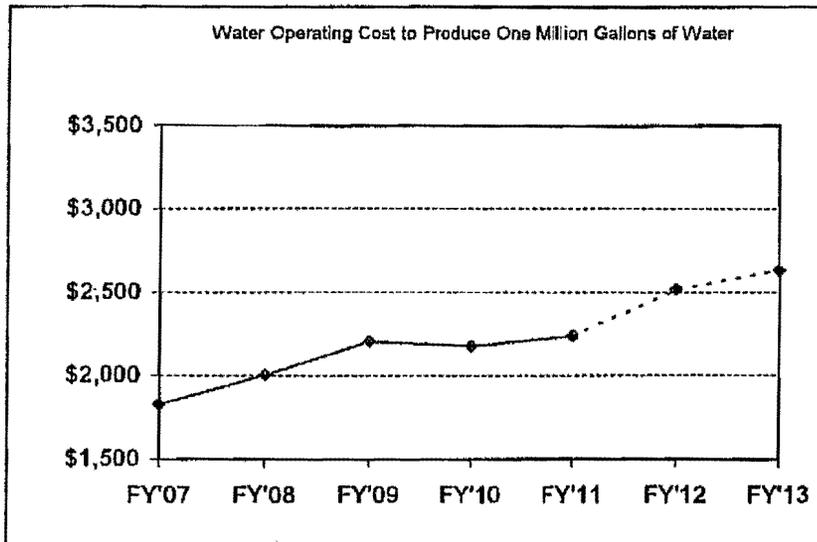
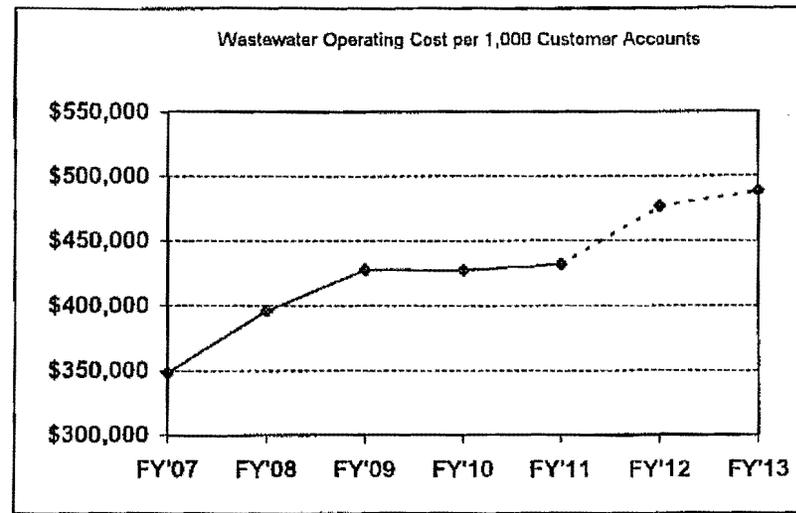
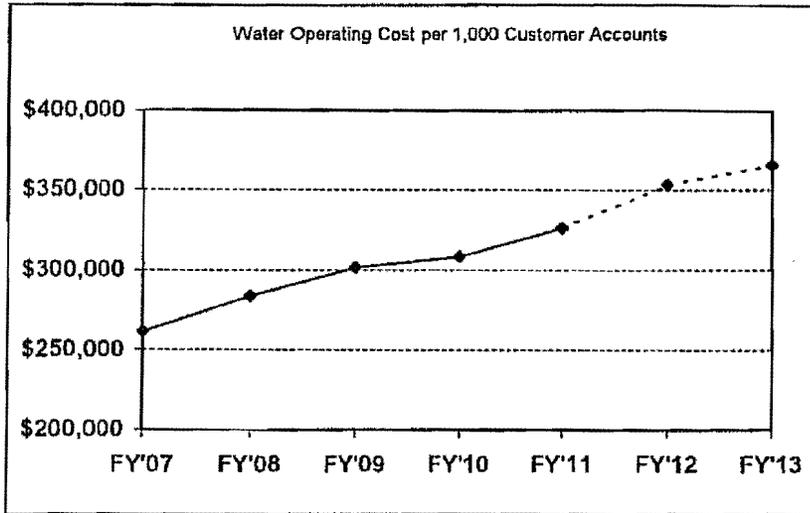
FY'13 PROPOSED BUDGET

