



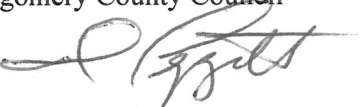
OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

January 15, 2013

TO: Nancy Navarro, President, Montgomery County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Washington Suburban Sanitary Commission (WSSC)
FY14-19 Capital Improvements Program (CIP) and FY14 CIP Expenditures

I am pleased to transmit to you, in accordance with State law, my recommended FY14-19 CIP and FY14 CIP expenditures for the Washington Suburban Sanitary Commission.

WSSC's Proposed FY14-19 CIP totals \$2.059 billion, of which \$1.630 billion is for Montgomery County and bi-county projects. The latter figure represents a \$383.1 million increase over the six-year total for Montgomery County and bi-county projects in the Commission's approved FY13-18 CIP. WSSC is requesting \$497.6 million in FY14 capital expenditures for Montgomery County and bi-county projects, up \$64.6 million (14.9%) from the approved FY13 amount of \$433.0 million. The FY14 increases are primarily attributable to significant growth in expenditures for the Trunk Sewer Reconstruction Program, the Large Diameter Water Pipe Rehabilitation Program, the Blue Plains Wastewater Treatment Plant (WWTP) Pipelines and Appurtenances project, the Patuxent Water Filtration Plant (WFP) Phase II Expansion, and the new Potomac WFP Corrosion Mitigation project. These increases were partially offset by decreased FY14 expenditures for the other five Blue Plains projects, the Duckett and Brighton Dam Upgrades, the Seneca WWTP Expansion Part 2, and other projects that are moving through construction.

Spending Control Limits

I recommended and the Council adopted FY14 Spending Control Limits for WSSC that include a maximum average water and sewer rate increase of 8.0 percent, which is 0.5 percentage points higher than the 7.5 percent average rate increase approved for FY13. An 8.0 percent average rate increase will fund a "same services" operating budget as well as WSSC's proposed FY14-19 CIP. It represents a balance between meeting WSSC's urgent needs and limiting the pressure on customer budgets in this difficult economy.

Under the 8.0 percent rate increase allowed by the Spending Control Limits adopted by the Council, WSSC would have to make unspecified reductions to its same services operating budget if it wishes to include wage and salary enhancements for its employees and/or its proposed high priority new and reinstated programs. Such reductions could potentially impact capital spending. I strongly urge the Commission to ensure that the following essential programs are preserved when deciding on reductions:

- The inspection, repair, and acoustic monitoring (using fiber optic cable) of large diameter pre-stressed concrete cylinder pipe (PCCP), and
- The reconstruction and rehabilitation of WSSC's aging small water and sewer mains.

These initiatives, which are critical to the rehabilitation and renewal of WSSC's aging infrastructure, must proceed as planned.

Furthermore, I want to reiterate my position that I will not support any increases in base salaries and wages or the provision of lump sum payments to WSSC employees that exceed the amounts that will be provided to Montgomery County's general government employees for FY14.

Blue Plains Advanced Wastewater Treatment Plant

The total six-year cost of the six Blue Plains WWTP projects in WSSC's Proposed FY14-19 CIP decreased by \$94.1 million (15.6%) vs. its approved FY13-18 CIP. After WSSC issued its Proposed FY14-19 CIP, DC Water released its Proposed FY 2012-2021 CIP which further refined its capital investment needs for Blue Plains. The revised FY14 expenditures from DC Water for the six Blue Plains projects are \$13.0 million less than what WSSC estimated in its Proposed FY14-19 CIP, and the total revised six-year cost of those projects is \$19.5 million less than WSSC's earlier estimate. DC Water's revised Blue Plains figures include increases in the projected six-year costs for three of the six projects (relative to WSSC's Proposed FY14-19 CIP), with decreases for the other three projects. The adjustments are primarily due to revised project cost estimates and project schedule adjustments deferring costs to later years.

