

AGENDA ITEM #12
October 6, 2009

Public Hearing

MEMORANDUM

October 2, 2009

TO: County Council

FROM:  Keith Levchenko, Senior Legislative Analyst

SUBJECT: **Public Hearing:** FY11 Washington Suburban Sanitary Commission (WSSC)
Spending Control Limits

Background

In April 1994 the Council adopted Resolution No. 12-1558, which established an annual spending affordability process for the WSSC budget. Under this process, the Montgomery and Prince George's County Councils separately consider spending control limits for the upcoming WSSC budget with a goal of reaching agreement on the limits by November 1 each year.

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

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

Spending Control Limits History

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

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

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

Rate Increase History

The chart to the right presents the rate increase limits agreed upon by both Councils (unless otherwise noted) since FY96 and the actual rate increase later approved for each fiscal year.

Although rate increases were assumed in the approved spending control limits for FY99 and FY00, the WSSC budget was approved in those years without rate increases. Until the FY05 rate increase, there had been no rate increase

since FY98 (six straight years). During this time, WSSC was engaged in a Competitive Action Plan (CAP) effort which resulted in a reduction in approximately 1/3 of its workforce.

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

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

During the FY09 budget process, the issue of creating a dedicated fee to accelerate WSSC’s water and sewer main reconstruction program was discussed but no fee was ultimately proposed by WSSC.

WSSC Annual Rate Increase History

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

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

FY11 Spending Control Limits

For the upcoming budget, WSSC staff prepared a base case spending control limits scenario based on its latest projections of revenue and expenditures. This base case scenario assumes the following limits:

WSSC Staff “Base Case Scenario”

New Debt:	\$273.279 million
Debt Service:	\$175.803 million
Total W/S Operating Expenses:	\$553.934 million
Maximum Average Rate Increase:	11.0 percent¹

This scenario would fund:

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

Next Steps

As in past years, a bicounty staff working group is reviewing WSSC Staff’s base case and is developing additional scenarios. A full analysis of the revenue and expenditure assumptions of the base case will be prepared by Council staff for Committee and Council review.

Transportation, Infrastructure, Energy and Environment (T&E) Committee review is scheduled for October 19. Council action is tentatively scheduled for October 20.

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

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