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



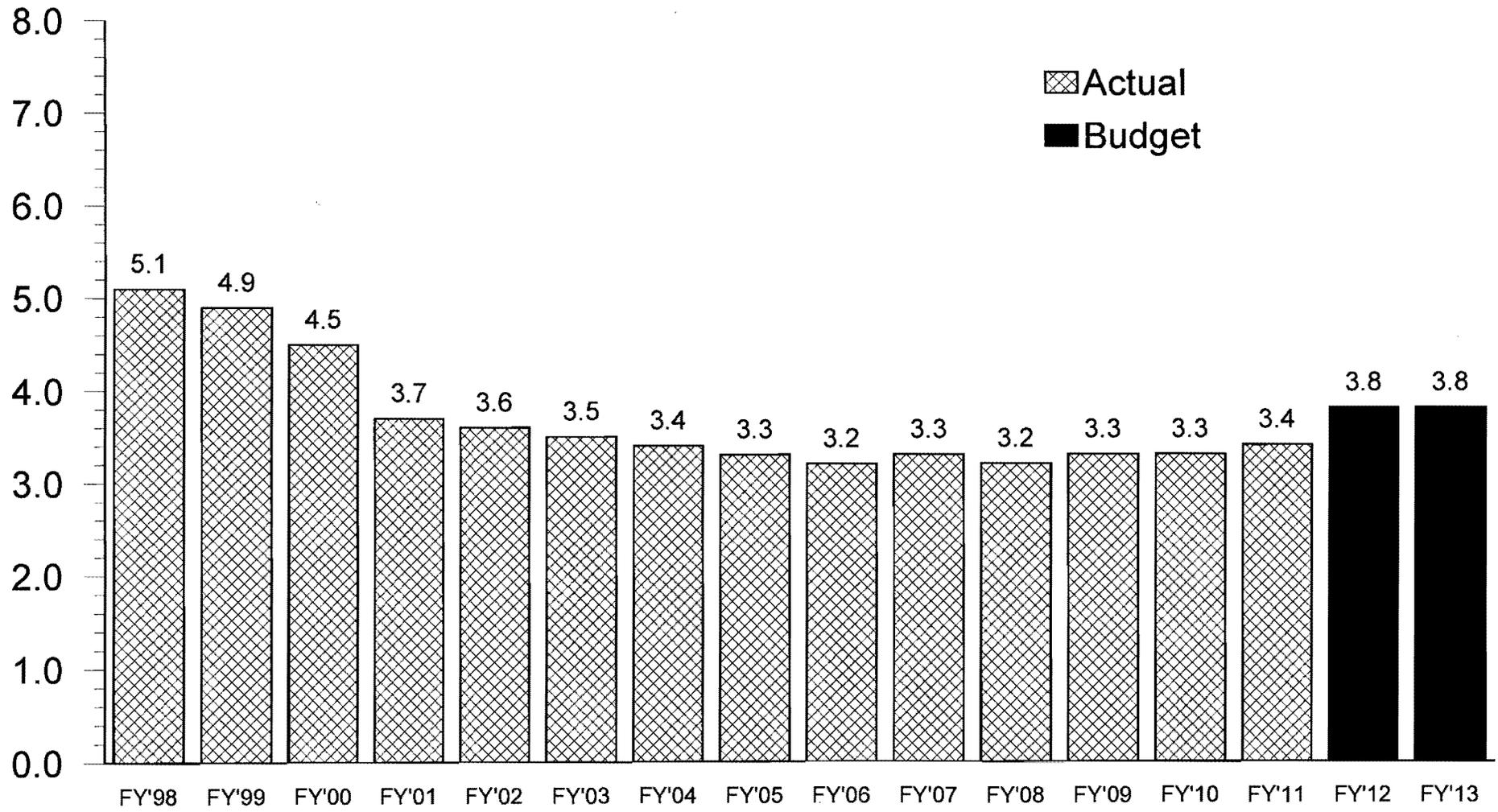
WSSC

OPERATING EFFICIENCY MEASURES



Note: FY'12 & FY'13 are budgeted, not actual.

WORKYEARS PER 1,000 CUSTOMER ACCOUNTS



SELECTED STATISTICAL DATA

	<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>ACTUAL</u>	<u>FY'12</u> <u>APPROVED</u>	<u>FY'13</u> <u>PROPOSED</u>
Population Served	1,692,000	1,706,000	1,720,000	1,734,000	1,748,000	1,756,000	1,768,000
Customer Accounts	433,113	433,967	433,579	434,773	438,193	442,773	446,193
Water Produced (average MGD)	169.8	168.2	162.3	168.7	175.0	170.0	170.0
Water Produced (millions of gallons)	61,795	61,572	59,255	61,590	63,861	62,050	62,050
Water Mains Maintained (miles)	5,365	5,403	5,427	5,438	5,451	5,538	5,551
Water Mains Constructed (miles added by WSSC)	13.6*	0.2	0.5	1.5	-	5	5
Water Mains Constructed (miles added by developers)	51	38	23	10	13	45	45
Water House Connections Maintained	432,716	436,600	438,893	440,019	441,593	448,019	449,593
Water House Connections Installed	5,077	3,884	2,293	1,126	1,574	4,000	4,000
Water Meters Issued	13,916	16,457	13,458	8,769	13,696	15,622	14,212
Sewage Systems Total Flow (average MGD)	189.2	177.8	178.6	200.3	182.4	214.5	214.5
Sewage Systems Total Flow (millions of gallons)	69,071	65,068	65,201	73,089	66,581	78,293	78,293
Sewer Mains Maintained (miles)	5,250	5,285	5,314	5,324	5,344	5,424	5,444
Sewer Mains Constructed (miles added by WSSC)	11.4*	1	1.8	-	-	5	5
Sewer Mains Constructed (miles added by developers)	51	34	27	10	20	45	45
Sewer House Connections Maintained	410,923	414,386	416,392	417,301	418,718	425,301	426,718
Sewer House Connections Installed	4,620	3,463	2,006	909	1,417	4,000	4,000
Maintenance Work Orders (Emergency and Routine)	73,967	93,570	87,942	75,253	84,473	82,900	81,500
Vehicles in Fleet	846	853	865	883	927	930	937
Miles Traveled by Fleet	6,224,544	5,498,376	5,399,040	5,563,414	5,514,312	6,056,000	5,845,170
Water Meter Readings Completed	1,732,288	1,853,520	1,876,796	1,933,411	1,937,265	1,904,500	1,951,250
Authorized Positions	1,532	1,525	1,555	1,561	1,632	1,681	1,693
Authorized Workyears	1,490	1,525	1,555	1,561	1,632	1,681	1,693
Actual Employment Level - Beginning	1,377	1,428	1,434	1,455	1,468	1,528	
Actual Employment Level - Ending	1,428	1,434	1,455	1,468	1,528		
Actual Workyears	1,416	1,407	1,428	1,449	1,486		

* Reflects the acquisition of the Marlboro Meadows System

SYSTEMS RECONSTRUCTION PROGRAM

	<u>FY'11</u> <u>Actual</u>	<u>FY'12</u> <u>Approved</u>	<u>FY'13</u> <u>Proposed</u>
• <u>Systems Reconstruction Program</u>	\$118,537,539	\$115,420,000	\$213,839,000

This program provides for the systematic replacement or rehabilitation of the Commission's aging water and sewer systems. Through FY'11, the water and sewer systems had approximately 5,500 miles and 5,300 miles of main, respectively, along with 441,600 water house connections and 418,700 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.

The Water Reconstruction Program consolidates several water main improvement activities designed to enhance water quality, pressure and reliability under one initiative. The Program 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 may include pipeline appurtenances such as large meter and fire meter vaults. The FY'13 budget of \$77.4 million is \$11.6 million greater than the FY'12 Approved Budget and provides for the replacement of 46 miles of water main and associated house connection renewals and 30 large water service replacements. During FY'11, 44 miles of water mains, 21 miles of associated house connection laterals, and 15 large water services were replaced.

The Sewer Reconstruction Program provides for correcting structural deficiencies of sewer mains. These structural deficiencies may result from soil settlement, root penetration, or corrosion, and often contribute to sewage overflows and backups into homes. In order to meet the requirements of the Sanitary Sewer Overflow Consent Decree, the FY'13 budget of \$136.4 million is \$86.8 million greater than the FY'12 Approved Budget. It provides for the rehabilitation of 55 miles of main lines and 10 miles of lateral lines throughout the WSSD, and is more than double the FY'12 budget of 22 miles of main lines and 5 miles of lateral lines. During FY'11, 29 miles of sewer mains and 9 miles of house connection laterals were rehabilitated.

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. During FY'13, the Commission plans on renewing 2,800 water and 2,500 sewer house connections.

Comparative Expenditures by Organizational Unit

	FY'12 Approved		FY'13 Proposed	
	Workyears	Amount	Workyears	Amount
Commissioners Office/Corporate Secretary's Office	2.0	\$ 329,700	2.0	\$ 346,400
Internal Audit	9.0	1,083,000	9.0	1,084,900
General Manager	5.0	1,122,600	5.0	963,600
Intergovernmental Relations Office	5.0	580,600	5.0	586,800
Strategic Systems Management Office	7.0	846,800	7.0	857,300
General Counsel's Office	16.0	3,878,700	16.0	3,867,100
Communications & Community Relations Office	17.0	2,054,400	17.0	2,090,000
Human Resources Office	22.0	3,063,900	23.0	3,303,100
Small, Local and Minority Business Enterprise Office	8.0	1,080,300	8.0	1,159,200
Fair Practice Office	2.0	184,400	2.0	184,100
Acquisition Office	26.0	2,212,500	26.0	2,032,200
Corporate Asset Management Office	16.0	11,150,800	16.0	12,737,400
Engineering & Construction Team	350.0	552,022,900	354.0	778,510,000
Production Team	293.0	147,439,300	298.0	150,881,600
Logistics Office	176.0	27,087,700	177.0	28,811,900
Finance Office	62.0	5,416,700	61.0	5,413,500
Customer Care Team	581.0	91,910,700	583.0	98,766,200
Information Technology Team	84.0	21,211,500	84.0	20,669,400
Non-Departmental (Finance)	-	36,020,900	-	37,476,000
Non-Departmental (Human Resources)	-	32,388,600	-	32,427,600
Debt Service	-	235,863,000	-	251,303,000
Depreciation Expense	-	11,718,000	-	11,808,300
Operating Reserve Contribution	-	3,400,000	-	10,200,000
Salary Enhancements	-	-	-	2,445,400
SUMMARY-TOTAL	1,681.0	\$ 1,192,067,000	1,693.0	\$ 1,457,925,000