| BLUE PLAINS WWTP PROJECTS - REQUESTED VS. RECOMMENDED AMOUNTS | | | | | | | | |
|--|-------------------|-----------------|----------------|---------------|----------------|----------------|----------------|--|
| (\$000) | | | | | | | | |
| Projects | TOTAL 6 YR | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | |
| <u>WSSC REQUEST</u> | | | | | | | | |
| Liquid Train Projects, Part 2 | 38,242 | 7,228 | 5,357 | 4,861 | 8,575 | 6,189 | 6,032 | |
| Biosolids Management, Part 2 | 102,970 | 70,800 | 23,633 | 4,316 | 3,207 | 861 | 153 | |
| Biological Nutrient Removal | 6,676 | 4,179 | 1,059 | 905 | 529 | 4 | 0 | |
| Plant Wide Projects | 33,941 | 5,590 | 7,673 | 3,233 | 3,355 | 7,669 | 6,421 | |
| Enhanced Nutrient Removal | 233,800 | 70,592 | 54,708 | 45,823 | 42,920 | 18,241 | 1,516 | |
| Pipelines and Appurtenances | 94,462 | 20,184 | 23,516 | 18,766 | 12,641 | 10,683 | 8,672 | |
| WSSC REQUEST TOTAL | 510,091 | 178,573 | 115,946 | 77,904 | 71,227 | 43,647 | 22,794 | |
| <u>CE RECOMMENDED</u> | | | | | | | | |
| Liquid Train Projects, Part 2 | 38,715 | 5,308 | 9,172 | 5,646 | 6,526 | 6,732 | 5,331 | |
| Biosolids Management, Part 2 | 112,402 | 72,504 | 25,011 | 6,964 | 5,880 | 1,998 | 45 | |
| Biological Nutrient Removal | 8,476 | 3,976 | 1,053 | 2,326 | 1,117 | 4 | 0 | |
| Plant Wide Projects | 33,690 | 8,391 | 5,955 | 3,563 | 3,797 | 7,737 | 4,247 | |
| Enhanced Nutrient Removal | 225,754 | 60,966 | 60,942 | 45,758 | 39,659 | 17,359 | 1,070 | |
| Pipelines and Appurtenances | 71,557 | 14,454 | 17,320 | 17,915 | 9,603 | 7,063 | 5,202 | |
| CE RECOMMENDED TOTAL | 490,594 | 165,599 | 119,453 | 82,172 | 66,582 | 40,893 | 15,895 | |
| CE Recommended - WSSC Request | (19,497) | (12,974) | 3,507 | 4,268 | (4,645) | (2,754) | (6,899) | |

Under the new 2012 Inter-Municipal Agreement, WSSC must pay for its share of the capital costs associated with the Blue Plains WWTP, as determined by DC Water but subject to certain adjustments by WSSC. I recommend that WSSC's Blue Plains WWTP project estimates be modified to align them with the revised amounts proposed by DC Water (with adjustments by WSSC). The foregoing table shows the recommended changes. The revised Blue Plains costs will result in a \$12.974 million decrease in FY14 capital spending vs. WSSC's Proposed FY14-19 CIP. This decrease will reduce the need for WSSC bonds in FY14 by \$9.021 million, which translates to a \$493,100 decrease in FY14 debt service.

Debt Capacity

State law provides for the option of a tax levy by Montgomery and Prince George's counties against all assessable property in the Washington Suburban Sanitary District to pay for the principal and interest on WSSC bonds. This provision, which would be exercised only if requested by WSSC, does not constitute a pledge of the full faith and credit of the two counties. However, WSSC bonds are part of the County's overlapping debt. As of June 30, 2012, WSSC debt represented 50.8 percent of Montgomery County's gross overlapping debt. The amount of debt issued by WSSC is therefore a factor in rating agency assessments of the credit worthiness of Montgomery County.

Based on a recommendation from WSSC's Bi-County Infrastructure Funding Working Group, the Commission will begin to employ 30 year bonds starting in FY14, coupled with increased use of PAYGO made possible by the reduced debt service associated with moving to a 30 year amortization period. With these changes, WSSC's multi-year financial forecast (assuming a same services operating budget and implementation of its proposed FY14-19 CIP under the Spending Control Limits adopted by the Montgomery County Council) projects debt service increasing by 61.6% percent between FY13 and FY19. However, during that period, debt service will never exceed 37.4% of the operating budget (one of the reasons for implementing the Systems Development Charge in FY94 was to keep this debt service ratio under 40%). The updated Blue Plains expenditure estimates from DC Water will reduce WSSC's six-year debt requirement by \$22.5 million vs. the Commission's Proposed FY14-19 CIP and are therefore consistent with the goal of keeping the debt service ratio under 40% during the six-years of the CIP.

Information Only Projects

While "Information Only" projects – which include the small water and sewer reconstruction programs – are subject to review and approval as part of WSSC's annual Operating and Capital Budget, they do not meet the criteria given in Section 23-301 of the Public Utilities Article, WSSD Laws, of the Annotated Code of Maryland for inclusion in WSSC's CIP. WSSC shows such projects and their expenditures separately in its CIP document to provide additional information on and context for its capital program. Information Only projects are not included in the six-year CIP.