Comparative Personnel Complement by Organizational Unit

	<u>FY'11 Actual</u>		<u>FY'12 Approved</u>		<u>FY'13 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	9	7.4	9	9.0	9	9.0
<u>General Manager</u>	5	4.2	5	5.0	5	5.0
Intergovernmental Relations Office	5	3.8	5	5.0	5	5.0
Strategic Systems Management Office	7	5.0	7	7.0	7	7.0
General Counsel's Office	16	15.6	16	16.0	16	16.0
Communications & Community Relations Office	17	16.0	17	17.0	17	17.0
Human Resources Office	22	20.7	22	22.0	23	23.0
Small, Local and Minority Business Enterprise Office	8	6.9	8	8.0	8	8.0
Fair Practice Office	2	1.0	2	2.0	2	2.0
Acquisition Office	26	19.5	26	26.0	26	26.0
Corporate Asset Management Office	16	11.7	16	16.0	16	16.0
Engineering & Construction Team	317	293.8	350	350.0	354	354.0
Production Team	288	270.3	293	293.0	298	298.0
Logistics Office	177	144.2	176	176.0	177	177.0
Finance Office	62	56.3	62	62.0	61	61.0
Customer Care Team	570	535.2	581	581.0	583	583.0
Information Technology Team	83	71.9	84	84.0	84	84.0
SUMMARY-TOTAL	<u>1,632</u>	<u>1,485.5</u>	<u>1,681</u>	<u>1,681.0</u>	<u>1,693</u>	<u>1,693.0</u>

* Commissioners (6) not included in total positions.

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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 <http://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 446,000 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 Program that includes one new Montgomery County sewerage project, one new bi-county water 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 12 miles of large diameter pre-stressed concrete cylinder pipe (PCCP) water mains. During FY13, WSSC will complete the inspection of all PCCP water mains 48 inches in diameter and larger, at which point the inspection cycle will begin again.**
- ❖ **Begin to examine PCCP water mains smaller than 48 inches in diameter by inspecting 3.3 miles of 42 inch diameter PCCP mains using new robotic technology.**
- ❖ **Continue to renew WSSC's underground infrastructure through the Water and Sewer Reconstruction Programs. In FY13, the Commission will reconstruct 46 miles of small water mains (five more miles than in FY12) and rehabilitate 55 miles of residential sewers (33 miles more than in FY12).**

- ❖ **Comply with the Sanitary Sewer Overflow Consent Decree.**
- ❖ **Fund the fifth year of implementing the Enterprise Resource Planning/Enterprise Asset Management system.**
- ❖ **Fund the sixth 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.**
- ❖ **Continue to increase the operating reserve toward the goal of having reserves equal to 10 percent of water and sewer rate revenues. (The reserve percentage will rise to 7.7% in FY13 from an estimated FY12 level of 6.2%.)**
- ❖ **Fund the above activities and initiatives in conjunction with a 7.5% rate increase - the smallest since 2007 - consistent with the Spending Control Limits adopted by Montgomery and Prince George's counties.**

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 following table shows the FY13 spending control limits adopted by the Montgomery and Prince George's County councils, compared to the spending control results projected under WSSC's Proposed FY13 Budget and under the County Executive's Recommended Budget for WSSC. The Commission's Proposed Budget complies with all of the spending control limits approved by the two county councils.

FY13 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	8.5%	8.5%	7.5%	7.5%
New Debt (\$millions) ^a	\$481.8	\$481.8	\$481.8	\$491.6
Water and Sewer Debt Service (\$millions)	\$212.7	\$212.7	\$211.3	\$212.0
Total Water and Sewer Operating Expenses (\$millions)	629.0	629.0	\$619.6	\$619.9

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

FY13 COUNTY EXECUTIVE RECOMMENDATIONS

Operating Budget

The County Executive recommends that WSSC's proposed FY13 operating budget be approved with the following changes:

The County Executive recommends that the Commission provide only one-time compensation increases that do not add to the base compensation budget. It is recommended that the 2% cost of living adjustment (COLA) for all WSSC employees and the merit increases for all eligible WSSC employees, both of which are included in the Commission's proposed FY13 budget, be eliminated and replaced with a one-time \$2,000 bonus for each full-time employee, with a pro-rated amount for part-time employees. This will ensure that the compensation enhancements to be provided to WSSC employees in FY13 are consistent with those to be provided to Montgomery County employees under the County's Proposed FY13 Operating Budget and Public Services Plan.

The substitution of \$2,000 bonuses for the 2% COLA and merit increases will result in a total FY13 saving of \$389,530 for the operating budget (\$363,200 in salaries and wages and \$26,330 in employee benefits), of which \$388,200 will involve water and sewer (rate supported) operating expenses. The total operating budget for salaries and wages should therefore be reduced by \$363,200 (\$361,960 in water and sewer operating expenses), and the "All Other" budget category (which includes employee benefits) should be reduced by \$26,330 (\$26,240 in water and sewer operating expenses).

WSSC's proposed FY13 operating budget also needs to be adjusted to make it consistent with the County Executive's Recommended FY13-18 CIP, which incorporates DC Water's most recent cost estimates for the six Blue Plains Advanced Wastewater Treatment Plant projects. The expenditure adjustments to these projects will require that the Commission issue an additional \$9.859 million in bonds in FY13, necessitating a \$670,400 increase in water and sewer debt service for FY13. The County Executive recommends that

this increase be funded from the \$388,200 total savings in water and sewer operating expenditures from the compensation changes described above, with the remaining \$282,200 to be taken from fund balance. Unallocated water and sewer fund balance is projected to be \$41.6 million at the beginning of FY13.

The net effect of the changes recommended above will be to increase the water and sewer operating budget by \$282,200 to \$619.9 million, while preserving the 7.5% average increase in water and sewer rates included in the Commission's proposed FY13 operating budget. The total operating budget (including the General Bond Debt Service Fund) will increase by \$280,870 to \$661.3 million.

Capital Budget

The County Executive recommends approval of WSSC's proposed FY13 capital budget with the following changes:

The substitution of one-time bonuses for the COLA and merit increases included in WSSC's proposed FY13 budget will affect the compensation and benefits budgeted for WSSC employees supported by the Commission's FY13 capital budget. The use of bonuses will decrease total salaries and wages included in the capital budget by \$49,900 and employee benefits (budgeted under "All Other") by \$3,620.

To make the capital budget consistent with the County Executive's Recommended FY13-18 CIP for WSSC, the expenditures and funding for the six Blue Plains Advanced Wastewater Treatment Plant projects should be revised to align them with the updated amounts shown in DC Water's Proposed FY2011-2020 CIP. The recommended changes will result in a net reduction of \$9.539 million to the FY13 capital budget. These expenditure changes will be reflected in the relevant funding sources as follows: a \$19.970 million decrease in State aid, a \$9.859 million increase in WSSC bonds, and a \$572,000 increase in the City of Rockville contribution.

The County Executive also recommends the addition of one new project to WSSC's CIP: the Mid-Pike Plaza Sewer Main, Phase 1 (Project No. 123801). This project will provide for planning, design, and construction of 1,900 feet of 21 inch diameter replacement sewer main to provide sewer service to Mid-Pike Plaza Phase 1. The project was approved by the Montgomery County Council on February 7, 2012 as an amendment to WSSC's Approved FY12-17 CIP. The total cost of the project is estimated to be \$1,488,000 and will be funded by developer contributions; no WSSC rate-supported debt will be required. However, until a System Extension Permit (SEP) is signed with the developer, WSSC's FY13 capital budget needs to be increased by \$593,000 to ensure appropriation authority for project design and construction costs in FY13.

FY13 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 - FY13 WSSC Proposed and Executive Recommended							
(\$000s)							
Expenditure Categories	WSSC Total	WSSC Total	WSSC Total	CE Capital	CE Operating	CE Total	% Change
	Actual FY11	Approved FY12	Proposed FY13	Recommended FY13	Recommended FY13	Recommended FY13	(CE Rec. vs. WSSC Proposed)
Salaries and Wages	110,671	122,371	124,884	23,601	100,870	124,471	-0.3%
Heat, Light, & Power	28,599	25,275	24,223	--	24,223	24,223	0.0%
Regional Sewage Disposal	46,208	49,478	51,309	--	51,309	51,309	0.0%
Contract Work	98,243	270,039	396,446	396,985	--	396,985	0.1%
Consulting Engineers	29,365	61,051	83,213	83,267	--	83,267	0.1%
All Other	260,559	427,990	526,547	283,909	233,069	516,978	-1.8%
Debt Service	<u>239,709</u>	<u>235,863</u>	<u>251,303</u>	<u>100</u>	<u>251,873</u>	<u>251,973</u>	0.3%
Total Budget	813,354	1,192,067	1,457,925	787,862	661,344	1,449,206	-0.6%

Note: Total expenditures include the water and sewer operating funds, the general bond debt service fund, and the three capital funds.

PROGRAM CONTACTS

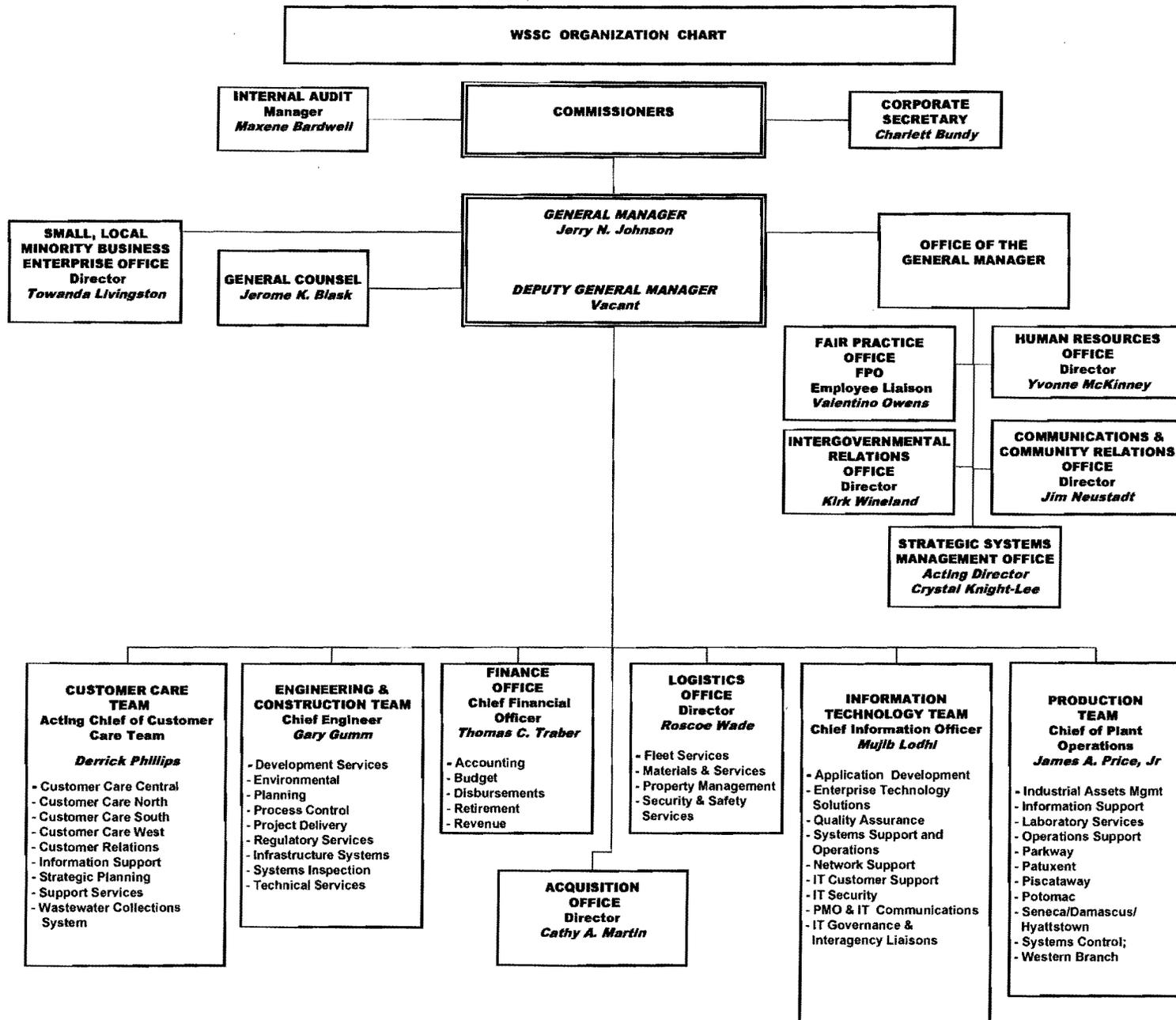
Contact Sheila Cohen of the Washington Suburban Sanitary Commission at 301.206.8167 or John Greiner of the Office of Management and Budget at 240.777.2765 for more information regarding this agency's capital and operating budgets.