Reconstruction of Small Water and Sewer Mains. WSSC is proposing to increase small water main replacement by 5 miles (10.9%) in FY14, for a total of 51 miles. At the same time, budgeted sewer reconstruction will fall by 78.2% from 55 to 12 miles, with a corresponding reduction in the lining of lateral sewer lines (see the table on the next page). FY14 funding for the reconstruction of small water mains will increase by 25.0% while expenditures for rehabilitating and reconstructing small sewers will fall by 63.4%. The decreased mileage and expenditures for small sewer rehabilitation reflect

SMALL WATER AND SEWER MAIN RECONSTRUCTION/REHABILITATION FY14-19 Proposed vs. FY13-18 Approved

| | FY13-18 Approved | | | FY14-19 Proposed | | | | | |
|--------------------------------------|------------------|---------|---------|------------------|----------|---------|----------|---------|----------|
| | FY13 | 6-Year | Total | FY14 | | 6-Year | | Total | |
| | | | | Amount | % Change | Amount | % Change | Amount | % Change |
| <u>Reconstruction Costs</u> | | | | | | | | | |
| Water Main Replacement (\$000) | 77,427 | 641,308 | 707,150 | 96,774 | 25.0% | 711,923 | 11.0% | 793,935 | 12.3% |
| Sewer Reconstruction (\$000) | 136,412 | 628,929 | 702,873 | 49,902 | -63.4% | 583,937 | -7.2% | 655,424 | -6.8% |
| <u>Reconstruction Mileage</u> | | | | | | | | | |
| Water Main Replacement (miles) | 46 | 317 | -- | 51 | 10.9% | 326 | 2.8% | -- | -- |
| Sewer Reconstruction (miles) | | | | | | | | | |
| Sewer Main Reconstruction | 55 | 210 | -- | 12 | -78.2% | 162 | -22.9% | -- | -- |
| Lateral Sewer Lining | 10 | 55 | -- | 7 | -30.0% | 58 | 5.5% | -- | -- |

efforts by WSSC to channel resources to the Trunk Sewer Reconstruction Program to help meet the December, 2015 SSO Consent Decree deadline.

Anaerobic Digestion/Combined Heat and Power Project. The PDF for this Information Only project does not reflect the current status of the project (which is still in the preliminary planning phase) or the results of the October 11, 2012 meeting between WSSC officials and representatives from Montgomery and Prince George's counties, where a decision was made to explore with DC Water the option of using the anaerobic digestion facility currently under construction at Blue Plains to achieve the goals of this project. I recommend that the following changes be made to the Anaerobic Digestion/Combined Heat and Power "Information Only" PDF to align it with the actual status of this project.

1. Condense the information provided under "Specific Data" to provide a summary of the general types of benefits anticipated from this project as identified by the AECOM study, without citing quantitative results based on a specific option (since preliminary planning and final selection of an option for this facility are ongoing).
2. In the "Other" section, modify the second sentence to remove the statement that "the feasibility study has been completed" since the October 11, 2012 meeting referenced above concluded that more preliminary planning needs to be done. The rest of this section should be revised to describe the remaining planning efforts, including additional analysis of the Blue Plains option.
3. The Expenditure and Funding Schedules should be modified to include only the expenditures needed to complete the preliminary planning phase and final selection of a digester option/location. Construction expenditures (and related "Other" expenditures) should be deleted since it is too early in the planning process for them to be included. Federal Aid should be shown only if WSSC is confident that it will be provided to help complete the preliminary planning process.
4. The "Cost Change" section should be revised to describe and explain the changes noted in #3 above and should state that design and construction costs will be included after completion of the preliminary planning phase and selection of a digester facility and location.
5. The "Coordination" section should state that the project will be presented to the County Executives and County Councils of both counties for review and approval prior to inclusion of the project in the formal CIP and the spending of any funds for design and construction.

Nancy Navarro, President, Montgomery County Council
January 15, 2013
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As always, Executive Branch staff are available to assist you in your deliberations. I look forward to discussing with you any policy matters or major resource allocation issues that arise this spring.

IL:jmg

c: Timothy L. Firestine, Chief Administrative Officer
Jerry N. Johnson, General Manager/CEO, Washington Suburban Sanitary Commission
Tom Traber, Chief Financial Officer, Washington Suburban Sanitary Commission
Stephen Farber, Staff Director, Montgomery County Council
Dave Lake, Department of Environmental Protection

Attachments: Executive Recommendation – Blue Plains WWTP: Plant Wide Projects
Executive Recommendation – Blue Plains WWTP: Biological Nutrient Removal
Executive Recommendation – Blue Plains WWTP: Biosolids Mgmt Pt. 2
Executive Recommendation – Blue Plains WWTP: Liquid Train Pt. 2
Executive Recommendation – Blue Plains WWTP: Enhanced Nutrient Removal
Executive Recommendation – Blue Plains WWTP: Pipelines and Appurtenances
Anaerobic Digestion/Combined Heat and Power “Information Only” PDF
Agency Request Compared to Executive Recommended