WSSC PROPOSED BUDGET: SIX-YEAR FORECAST FOR WATER AND SEWER OPERATING FUNDS

FISCAL PROJECTIONS	FY12 ESTIMATED	FY13 PROPOSED	FY13 RECOMMENDED	FY14 PROJECTION	FY15 PROJECTION	FY16 PROJECTION	FY17 PROJECTION	FY18 PROJECTION
SPENDING AFFORDABILITY RESULTS								
New Water and Sewer Debt (\$millions)	\$204.0	\$481.8	\$491.6	\$390.3	\$379.3	\$391.1	\$361.9	\$319.5
Total Water and Sewer Operating Expenses (\$millions)	\$575.0	\$619.6	\$619.9	\$674.0	\$722.0	\$778.2	\$834.1	\$879.4
Debt Service (\$millions)	\$185.9	\$211.3	\$212.0	\$252.3	\$286.5	\$321.9	\$353.3	\$380.0
Average Water and Sewer Rate Increase	8.5%	7.5%	7.5%	12.4%	8.9%	8.2%	7.7%	6.5%
BEGINNING FUND BALANCE (\$000)	83,735	83,735	83,735	76,077	67,969	67,969	67,969	69,209
REVENUES (\$000)								
Water and Sewer Rate Revenue	496,500	540,561	540,561	600,056	655,288	710,941	767,631	819,808
Interest Income	1,000	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	21,923	21,147	21,147	21,447	21,761	22,292	22,319	22,450
Total Revenues	542,273	588,558	588,558	648,453	703,999	760,283	817,000	869,408
SDC Debt Service Offset	2,293	2,192	2,192	1,428	1,167	728	207	0
Reconstruction Debt Service Offset (REDO)	11,000	11,000	11,000	10,500	10,500	10,000	10,000	10,000
Use of Prior Year Net Revenue	3,400	17,858	18,140	13,608	6,300	7,200	6,860	0
TOTAL FUNDS AVAILABLE	558,966	619,608	619,890	673,989	721,966	778,211	834,067	879,408
EXPENDITURES (\$000)								
Salaries and Wages	95,572	100,629	100,267	105,661	110,945	116,494	122,319	128,435
Heat, Light, and Power	25,500	24,223	24,223	25,684	26,733	27,824	31,507	33,406
Regional Sewage Disposal	49,478	51,309	51,309	53,207	55,176	57,218	59,335	61,530
Debt Service	171,999	211,297	211,967	252,299	286,530	321,879	353,329	379,986
All Other	213,017	221,950	221,924	231,638	236,282	247,596	259,477	271,951
Reserve Contribution	3,400	10,200	10,200	5,500	6,300	7,200	8,100	4,100
TOTAL USE OF RESOURCES	558,966	619,608	619,890	673,989	721,966	778,211	834,067	879,408
REVENUE/EXPENDITURE SURPLUS/(GAP)	0	0	0	0	0	0	0	0
YEAR END FUND BALANCE w/o additional reserve contribution	80,335	65,877	65,595	62,469	61,669	60,769	61,109	69,209
Additional Reserve Contribution	3,400	10,200	10,200	5,500	6,300	7,200	8,100	4,100
TOTAL YEAR END FUND BALANCE	83,735	76,077	75,795	67,969	67,969	67,969	69,209	73,309
Debt Service as a Percentage of Water and Sewer Operating Budget	30.8%	34.1%	34.2%	37.4%	39.7%	41.4%	42.4%	43.2%
Estimated Water Production (MGD)	169.0	170.0	170.0	170.5	171.0	171.5	172.0	172.5
Total End of Fiscal Year Operating Reserve	31,400	41,600	41,600	47,100	53,400	60,600	68,700	72,800
Total Operating Reserve as a Percentage of Water and Sewer Rate Revenue	6.3%	7.7%	7.7%	7.8%	8.1%	8.5%	8.9%	8.9%
Total Workyears (all funds)	1,517	1,693	1,693	--	--	--	--	--

Assumptions:

- The County Executive's operating budget recommendation is for FY13 only and incorporates the Executive's revenue and expenditure assumptions for that budget.
- The FY14-18 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 FY13 water and sewer operating budget for WSSC.
- The FY12 estimated spending affordability results are the values for the four spending affordability parameters implied by the FY12 budget jointly approved by Montgomery and Prince George's counties.
The FY13 Proposed spending affordability results are the values of the spending affordability parameters associated with WSSC's proposed FY13 budget. The FY13 recommended spending affordability results are the spending affordability parameters associated with the County Executive's recommended WSSC budget for FY13. The FY14-18 spending affordability figures correspond to the values of the various spending affordability parameters based on the revenue and expenditure forecasts shown for the given year.
- The total FY12 estimated workyears shown correspond to the actual workyears as of December, 2011.



Status of WSSC Information Technology System Implementation Plans

April 5, 2012

In 2011, the General Manager/CEO had charged the Chief Information Officer to undertake a top-to-bottom review of the ERP project. After preliminary review of the progress made on the ERP plan, the WSSC CIO has initiated development of a five-year strategic plan to address, among others, the following areas:

1. Develop a five-year IT Strategic Plan that is based on the strategic imperatives of the Commission as a whole. This will ensure that ALL system development activities (including ERP development activities) are aligned with the overall business priorities of the Commission. The ERP scope previously developed had defined its scope as the replacement of legacy systems. Our new IT Strategic Plan will take a broader approach and develop an all-encompassing enterprise system development plan that takes into consideration the total needs of the Commission. Through this process, we are ensuring that both legacy system functions as well as unmet new system requirements are addressed.
2. Develop system prioritization recommendations that will drive the system implementation goals of the Commission. This exercise looks at the Commission's priorities, operational risk of status-quo systems, implementation readiness of business units, organizational capacity, and urgency of needs.
3. The strategic planning team's recommendations will be based on input from the GM/CEO, all team chiefs, all group leaders, and many unit coordinators. The objective is to ensure that all key stakeholders are engaged in the process.
4. The IT Strategic Plan will also offer recommendations for any additional organizational changes to ensure that the IT Team is ready and capable of executing on the system development and operational recommendations.

Significant progress made on system implementation initiatives in FY2012

Notwithstanding the holistic review of IT projects required by the GM, WSSC continued development on priority projects (including ERP scope) throughout FY 2012. WSSC IT Team accelerated implementation activities in certain areas and is pleased to report the following implementation successes related to ERP:

1. Oracle e-Business Suite Upgrade to Release 12 has been successfully completed.
2. Oracle Time and Labor (OTL) Phase I implemented – Oracle OTL currently in production.

3. Fleet Management Phase I completed – Oracle Work and Asset Management (WAM) for Fleet Management currently in production.
4. Oracle Self-Service Phase I completed.
5. Human Resources Applicant Tracking System – Acquisition stage is complete. Implementation of the system will soon begin.
6. Asset Management – COMPASS replacement requirements development process has been initiated.

Past Expenses and Projected FY12 Spending

Excluding in-house FTE and depreciable asset costs, the total ERP costs to date from FY09 through FY11 totals \$4,748,116. An estimated \$1,600,000 is projected to be spent in FY12, contingent upon procurement of software and resources by the end of the year. The approved ERP amount in FY12 is \$7,360,000. The FY13 requested ERP amount is \$8,259,600. Note that the FY13 funding required may change based upon the 5-Year IT Strategic Plan, which will include the validation of the current ERP budget.

Increased FY'13 Expenditure Assumptions Over and Above Inflation Factor

FY'13 Additional & Reinstated Programs:

New Workyears

Plant Operations

- 3 Water Plant Operators
- 2 Planner-Scheduler (AMP)

Maintenance

- 1 Customer Care (Maintenance) Unit Coordinator

Collections

- 2 Collection Field Specialist

Process Control - Network Security

- 1 Process Control Security Specialist Unit Coordinator

Consent Decree - FOG (Fats, Oils & Grease)

- 2 FOG Investigators

Property Management

- 1 Asset Strategy Manager (AMP)

12 Total Workyears

	Cost	W/S Impact
<i>New Workyears Impact</i>	\$ 724,700	\$ 708,800
<i>Benefits</i>	217,400	212,600
<i>Miscellaneous Support Equipment</i>	4,500	4,400

Other Additional & Reinstated Programs

Watershed Access Road	500,000	500,000
Reservoir Shoreline Armoring	50,000	50,000
Condition Assessment - Piscataway Assets	75,000	75,000
On-Call Plumbers	318,000	318,000
Lateral Inspection Program	187,500	187,500
Forensics Contract	100,000	100,000
Corrosion Engineering Basic Ordering Agreement	250,000	7,500
Patuxent Reservoirs Buffer Property Management Study	100,000	100,000
Automated Fuel Dispensing & Accounting System	500,000	42,700
Administrative Materials	217,000	175,800
Materials Evaluation	200,000	104,000
Electronic Security Network Preventive Maintenance	200,000	162,000
Continuity of Operations Plans	1,000,000	810,000
Staff Augmentation - Recruitment	115,200	93,200
GIS Infrastructure	470,000	358,100
IT Storage Equipment	430,000	117,500
Automated Attendant Solution	100,000	82,000
Data Center Infrastructure Computer Equipment	180,000	49,200
	<u>4,992,700</u>	<u>3,332,500</u>
<i>Total Other Additional & Reinstated Programs</i>	<u>4,992,700</u>	<u>3,332,500</u>
Total Additional & Reinstated Programs	<u>\$ 5,939,300</u>	<u>\$ 4,258,300</u>

Although Advanced Metering Infrastructure, Water Main Cathodic Protection, and Water Main Lining are new programs, they are included as part of the CIP. Therefore, the water/sewer impact of these new programs has been captured via debt service.

WSSC
FY 2013 ADDITIONAL & REINSTATED PROGRAM REQUESTS SUMMARY

Program: PLANT OPERATIONS

Potomac Water Filtration Plant (WFP)

Request: 3 Water Plant Operators

Cost including benefits: \$147,800, Water/Sewer Impact: \$147,800

Justification:

The Potomac Plant has three (3) current vacancies for the job of Senior Water Plant Operator. After nearly a year of recruiting and two interview sessions, these positions remain vacant. Offers were extended to candidates after each of the interview sessions. However, the candidates did not accept the job offers. Both conveyed that a higher level of compensation would be required to assume the very high level of responsibility and liability associated with the position.

With the large number of qualified incumbents retiring, as demonstrated by our Senior Operator vacancies, we need to cultivate our talent internally. The (3) Water Plant Operator positions are requested to staff an Operator Apprenticeship Program. This program would provide support for existing plant operations while simultaneously providing incumbents the ability to learn the facility layout, valve and piping locations, and daily interaction with experienced operators. This proactive planning and staff development would reduce the risk of the severe and critical staff shortages that we now face from recurring in the future.

Asset Management – Potomac WFP

Request: 1 Planner-Scheduler

Cost including benefits: \$89,150, Water/Sewer Impact: \$89,150

Justification:

The Potomac Plant Asset Management Plan will be developed during FY'12 and implementation is scheduled for FY'13. A large number of new assets were added under recent improvements projects including the Potomac Improvements Project, the Chemical Improvements Project, the Hydropneumatic Surge Tank Project and the Medium Voltage Electrical Improvements Project. There are also a number of new projects beginning including the Ferric Chloride Project, the Pump Replacement Project, the S-2 Electrical Substation Replacement Project, the Sulfuric Acid System Upgrade Project and the Basin Corrosion Mitigation Project. The Planner-Scheduler position is vital to the integration of these new assets as well as existing assets into the new asset management plan. The Planner-Scheduler would help create the new Computerized Maintenance Management System (CMMS) databases to track and optimize equipment performance, maintenance tasks and inventory as well as assist in the planning of repairs, rehabilitation, or replacement efforts.

Asset Management – Piscataway Wastewater Treatment Plant (WWTP) and Broad Creek Wastewater Pumping Station (WWPS)

Request: 1 Planner-Scheduler

Cost including benefits: \$89,150, Water/Sewer Impact: \$89,150

Justification:

The asset management plans for the Piscataway WWTP and Broad Creek WWPS were completed during FY'11. The implementation of these asset management plans requires a Planner-Scheduler as the effort far exceeds what existing Piscataway staff can undertake beyond their normal duties. The Planner-Scheduler would help create the new CMMS databases to track and optimize equipment performance, maintenance tasks, inventory, and review maintenance strategy functions, target performance indicators and failure mode and maintenance/repair history of assets. This position would also have an integral role in the planning of repairs, rehabilitation, or replacement efforts as well as determining the appropriate investment in inventory and spare parts for the facility.

Systems Control

Request: Watershed Access Road

Cost: \$500,000, Water/Sewer Impact: \$500,000

Justification:

The request is for resources to repair 10.3 miles of access road along the southern boundary of the watershed. The access road will better enable us to maintain and patrol the watershed. We plan to use WSSC engineering support staff to provide engineering expertise in developing construction drawings and guidelines to construct the roadway and ravine crossings.

Request: Reservoir Shoreline Armoring

Cost: \$50,000, Water/Sewer Impact: \$50,000

Justification:

There are several places along the reservoir shoreline that are washed out. The most visible area is at the Green Bridge Boat Ramp. Armoring of the shoreline will keep soil from entering into the reservoir. This will help preserve the volume of the reservoir as well as the quality of the water. The funds would be used to purchase armor stones.

Industrial Assets Management

Request: Condition Assessment Inspection of Piscataway WWTP Assets

Cost: \$75,000, Water/Sewer Impact: \$75,000

Justification:

This request is for funding to perform an in-depth inspection and assessment of those assets that have been predicted to fail within the next two (2) years as identified in the Piscataway WWTP Asset Management Plan (AMP). This program will utilize outside vendors to assess the condition of critical assets identified in the AMP.

Program: MAINTENANCE

Request: 1 Maintenance Unit Coordinator

Cost including benefits: \$103,400, Water/Sewer Impact: \$103,400

Justification:

An assessment of the Flexible Worker Program was completed in March 2010. The report indicated the Unit Coordinators are overwhelmed by their workload. Their responsibilities have increased by more participation at the management level of the Commission, training of staff, and oversight of geographically larger field operations. 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 Prestressed Concrete Cylinder Pipe (PCCP) inspection program, which involves direct Unit Coordinator oversight, has been reinstated. The Transmission Main Inspection/Large Valve Exercising and Water Main Break Best Management Practices, including an expanded Leak Detection Program obtained additional staff in FY'12. The potential addition of more Utility Technicians will compound the Unit Coordinator overload.

Note that four (4) Unit Coordinator positions were requested for FY12. However, only one (1) was approved. Our recommendation was to stage in the positions over 4 years. If approved, this would be the 2nd position.

Program: COLLECTIONS

Request: 2 Collections Field Specialists

Cost including benefits: \$121,200, Water/Sewer Impact: \$121,200

Justification:

WSSC delinquent accounts 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 Specialists solely devoted to collections work.

Note: 16 positions were requested for FY12, four (4) for each depot. Our plan is to stage this expansion over multiple years after determining the effectiveness of this additional collection effort. Two (2) were approved for FY12.

Program: PLUMBING SERVICES

Request: On-Call Plumbers

Cost: \$318,000, Water/Sewer Impact: \$318,000

Justification:

WSSC has been experiencing an increasing number of water main breaks. December 2010 set a new record for repairs to broken and leaking water mains in a single month. Our plumbers are often called to assist customers who have backed up due to stoppages in the WSSC-maintained portions of sewer lines. Due to the increased number of water main breaks, which require the use of all field resources, and the ramp-up of proactive sewer maintenance resulting from the consent decree, the use of on-call plumbers to assist customers in snaking and televising lines has increased tremendously. The table below shows the WSSC expenditures on plumbing services since 2008.

Year	Amount
2008	\$258,700
2009	360,700
2010	410,000
2011	Over \$600,000

This trend is expected to continue in FY12 and beyond.

Program: LATERAL INSPECTION

Request: \$187,500, Water/Sewer Impact: \$187,500

Justification:

Standard Commission practice for performing sewer lining or pipe bursting is to rehabilitate all the associated sewer laterals. As there was no lateral inspection program in previous years, lateral rehabilitation during pipeline rehabilitation has resulted in some delays in construction and cost increases because of a lack of information. Fully implementing the lateral inspection program will provide the necessary information to allow contractors to submit more accurate bids for lateral rehab. It will also minimize construction delays currently experienced without the lateral inspections. A lateral inspection program will also help with the reduction of inflow and infiltration impacting the collection system through on-property sewer defects.

Note: Half of the \$375,000 FY'12 request was approved. This request is for the remaining half.

Program: PROCESS CONTROL NETWORK SECURITY

Request: 1 Process Control Security Specialist Unit Coordinator

Cost including benefits: \$116,100, Water/Sewer Impact: \$116,100

Justification:

This position is needed to lead efforts regarding cyber security, and network design and maintenance for all Process Control networks and the Supervisory Control and Data Acquisition (SCADA) system. The workload is expected to increase because the SCADA system is getting larger, there is an increase in demand for live production data, and the likelihood that new Federal and State regulations will increase the reporting and monitoring of water and wastewater control systems.

Program: CIVIL ENGINEERING SUPPORT

Technical Services

Request: Forensics Contract

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

Justification:

As part of the development of the individual asset management plans, the AMP has recommended that forensics be performed on assets to support condition assessment analysis and the recommendations for replacement and rehabilitation to support the business case for the capital improvements. This contract will also be available to perform forensics of PCCP if needed to support the PCCP Program.

Request: Corrosion Engineering Basic Ordering Agreement

Cost: \$250,000, Water/Sewer Impact: \$7,500

Justification:

Under the Corrosion Monitoring Program, corrosion test stations are read periodically to determine the effectiveness of existing corrosion protection systems. If an existing system is found to need repairs, the repairs could be minor or require a more significant engineering corrosion design. The Program has focused on getting up to date test stations readings in FY'11 and FY'12. The readings have shown that there is a need to perform a number of corrosion designs to make repairs or upgrades to the existing corrosion protection system. These designs are partially funded in FY'12 and additional funds will be needed for FY'13.

Program: ENVIRONMENTAL STEWARDSHIP

Request: Patuxent Reservoirs Buffer Property Management & Use Study

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

Justification:

The WSSC owns more than 5,000 acres of largely forested land forming a narrow buffer around the Duckett and Triadelphia Reservoirs. The main purpose of the buffer land is to protect the drinking water source by serving as a large natural filter against excess loads of nutrients and sediment that can impair water quality and reduce storage capacity. However, portions of the buffer property have, over the decades since their acquisition in the 1940s and 1950s, been opened to recreational uses.

Following a recent amendment to the WSSC Watershed Regulations, in which the locations and seasons for horseback riding were modified, there was significant reaction from the equestrian community. Its argument included an apparent lack of documented evidence that horseback riding on the WSSC buffer property was creating an adverse environmental impact on the reservoir water quality. In addition, the WSSC faces challenges in providing sufficient resources for security and management of the buffer land under its current limited recreational use. An environmental and resource management study is needed to define the nature and extent of adverse impacts, and to develop recommendations.

Program: CONSENT DECREE – FOG (Fats, Oils, & Grease)

Request: 2 FOG Investigators

Cost including benefits: \$166,600, Water/Sewer Impact: \$166,600 (fee supported)

Justification:

The purpose of the expansion of staff for the FOG program is to meet the requirements of the Consent Decree, Article 3 and its related documents. An audit of past experiences and upcoming inspection priorities and requirements show that is not likely the existing staff of six (6) FOG Investigators will be able to adequately cover all the needs of Article 3 related to Sanitary Sewer Overflows. As of July 2011, there were 4,900 Food Service Establishments (FSE) assigned to the 6 Investigators (over 800 per Investigator). A preliminary survey of several similar organizations finds that this ratio is too high to adequately cover a FOG Program given the in-depth requirements of physical inspections and aggressive permit enforcement.

There are currently over 900 FSEs in non-compliance dating back through 2007. An additional 1,200 enforcement actions could remain open by July 2012. Additional FOG Investigators would allow for a more manageable level of annual FSE inspection that can be balanced with the expected level of FSE non-compliance notices needing follow-up. Four (4) FOG Investigators were requested. Our plan is to start with two (2) additional workyears and re-evaluate the need at a later date. These positions will be supported by fees.

Program: FUEL ACCOUNTING

Request: Automated Fuel Dispensing and Accounting System

Cost: \$500,000, Water/Sewer Impact: \$42,700

Justification:

The purpose of this request is to replace the E.J. Ward fuel system. This system provides for automated fueling and fuel accounting for the WSSC fleet of vehicles and equipment. E.J. Ward is approaching end-of-life for both support and functional development progress. Due to an increase in interruption of service at fuel sites and reduced availability of old repair parts, the WSSC is at risk of not being able to provide fuel services and maintain regulatory compliance.

Program: ADMINISTRATIVE SERVICES

Request: Administrative Materials

Cost: \$217,000, Water/Sewer Impact: \$175,800

Justification:

Additional funding is requested for office materials supplied by the Materials & Services Unit. The FY'11 budget for this unit was exceeded by \$218K and the FY'10 budget was exceeded by \$181K. The overages were primarily driven by increased prices in toner, paper and envelopes. These supplies items are purchased by this unit for the entire Commission. Two years ago, the IT department found that the refurbished toner cartridges previously ordered and used were causing the printers and fax machines to malfunction. IT recommended that original manufactured toner cartridges be used on all printers and faxes. As a result of this change, printer and fax problems have drastically decreased.

Program: PROPERTY MANAGEMENT

Request: Asset Strategy Manager

Cost including benefits: \$108,700, Water/Sewer Impact: \$88,000

Justification:

This position will support the Asset Management Program in the implementation of the Buildings & Grounds (B&G)/ Support Facilities Network infrastructure assets plan. This position will be responsible for the determination of (B&G)/ Support Facilities Network infrastructure asset investment strategies. This position will also provide support to the Support Facilities (B&G) Network maintenance and operations staff by analyzing work order and asset performance data to provide input into the Asset Management Committee decision processes with respect to maintenance, capital and operational decisions.

Program: MATERIALS EVALUATION

Request: Engineering Support Services

Cost: \$200,000, Water/Sewer Impact: \$104,000

Justification:

The WSSC Materials Evaluation Committee (MEC) supports maintenance, new installation, construction and infrastructure efforts. This committee is tasked with evaluating new or improved material solutions applicable to WSSC's construction and repair products as well as evaluating alternative supply sources to approved products currently in use by WSSC on construction and repair projects.

Current staffing levels, project priorities and available professional expertise do not support efficient and timely evaluation of product applications and review of existing technological advancements. Since 2008, the MEC has received approximately 70 product applications related to WSSC's water delivery infrastructure. About 25 cases have culminated in an approval or rejection decision. For those cases that reach an approval or rejection decision, the average "turn around time" exceeds 365 days.

Additional funding would support the hiring of dedicated consultants that can complete the evaluation process from "cradle to grave". Consultants would present a report to committee voting members for acceptance.

Program: ELECTRONIC SECURITY NETWORK PREVENTIVE MAINTENANCE

Request: Support Services for Security Network Preventive Maintenance and Replacement Schedule

Cost: \$200,000, Water/Sewer Impact: \$162,000

Justification:

As a result of the Physical Security Upgrade Project following September 11, 2001, the electronic security network grew to four times its previous size and is now the largest network within the Commission. Additional funding is requested to maintain the electronic security network.

Program: BUSINESS CONTINUITY

Request: Consultant Services

Cost: \$1,000,000, Water/Sewer Impact: \$810,000

Justification:

Funding is requested to secure a consultant to develop Continuity of Operations Plans (COOPs) for each Commission Business Unit. COOPs are essential to ensure continuity of agency operations in the event of a disaster, be it natural or intentional. COOPs identify exposure to internal and external threats and provide effective prevention and recovery methods for the organization. Some of the risks and incidents covered in such a plan include building fires, earthquakes, floods, terrorism, pandemic illnesses, loss of a source of supply, theft, and the loss of a critical piece of infrastructure. The development of Commission-wide COOPs is a General Manager priority.

Program: HUMAN RESOURCES

Request: Staff Augmentation - Recruitment

Cost: \$115,200, Water/Sewer Impact: \$93,200

Justification:

The current economic situation has not deterred retirements from WSSC. The number of people retiring has almost tripled during the past 12 months when compared to the two prior years. In the next 12 months, 201 employees will be eligible for full retirement. Another 499 will be eligible for early retirement. Funding for temporary staff augmentation of 1.5 recruiters is requested to reduce time-to-fill and ramp up to support the anticipated wave of retirements.

Program: INFORMATION TECHNOLOGY

Geographic Information System (GIS) Infrastructure

Request: \$470,000, Water/Sewer Impact: \$358,100

Justification:

The GIS Infrastructure encompasses maintaining a standardized, supported, high availability, enterprise GIS architecture based on the Environmental Systems Research Institute (ESRI) technology stack. In FY'13, this includes the conversion of existing applications to the new GIS infrastructure to be implemented in FY'12.

Part of the FY'13 effort includes the implementation of GIS work order management. There is currently no seamless integration between the WSSC work order system and the GIS. The GIS should be the primary interface for business for the field crews and office workers who are engaged in the work order life cycle. Enabling work order initiation, process flow, review, activity monitoring, and closing for the GIS interface is critical to enabling systems to improve efficiencies and data quality.

IT Storage Equipment

Request: \$430,000, Water/Sewer Impact: \$117,500

Justification:

SAN (Storage Area Network) is WSSC's enterprise centralized storage data system which houses all Commission production data. Included are critical systems such as GIS, Financial Information Systems, Document Management, and email. The system hard drives have a five to eight year life cycle. This request is to fund additional data storage based on the Commission's growing data needs.

Automated Attendant Solution

Request: \$100,000, Water/Sewer Impact: \$82,000

Justification:

The purpose of the Automated Attendant Solution is to replace the legacy operator console solution which provides telephony operator functionality. The existing solution has expiring maintenance support and is tied to our legacy Siemens Private Branch Exchange (PBX). Replacement of phones and other related telephony equipment in the RGH Building is targeted for FY12 and will be connected to the new Avaya PBX.

Data Center Cisco Infrastructure Computer Equipment

Request: \$180,000, Water/Sewer Impact: \$49,200

Justification:

This request is for Cisco Nexus technology to be introduced into the WSSC Data Center to provide high capacity network connections for enterprise servers and storage appliances with capacities of 10 gigabits and higher. This will result in increased data throughput by supporting 10 gigabit server network interface cards (NICs), reduction in heating and power requirements in the PBX room, shortened cable runs between the Data Center and the PBX room

thereby lowering costs and increasing resiliency in the Data Center by supporting different high-speed server link speeds simultaneously.

INFORMATION ONLY PROJECTS IN CIP

Program: ADVANCED METERING INFRASTRUCTURE (AMI)

Request: Implementation funding

Cost: \$2,500,000, Water/Sewer Impact: \$225,000

Justification:

WSSC is currently reading and billing the vast majority of our water meters through the use of Meter Readers who visit customer properties on a quarterly basis. Personnel use a handheld device with manual and touch input to record meter readings. The implementation of AMI technology will allow the Commission to reduce expenses related to personnel, vehicles, fuel, and other ancillary equipment required to collect readings, while concurrently providing flexibility to bill customers monthly, track usage, and detect distribution leaks in a shorter time. Implementation costs for the 1st year are approximately \$2.5 million. The expected total cost over four years is \$85 million.

Program: WATER MAIN CATHODIC PROTECTION

Request: \$500,000, Water/Sewer Impact: \$45,000

Justification:

This request is for the resources needed to initiate a capital program for cathodic protection enhancement of existing cast and ductile iron pipe which is to be added to the Water Reconstruction Program CIP W-1.00. Cathodic protection enhancement is a rehabilitation method which adds sacrificial anodes to existing buried metallic pipelines to minimize the corrosion rate of the host pipe and extend the overall useful life of the pipeline. Adding anodes to existing cast and ductile iron pipe is analogous to a cleaning and lining program as they both are water main rehabilitation techniques that extend the useful life of the pipeline at a fraction of the cost of replacement. This rehabilitation technique is one of the recommendations from the Asset Management Plan (AMP) as a component of the Water Distribution System Asset Management Plan.

Program: WATER MAIN LINING PROGRAM

Request: \$2,000,000, Water/Sewer Impact: \$180,000

Justification:

These resources are needed to initiate a capital program for water main lining rehabilitation which is to be added to the Water Reconstruction Program CIP W-1.00. Lining enhancement is a rehabilitation method which protects the interior surface of existing water mains from corrosion to extend the overall useful life of the pipeline. Lining also improves the hydraulic capacity of water mains where internal corrosion has restricted the flow of water through the pipeline. This rehabilitation technique is one of the recommendations from the Water Distribution System Asset Management Plan. We also plan to explore new lining technologies that provide structural enhancement to water pipes.